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

**AUDITED ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021**

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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

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

*This announcement, for which the directors (the “**Directors**”) of SDM Education Group Holdings Limited (formerly known as “SDM 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 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.*

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2021, audited annual results of the Company together with its subsidiaries (the “**Group**”) were as follows:

- revenue of the Group from continuing operations was approximately HK\$178.6 million (2020: approximately HK\$114.2 million), representing an increase by HK\$64.4 million or 56% on a year-on-year basis;
- results of the dance academy business and the early childhood education business of the Group recorded a turnaround for the year. The segment profits of dance academy business and early childhood education business were approximately HK\$10.5 million and HK\$9.0 million, respectively (2020: loss of HK\$5.7 million and HK\$13.9 million, respectively);
- profit for the year from continuing operations attributable to owners of the Company was approximately HK\$49.4 million (2020: loss of HK\$182.9 million); and
- basic earnings per share from continuing operations was approximately HK\$0.1221 (2020: loss per share HK\$0.5117).

ANNUAL RESULTS

Reference is made to the announcement dated 31 March 2022 of SDM Education Group Holdings Limited (formerly known as SDM Group Holdings Limited) (the “**Company**”, together with its subsidiaries, the “**Group**”) in respect of the announcement of unaudited annual results for the year ended 31 December 2021 (the “**Unaudited Annual Results Announcement**”). Unless otherwise stated, the terms used in this announcement shall have the same meaning as adopted in the Unaudited Annual Results Announcement. The board (the “**Board**”) of directors (the “**Directors**”) of the Company hereby announces that the external auditors of the Company have audited the consolidated financial statements of the Group for the year ended 31 December 2021. The audited consolidated annual results of the Group for the year ended 31 December 2021 together with the audited comparative figures for the year ended 31 December 2020 are as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2021

	<i>Notes</i>	2021 HK\$'000	2020 HK\$'000 (Re-presented)
Continuing operations			
Revenue	4	178,576	114,202
Other income	5	51,732	51,806
Other net gains and losses	5	(19,068)	6,394
Changes in inventories of finished goods		(246)	70
Finished goods purchased		(8,954)	(4,286)
Advertising and promotion expenses		(4,801)	(2,636)
Depreciation	8	(51,602)	(52,402)
Amortisation	8	(7,379)	(5,442)
Rental expenses		–	(727)
Staff and teaching consultants services costs		(108,683)	(85,991)
Other expenses		(39,201)	(34,299)
Impairment loss on goodwill		(3,596)	(2,446)
Net impairment loss recognised on financial assets and other receivables		(989)	(1,292)
Impairment loss on property, plant and equipment and right-of-use assets		(795)	(18,356)
Gain/(loss) on change in fair value of consideration payable		104,039	(108,516)
Loss on change in fair value of convertible notes through profit or loss	16	(20,744)	(44,581)
Gain on re-measurement of obligation arising from put options		–	10,681
Share options expenses		(5,301)	(2,209)
Finance costs	6	(11,645)	(10,445)
Share of results of joint ventures		(195)	(1,285)
Share of results of an associate		131	162
Profit/(loss) before taxation		51,279	(191,598)
Income tax expense	7	(1,295)	(845)
Profit/(loss) for the year from continuing operations	8	49,984	(192,443)
Discontinued operations			
Loss for the year from discontinued operations		(11,167)	(128,890)
Profit/(loss) for the year		38,817	(321,333)

	<i>Notes</i>	2021 HK\$'000	2020 <i>HK\$'000</i> (Re-presented)
Profit/(loss) for the year attributable to owners of the Group			
– from continuing operations		49,445	(182,920)
– from discontinued operations		<u>(11,193)</u>	<u>(128,878)</u>
	10	<u>38,252</u>	<u>(311,798)</u>
Profit/(loss) for the year attributable to non-controlling interests			
– from continuing operations		539	(9,524)
– from discontinued operations		<u>26</u>	<u>(11)</u>
		<u>565</u>	<u>(9,535)</u>
Profit/(loss) for the year		38,817	(321,333)
Other comprehensive income for the year			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange loss on translation of financial statements of foreign operations		5,361	(6,089)
Change in fair value on financial liabilities designated at fair value through profit or loss attributable to change in credit risk	16	31,566	–
Change in fair value on financial investments at fair value through other comprehensive income		<u>–</u>	<u>(119)</u>
Other comprehensive income/(loss) for the year		<u>36,927</u>	<u>(6,208)</u>
Total comprehensive income/(loss) for the year		<u>75,744</u>	<u>(327,541)</u>
Total comprehensive income/(loss) attributable to owners of the Group:			
– from continuing operations		50,783	(189,263)
– from discontinued operations		<u>20,524</u>	<u>(129,066)</u>
		<u>71,307</u>	<u>(318,329)</u>
Total comprehensive income/(loss) attributable to non-controlling interests:			
– from continuing operations		4,437	(9,209)
– from discontinued operations		<u>–</u>	<u>(3)</u>
		<u>4,437</u>	<u>(9,212)</u>
		<i>HK cents</i>	<i>HK cents</i>
Basic earning/(loss) per share			
From continuing and discontinued operations	10	<u>9.45</u>	<u>(87.23)</u>
From continuing operations		<u>12.21</u>	<u>(51.17)</u>
From discontinued operations		<u>(2.76)</u>	<u>(36.06)</u>
Diluted earning/(loss) per share			
From continuing and discontinued operations		<u>8.99</u>	<u>(87.23)</u>
From continuing operations		<u>11.61</u>	<u>(51.17)</u>
From discontinued operations		<u>(2.62)</u>	<u>(36.06)</u>

Consolidated Statement of Financial Position

As at 31 December 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		17,727	20,878
Right-of-use assets		71,246	96,567
Goodwill		99,710	99,062
Intangible assets		70,636	78,542
Interests in joint ventures		156	156
Loans to joint ventures		757	952
Interest in an associate		1,546	1,438
Deposits for acquisitions of subsidiaries and businesses	<i>11</i>	18,187	33,770
Lease receivables		–	3,083
Other receivables, deposits and prepayments	<i>12</i>	13,306	27,611
Deferred tax assets		30	43
		<u>293,301</u>	<u>362,102</u>
Current assets			
Inventories		1,958	2,204
Trade and other receivables, deposits and prepayments	<i>12</i>	50,847	38,484
Lease receivables		–	2,261
Amounts due from related parties		9,901	8,866
Amounts due from non-controlling shareholders of subsidiaries		664	2,184
Pledged time deposits		–	10,703
Cash and cash equivalents		29,508	38,458
Tax recoverable		264	190
		<u>93,142</u>	<u>103,350</u>
Current liabilities			
Trade and other payables	<i>13</i>	57,839	40,056
Deferred income	<i>14</i>	32,824	39,047
Amounts due to related parties		13,722	3,429
Amounts due to non-controlling shareholders of subsidiaries		246	224
Corporate bonds	<i>15</i>	–	50,000
Convertible notes	<i>16</i>	281,775	41,643
Consideration payables		–	153,942
Bank and other borrowings		49,359	2,342
Lease liabilities		64,158	75,897
Tax payable		1,942	1,170
Provisions		4,126	2,396
		<u>505,991</u>	<u>410,146</u>
Net current liabilities		<u>(412,849)</u>	<u>(306,796)</u>
Total assets less current liabilities		<u>(119,548)</u>	<u>55,306</u>

