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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 REPORT FOR
THE YEAR ENDED 31 DECEMBER 2021**

Reference are made to (i) the supplemental announcement dated 9 July 2021 in relation to the annual results of SDM Education Group Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ended 31 December 2020 (the “**2020 AR Supplemental Announcement**”); and (ii) the supplemental announcement dated 27 June 2022 in relation to the annual report of the Company for the year ended 31 December 2021 (the “**Supplemental Announcement**”). Terms used herein shall have the same meanings as those defined in the Supplemental Announcement, unless the context requires otherwise.

UPDATE ON THE ACTION PLANS TO ADDRESS THE 2020 DISCLAIMER OF OPINION

Background

As disclosed in 2020 AR Supplemental Announcement, Grant Thornton Hong Kong Limited, the auditor of the annual report of the Company for the financial year ended 31 December 2020 (the “**2020 Annual Report**”), issued a disclaimer of opinion on the 2020 Annual Report due to (i) ceased the business in Australia in order to release future cash flow burden of the Group; (ii) the Automatic Conversion of the Singapore Convertible Note into new preference shares of SDM Asia Limited can be achieved upon maturity at 31 March 2023; (iii) obtained the confirmation from the investor of the New Australia Convertible Note of no intention to exercise the early redemption option before 30 June 2022; (iv) expectation of settling the consideration payable on acquisition of Global Win Group by future issuance of ordinary shares; (v) negotiations for banking facilities in Singapore; (vi) issuance of unlisted corporate bonds which was expected to be completed in first half of 2021; and (vii) continued exploration of funding with lower costs (the “**2020 Disclaimer of Opinion**”).

Updates on the action plans for addressing the 2020 Disclaimer of Opinion

The Company would like to provide updates on the following action plans for addressing the 2020 Disclaimer of Opinion:

(i) *Obtaining banking facilities in Singapore*

As disclosed in the 2020 AR Supplemental Announcement, the Group received an offer from a licensed bank in Singapore for a banking facility of S\$3,100,000 (equivalent to approximately HK\$18,144,000) with an interest rate of 3-month Singapore Overnight Rate Average plus 4% per annum.

As at the date of this announcement, the Group did not enter into any formal banking facility agreements for the abovementioned banking facilities in Singapore since the Group has already obtained alternative source of funding which was adequate for the Group to meet its funding needs for its operation for the year ended 31 December 2021.

(ii) *Obtaining loan from Directors and lenders*

The Company would like to provide updates in relation to the loan obtained from Directors and lenders as disclosed in the 2020 AR Supplemental Announcement, including

- (1) on 9 June 2021, a loan in the principal amount of HK\$40,000,000 (the “**Loan A**”) for a term of 12 months provided by an independent third party (the “**Lender**”) incorporated in Hong Kong which holds a money lender license in compliance to Cap. 163 Money-lenders Ordinance in Hong Kong; and
- (2) an interest-free loan in the principal amount of HK\$10,000,000 from Mr. Chiu Ka Lok (“**Mr. Chiu**”), the director and the controlling shareholder of the Company, details of which is disclosed in the announcement of the Company dated 30 July 2021.

During the year ended 31 December 2021, the Company has repaid part of the Loan A to the Lender with principal amount of approximately HK\$10,920,000, which was funded by the Group’s internal resources generated from its business operating.

On 22 February 2022, the Company has refinanced the outstanding principal amount of the Loan A of approximately HK\$29,080,000 with a number of bridging loans (the “**Bridging Loans**”) with details set out as follows:

- (a) *An unsecured loan with the principal amount of HK\$8,000,000 from Nardo Capital (International) Limited (“**Nardo**”) with a term of two months (the “**Loan B**”)*

With reference to the announcement of the Company dated 21 October 2021 in relation to the issue of the new shares under the general mandate of the Company, Nardo holds approximately 4.26% of the issued shares of the Company.

The Loan B is unsecured and carries an interest rate of 20% per annum. The loan has been fully repaid by the Company to Nardo in June 2022, which was funded by the Group’s internal resources from its operation.

- (b) *A loan with the principal amount of HK\$8,000,000 from an independent third party through Mr. Chiu with a term of one month (the “**Loan C**”)*

The loan agreement for the Loan C was entered into by Mr. Chiu and Dr. Chun Chun (“**Mr. and Mrs. Chiu**”), Directors of the Company, on behalf of the Company, which carries an interest rate of 30% per annum and was secured by a property owned by Mr. and Mrs. Chiu. The drawdown of the Loan C was directly transferred from the independent third party to the Lender for the settlement of the Loan C.

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

In June 2022, the Loan C has been fully repaid by the Company, which was funded by the Group’s internal resources generated from its operation.

- (c) *A loan with the principal of HK\$13,080,000 from a licensed bank in Hong Kong through Mr. Chiu with a term of 300 months (the “**Loan D**”)*

The loan agreement for the Loan D was entered into by Mr. and Mrs. Chiu, on behalf of the Company, which was secured by a property owned by Mr. and Mrs. Chiu. The interest rate for the Loan D is the lower of (I) prime rate minus 2.5%; or (II) one-month HIBOR plus 1.3%.

