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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 2022
AND
RESUMPTION OF TRADING**

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 (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 2022, 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\$164.8 million (2021: approximately HK\$178.6 million), representing a decrease by HK\$13.8 million or 7.7% on a year-on-year basis;
- loss for the year from continuing operations attributable to owners of the Company was approximately HK\$37.2 million (2021: profit of of HK\$49.4 million); and
- basic loss per share from continuing operations was approximately loss per share HK\$0.0813 (2021: earning per share HK\$0.1221).

ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of SDM Education Group Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”), hereby announces that the external auditors of the Company have audited the consolidated financial statements of the Group for the year ended 31 December 2022. The audited consolidated annual results of the Group for the year ended 31 December 2022 together with the audited comparative figures for the year ended 31 December 2021 are as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Continuing operations			
Revenue	4	164,832	178,576
Other income	5	55,105	51,732
Other net gains and losses	5	125	(19,068)
Changes in inventories of finished goods		(157)	(246)
Finished goods purchased		(11,888)	(8,954)
Advertising and promotion expenses		(5,073)	(4,801)
Depreciation	8	(46,559)	(51,602)
Amortisation	8	(7,207)	(7,379)
Staff and teaching consultants services costs		(112,457)	(108,683)
Other expenses		(38,590)	(39,201)
Impairment loss on goodwill and intangible assets		(16,167)	(3,596)
Net impairment loss recognised on financial assets and other receivables		(614)	(989)
Impairment loss on property, plant and equipment and right-of-use assets		(1,023)	(795)
Gain on change in fair value of consideration payable		–	104,039
Loss on change in fair value of convertible notes through profit or loss	15	(8,572)	(20,744)
Share options expenses		(550)	(5,301)
Finance costs	6	(7,128)	(11,645)
Share of results of joint ventures		(317)	(195)
Share of results of an associate		(175)	131
(Loss)/profit before taxation		(36,415)	51,279
Income tax expenses	7	(387)	(1,295)
(Loss)/profit for the year from continuing operations	8	(36,802)	49,984
Discontinued operations			
Loss for the year from discontinued operations		–	(11,167)
(Loss)/profit for the year		(36,802)	38,817

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
(Loss)/profit for the year attributable to owners of the Group			
– from continuing operations		(37,190)	49,445
– from discontinued operations		–	(11,193)
		<u>(37,190)</u>	<u>38,252</u>
Profit for the year attributable to non-controlling interests			
– from continuing operations		388	539
– from discontinued operations		–	26
		<u>388</u>	<u>565</u>
(Loss)/profit for the year		(36,802)	38,817
Other comprehensive income for the year			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange gain on translation of financial statements of foreign operations		5,981	5,361
Change in fair value on financial liabilities designated at fair value through profit or loss attributable to change in credit risk	15	<u>11,137</u>	<u>31,566</u>
Other comprehensive income for the year		<u>17,118</u>	<u>36,927</u>
Total comprehensive (loss)/income for the year		<u>(19,684)</u>	<u>75,744</u>
Total comprehensive (loss)/income attributable to owners of the Group:			
– from continuing operations		(18,758)	50,783
– from discontinued operations		–	20,524
		<u>(18,758)</u>	<u>71,307</u>
Total comprehensive (loss)/income attributable to non-controlling interests:			
– from continuing operations		(926)	4,437
– from discontinued operations		–	–
		<u>(926)</u>	<u>4,437</u>
		<i>HK cents</i>	<i>HK cents</i>
Basic (loss)/earning per share			
From continuing and discontinued operations	10	<u>(8.13)</u>	<u>9.45</u>
From continuing operations		<u>(8.13)</u>	<u>12.21</u>
From discontinued operations		<u>–</u>	<u>(2.76)</u>
Diluted (loss)/earning per share			
From continuing and discontinued operations	10	<u>(8.13)</u>	<u>8.99</u>
From continuing operations		<u>(8.13)</u>	<u>11.61</u>
From discontinued operations		<u>–</u>	<u>(2.62)</u>