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Non-current liabilities			
Provisions		7,702	9,894
Deferred tax liabilities		5,463	6,707
Bank and other borrowings		5,390	–
Convertible notes	16	–	248,040
Lease liabilities		<u>80,087</u>	<u>121,322</u>
		98,642	385,963
NET LIABILITIES		<u>(218,190)</u>	<u>(330,657)</u>
EQUITY			
Share capital		45,760	38,460
Reserves		<u>(272,574)</u>	<u>(366,583)</u>
Equity attributable to owners of the Company		(226,814)	(328,123)
Non-controlling interests		<u>8,624</u>	<u>(2,534)</u>
TOTAL EQUITY		<u>(218,190)</u>	<u>(330,657)</u>

NOTES TO THE FINANCIAL INFORMATION

(Expressed in Hong Kong dollars unless otherwise indicated)

1. GENERAL

SDM Education Group Holdings Limited (the “**Company**”) was incorporated in Cayman Islands with limited liability. The address of its registered office is Clifton House, 75 Fort Street, P.O.Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The address of its principal place of business is Room 202B, 2/F, Liven House, 61-63 King Yip Street, Kwun Tong, Hong Kong. The Company’s shares are listed on the GEM of The Stock Exchange of Hong Kong Limited (the “**SEHK**”).

The Company is an investment holding company. The principal subsidiaries are mainly engaged in (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.

In the opinion of the directors of the Company (the “**Directors**”), as at the date of issue of these consolidated financial statements, Wealthy Together Limited (“**Wealthy Together**”), a company incorporated in British Virgin Islands (“**BVI**”), is the immediate holding company, and controlled by Mr. Chiu Ka Lok (the “**Controlling Shareholder**”).

At the extraordinary general meeting of the shareholders of the Company held on 20 September 2021, a special resolution was passed to change the name of the Company from “SDM Group Holdings Limited” to “SDM Education Group Holdings Limited” and the Chinese name of “SDM 教育集團控股有限公司” has been adopted as the dual foreign name of the Company (the “**Change of Company English Name and Adoption of Chinese Name**”). A Certificate of Incorporation on “Change of Company English Name and Adoption of Chinese Name were issued by the Registrar of the Companies in Cayman Islands with effect from 6 October 2021 and a Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 30 December 2021 confirming the registration of the new name “SDM Education Group Limited” of the Company in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong) (the “**Hong Kong Companies Ordinance (Cap. 622)**”).

2. ADOPTION OF NEW AND AMENDED HKFRSs

2.1 New HKFRSs adopted during the financial year

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA, that are relevant to its operations and effective for its accounting year beginning on 1 January 2021. HKFRSs comprise Hong Kong Financial Reporting Standards (“**HKFRS**”); Hong Kong Accounting Standards (“**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 consolidated financial statements and amounts reported for the current year and prior years.

The Group has not early applied any new or revised HKFRSs that is not yet effective for the current accounting period, except for the amendment to HKFRS 16 “COVID-19 Related Rent Concessions”. Impact on the application of the amendment to HKFRS 16 is summarised below.

2. ADOPTION OF NEW AND AMENDED HKFRSs (Continued)

2.1 New HKFRSs adopted during the financial year (Continued)

Amendment to HKFRS 16 “COVID-19-Related Rent Concessions

Amendments to HKFRS 16 only apply to lessee accounting and have no effect on lessor accounting. The amendments provide a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 (“**COVID-19-Related Rent Concessions**”) are lease modification and, instead, account for those rent concessions as if they were not lease modifications.

The practical expedient is only applicable to COVID-19-Related Rent Concessions and only if all of the following conditions are met:

- a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- b) any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
- c) there is no substantive change to other terms and conditions of the lease.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-Related Rent Concessions granted to the Group during the year.

Consequently, rent concessions received have been recognised in “other income” in profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1 January 2021.

The application of the new or revised HKFRS that have been issued but are not yet effective and have not been early adopted by the Group will not have material impact on the consolidated financial statements of the Group.

3. SEGMENT INFORMATION

The Group's operating segments are identified on the basis of internal report about the components of the Group that are regularly received by the chief operating decision maker ("CODM") in order to allocate resources to segments and to assess their performance. The Group has identified the following reportable segments:

Continuing operations:

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

Discontinued operations:

Adult education and training business – provision of adult language courses in Australia

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".

Each of these operating segments is managed separately as each of the service lines requires different resources as well as marketing approaches.

The accounting policies of the operating segments are the same as those described in note 4 to the consolidated financial statements. Segment profits or losses do not include expenses related to share-based payments, share of profit or loss of associates and joint ventures accounted for using the equity method, change in fair value of consideration payables, net impairment loss recognised on financial assets and prepayments, income tax expense and corporate income and expenses which are not directly attributable to the business activities of any operating 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.

3. SEGMENT INFORMATION (Continued)

The executive directors of the Company have been identified as CODM who are responsible for reviewing the Group's internal reporting in order to assess performance and allocate resources. The management has determined the operating segments based on these reports. These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

	Continuing operations			Discontinued	Total
	Dance academy business	Early childhood education business	Others	operations Adult education and training business	
2021	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	<u>74,548</u>	<u>93,433</u>	<u>10,595</u>	<u>6,224</u>	<u>184,800</u>
Segment results	<u>10,506</u>	<u>9,043</u>	<u>3,025</u>	<u>(8,014)</u>	<u>14,560</u>
Other income and net gains and losses					7,294
Central corporate expenses					(40,960)
Share options expenses					(5,301)
Loss on change in fair value of convertible notes through profit or loss					(20,744)
Gain on change in fair value of consideration payables					104,039
Share of results of joint ventures					(195)
Share of results of an associate					131
Forfeiture of deposits for acquisitions of subsidiaries and businesses					(17,723)
Net impairment loss recognised on financial assets and prepayments					(989)
Profit before taxation					<u>40,112</u>

3. SEGMENT INFORMATION (Continued)

2020	Continuing operations			Discontinued operations	Total
	Dance academy business	Early childhood education business	Others	Adult education and training business	
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
Revenue	<u>45,428</u>	<u>58,144</u>	<u>10,630</u>	<u>42,092</u>	<u>156,294</u>
Segment results	<u>(5,719)</u>	<u>(13,913)</u>	<u>4,045</u>	<u>(125,089)</u>	<u>(140,676)</u>
Other income and net gains and losses					20,195
Central corporate expenses					(39,403)
Share options expenses					(2,209)
Loss on change in fair value of convertible notes					(47,464)
Loss on change in fair value of consideration payables					(108,516)
Share of results of joint ventures					(1,285)
Share of results of an associate					162
Net impairment loss recognised on financial assets and prepayments					(1,292)
Loss before taxation					<u>(320,488)</u>

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

3. SEGMENT INFORMATION (Continued)

For the year ended 31 December 2021

	Continuing operations				Discontinued operations	Consolidated
	Dance academy business	Early childhood education business	Others	Unallocated	Adult education and training business	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts credited/(charged) included in the measure of segment results						
Interest income	1	448	–	119	159	727
Amortisation of intangible assets	(3,510)	(3,361)	(508)	–	–	(7,379)
Depreciation of property, plant and equipment	(3,808)	(3,910)	(74)	(89)	–	(7,881)
Depreciation of right-of-use assets	(20,334)	(21,773)	–	(1,614)	–	(43,721)
Impairment loss on property, plant and equipment and right-of-use assets	–	(795)	–	–	–	(795)
Forfeiture of deposits for acquisitions of subsidiaries and businesses	–	(17,723)	–	–	–	(17,723)
Interest on lease liabilities	(1,910)	(2,751)	–	(91)	(629)	(5,381)
Impairment loss on goodwill	–	(3,596)	–	–	–	(3,596)
Impairment loss on lease receivable and other receivables	–	(724)	–	(265)	(3,784)	(4,773)
Share of results of an associate	–	–	–	131	–	131
Share of results of joint ventures	–	–	–	(195)	–	(195)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