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

Based on the above, the Bridging Loans may reduce interest expense of the Company of no less than approximately HK\$800,000 per year as compared to the Loan A while extending the repayment date. As such, the Company considered the entering into of the Bridging Loans is in the interest of the Shareholders and the Company as a whole.

(iii) Obtaining lower cost of funding and plans to enhance profitability and cost control

As disclosed in the announcement of the Company dated 5 January 2021, the Company and SDM Australian Education Limited, a wholly-owned subsidiary of the Company, entered into a subscription agreement with Golden Pursue Limited (the “**Australian Noteholder**”), an independent third party, to issue convertible note in principal amount of up to US\$6,350,000, which bears coupon interest at the rate of 8% per annum with a maturity date of 30 April 2024 (the “**Australia Convertible Note**”).

As disclosed in the 2020 AR Supplemental Announcement, the first tranche of the subscription for US\$5,850,000 (equivalent to approximately HK\$45,630,000) in principal amount of the Australia Convertible Notes has been completed. As the second tranche of the Australia Convertible Notes with the principal amount of US\$500,000 was not issued on or before 31 March 2021, the conditions for the issuance of the second tranche of the Australia Convertible Note were not fulfilled in accordance to the subscription agreement.

As further disclosed in the 2021 Annual Report, even though the Group has ceased Australia operation on 27 April 2021 due to the adverse impact on the business in Australia brought by the outbreak of COVID-19, the Group has obtained confirmation from the Australian Noteholder that Australian Noteholder did not intend to exercise early redemption option before 30 June 2023.

As at the date of this announcement, the Australia Convertible Note still remained outstanding. Nevertheless, given that the Company has ceased the Australia operation, it is expected that the Australian Noteholder will not convert the Australia Convertible Note. As such, the Company will continue to assess its liquidity position and consider other fund-raising activities in the future for the settlement of the Australia Convertible Note before its maturity date of 30 April 2024.

FURTHER DETAILS ON THE ACTION PLANS TO ADDRESS THE 2021 DISCLAIMER OF OPINION

With the reference of the Supplemental Announcement, the Company would like to provide further information on the following action plans in addressing the 2021 Disclaimer of Opinion:

(i) Details of alternative financing

In addition to the abovementioned debt financing obtained by the Company, on 10 June 2022, the Company entered into a loan facility agreement, pursuant to which the Company agreed to accept, and the lender (“**Facility Lender**”), agreed to provide an interest-free loan facilities in the principal amount of US\$43,000,000 (equivalent to approximately HK\$335 million) (the “**Loan Facility**”), which is intended by the Company for the settlement of the Convertible Note.

To the best knowledge, information and belief having made all reasonable enquiries, the Facility Lender is a third party independent of and not connected with the Company and its connected persons.

As at the date of this announcement, the drawdown of the Loan Facility has not been completed by the Company as further detailed terms and conditions of the Loan Facility are still under negotiation between the Company and the Facility Lender. The Loan Facility was intended to be utilised as a bridging loan for the Company in the settlement of the Convertible Note. It is expected that the Company may explore collaboration opportunities with the Facility Lender after the drawdown of the Loan Facility and the settlement of the Convertible Note. In the event the aforesaid collaboration materialise, the Company will publish further announcement(s) and comply with the relevant requirements under the Listing Rules accordingly.

(ii) Details of the continuing financial support from Mr. Chiu

As at the date of this announcement, the Company has received several tranches of financial supports in the form of debts from the controlling shareholder, Mr. Chiu, as disclosed in the section headed “Obtaining loan from Directors and lender” in this announcement.

(iii) Update on the potential settlement with the Noteholder

In view of the Loan Facility is sufficient for the settlement of the Convertible Note, the Company intends to continue to negotiate with the Noteholder on the settlement of the Convertible Note after the drawdown of the Loan Facility. It is expected that the Company may reach a settlement agreement with the Noteholder in relation to the Convertible Note on or before 31 December 2022.

Taking into account of the progress of the above action plans, the Company is of the view that the Disclaimer of Opinion in respect of going concern may be removed in the Company’s financial statements for the year ending 31 December 2022.

The Company has further discussed with the Auditor and understands that the Auditor concurred with the view of the Directors and the Audit Committee that, in the event that the above action plans are completed on or before the year ending 31 December 2022, the respective Disclaimer of Opinion may be removed in the Company’s financial statements for the year ending 31 December 2022.

Latest financial position of the Company

As at 31 March 2022, based on the unaudited consolidated financial statements of the Company, the unaudited carrying amounts of the Group’s indebtedness included: (i) convertible notes of approximately HK\$282 million; (ii) bank loans of approximately HK\$21 million; (iii) other borrowing of approximately HK\$11 million; (iv) lease liabilities of approximately HK\$144 million; and (v) cash and cash equivalents of approximately HK\$25 million.

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, 1 August 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 Patick 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.*

This announcement will remain on the GEM website with the domain name of www.hkgem.com on the “Latest Company Announcement” page for at least 7 days from the date of publication and on the website of the Company at www.sdm.hk