Consolidated Statement of Financial Position

As at 31 December 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		13,693	17,727
Right-of-use assets		68,378	71,246
Goodwill		84,743	99,710
Intangible assets		62,958	70,636
Interests in joint ventures		156	156
Loans to joint ventures		440	757
Interest in an associate		1,381	1,546
Deposits for acquisitions of subsidiaries and businesses	<i>11</i>	17,765	18,187
Other receivables, deposits and prepayments	<i>12</i>	14,511	13,306
Deferred tax assets		30	30
		<u>264,055</u>	<u>293,301</u>
Current assets			
Inventories		1,892	1,958
Trade and other receivables, deposits and prepayments	<i>12</i>	61,894	50,847
Amounts due from related parties		9,679	9,901
Amounts due from non-controlling shareholders of subsidiaries		664	664
Cash and cash equivalents		25,699	29,508
Tax recoverable		316	264
		<u>100,144</u>	<u>93,142</u>
Current liabilities			
Trade and other payables	<i>13</i>	63,645	57,839
Deferred income	<i>14</i>	33,052	32,824
Amounts due to related parties		28,010	13,722
Amounts due to non-controlling shareholders of subsidiaries		258	246
Convertible notes	<i>15</i>	277,934	281,775
Bank and other borrowings		41,649	49,359
Lease liabilities		63,491	64,158
Tax payable		1,515	1,942
Provisions		4,350	4,126
		<u>513,904</u>	<u>505,991</u>
Net current liabilities		<u>(413,760)</u>	<u>(412,849)</u>
Total assets less current liabilities		<u>(149,705)</u>	<u>(119,548)</u>

	<i>Notes</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
Non-current liabilities			
Provisions		7,235	7,702
Deferred tax liabilities		4,397	5,463
Bank and other borrowings		4,763	5,390
Lease liabilities		71,224	80,087
		<u>87,619</u>	<u>98,642</u>
NET LIABILITIES		<u>(237,324)</u>	<u>(218,190)</u>
EQUITY			
Share capital		45,760	45,760
Reserves		<u>(290,782)</u>	<u>(272,574)</u>
Equity attributable to owners of the Company		(245,022)	(226,814)
Non-controlling interests		<u>7,698</u>	<u>8,624</u>
TOTAL EQUITY		<u>(237,324)</u>	<u>(218,190)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1. GENERAL INFORMATION

SDM Education Group Holdings Limited (the “**Company**”) was incorporated in Cayman Islands on 12 February 2014 and registered as an exempted company with limited liability under the Cayman Companies Law. The address of its registered office is Windward 3, Regatta Office Park, PO 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 14 January 2022 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 6 October 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 REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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 2022. 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 applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised IFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

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 and the PRC

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

Discontinued operation:

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.

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 <i>HK\$'000</i>	Early childhood education business <i>HK\$'000</i>	Others <i>HK\$'000</i>	operation Adult education and training business <i>HK\$'000</i>	
2022					
Revenue	55,121	100,636	9,075	–	164,832
Segment results	(5,222)	121	(405)	–	(5,506)
Other income and net gains and losses					5,474
Central corporate expenses					(26,155)
Share options expenses					(550)
Loss on change in fair value of convertible notes through profit or loss					(8,572)
Share of results of joint ventures					(317)
Share of results of an associate					(175)
Net impairment loss recognised on financial assets and prepayments					(614)
Loss before taxation					(36,415)

3. SEGMENT INFORMATION (Continued)

2021	Continuing operations			Discontinued	Total
	Dance academy business <i>HK\$'000</i>	Early childhood education business <i>HK\$'000</i>	Others <i>HK\$'000</i>	operation Adult education and training business <i>HK\$'000</i>	
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>	14,560
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>

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

3. SEGMENT INFORMATION (Continued)

For the year ended 31 December 2022

	Continuing operations				Discontinued operation	
	Dance academy business	Early childhood education business	Others	Unallocated	Adult education and training business	Consolidated
	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	576	-	-	-	577
Amortisation of intangible assets	(3,510)	(3,189)	(508)	-	-	(7,207)
Depreciation of property, plant and equipment	(3,200)	(3,046)	(23)	(77)	-	(6,346)
Depreciation of right-of-use assets	(19,372)	(19,233)	-	(1,608)	-	(40,213)
Impairment loss on property, plant and equipment and right-of-use assets	-	(1,023)	-	-	-	(1,023)
Interest on lease liabilities	(1,910)	(2,301)	-	(91)	-	(4,302)
Impairment loss on goodwill	-	(896)	-	-	-	(896)
Impairment loss on intangible assets	-	(15,271)	-	-	-	(15,271)
Impairment loss on trade and other receivables	-	(614)	-	-	-	(614)
Share of results of an associate	-	-	-	(175)	-	(175)
Share of results of joint ventures	-	-	-	(317)	-	(317)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