For the year ended 31 December 2020

	Continuing operations				Discontinued operations	Consolidated
	Dance education business	Early childhood education academy business	Others	Unallocated	Adult education and training business	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts credited/(charged) included in the measure of segment results						
Interest income	6	497	–	1,362	143	2,008
Amortisation of intangible assets	(2,340)	(2,595)	(507)	–	–	(5,442)
Depreciation of property, plant and equipment	(4,044)	(3,409)	(103)	(277)	(2,197)	(10,030)
Depreciation of right-of-use assets	(22,868)	(19,802)	–	(1,899)	(16,386)	(60,955)
Impairment loss on property, plant and equipment and right-of-use assets	–	(18,356)	–	–	(54,080)	(72,436)
Interest on lease liabilities	(1,430)	(2,412)	–	(38)	(2,002)	(5,882)
Impairment loss on goodwill	–	(2,446)	–	–	(38,409)	(40,855)
Share of results of an associate	–	–	–	162	–	162
Share of results of joint ventures	–	–	–	(1,285)	–	(1,285)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

3. SEGMENT INFORMATION (Continued)

Geographical information

The Group's revenues from external customers and its non-current assets (other than financial instruments and deferred tax assets) are divided into the following geographical areas:

	Revenue from external customers for the year ended 31 December		Non-current assets (other than financial instruments and deferred tax assets) as at 31 December	
	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Australia (discontinued operations)	6,224	42,092	–	–
Hong Kong	93,557	58,757	57,859	75,659
Singapore	85,019	55,445	222,106	255,831
	<u>184,800</u>	<u>156,294</u>	<u>279,965</u>	<u>331,490</u>

The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the non-current assets is based on the physical location of the asset and the location of the operation to intangible assets and goodwill.

Information about major customers

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

4. REVENUE

The Group's principal activities are disclosed in note 1 to the consolidated financial statements.

The Group's revenue recognised during the year is as follows:

	Continuing operations		Discontinued operations		Total	
	2021	2020	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from contract with customers						
Dance academy business	74,548	45,428	–	–	74,548	45,428
Early childhood education business	93,433	58,144	–	–	93,433	58,144
Adult education and training business	–	–	6,224	42,092	6,224	42,092
Others	10,595	10,630	–	–	10,595	10,630
Total	<u>178,576</u>	<u>114,202</u>	<u>6,224</u>	<u>42,092</u>	<u>184,800</u>	<u>156,294</u>

4. REVENUE (Continued)

Disaggregation of revenue from contracts with customers with the scope of HKFRS 15

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major types of goods or service and geographical market:

Segments	For the year ended 31 December 2021				Total HK\$'000
	Dance academy business HK\$'000	Continuing operations Early childhood education business HK\$'000	Others HK\$'000	Discontinued operations Adult education and training business HK\$'000	
Types of goods or service					
Dance academy business					
– Elementary courses	35,721	–	–	–	35,721
– CSTD jazz courses	23,846	–	–	–	23,846
– RAD ballet courses	3,295	–	–	–	3,295
– Other courses	9,537	–	–	–	9,537
– Sale of dance uniforms, shoes and accessories	2,149	–	–	–	2,149
	<u>74,548</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>74,548</u>
Early childhood education business					
– Elementary and enrichment courses	–	93,276	–	–	93,276
– Sale of uniforms and accessories	–	157	–	–	157
	<u>–</u>	<u>93,433</u>	<u>–</u>	<u>–</u>	<u>93,433</u>
Adult education and training business					
– Adult language courses	–	–	–	2,824	2,824
– Training courses	–	–	–	3,400	3,400
	<u>–</u>	<u>–</u>	<u>–</u>	<u>6,224</u>	<u>6,224</u>
Others					
– Provision of swallowing and speech treatments	–	–	4,429	–	4,429
– Provision of photographic services	–	–	6,166	–	6,166
– Others	–	–	–	–	–
	<u>–</u>	<u>–</u>	<u>10,595</u>	<u>–</u>	<u>10,595</u>
Total	<u>74,548</u>	<u>93,433</u>	<u>10,595</u>	<u>6,224</u>	<u>184,800</u>
Geographical markets					
– Australia	–	–	–	6,224	6,224
– Hong Kong	74,548	4,958	10,595	–	90,101
– Singapore	–	88,475	–	–	88,475
Total	<u>74,548</u>	<u>93,433</u>	<u>10,595</u>	<u>6,224</u>	<u>184,800</u>
Timing of revenue recognition					
– At point in time	2,149	157	6,166	–	8,472
– Over time	72,399	93,276	4,429	6,224	176,328
Total	<u>74,548</u>	<u>93,433</u>	<u>10,595</u>	<u>6,224</u>	<u>184,800</u>

4. REVENUE (Continued)

Disaggregation of revenue from contracts with customers with the scope of HKFRS 15 (Continued)

Segments	For the year ended 31 December 2020					Total HK\$'000
	Dance academy business HK\$'000	Continuing operations Early childhood education business HK\$'000	Others HK\$'000	Discontinued operations Adult education and training business HK\$'000		
Types of goods or service						
Dance academy business						
– Elementary courses	23,782	–	–	–		23,782
– CSTD jazz courses	14,183	–	–	–		14,183
– RAD ballet courses	1,708	–	–	–		1,708
– Other courses	4,864	–	–	–		4,864
– Sale of dance uniforms, shoes and accessories	891	–	–	–		891
	<u>45,428</u>	<u>–</u>	<u>–</u>	<u>–</u>		<u>45,428</u>
Early childhood education business						
– Elementary and enrichment courses	–	58,009	–	–		58,009
– Sale of uniforms and accessories	–	135	–	–		135
	<u>–</u>	<u>58,144</u>	<u>–</u>	<u>–</u>		<u>58,144</u>
Adult education and training business						
– Adult language courses	–	–	–	31,320		31,320
– Training courses	–	–	–	10,772		10,772
	<u>–</u>	<u>–</u>	<u>–</u>	<u>42,092</u>		<u>42,092</u>
Others						
– Provision of swallowing and speech treatments	–	–	5,781	–		5,781
– Provision of photographic services	–	–	4,803	–		4,803
– Others	–	–	46	–		46
	<u>–</u>	<u>–</u>	<u>10,630</u>	<u>–</u>		<u>10,630</u>
Total	<u>45,428</u>	<u>58,144</u>	<u>10,630</u>	<u>42,092</u>		<u>156,294</u>
Geographical markets						
– Australia	–	–	–	42,092		42,092
– Hong Kong	45,428	2,699	10,630	–		58,757
– Singapore	–	55,445	–	–		55,445
Total	<u>45,428</u>	<u>58,144</u>	<u>10,630</u>	<u>42,092</u>		<u>156,294</u>
Timing of revenue recognition						
– At point in time	891	135	4,803	–		5,829
– Over time	44,537	58,009	5,827	42,092		150,465
Total	<u>45,428</u>	<u>58,144</u>	<u>10,630</u>	<u>42,092</u>		<u>156,294</u>

