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## **SDM Education Group Holdings Limited**

### **SDM 教育集團控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8363)**

## **SUPPLEMENTAL ANNOUNCEMENT OF THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2021**

Reference are made to (i) the annual results announcement of SDM Group Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 29 April 2022 (the “**Annual Results**”); (ii) the audited annual report of the Company for the year ended 31 December 2021 (the “**Annual Report**”) published on 2 May 2022; (iii) the announcement of the Company dated 27 December 2018 in relation to the issue of the convertible note in the principal amount of US\$25,000,000 (the “**Convertible Note**”) by a wholly-owned subsidiary of the Company; and (iv) the announcement of the Company dated 14 April 2022 in relation to the potential settlement of the Convertible Note (the “**Inside Information Announcement**”). Terms used herein shall have the same meanings as those defined in the Annual Report, unless the context requires otherwise.

### **DISCLAIMER OF OPINION**

The Board of Directors (the “**Board**”) of the Company would like to provide further information on the Annual Report in relation to the Disclaimer of Opinion.

### **Background**

As disclosed in Annual Report, ZHONGHUI ANDA CPA Limited, the auditor of the Company (the “**Auditor**”), issued a disclaimer of opinion on the Company’s consolidated financial statements for the year ended 31 December 2021 due to the financial position with net current liabilities of approximately HK\$413 million and net liabilities of approximately HK\$218 million indicated 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 (the “**Disclaimer of Opinion**”).

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. The Auditor considered 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, the Auditor disclaimed its opinion in respect of the material uncertainty relating to the going concern basis.

### **Detailed plan of the Company to address the Disclaimer of Opinion**

The Company has undertaken a number of plans and measures to address the going concern issue by improving its liquidity and financial position since the issuance of the Disclaimer of Opinion in the Company's financial statements for the year ended 31 December 2021, including:

#### **(i) *Business operation of the Company***

Since the Company's operation and financial position have been affected by the outbreak of COVID-19 pandemic since 2020, the Company has suffered significant adverse impact on its business operation with increasing net loss due to the prolonged travel restrictions amongst different countries and lockdown policies, which limited the students to attend the dance academy and other education services of the Group.

Attributing to the brand image and reputation and dance curriculum established by the Company in the past 15 years and the timely development strategies implemented by the management of the Company (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. During the year ended 31 December 2021, the Company's dance academy business in Hong Kong has recorded the revenue of approximately HK\$92 million, which represents an increase of approximately 100% as compared to approximately HK\$46 million for the whole year of 2020 and reached the all-time high in the 15-year history of the Company.

Meanwhile, as the cash and cash equivalents amounted to approximately HK\$30 million as at 31 December 2021, the Company is available to maintain sufficient working capital for its business operations.

Furthermore, as the global economy slowly transits towards recovery from COVID-19 pandemic and the relaxation of the lockdown policy and travel restrictions since early 2022, the Company considered that it may have the potential to improve its profitability riding on the gradual economic recovery, which may generate positive cash inflow and improve its financial position.

**(ii) Settlement of the Convertible Note**

As at 31 December 2021, the Convertible Note represented approximately 53% of the balance of the total current liabilities of the Company, which was measured at fair value of approximately HK\$265 million as at 31 December 2021.

As disclosed in the Inside Information Announcement, the Company has actively negotiated with the holder of the Convertible Note (the “**Noteholder**”) to explore the possibility of settlement of the Convertible Note.

The Company will continue to actively communicate with the Noteholder regarding the settlement of the Convertible Note. After the settlement of the Convertible Note, the level of indebtedness of the Company may be significantly reduced to the financial position of the Company may improve.

**(iii) Additional sources of financing**

The Company will continue to seek for other alternative financing and borrowings for future business development and explore suitable opportunities to generate additional cash inflows should such opportunity arise.

The Company is of the opinion that, taking into account the above plans and measures, the Company will have sufficient working capital to finance its operations within the next twelve months from 31 December 2021. Accordingly, the Company considered that the above plans and measures may address the uncertainties regarding going concern underlying the Disclaimer of Opinion that no such Disclaimer of Opinion will be made in the forthcoming audited financial statements.

**Management’s position, view and assessment on the Disclaimer of Opinion**

In preparing the consolidated financial statements of the Company for the year ended 31 December 2021 on a going concern basis, the Management has taken into account the following factors:

- (i) the Company will manage to have sufficient working capital for the operation and development of its business, which may generate sufficient operating cash flow for the Company in the future. Meanwhile, as Hong Kong has relaxed its lockdown policies and travel restrictions since early 2020, the business operations of the dance academy business and other education services are expected to steadily return to normal; and
- (ii) the Company also intends to reach an agreement with the Noteholder on the settlement of the Convertible Note, which represented over half of the total balance of current liabilities of the Company as at 31 December 2021, to improve the financial position by lowering the level of indebtedness.

As such, the Management is satisfied that it is appropriate to prepare the Group's consolidated financial statements for the year ended 31 December 2021 on a going concern basis.

However, the Management understands the Auditor could not satisfy themselves regarding the multiple uncertainties in relation to (i) the successful completion of various debts restructuring measures, including but not limited to the settlement with the Noteholder; and (ii) the successful outcome that certain measures to improve its financial position, to provide liquidity and cash flows, the Auditor disclaimed their opinion in respect of the material uncertainty relating to the going concern basis.

#### **Audit Committee's position, view and assessment on the Disclaimer of Opinion**

The audit committee of the Company (the "Audit Committee") had reviewed the Disclaimer of Opinion, the Management's position concerning the Disclaimer of Opinion and measures taken by the Company for addressing the Disclaimer of Opinion. The Audit Committee agreed with the Board's position based on the reasons aforementioned.

The Audit Committee had also discussed with Auditor regarding the financial position of the Company, measures taken and to be taken by the Company, and considered the Auditor's rationale and understood their consideration in arriving at their opinion.

Moreover, the Audit Committee had assessed the plans and measures which will be taken by the Management to address the uncertainties regarding going concern underlying the Disclaimer of Opinion, the Audit Committee was satisfied that the abovementioned action plan may address the Disclaimer of Opinion and such that the consolidated financial statements for the year ended 31 December 2022 are free from Disclaimer of Opinion.

#### **GENERAL**

Save as disclosed above, all other information in Annual Report remains unchanged.

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

Hong Kong, 27 June 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 Mr. Chak Chi Shing, Dr. Hung Siu Ying Patrick and Dr. Kao Ping Suen.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (“**GEM**”) of The Stock Exchange of Hong Kong Limited 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.*

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