3. SEGMENT INFORMATION (Continued)

For the year ended 31 December 2021

	Dance education business HK\$ '000	Continuing operations Early childhood academy business HK\$ '000	Others HK\$ '000	Unallocated HK\$ '000	Discontinued operation Adult education and training business HK\$ '000	Consolidated 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>

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	
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Australia (discontinued operation)	–	6,224	–	–
Hong Kong	75,502	93,557	61,206	57,859
Singapore	89,329	85,019	188,308	222,106
	<u>164,831</u>	<u>184,800</u>	<u>249,514</u>	<u>279,965</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 operation		Total	
	2022	2021	2022	2021	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from contract with customers						
Dance academy business	55,121	74,548	–	–	55,121	74,548
Early childhood education business	100,636	93,433	–	–	100,636	93,433
Adult education and training business	–	–	–	6,224	–	6,224
Others	9,075	10,595	–	–	9,075	10,595
Total	164,832	178,576	–	6,224	164,832	184,800

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 2022				Total HK\$'000
	Dance academy business HK\$'000	Continuing operations Early childhood education business HK\$'000	Others HK\$'000	Discontinued operation Adult education and training business HK\$'000	
Types of goods or service					
Dance academy business					
– Elementary courses	24,000	–	–	–	24,000
– CSTD jazz courses	19,306	–	–	–	19,306
– RAD ballet courses	3,056	–	–	–	3,056
– Other courses	7,454	–	–	–	7,454
– Sale of dance uniforms, shoes and accessories	1,305	–	–	–	1,305
	<u>55,121</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>55,121</u>
Early childhood education business					
– Elementary and enrichment courses	–	100,103	–	–	100,103
– Sale of uniforms and accessories	–	533	–	–	533
	<u>–</u>	<u>100,636</u>	<u>–</u>	<u>–</u>	<u>100,636</u>
Others					
– Provision of swallowing and speech treatments	–	–	4,737	–	4,737
– Provision of photographic services	–	–	4,338	–	4,338
– Others	–	–	–	–	–
	<u>–</u>	<u>–</u>	<u>9,075</u>	<u>–</u>	<u>9,075</u>
Total	<u>55,121</u>	<u>100,636</u>	<u>9,075</u>	<u>–</u>	<u>164,832</u>
Geographical markets					
– Hong Kong	55,121	4,958	9,075	–	69,154
– Singapore	–	95,678	–	–	95,678
Total	<u>55,121</u>	<u>100,636</u>	<u>9,075</u>	<u>–</u>	<u>164,832</u>
Timing of revenue recognition					
– At point in time	1,305	533	4,338	–	6,176
– Over time	53,816	100,103	4,737	–	158,656
Total	<u>55,121</u>	<u>100,636</u>	<u>9,075</u>	<u>–</u>	<u>164,832</u>

4. REVENUE (Continued)

For the year ended 31 December 2021

Segments	For the year ended 31 December 2021				
	Dance academy business HK\$ '000	Continuing operations Early childhood education business HK\$ '000	Others HK\$ '000	Discontinued operation Adult education and training business HK\$ '000	Total 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>

5. OTHER INCOME AND OTHER NET GAINS AND LOSSES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Other income		
Management fee income	5,583	6,046
Enrichment course income	2,729	806
Examination and competition handling fee income	4,736	5,294
Performance and show income	3,851	3,984
Services fee income	–	30
Franchise fee income	3,976	1,738
Sub-lease income that are fixed	2,625	5,183
Interest income	577	747
COVID-19-related rent concessions received (<i>Note (a)</i>)	2,219	1,432
Government grants (<i>Note (b)</i>)	23,753	22,510
Others	5,056	3,962
	<u>55,105</u>	<u>51,732</u>
Other net gains and losses		
Net exchange gains/(losses)	258	(1,292)
Forfeiture of deposits for acquisitions of subsidiaries and businesses	–	(17,723)
Gain on disposal of a subsidiary	145	–
Loss on de-registration of subsidiaries	(44)	–
Loss on disposal of property, plant and equipment	(234)	(53)
	<u>125</u>	<u>(19,068)</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 2022 and 2021, 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 2022, the Group received funding support amounting to HK\$8,315,000 (2021: HK\$8,872,000) 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)

Notes: (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 2022, the Group received the funding support amounting to S\$2,513,000 (2021: S\$2,067,000), equivalent to approximately HK\$14,269,000 (2021: HK\$11,974,000).