5. OTHER INCOME AND OTHER NET GAINS AND LOSSES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i> (Re-presented)
Other income		
Management fee income	6,046	5,325
Examination and competition handling fee income	5,294	72
Performance and show income	3,984	225
Services fee income	30	1,032
Franchise fee income	1,738	5,699
Sub-lease income that are fixed	5,183	3,419
Reversal of income arising from an indemnity	–	(127)
Interest income	747	1,865
COVID-19-related rent concessions received (<i>Note (a)</i>)	1,432	8,078
Government grants (<i>Note (b)</i>)	22,510	21,393
Write-off of payables	–	747
Others	4,768	4,078
	<u>51,732</u>	<u>51,806</u>
Other net gains and losses		
Net exchange (losses)/gains	(1,292)	6,497
Forfeiture of deposits for acquisitions of subsidiaries and businesses	(17,723)	–
Loss on change in fair value of financial investments	–	(34)
Loss on disposal of property, plant and equipment	(53)	(69)
	<u>(19,068)</u>	<u>6,394</u>

Notes:

- (a) The Group has adopted Amendments to HKFRS 16 “Covid-19 – Related Rent Concessions” and applies the practical expedients introduced by the amendments to all eligible rent concessions received by the Group during the year. During the year ended 31 December 2021 and 2020, the rent concessions received by the Group are in the form of a discount on fixed payments during the period of severe social distancing and travel restriction measures introduced to prevent the spread of COVID-19.
- (b) During the year ended 31 December 2021, the Group received funding support amounting to HK\$8,872,000 (2020: HK\$11,251,000) from the employment support scheme under the anti-epidemic fund, set up by the Hong Kong government. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

5. OTHER INCOME AND OTHER NET GAINS AND LOSSES (Continued)

In addition, the Inland Revenue Authority of Singapore introduced Jobs Support Scheme in February 2020 for providing wage support for employers to retain their local employees. During the year ended 31 December 2021, the Group received the funding support amounting to S\$2,067,000 (2020: S\$1,778,000), equivalent to approximately HK\$11,974,000 (2020: HK\$10,002,000).

Remaining government grants were granted on a discretionary basis during the year ended 31 December 2021 and 2020 and the conditions attached thereto were fully complied with.

6. FINANCE COSTS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i> (Re-presented)
Interest expenses on:		
– bank and other borrowings	4,195	229
– corporate bonds	2,697	5,114
– lease liabilities	4,753	3,880
Finance charges		
– Imputed interest expense on put options written to non-controlling shareholders of a subsidiary	–	1,222
	<u>11,645</u>	<u>10,445</u>

7. INCOME TAX EXPENSE

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Hong Kong Profits Tax		
– Current year	178	437
Singapore corporate income tax (“CIT”)		
– Current year	2,502	1,535
– Over provision in prior years	(144)	(532)
	<u>2,358</u>	<u>1,003</u>
	<u>2,536</u>	<u>1,440</u>
Deferred tax	(1,241)	(595)
	<u>1,295</u>	<u>845</u>

7. INCOME TAX EXPENSE (Continued)

The provision for Hong Kong Profits Tax for 2021 is calculated at 16.5% (2020: 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 2020.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and the Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25%. No provision for Enterprise Income Tax as the PRC subsidiary did not have any assessable profit for both years.

Singapore CIT is calculated at 17% (2020: 17%) of the estimated assessable profit eligible for CIT rebate of 20%, capped at S\$10,000 for the years of assessment 2021 and 2020. 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.

No provision for corporate tax has been made for the Group’s operation in Australia as such operations incurred loss for taxation purpose for both years.

The income tax expense for the year can be reconciled to the loss before taxation per consolidated statement of profit or loss and other comprehensive income as follows:

	2021 <i>HK\$’000</i>	2020 <i>HK\$’000</i>
Profit/(loss) before taxation from continuing operations	51,279	(191,598)
Loss before taxation from discontinued operations	(11,167)	(128,890)
	<u>40,112</u>	<u>(320,488)</u>
Tax at Hong Kong profits tax rate of 16.5%	6,618	(52,881)
Tax effect of expenses not deductible for tax purpose	27,422	46,231
Tax effect of income not taxable for tax purpose	(44,498)	(6,960)
Over provision in prior years	(144)	(532)
Effect of share of results of joint ventures and an associate	11	185
Tax effect of tax losses not recognised	10,913	14,364
Tax effect of deductible temporary differences not recognised	860	374
Effect of different tax rates of subsidiaries operating in other jurisdictions	113	64
Income tax expense for the year	<u>1,295</u>	<u>845</u>

8. PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i> (Re-presented)
The Group's profit/(loss) for the year from continuing operations has been arrived at after charging/(crediting):		
Auditor's remuneration*	1,600	4,280
Consultants service costs*	2,518	2,767
COVID-19 – related rent concessions received (<i>Note 5</i>)	(1,432)	(8,078)
Building management fee*	5,863	9,235
Legal and professional fee*	4,199	3,777
Lease charges:		
Short term leases exempt from capitalisation under HKFRS 16	–	662
Variable lease payment that based on receipts of turnover	–	65
Total lease charges	<u>–</u>	<u>727</u>
Depreciation:		
Right-of-use assets	43,721	44,569
Owned assets	7,881	7,833
Total depreciation	<u>51,602</u>	<u>52,402</u>
Amortisation of intangible assets	7,379	5,442
Forfeiture of deposits for acquisitions of subsidiaries and businesses	(17,723)	–
Impairment loss/(reversal of impairment loss) recognised on:		
– amounts due from related parties	265	579
– amounts due from non-controlling shareholders of subsidiaries	–	(212)
– other financial assets	724	925
Net impairment loss recognised on financial assets	<u>989</u>	<u>1,292</u>

* included in “other expenses”

9. DIVIDEND

The directors do not recommend the payment of any dividend for the year ended 31 December 2021 (2020: Nil) nor propose any dividend since the end of the reporting period.

10. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share attributable to owners of the Company is based on the following data:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i> (Re-presented)
Earnings/(loss)		
Earnings/(loss) for the purpose of calculating basic loss per share (earnings/(loss) for the year attributable to owners of the Company)		
From continuing operations	49,445	(182,920)
From discontinued operations	<u>(11,193)</u>	<u>(128,878)</u>
	<u>38,252</u>	<u>(311,798)</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share		
	<u>404,955</u>	<u>357,425</u>
	<i>HK cents</i>	<i>HK cents</i>
Basic earning/(loss) per share		
From continuing operations	12.21	(51.17)
From discontinued operations	<u>(2.76)</u>	<u>(36.06)</u>
	<u>9.45</u>	<u>(87.23)</u>
Diluted earning/(loss) per share		
From continuing operations	11.61	(51.17)
From discontinued operation	<u>(2.62)</u>	<u>(36.06)</u>
	<u>8.99</u>	<u>(87.23)</u>

The diluted loss per share for the year ended 31 December 2020 were the same as the basic loss per share as the outstanding convertible notes had an anti-dilutive effect on the basic loss per share.

