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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 IN RELATION TO THE ANNUAL RESULTS ANNOUNCEMENT AND THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2022**

References are made to (i) the announcement of SDM Education Group Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 28 April 2023 in relation to, among other things, the audited annual results of the Group for the year ended 31 December 2022 (the “**2022 Annual Results Announcement**”); (ii) the annual report of the Company for the year ended 31 December 2022 (the “**2022 Annual Report**”) published on 1 May 2023 (collectively, the “**2022 Annual Results**”); and (iii) the announcement of the Company dated 15 May 2023 in relation to the first quarterly results of the Group for the three months ended 31 March 2023 (the “**2023 Q1 Results**”). Unless the context otherwise requires, capitalised terms used herein shall have the same meanings as those defined in the 2022 Annual Results.

#### **AUDIT ISSUE**

The Board would like to provide further information on the 2022 Annual Report in relation to the Audit Issue (as defined below).

## **Background**

As disclosed in the consolidated financial statements of the Group in the 2022 Annual Report, the Group incurred a loss of approximately HK\$36,802,000 for the year ended 31 December 2022 and net current liabilities and net liabilities of approximately HK\$413,760,000 and HK\$237,324,000 as at 31 December 2022 respectively. Zhonghui Anda CPA Limited, the auditor of the Company (the “**Auditors**”), issued a disclaimer of opinion on the 2022 Annual Report that these conditions indicate the existence of material uncertainties, including (i) the successful obtaining of additional new sources of financing, (ii) successfully managing the impact arisen from COVID-19 outbreak, as well as any Government’s stimulus in response, and (iii) the successful completion of various debt restructuring measures, 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. The Auditors considered that the material uncertainties have been adequately disclosed in the consolidated financial statements. However, in view of the extent of the abovementioned multiple uncertainties, to provide liquidity and cash flows, the Auditors disclaimed its opinion in respect of the material uncertainty relating to the going concern basis (the “**Audit Issue**”).

### **Implementation of measures to address the audit issue in the previous year**

The Auditors have disclaimed their opinion in respect of the material uncertainty relating to the going concern basis in the recent years, and the Company has been using its best endeavours to execute its action plan to address the unresolved audit issue.

Reference is made to the announcement of the Company dated 27 June 2022 in relation to the annual report of the Company for the year ended 31 December 2021, which sets out the previous actions taken by the Company to address the unresolved audit issue.

The Company has been actively seeking business opportunities to develop its business since the relaxation of lockdown policy by the Hong Kong Government in second half of 2022, yet the outbreak of the fifth wave of COVID-19 in Hong Kong in the first half of 2022 has casted a significant adverse impact on the business operation of the Group as all wholly-owned dance centres were forced to be temporarily closed to comply with the anti-epidemic measures and regulations imposed by the Hong Kong Government. Unavoidably, the revenue from the dance academy business for 2022 was affected.

For the Convertible Note, the Company has been negotiating with the Noteholder regarding the possibility of settlement and/or extension of repayment of the Convertible Note. As disclosed in the 2022 Annual Report, the Company and the Noteholder has

reached a consensus to extend the repayment date of the indebtedness under the Convertible Note by instalments. The Company is still discussing with the Noteholder to finalise the terms of the settlement agreement.

The Company has been actively exploring ways to develop its business as well in light of the recovery of economy. On 6 January 2023, the Company announced a rights issue and subsequently an aggregate of approximately HK\$21.46 million net proceeds were raised. Due to the then market sentiment, the proceeds of the fund raising is far below expectation.

Furthermore, the Group had total finance costs of HK\$7,128,000 for the year ended 31 December 2022, representing a decrease of approximately 38.79% compared to that for the year ended 31 December 2021. Among which, the interest expenses on bank and other borrowings have been significantly reduced from HK\$4,195,000 for the year ended 31 December 2021 to HK\$2,826,000 for the year ended 31 December 2022, representing a decrease of approximately 32.63%. The bank and other borrowings decreased for approximately 15.62% compared to that as at 31 December 2021, amounting to HK\$41,649,000 as at 31 December 2022. It demonstrated that the Group has tried to reduce the amount of bank and other borrowings so as to reduce the interest expenses and hence save costs as a whole.