Remaining government grants were granted on a discretionary basis during the year ended 31 December 2022 and 2021 and the conditions attached thereto were fully complied with.

6. FINANCE COSTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest expenses on:		
– bank and other borrowings	2,826	4,195
– corporate bonds	–	2,697
– lease liabilities	4,302	4,753
	<u>7,128</u>	<u>11,645</u>

7. INCOME TAX EXPENSES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Hong Kong Profits Tax		
– Current year	324	178
Singapore corporate income tax (“CIT”)		
– Current year	2,356	2,502
– Over provision in prior years	(263)	(144)
	<u>2,093</u>	<u>2,358</u>
	<u>2,417</u>	<u>2,536</u>
Deferred tax	(2,030)	(1,241)
	<u>387</u>	<u>1,295</u>

7. INCOME TAX EXPENSES (Continued)

The provision for Hong Kong Profits Tax for 2022 is calculated at 16.5% (2021: 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 2021.

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% (2021: 17%) of the estimated assessable profit eligible for CIT rebate of 20%, capped at S\$10,000 for the years of assessment 2022 and 2021. 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:

	2022 <i>HK\$’000</i>	2021 <i>HK\$’000</i>
(Loss)/profit before taxation from continuing operations	(36,415)	51,279
Loss before taxation from a discontinued operation	–	(11,167)
	<u>(36,415)</u>	<u>40,112</u>
Tax at Hong Kong profits tax rate of 16.5%	(6,008)	6,618
Tax effect of expenses not deductible for tax purpose	22,178	27,422
Tax effect of income not taxable for tax purpose	(23,328)	(44,498)
Over provision in prior years	(263)	(144)
Effect of share of results of joint ventures and an associate	81	11
Tax effect of tax losses not recognised	6,910	10,913
Tax effect of deductible temporary differences not recognised	739	860
Effect of different tax rates of subsidiaries operating in other jurisdictions	78	113
Income tax expense for the year	<u>387</u>	<u>1,295</u>

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
The Group's (loss)/profit for the year from continuing operations has been arrived at after charging/(crediting):		
Auditor's remuneration*	1,600	1,600
Consultants service costs*	2,784	2,518
COVID-19 – related rent concessions received (<i>Note 5</i>)	(2,219)	(1,432)
Building management fee*	6,126	5,863
Legal and professional fee*	4,094	4,199
Depreciation:		
Right-of-use assets	40,213	43,721
Owned assets	6,346	7,881
Total depreciation	<u>46,559</u>	<u>51,602</u>
Amortisation of intangible assets	7,207	7,379
Forfeiture of deposits for acquisitions of subsidiaries and businesses	–	(17,723)
(Reversal of impairment loss)/impairment loss recognised on:		
– amounts due from related parties	(35)	265
– other financial assets	649	724
Net impairment loss recognised on financial assets	<u>614</u>	<u>989</u>

* included in “other expenses”

9. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2022 (2021: Nil) nor propose any dividend since the end of the reporting period.

10. (LOSS)/EARNING PER SHARE

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
(Loss)/earning		
(Loss)/earning for the purpose of calculating basic loss per share		
(loss)/earning for the year attributable to owners of the Company		
From continuing operations	(37,190)	49,445
From discontinued operation	–	(11,193)
	<u>(37,190)</u>	<u>38,252</u>
	<i>'000</i>	<i>'000</i>
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	457,600	404,955
Effect of dilution-weighted average of ordinary shares:		
Convertible note	20,759	20,759
	<u>478,359</u>	<u>425,714</u>
	<i>HK cents</i>	<i>HK cents</i>
Basic (loss)/earning per share		
From continuing operations	(8.13)	12.21
From discontinued operation	–	(2.76)
	<u>(8.13)</u>	<u>9.45</u>
Diluted (loss)/earning per share		
From continuing operations	(8.13)	11.61
From discontinued operation	–	(2.62)
	<u>(8.13)</u>	<u>8.99</u>

The diluted loss per share for the year ended 31 December 2022 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 BUSINESS

During the year ended 31 December 2021, 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.

The deposit of SG\$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 SG\$3,038,297 (equivalent to approximately HK\$17,723,000) was forfeited accordingly.

The deposits of SG\$3,148,000 as at 31 December 2022 (equivalent to approximately HK\$17,765,000) (2021: SG\$3,148,000 (equivalent to approximately HK\$18,187,000)) were related to the acquisitions under process.