11. DEPOSITS FOR ACQUISITIONS OF SUBSIDIARIES AND BUSINESSES

During the years ended 31 December 2021 and 2020, the Group entered into a number 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 which principal activities in education sector in Thailand and Singapore. Pursuant to the respective term sheets/memorandum and sale and purchase agreements, the Group paid aggregate amount as earnest monies/deposits which will be utilised to settle part of the purchase consideration in the future.

11. DEPOSITS FOR ACQUISITIONS OF SUBSIDIARIES AND BUSINESSES (Continued)

The deposit of S\$3,038,297 (equivalent to approximately HK\$17,723,000) was made in 2019 for the acquisition of entities principally operating in the education sector in Thailand. The Group and the vendor agreed that, in the event the relevant acquisition was not able to be completed by 31 December 2021, all right, interest and title of the Group on the deposit shall be forfeited. Since the completion of the acquisition has not taken place by 31 December 2021, the deposit of S\$3,038,297 (equivalent to approximately HK\$17,723,000) was forfeited accordingly.

The deposits of HK\$18,187,000 as at 31 December 2021 (2020: HK\$33,770,000) were related to the acquisitions under process.

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade receivables	5,052	3,546
Less: ECL allowance	<u>(294)</u>	<u>(294)</u>
	<u>4,758</u>	<u>3,252</u>
Rental deposits	13,289	15,243
Loan receivables (<i>Note a</i>)	16,295	16,554
Franchising fee income receivable	7,639	5,901
Management fee income receivable	8,557	7,424
Other deposits, receivables and prepayments	<u>13,615</u>	<u>17,721</u>
Total trade and other receivables, deposits and prepayments	64,153	66,095
Less: Non-current portion		
Rental deposits	(5,634)	(9,578)
Loan to holding company of an associate (<i>Note a</i>)	(5,350)	(15,803)
Loan to third party (<i>Note b</i>)	–	(751)
Other receivables	(2,322)	(402)
Deposit for acquisition of property, plant and equipment	<u>–</u>	<u>(1,077)</u>
Non-current portion	<u>(13,306)</u>	<u>(27,611)</u>
Current portion	<u><u>50,847</u></u>	<u><u>38,484</u></u>

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:

- (a) The loan to holding company of an associate represented advances of S\$2,695,000 (equivalent to approximately HK\$15,821,000) (2020: S\$2,695,000 (equivalent to approximately HK\$15,803,000)) 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\$926,000 (equivalent to approximately HK\$5,350,000) (2020: S\$926,000 (equivalent to approximately HK\$5,436,000)), 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.
- (b) The loan to third party represented advance of S\$128,000 (equivalent to approximately HK\$739,000) (2020: S\$128,000 (equivalent to approximately HK\$751,000)) to a third party, which are unsecured, interest bearing at Singapore Interbank Offered Rate plus 2% and repayable in December 2022. Pursuant to the loan agreement, the third party has the option to transfer 80% of its ownership interest in the business to the Group in lieu and in full discharge of the repayment obligation at maturity date.

Trade receivables mainly represent tuition fees receivables from students and receivables from financial institutions in relation to the payments settled through credit cards by customers of which the settlement period is normally one to two months from transaction date.

Based on the invoice dates, the ageing analysis of the trade receivables, net of ECL allowance, was as follow:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
0 – 3 months	2,817	1,852
3 – 6 months	222	194
Over 6 months	1,719	1,206
	<u>4,758</u>	<u>3,252</u>

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

The movement in the ECL allowance of trade receivables is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Balance at 1 January	294	400
ECL allowance recognised during the year	–	242
Exchange realignment	–	(23)
ECL allowance reversed during the year	–	(325)
	<hr/>	<hr/>
Balance at 31 December	294	294
	<hr/> <hr/>	<hr/> <hr/>

13. TRADE AND OTHER PAYABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade payables	868	326
Accrued staff costs	4,044	4,476
Accrued interest expenses on corporate bonds	–	2,096
Accrued audit fee	1,600	4,280
Accrued construction costs	–	746
Advance receipts from customers for examination and competition	7,251	3,085
Customer deposits	9,330	7,054
Other payables and accrued charges (<i>Note</i>)	34,746	17,993
	<hr/>	<hr/>
	57,839	40,056
	<hr/> <hr/>	<hr/> <hr/>

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.

Note: Included in the Group's other payables and accrued charges as at 31 December 2021 were amounts of HK\$8,646,000 and HK\$2,672,000 (2020: HK\$4,786,000 and HK\$2,112,000), which represented agency commission payable and other tax payable, respectively.

14. DEFERRED INCOME

Deferred income

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Deferred income arising from		
– dance academy classes contracts	28,163	32,931
– adult language courses contracts	4,661	2,393
– other contracts	–	3,723
	<u>32,824</u>	<u>39,047</u>

15. CORPORATE BONDS

Corporate bonds issued during the year ended 31 December 2020

On 2 January 2020, the Company and Innovax Securities Limited entered into a placing agreement for the placing of unlisted bonds issued by the Company with an aggregate principal amount of up to HK\$50,000,000. The bonds carry interest at 10% per annum and will be matured on 31 December 2021. One of the investors is a substantial shareholder of the Company who has committed to subscribe for HK\$49,600,000 of the principal amount of such unlisted bonds.

As at 31 December 2020, the corporate bonds measured at amortised cost totalling HK\$50,000,000 were recorded as current liabilities. As at 31 December 2021, the corporate bonds were fully settled by the Group.

16. CONVERTIBLE NOTES

Singapore Convertible Note

Movements of Singapore Convertible Note as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
As at 1 January	248,040	204,466
Fair value change in profit or loss	20,744	44,581
Exchange realignment	(3,946)	(1,007)
As at 31 December	264,838	248,040

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 Singapore 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 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.

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 31 December 2021, the Singapore Convertible Note measured at fair value through profit or loss amounted to HK\$264,838,000 were recorded as current liabilities (2020: HK\$248,040,000 as non-current liabilities).

16. CONVERTIBLE NOTES (Continued)

Australia Convertible Note

Movements of Australia Convertible Note as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
As at 1 January	41,643	–
Issuance	3,887	39,000
Fair value change in profit or loss	–	2,883
Fair value change on financial liabilities designated at fair value through profit or loss attributable to change in credit risk	(31,566)	–
Exchange realignment	2,973	(240)
	<u>16,937</u>	<u>41,643</u>
As at 31 December	<u>16,937</u>	<u>41,643</u>

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 Australia Convertible Note in the principal amount of US\$5,000,000 (equivalent to approximately HK\$39,000,000). 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 has a term of 48 months.

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.

16. CONVERTIBLE NOTES (Continued)

Australia Convertible Note (Continued)

The principal conversion and redemption terms are as follows:

Redemption at maturity

Unless previously redeemed, converted or repaid and cancelled as provided in the notes instrument, and subject to its conversion restriction, the Group shall redeem the Australia Convertible Note on the maturity date.

Redemption at the option of the Group

The Group shall have the right to redeem some or all of the Australia Convertible Note during any time between 18 months after the issue date and the maturity date.

Redemption for a relevant event

Following the occurrence of a relevant event, the holder of Australia Convertible Note shall have the right to require the Group to redeem some or all of such noteholder's Australia Convertible Note.