#### **Details of the Company's action plan to address the Audit Issue**

With reference to the 2022 Annual Report, the Company would like to provide further information on the Company's action plan in addressing the Audit Issue:

##### ***(i) the Group is negotiating with lenders to extend repayment of loans and interests***

References are made to the announcements of the Company dated 27 December 2018, 12 February 2019 and 14 April 2022. 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 the 2022 Annual Report, the Issuer, the Company and the Noteholder reached a consensus to extend the repayment date of the indebtedness under the Convertible Note by instalments. 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 the 2022 Annual Report, the Company is still discussing with the Noteholder to finalise the terms of the settlement agreement. It is expected that the settlement agreement will be reached by the third quarter of 2023. The Company will make further announcements in relation to the settlement as and when appropriate in accordance with the relevant GEM Listing Rules.

As the Convertible Note takes up the majority of the current liabilities of the Company and the Convertible Note contributes approximately 54.08% of the total current liabilities, the Company is of the view that the Company's financial position can be improved if a settlement agreement is reached. As at the date hereof, the proposed settlement terms include but not limited to extending the repayment of the Convertible Note for a longer period of time which will relieve the pressure of the current liabilities of the Group and the Company will have more time to generate income and/or conduct fund raising to relief the liabilities of the Group. In addition, settlement of the Convertible Note by way of transferring the assets of the Group may also be an option. As at the date of this announcement, no formal agreement of the settlement has been entered into. The Company will make further announcement in accordance with the requirements of the Listing Rules as and when appropriate.

***(ii) the Group is implementing cost-saving measures to improve its operating cash flows and financial position***

As disclosed in the 2022 Annual Report, the advertising and promotion expenses of the Group for 2022 slightly increased comparing to 2021. The Company will review the marketing plan of the Group and will try to diversify the channels of promotion by working with a broader spectrum of media so as to make the Group's marketing plan more cost-effective.

Given the general decreasing trend in rent in Hong Kong, the Company will review the tenancy agreements of the existing dance centres. The Company will use its best endeavours to negotiate with the landlords for lower rent or will try to relocate the dance centres to other suitable places that cost lower rent if appropriate.

The Company will continue to explore other means to save costs and in light of the recovery in the economy, together with the aid of the abovementioned cost-saving measures, it is believed that the operating cash flows and financial position of the Group may be improved.

***(iii) the Group is negotiating with banks for principal moratorium***

As indicated in the 2022 Annual Report, as at 31 December 2022, the Group had outstanding bank borrowings with carrying amount of approximately HK\$35.1 million. The Group is in negotiation with the banks for principal moratorium for a period from 12 months to 24 months in order to alleviate the Group's short-term financial pressure.

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 2022. Accordingly, the Company considered that the above plans and measures may resolve the Audit Issue that no such Audit Issue will be repeated in the forthcoming audited financial statements.

## Management’s position, view and assessment on the Audit Issue

It was disclosed in the Corporate Governance Report, that the Directors acknowledge their responsibilities for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules. The Directors have selected appropriate accounting policies and applied them consistently; made judgement and estimate that are prudent and reasonable. As at 31 December 2022, the Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group’s ability to continue as a going concern as details set out in Note 2 to the Consolidated Financial Statements. The Directors’ responsibilities in the preparation of the consolidated financial statements and the auditors’ responsibilities are set out in the Independent Auditor’s Report from pages 53 and 54 of the 2022 Annual Report.