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables	4,279	5,052
Less: ECL allowance	<u>(328)</u>	<u>(294)</u>
	<u>3,951</u>	<u>4,758</u>
Rental deposits	14,219	13,289
Loan receivables (<i>Note</i>)	12,016	16,295
Franchising fee income receivable	11,615	7,639
Management fee income receivable	12,133	8,557
Other deposits, receivables and prepayments	<u>22,471</u>	<u>13,615</u>
Total trade and other receivables, deposits and prepayments	76,405	64,153
Less: Non-current portion		
Rental deposits	(7,302)	(5,634)
Loan to holding company of an associate (<i>Note</i>)	(4,281)	(5,350)
Other receivables	<u>(2,928)</u>	<u>(2,322)</u>
Non-current portion	<u>(14,511)</u>	<u>(13,306)</u>
Current portion	<u><u>61,894</u></u>	<u><u>50,847</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:

The loan to holding company of an associate represented advances of S\$1,935,000 (equivalent to approximately HK\$11,283,000) (2021: S\$2,695,000 (equivalent to approximately HK\$15,821,000)) to the shareholders of an associate, which are unsecured, interest bearing at 2.81% to 4.19% and repayable in June 2022 to Dec 2023. For the advance of S\$566,000 (equivalent to approximately HK\$3,300,000) (2021: S\$926,000 (equivalent to approximately HK\$5,350,000)), 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.

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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0 – 3 months	2,585	2,817
3 – 6 months	410	222
Over 6 months	956	1,719
	<u>3,951</u>	<u>4,758</u>

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Balance at 1 January	294	294
ECL allowance recognised during the year	37	–
Exchange realignment	(3)	–
	<u>328</u>	<u>294</u>

13. TRADE AND OTHER PAYABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade payables	90	868
Accrued staff costs	3,047	4,044
Accrued audit fee	1,600	1,600
Advance receipts from customers for examination and competition	4,994	7,251
Customer deposits	10,125	9,330
Other payables and accrued charges (<i>note</i>)	43,789	34,746
	<u>63,645</u>	<u>57,839</u>

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 2022 were amounts of HK\$8,127,000 and HK\$3,816,000 (2021: HK\$8,646,000 and HK\$2,672,000), which represented agency commission payable and other tax payable, respectively.

14. DEFERRED INCOME

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Deferred income arising from		
– dance academy classes contracts	28,463	28,163
– adult language courses contracts	4,589	4,661
	<u>33,052</u>	<u>32,824</u>

Deferred income mainly represents the course fee received in advance pursuant to the contracts with customers, this will give rise to deferred income at the start of a contract until the revenue recognised exceeds the amount of the advance payments.

Deferred income outstanding at the beginning of the year amounting to HK\$27,926,000 (2021: HK\$32,519,000) have been recognised as revenue during the year.

14. DEFERRED INCOME (Continued)

Unsatisfied long-term contracts

The transaction price allocated to the remaining unsatisfied or partially satisfied performance obligations as at 31 December 2022 and 2021 are as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within one year	30,698	31,450
More than one year	2,354	1,374
	<u>33,052</u>	<u>32,824</u>

All tuition for kindergarten and pre-schools, sales of uniforms, shoes and accessories, swallowing and speech treatment services and photographic services are for a period of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

15. CONVERTIBLE NOTES

Singapore Convertible Note

Movements of Singapore Convertible Note as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
As at 1 January	264,838	248,040
Fair value change in profit or loss	8,572	20,744
Exchange realignment	2,610	(3,946)
As at 31 December	<u>276,020</u>	<u>264,838</u>

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 on 31 March 2023. The Singapore Convertible Note shall be converted into new preference shares of the Issuer upon the occurrence of certain events as detailed in the Singapore CN Subscription Agreement and the Singapore Amendment Deed.

15. CONVERTIBLE NOTES (Continued)

Singapore Convertible Note (Continued)

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 2022, the Singapore Convertible Note measured at fair value through profit or loss amounted to HK\$276,020,000 were recorded as current liabilities (2021: HK\$264,838,000 as current liabilities).

Australia Convertible Note

Movements of Australia Convertible Note as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
As at 1 January	16,937	41,643
Issuance	–	3,887
Fair value changes on financial liabilities designated at fair value through profit or loss attributable to change in credit risk	(11,137)	(31,566)
Exchange realignment	(3,886)	2,973
As at 31 December	1,914	16,937

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.