Redemption upon event of default

If any of the event of default occurs, then noteholders holding in aggregate not less than 25% of the principal amount of the Australia Convertible Note then outstanding may, at their discretion, give notice to the Group that their Australia Convertible Note are, and they shall immediately become, due and repayable at an amount equal to the sum of (i) 100% of the principal amount outstanding of the Australia Convertible Note to be repaid together with interest accrued to the date of repayment and (ii) such amount as would result in an internal rate of return on the Australia Convertible Note to be repaid of 20% per annum from the issue date to the date of repayment, and the noteholders are entitled to immediately exercise their rights and remedies under the Australia Convertible Note without the need to give any notice referred to above to the Group.

As mentioned under "Business Review", the Group has ceased Australia operation on 27 April 2021, despite of this event, the Group has obtained confirmation from the investor that he did not intend to exercise early redemption option before 30 June 2023.

Conversion right

The Australia Convertible Note shall entitle the noteholder to convert such Australia Convertible Note into conversion shares credited as fully paid at any time during any time after 6 months from the issue date up to the close of business on the third day prior to the maturity date or, if such Australia Convertible Note shall have been called for redemption by the noteholders prior to the maturity date, then at any time after the issue date up to the close of business on a date no less than three days prior to the date fixed for redemption thereof.

16. CONVERTIBLE NOTES (Continued)

Australia Convertible Note (Continued)

The Australia Convertible Note is guaranteed by the Company and secured by the entire equity interest in SAEL held by the Group.

As at 31 December 2021, only US\$5,850,000 (equivalent to approximately HK\$45,630,000) (2020: US\$5,000,000 (equivalent to approximately HK\$39,000,000)) of the Australia Convertible Note has been redeemed.

According to Australia CN Subscription Agreement, when the EBITDA of SAEL are lower than USD1,250,000 for and any financial year prior to the maturity date, the noteholders shall have absolute right to demand for full redemption. The Group are unable to meet this target for the year ended 31 December 2021 and 2020 and therefore the Australia Convertible Note were recorded as current liabilities as at 31 December 2021 and 2020.

The Company designated each of Singapore Convertible Note and Australia Convertible Note (including the conversion option) as financial liabilities at FVTPL which are initially recognised at fair value. In subsequent periods, such convertible notes are remeasured at fair value with changes in fair values recognised in profit or loss. Transaction costs relating to the issuance of the convertible notes are charged to profit or loss immediately.

The carrying amount of all convertible notes recognised in the consolidated statement of financial position is calculated as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
As at 1 January	289,683	204,466
Issuance of convertible notes	3,887	39,000
Fair value change on convertible notes through profit or loss	20,744	47,464
Fair value change on financial liabilities designated at fair value through profit or loss attributable to change in credit risk	(31,566)	–
Exchange realignment	(973)	(1,247)
As at 31 December	<u>281,775</u>	<u>289,683</u>
Analysed as:		
Non-current	–	248,040
Current	<u>281,775</u>	<u>41,643</u>
	<u>281,775</u>	<u>289,683</u>

17. EVENTS AFTER THE REPORTING PERIOD

On 14 April 2022, the Company issued an announcement about a preliminary understanding of the settlement of Singapore Convertible Note of HK\$264,838,000 by ways of a disposal of certain subsidiary of the Group, transfer of assets or in cash, or a combination of the above, as consideration for the settlement of the Singapore Convertible Note to the Investor has been came between the Company and Investor.

MATERIAL DIFFERENCES BETWEEN UNAUDITED AND AUDITED ANNUAL RESULTS

The auditing process for the annual results for the year ended 31 December 2021 had not been completed as at the date of publication of the Unaudited Annual Results Announcement. Since subsequent adjustments have been made to the unaudited annual results of the Group contained in the Unaudited Annual Results Announcement upon the completion of audit, shareholders and potential investors of the Company are advised to pay attention to certain differences between the unaudited annual results of the Group contained in the Unaudited Annual Results Announcement and the audited annual results of the Group in this announcement. Set forth below are principal details and reasons for the material differences in such financial information.

	Disclosure in this announcement 2021 HK\$'000	Disclosure in the Unaudited Annual Results Announcement 2021 HK\$'000	Difference HK\$'000	<i>Notes</i>
Consolidated Statement of Profit or Loss and Other Comprehensive Income				
Other net gains and lossess	(19,068)	(1,345)	(17,723)	(a)
Change in fair value on financial liabilities designated at fair value through profit or loss attributable to change in credit risk	35,453	31,566	3,887	(b)
Consolidated Statement of Financial Position				
Deposits for acquisitions of subsidiaries and businesses	35,910	18,187	(17,723)	(a)
Convertible notes	277,888	281,775	(3,887)	(b)

Notes:

- (a) The difference was due to recognition of forfeiture of the deposits paid for acquisition of entities principally operating in the education sector in Thailand during the year as disclosed in Note 11 in this announcement.
- (b) The difference was due to recognition of changes in fair values of convertible notes in accordance with the valuation performed and finalised by an independent valuer.

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.

As at 31 December 2021, the Group had 23 wholly-owned dance centres, one kindergarten in Hong Kong, 15 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. 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.

The Group’s dance academy business in Hong Kong has received the fees from customers of approximately HK\$92 million during 2021, which represents an increase of approximately 100% as compared to approximately HK\$46 million for the whole year of 2020 and an all time high in the 15-year history of SDM Dance Academy. Attributing to the brand image and reputation and dance curriculum established by SDM in the past 15 years and the timely development strategies implemented by the management, the Company is able to gain the trust and support from students and parents even under the ongoing impact of the COVID-19 pandemic.

In addition, the Group operates a kindergarten under the Singaporean brand “Chatsworth” in Hong Kong, the performance of which has also begun to improve in 2021, with its revenues growing by approximately HK\$2.4 million or 103% year-on-year.

Singapore

Despite the outbreak of the COVID-19 pandemic since 2020, the school hours in Singapore were not affected to a large extent. The students continue having lectures and tutorials at school. Together with the Government support, the business performance for the Group’s early childhood education business in Singapore was only slightly affected by the outbreak of the COVID-19 pandemic. The Group has made a proper and wise decision in development of early childhood education business in Singapore.

During 2021, the Group has acquired one pre-school in Singapore. The enrollment of the Group's pre-schools was stable even under COVID-19 pandemic, maintaining an average of around 60% utilization during the year. As at 31 December 2021, the number of enrollment was 1,000 out of total capacity of 1,665. The Group is confident that enrollment will remain stable under pandemic.

During 2020, several pre-schools of the Group have applied for the Government's Childcare Partner Operator Scheme ("CPOP") and has successfully entered into the program in 2021. This has greatly increased the competitiveness and reputation of the schools and expect to generate more student enrollments in coming years.

Australia

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 and adversely affected the financial performance of the business in Australia. Under the current global situation, the Group is in the view that release of travel restrictions amongst different countries may still take a long period of time. In order to minimize costs and release the Group from future cash flow burden, the Group has ceased its operation in Australia in April 2021. However, the Group is still optimistic in the education market in Australia. The Group will not give up seeking opportunities in Australia if the haze of COVID-19 is eliminated and travel between different countries resumes to be normal.

Meanwhile, the Company will continue to expedite its expansion in overseas markets to diversify and further broaden the source of income. The Group will adopt investment approach prudently to consider all potential mergers or acquisitions opportunities or cooperation with strong potential partners to maximize Shareholders' return in the long term.