The Company wishes to clarify that, as at 31 December 2022, the Board was aware of the existence of material uncertainties, where the Group incurred a loss of approximately HK\$36,802,000 for the year ended 31 December 2022 and net current liabilities and net liabilities of approximately HK\$413,760,000 and HK\$237,324,000, respectively that might cast significant doubt on the Group’s ability to continue as a going concern. The Directors had also reviewed the financial position of the Group as at 31 December 2022, including its working capital and bank and cash balances, together with the projected cash flow forecasts for the next twelve months and the Directors considered that the Group is financially viable to continue as a going concern, details of which are set out in Note 2 of the Group’s consolidated financial statements for the year ended 31 December 2022.

In preparing the consolidated financial statements of the Company for the year ended 31 December 2022 on a going concern basis, the management of the Company (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 the second half of 2022, the business operations of the dance academy business and other education services are expected to steadily return to normal; and
- (ii) the Company is also negotiating with the Noteholder to reach an agreement on the settlement and/or extension of repayment of the Convertible Note to relief the pressure of current liabilities of the Group.

As such, the Management is satisfied that it is appropriate to prepare the Group’s consolidated financial statements for the year ended 31 December 2022 on a going concern basis.

However, the Management understands the Auditors was not satisfied regarding the financial position and financial performance of the Group and 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 of certain measures to improve its financial position, to provide liquidity and cash flows, the Auditors disclaimed their opinion in respect of the material uncertainty relating to the going concern basis.

#### **Audit Committee’s position, view and assessment on the Audit Issue**

The audit committee of the Company (the “**Audit Committee**”) has reviewed the Audit Issue, the Management’s position concerning the Audit Issue and measures taken by the Company for addressing the Audit Issue.

The Audit Committee had also discussed with the Auditors regarding the financial position of the Company, measures taken and to be taken by the Company, and considered the Auditors’ 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 Audit Issue, the Audit Committee was satisfied that the abovementioned action plan may address the Audit Issue and the consolidated financial statements for the year ending 31 December 2023 may be free from the Audit Issue.

The Company has further discussed with the Auditors and understands that the Auditors concurred with the view of the Directors and the Audit Committee that, in the event that the above action plan is completed on or before 31 December 2023, the Audit Issue may be resolved.

## **REASONS FOR THE DELAY IN PUBLICATION OF THE 2022 ANNUAL RESULTS**

The main reason for the delay in the audit progress was the prolonged ongoing discussion and negotiation of the settlement of the Convertible Note, which was supposed to mature on 31 March 2023, among the Issuer, the Noteholder and the Company. During the negotiation progress in the first quarter of 2023, the finance department of the Group in Singapore devoted substantial time in documentation works and information preparation in assisting the management in the negotiation of the settlement. In order to allocate sufficient resources for preparation of the 2022 Annual Results, an external local accounting firm has also been engaged. However, the preparation works in relation to the Convertible Note still greatly increased the workload of the finance department and inevitably delayed the progress of finalisation of the management accounts of the Singapore operation.

The delay in the finalisation of the accounts directly affected the schedule of the audit field work by the Auditors in Singapore and their assessment on the Group's ability to continue as a going concern. It also prolonged the time for finalising the valuation reports of the Convertible Note and for assessing the impairment on goodwill and intangible assets of the Group as the profit forecast used for valuations would make reference to the actual business performance of the Singapore operation. In addition, the late response of certain creditors, debtors and banks caused the delay of obtaining the outstanding audit confirmations from the Auditors. In order to facilitate the progress, the Company kept contacting the parties who did not send back the audit confirmation one by one and requested for their response.

Upon finalising the management accounts of the Singapore operation in late March 2023, the Auditors immediately started the audit field work. At the same time, the Company also passed on the management accounts to the valuer for the preparation of the valuation report(s). Due to the consecutive Ching Ming Festival and Easter public holidays in early April 2023, the valuation report(s) was received by the Company in mid-April 2023. Consolidated accounts of the Group were then immediately updated and the 2022 Annual Results Announcement and the 2022 Annual Report were finally published on 28 April 2023 and 1 May 2023 respectively.