15. CONVERTIBLE NOTES (Continued)

Australia Convertible Note (Continued)

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

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.

15. CONVERTIBLE NOTES (Continued)

Australia Convertible Note (Continued)

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 disclosed in note 11, 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.

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 2022 and 2021, only US\$5,850,000 (equivalent to approximately HK\$45,630,000 of the Australia Convertible Note has not been redeemed.

15. CONVERTIBLE NOTES (Continued)

Australia Convertible Note (Continued)

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 2022 and 2021 and therefore the Australia Convertible Note were recorded as current liabilities as at 31 December 2022 and 2021.

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:

	2022	2021
	HK\$'000	HK\$'000
As at 1 January	281,775	289,683
Issuance of convertible notes	–	3,887
Fair value changes on convertible notes through profit or loss	8,572	20,744
Fair value changes on financial liabilities designated at fair value through profit or loss attributable to change in credit risk	(11,137)	(31,566)
Exchange realignment	(1,276)	(973)
	<hr/> 277,934 <hr/>	<hr/> 281,775 <hr/>
As at 31 December		
Analysed as:		
Current	277,934 <hr/>	281,775 <hr/>

The amount of change in the fair value of the financial liability that was attributable to changes in the credit risk of that liability is recognised in other comprehensive income.

16. EVENTS AFTER THE REPORTING PERIOD

On 13 March 2023, the Company raised approximately HK\$22,880,000 before transaction costs of issuing 228,800,000 rights issues, on the basis of 1 rights share for every 2 existing shares held by the shareholders of the Company.

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 2022, the Group had 23 wholly-owned dance centres, one kindergartens in Hong Kong, 14 pre-schools in Singapore. Besides offering wide range of dance courses for children generally between the age of 2 to 16, the Group also develops operations of day care centres, kindergartens and enrichment courses in Singapore. The vision of the Group is to provide social and life experience to children at a young age through their participation in dance courses and pre-school activities, thereby nurturing their social interaction skills and confidence.

BUSINESS REVIEW

Hong Kong

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

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

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 performance of 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.

The performance has been improving gradually since 2021. As at 31 December 2022, the number of enrollment was approximately 1,050 out of total capacity of approximately 1,560. The Group is confident that enrollment will remain stable even under pandemic.

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. In 2021, 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. The liquidation of the Company's subsidiaries in Australia is in progress and expected to complete in 2023.

Meanwhile, the Company will continue to expedite its expansion in the overseas market 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 decreased by approximately HK\$13.8 million from approximately HK\$178.6 million for 2021 to approximately HK\$164.8 million for 2022. The decrease was mainly due to the contribution by the decrease in revenue from Dance Academy Business in Hong Kong amounting to approximately HK\$19.4 million. Such decrease in revenues from Dance Academy Business was recorded due to in 2022, they had been closed for several months due to the outbreak of COVID-19. The increase in revenues from Early Childhood Education by approximately HK\$7.2 million was mainly due to the increase in average number of enrollments in both Hong Kong and Singapore.

Other income of the Group from continuing operations was approximately HK\$55.1 million for the year ended 31 December 2022 (2021: HK\$51.7 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 enrichment course income and franchise fee increased to approximately HK\$6.7 million for the year ended 31 December 2022 from HK\$2.5 million for 2021. The reasons were that the operation of enrichment course in Singapore were resumed to normal in 2022.

The Group recorded a loss from continuing operations attributable to the Shareholders amounting to approximately HK\$37.2 million for the year ended 31 December 2022 while the Group recorded a profit attributable to the Shareholders amounting to approximately HK\$49.4 million for the year ended 31 December 2021. It was mainly due to the absence of gain on change in fair value of consideration payables for the year ended 31 December 2022 (2021: gain on change in fair value of consideration payables of approximately HK\$104.0 million).

Discontinued Operations

As mentioned under “Business Review”, the Group has ceased its business operations in Australia since April 2021. The amounts of revenues from such business – Adult Education and Training Business were HK\$nil for 2022 (2021: HK\$6.2 million). The losses from these discontinued operations attributable to the owners of the Group was approximately HK\$nil for 2022 (2021: a loss of HK\$11.2 million).