FINANCIAL REVIEW

Continuing Operations

Revenue of the Group from continuing operations 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\$64.4 million from approximately HK\$114.2 million for 2020 to approximately HK\$178.6 million for 2021. The increase was mainly due to the contribution by the Dance Academy Business amounting to approximately HK\$29.1 million and by the Early Childhood Business amounting to approximately HK\$35.3 million. Such increase in revenues from Dance Academy Business was recorded as the business operations of dance centres were resumed to normal gradually in 2021. In 2020, they had been closed for several months due to the outbreak of COVID-19. The increase in revenues from Early Childhood Education was mainly contributed from the full-year operation of the flagship pre-school and a group of four pre-schools in Singapore. The former was opened in June 2020 and the latter was acquired in April 2020.

Other income of the Group from continuing operations was approximately HK\$51.7 million for the year ended 31 December 2021 (2020: HK\$51.8 million). Other income mainly comprises government grants, COVID-19-related rent concessions, franchise fee income, management fee income, performance and show income, examination and competition handling fee income and sub-lease income. The total of examination and competition handling fee income and performance and show income increased to approximately HK\$9.3 million for the year ended 31 December 2021 from HK\$0.3 million for 2020. The reasons were that dance examinations and performance and shows were held as normal operation in 2021.

The Group recorded a profit from continuing operations attributable to the Shareholders amounting to approximately HK\$49.4 million for the year ended 31 December 2021 while the Group recorded a loss attributable to the Shareholders amounting to approximately HK\$182.9 million for the year ended 31 December 2020. The turnaround was mainly due to the increase in revenue from Early Childhood Education Business and Dance Academy Business as mentioned above and recognition of gain on change in fair value of consideration payables of approximately HK\$104.0 million (2020: loss on change in fair value of consideration payables of approximately HK\$108.5 million).

Discontinued Operations

As mentioned under “Business Review”, the Group has ceased its business operations in Australia. The revenues from such business – Adult Education and Training Business was only approximately HK\$6.2 million for 2021 (2020: HK\$42.1 million) as it operated for less than four months and the enrolment was further reduced due to the COVID-19 lockdown in Australia. The loss of these discontinued operations attributable to the owners of the Group was approximately HK\$11.2 million for 2021 (2020: a loss of HK\$128.9 million).

Goodwill and Intangible Assets

As at 31 December 2021, the Group had goodwill and intangible assets in the carrying amount of HK\$99.7 million (2020: HK\$99.1 million) and HK\$70.6 million (2020: HK\$78.5 million) respectively. They are mainly arisen from the acquisition of subsidiaries since 2018. Purchase price allocation for the acquisitions is performed by an independent professional valuer to determine the values of goodwill and intangible assets at the date of acquisition.

Impairment assessment is made by the management at the end of the reporting period by comparing the recoverable amount of each cash-generating unit (“CGU”) to the carrying amount. The recoverable amount of the relevant CGUs is determined based on a value in use calculation (“VIU Calculation”). Other than discount rate and terminal growth rate, other key assumptions related to the estimation of cash inflow and outflow which include projected revenues and operating expenses (e.g. selling expenses, rental expenses, staff costs and other general expenses). For the CGUs under the Early Childhood Education in Singapore, the overall projected revenue growth rate for the next five years is adjusted downward to 7% on average (2020: 19%) after taken the actual growth rate in 2021 and the prolong effects of COVID-19 into account. Other than that, there are no significant changes of assumptions. Reasonably possible change in the key assumptions on which the management had based its determination of the CGU’s recoverable amount would not cause an impairment loss.

After reviewing business plans and cashflow forecast for coming five years, the Company has impaired the goodwill directly related to two pre-schools in the full amount of approximately HK\$3.6 million which is presented as a separate item in profit or loss. One of the two pre-schools has been closed during the year. For the another one, as it is expected that it would suffer losses in the coming years, the recoverable amount derived from the VIU Calculation was negative. Therefore, the Company viewed that the goodwill and non-current assets shall be fully impaired.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operation through internally-generated cash flows, private funds, individual investors and banking facilities during the year. As at 31 December 2021, the total bank balances and cash of the Group amounted to approximately HK\$29.5 million (2020: HK\$38.5 million).

There were bank and other borrowings of approximately HK\$54.8 million of which HK\$49.4 million and HK\$5.4 million were classified as current liabilities and non-current liabilities, respectively as at 31 December 2021 (2020: HK\$2.3 million under current liabilities).

The Group has issued a convertible note with a face value of US\$5.85 million (equivalent to HK\$45.6 million) which was classified as current liabilities with carrying amount of approximately HK\$16.9 million as at 31 December 2021 (2020: HK\$41.6 million). In addition, the Group has issued a convertible note with a face value of US\$25 million (equivalent to HK\$195.4 million). They are classified as current liabilities with carrying amount of approximately HK\$264.8 million as at 31 December 2021 (2020: HK\$248.0 million under non-current liabilities).

As at 31 December 2021, the current ratio (defined as total current assets divided by total current liabilities) was approximately 0.18 times as compared to 0.25 times as at 31 December 2020.

CAPITAL STRUCTURE

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

As at 31 December 2021 and 2020, 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 (“Share(s)”). As at 31 December 2021, the issued share capital of the Company was HK\$45,760,000 divided into 457,600,000 shares (2020: HK\$38,460,000 dividend into 384,600,000 shares).

As at 31 December 2020, the Group had issued outstanding corporate bonds with carrying amount of principal of approximately HK\$50 million. The corporate bonds (with face value of HK\$200,000 for each of the bonds) carry interest at 10% per annum and would mature on the day falling on the second anniversary of the date of issue. The corporate bonds were fully settled in June 2021.

As at 31 December 2021, the Group had outstanding convertible notes with carrying amount of approximately HK\$281.8 million (2020: HK\$289.7 million). The convertible note with face value of US\$25 million (equivalent to HK\$195.4 million) carries interest at 8% per annum and will mature on 31 March 2023. The convertible note with face value of USD5.85 million (equivalent to HK\$45.6 million) carries interest at 8% per annum and will mature on 30 April 2024. The repayment of the convertible notes with face value of US\$25 million is guaranteed by the Company.

SIGNIFICANT INVESTMENTS

There was no significant investment held by the Group as at 31 December 2021 and 2020.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Looking forward, the Group will endeavor to strengthen its position in the dance institution industry in Hong Kong. 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 since 2018.

The expansion are in line with the business development plan and expansion plan of the Group. The Board believes that the expansion 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 an excellent investment opportunity for the Group to further establish its position in education and related business.

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

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2021 and 2020.

FOREIGN EXCHANGE EXPOSURE

As at 31 December 2021, the Group has certain bank deposits, other receivables and deposits which has exchanged to foreign currency denominated in Renminbi (“RMB”), United States Dollar (“US\$”), Singapore Dollar (“S\$”) and Australian Dollar (“AU\$”) which may expose the Group to foreign currency risk. The Group was exposed to certain foreign currency exchange risks but it does not anticipate future currency fluctuations to cause material operational difficulties or liquidity problems. The Group currently had no foreign currency hedging policy. However, the management will monitor foreign exchange position and will consider appropriate action should the circumstances change.

TREASURY POLICIES

The Group adopts a conservative approach towards its treasury policies. The Group's credit risk is primarily attributable to trade and other receivables, loans receivables, amounts due from related parties and non-controlling shareholders of subsidiaries, pledged bank deposits and bank balances. In the view of the business nature of the Group, the Directors considered that the credit risks of trade receivables are immaterial after considering the credit quality and financial ability of the relevant financial institutions and there is no history of delay or default in settlement by them as well as the good settlement records from students and organisational 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 deposits and the bank balances are deposited with banks which have good reputation.