## **INTERNAL CONTROL IN RELATION TO THE 2022 ANNUAL RESULTS**

The Company has maintained the following internal control procedures for financial reporting to comply with the obligations under the GEM Listing Rules.

### **Clear procedures and timetable**

Immediately after the year end of 2022, the Company devised a detailed timetable and schedule setting out each of the relevant procedures and details of preparation work in connection with the publication of the 2022 Annual Results Announcement and the 2022 Annual Report. The schedule set out the expected dates for each of the procedures including but not limited to all relevant disclosure in relation to the 2022 Annual Results, the environmental, social and governance report, valuation reports, the audit field works of the Auditors, meetings of the Board and the Audit Committee.

### **Audit planning**

Before kicking off the audit field work, the Company had discussions with the Auditors in relation to the audit planning for the 2022 Annual Results. The audit planning covered the timetable of the audit field works of the Hong Kong and Singapore operation, the items subject to valuation, the key issues such as the latest status of the Convertible Note, the going concern of the Group and other related issues. The management and the Audit Committee members also took part in the audit planning and reminded the responsible staff to use their best endeavours to assist the audit work and targeted to publish the 2022 Annual Results in accordance with the requirements of the GEM Listing Rules.

### **Valuation**

In early 2023, the Company has already started the discussion with its valuer regarding the necessary valuations to be performed for the purpose of the 2022 Annual Results. The Company also delivered the necessary information to the valuer from time to time as per requested in order to speed up the valuation progress.

### **Inform the public the latest situation of the Company on a timely basis**

In order to comply with its obligations under the GEM Listing Rules, the Company has, as soon as practicable, published announcements to inform the Shareholders that there would be a delay in the publication of the 2022 Annual Results on 28 March 2023 and 31 March 2023. As the delay in publication of the 2022 Annual Results Announcement falls into the ambit of inside information, pursuant to Rule 17.10(2)(a) of the GEM Listing Rules, where an issuer is required to disclose inside information under the Inside Information Provisions, it must also simultaneously announce the information. The Company has used its best endeavours to comply with the relevant GEM Listing Rules in publication of the aforementioned announcements.

### **REMEDIAL ACTIONS**

Despite the abovementioned internal control procedures have been adopted, the publication of the 2022 Annual Results Announcement, the despatch of the 2022 Annual Report and the notice of Board meeting have still been delayed.



For the notice period of the Board meeting date for the 2023 Q1 Results, it was inadvertently overlooked as the notice period crossed 2-week time and it was originally regarded as sufficient and compliant with the requirements under Rule 17.48 of the GEM Listing Rules.

In the Corporate Governance Report of the 2022 Annual Report, it was disclosed that as at 31 December 2022, the Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern as details set out in Note 2 to the Consolidated Financial Statements. It may not be regarded as sufficient as a clear and prominent disclosure and discussion as per the requirement of D.1.3 of Appendix 15 of the GEM Listing Rules.

The Company regrets the insufficiency of the internal control procedures in relation to the publication of financial results. In order to avoid the occurrence of the similar situation of non-compliance of the GEM Listing Rules in the future, the Company has implemented/will adopt the following measures and procedures:

- The Company will review the existing internal control procedures in relation to the publication of financial results and will deliver the revised one to the staff of the finance department (both Hong Kong and Singapore) and the company secretarial team.
- The Company has a plan to engage an external adviser to provide the Directors, the key staff of the finance department (both Hong Kong and Singapore) and the company secretarial team a full spectrum training in relation to the requirements of publication of financial reporting under the GEM Listing Rules in 2023.
- The Directors will arrange to hold a kick-off meeting with the staff of the finance department (both Hong Kong and Singapore) and the company secretarial team before the preparation of the annual results in the future to make sure the members of the staff fully understand their responsibilities and procedures.
- The Company will work closely with the legal advisers, external company secretarial firms or financial advisers for the compliance of the GEM Listing Rules.

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

Hong Kong, 30 June 2023

*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 and Dr. Kao Ping Suen.*

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

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