To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

CHARGE ON GROUP'S ASSETS

As at 31 December 2020, the time deposits of HK\$10,703,000 were pledged to secure guarantees by banks issued to the landlords of properties leased by the Group for own use. During 2021, the time deposit was released to the landlords for settlement of rents.

In addition, the entire shares in SDM Asia Limited and SDM Australian Education Limited held by the Group were pledged as securities for the outstanding convertible notes with carrying amount of HK\$264.8 million (2020: HK\$248.0 million) and HK\$16.9 million (2020: HK\$41.6 million) respectively.

EMPLOYEES AND REMUNERATION POLICIES

In line with the increase in the average number of enrolment in Singapore, staff and teaching consultants services costs for the operations of the Group, including Directors' emoluments, were increased to approximately HK\$108.7 million for the year ended 31 December 2021 (2020: approximately HK\$86.0 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. 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.

MATERIAL EVENTS AFTER THE REPORTING DATE

Details of events after the reporting period of the Group are set out in Note 17 to this audited results announcement.

USE OF PROCEEDS

In respect of the net proceeds of approximately HK\$39.5 million raised from the open offer in February 2017, up to the date of this report, the actual use of the proceeds is summarised as below. Unless otherwise stated, capitalised terms used therein shall have the same meanings as those defined in the Company's prospectus of 25 January 2017 and the Company's announcement dated 3 December 2019, 30 September 2020 and 23 September 2021.

As per the Company's announcement dated 3 December 2019, the Company has ceased the investment in Project B — establishment of a kindergarten in Tseung Kwan O and expected the Remaining Proceed will be fully utilised within three years from the date of that announcement in the development of early childhood education business, including but not limited to funding new investments and replenishing working capital for such business. The Company would review the cash resources of the Group and the usage of the proceed from fundraising from time to time. As aforementioned, the outbreak of COVID-19 in the beginning of 2020 has significantly affected the performance of the Company, especially the Dance Academie Business and Adult Education and Training Business and hence the cash resource of the Group. According to the Annual Report 2020, the Group's cash and cash equivalents dropped significantly from HK\$66.4 million as at 31 December 2019 to HK\$38.5 million as at 31 December 2020. The Company has been closely reviewing business performance and available cash resources of the Group. In view of such change, the Company found that it is more appropriate to reserve the Remaining Proceed for replenishing working capital for the Dance Academie Business and for central corporate expenses for the fourth quarter of 2021 instead of making further investments at current uncertain economic environment. In particular, it is more appropriate to use it for payments of rentals and salaries which are the main operating costs of the Group. On 23 September 2021, the Board has therefore resolved to allocate the Remaining Proceed for the following usages.

HK\$'million

For business operation in Hong Kong

Rents and related charges	10.0
Staff costs	6.1
	<hr/>
Total	16.1
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The actual of proceed up to the date of change of use of the Net Open Offer Proceed is as follows:

Project A – for establishment of a kindergarten in Kowloon Tong

	Planned use of the Net Open Offer Proceeds as stated in the Prospectus <i>HK\$'million</i>	Amount utilised in prior financial years <i>HK\$'million</i>	Amount utilised during the year ended 31 December 2021 <i>HK\$'million</i>	Total amount utilized up to the date of this report <i>HK\$'million</i>
Professional fee of relevant compliance procedure	3.4	3.4	–	3.4
Payment of rental expenses	2.9	9.3	–	9.3
Renovation of the kindergarten	1.2	1.2	–	1.2
Purchase of furniture and equipment	1.1	0.3	–	0.3
Other operating expenses for the opening of the kindergarten	1.4	1.4	–	1.4
Total	10.0	15.6	–	15.6

Project B – for establishment of a kindergarten in Tseung Kwan O

	Planned use of the Net Open Offer Proceeds as stated in the Prospectus <i>HK\$'million</i>	Amount utilised in prior financial years <i>HK\$'million</i>	Amount utilised during the year ended 31 December 2021 <i>HK\$'million</i>	Total amount utilized up to the date of this report <i>HK\$'million</i>
Deposit paid for renovation of the kindergarten	11.3	1.0	–	1.0
Payment of rental deposit	10.8	6.6	–	6.6
Purchase of furniture and equipment	3.2	–	–	–
Other operating expenses for the opening of the kindergarten	4.7	0.2	–	0.2
Total	30.0	7.8	–	7.8

As at 31 December 2021, the Remaining Proceed was fully utilised for payments of rents and related charges and staff costs as per the revised allocation as mentioned above.

CORPORATE GOVERNANCE CODE

During the year ended 31 December 2021, the Company has complied with the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules (the “**CG Code**”).

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 standards 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 throughout the year under review. Further the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors throughout the year under review.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its shares, and neither the Company, nor any of its subsidiaries has purchased or sold any of the Company’s listed securities during the year.

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 interests which any such person has or may have with the Group during the year.

DIVIDENDS

The Directors do not recommend the payment of any dividend for the year ended 31 December 2021 (2020: Nil) nor propose any dividend since the end of the reporting period.

ANNUAL GENERAL MEETING

The 2022 annual general meeting will be held on or before 30 June 2022. A notice convening the annual general meeting will be published and dispatched in the manner as required by the GEM Listing Rules in due course. Information regarding the record date and book close date to determine the entitlement of the Shareholders to attend and vote at the annual general meeting will be announced in due course.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the CG Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls.

Currently the audit committee comprises three independent non-executive Directors, who have reviewed the consolidated financial statements for the year ended 31 December 2021.

The audit committee has reviewed together with the management the accounting principles and policies adopted by the Group and the annual results for the year ended 31 December 2021.

EXTRACT OF INDEPENDENT AUDITOR'S OPINION

The following is an extract from the independent auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2021:

Disclaimer of Opinion

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the material uncertainty relating to the going concern basis described in the Basis for Disclaimer of Opinion section of our report, it is not possible for us to form an opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

We draw attention to note 2 to the consolidated financial statements which mentions that as at 31 December 2021, the Group had net current liabilities and net liabilities of approximately HK\$412,849,000 and HK\$218,190,000, respectively. These conditions indicate the existence of material uncertainties, including (i) the successful obtaining of additional new sources of financing and (ii) successfully managing the impact arisen from COVID-19 outbreak, as well as any Government's stimulus in response, may cast significant doubt on the Group's ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome that certain measures to improve its financial position, to provide liquidity and cash flows. The consolidated financial statements do not include any adjustments that would result from the failure to complete various debt restructuring measures and the failure to improve its financial position, to provide liquidity and cash flows. We consider that the material uncertainties have been adequately disclosed in the consolidated financial statements. However, in view of the extent of the multiple uncertainties relating to (i) the successful completion of various debt restructuring measures and (ii) the successful outcome that certain measures to improve its financial position, to provide liquidity and cash flows, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

SCOPE OF WORK OF ZHONGHUI ANDA CPA LIMITED

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in this announcement have been compared by the Company's auditors, ZHONGHUI ANDA CPA Limited, to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2021. The work performed by ZHONGHUI ANDA CPA Limited in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by ZHONGHUI ANDA CPA Limited on this the preliminary announcement.

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

Hong Kong, 29 April 2022

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