Goodwill and Intangible Assets

As at 31 December 2022, the Group had goodwill and intangible assets in the carrying amount of HK\$84.7 million (2021: HK\$99.7 million) and HK\$63.0 million (2021: HK\$70.6 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, rather than based on a valuation by an independent professional valuer, 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. 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 3% on average (2021: 7%) after taken the fact that few childcare centres were closed in 2022 and in the first quarter of 2023. Other than that, there are no significant changes of assumptions.

The goodwill and intangible assets arising from acquisition of childcare business in Singapore was amounted to HK\$115.3 million as at 31 December 2022, representing 78% of the Group’s total. In projecting the incomes and expenses of the Group’s childcare business in Singapore for impairment assessment at the end of reporting period, the Company has taken their performance trends in the recent years into account and thoroughly considered the specific factors in the course of preparing the cash flow projections as below.

Key Inputs	Factors
Revenues – school tuition fee	<ul style="list-style-type: none"> a) Capacity, i.e. maximum number of student intake; b) Historical utilization rate; and c) Average school fee per student
Rental expenses	<ul style="list-style-type: none"> a) Monthly rental and remaining lease terms under existing tenancy agreements; and b) The increments in rentals after the existing lease terms
Staff costs	<ul style="list-style-type: none"> a) Maximum teachers to student ratio allowed by the local education authority b) Yearly increments in monthly salary from FY2023 to FY2027
Long term growth rate (after FY2027)	Adopted the inflation rate in Singapore for FY2027 provided in the website of International Monetary Fund

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.

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 2022, the total bank balances and cash of the Group amounted to approximately HK\$25.7 million (2021: approximately HK\$29.5 million).

There were bank and other borrowings of approximately HK\$46.4 million of which HK\$41.6 million and HK\$4.8 million were classified as current liabilities and non-current liabilities, respectively as at 31 December 2022 (2021: HK\$49.4 million under current liabilities and HK\$5.4 million under non-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\$1.9 million as at 31 December 2022 (2021: HK\$16.9 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\$276.0 million as at 31 December 2022 (2021: HK\$264.8 million under non-current liabilities).

Reference is 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 this report, the Issuer, the Company and the Noteholder reached a consensus to extend the repayment date of the indebtedness under the Convertible Note by installments and for the Noteholder not enforce the equitable mortgage over the shares of the Issuer. The Company is of the view that the Convertible Note has not been defaulted.

On 5 April 2023, the Company remitted US\$2 million (equivalent to approximately HK\$15.6 million) to the Noteholder for partial repayment.

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

As at 31 December 2022, the current ratio (defined as total current assets divided by total current liabilities) was approximately 0.19 times as compared to 0.18 times as at 31 December 2021.

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 2022 and 2021, 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 2022, the issued share capital of the Company was HK\$45,760,000 divided into 457,600,000 shares (2021: HK\$45,760,000 dividend into 457,600,000 shares).

As at 31 December 2022, the Group had outstanding convertible notes with carrying amount of approximately HK\$277.9 million (2021: HK\$281.8 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.

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

SIGNIFICANT INVESTMENTS

There was no significant investment held by the Group as at 31 December 2022 and 2021.

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. The Group officially stepped foot on the mainstream education market overseas through its proposed acquisition of several pre-schools in Singapore since 2018 and its education business in Australia since 2019.

The acquisitions are in line with the business development plan and expansion plan of the Group. The Board believes that the acquisitions provide 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, China mainland and overseas markets.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2022 and 2021.

FOREIGN EXCHANGE EXPOSURE

As at 31 December 2022, 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

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\$276 million (2021: HK\$264.8 million) and HK\$1.9 million (2021: HK\$16.9 million) respectively.

EMPLOYEES AND REMUNERATION POLICIES

The staff and teaching consultants services costs for the operations of the Group, including Directors' emoluments, were approximately HK\$112.5 million for the year ended 31 December 2022 (2021: approximately HK\$108.7 million). Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. In addition to basic salaries, year-end discretionary bonuses were offered to those staff with outstanding performance to attract and retain eligible employees to contribute to the Group. Apart from basic remuneration, the Company has adopted a share option scheme and share options may be granted to eligible employees by reference to the Group's performance as well as individual contribution.

MATERIAL EVENTS AFTER THE REPORTING DATE

On 13 March 2023, the Company raised approximately HK\$22,880,000 before transaction costs of issuing 228,800,000 rights issues, on the basis of 1 rights share for every 2 existing shares held by the shareholders of the Company.

CORPORATE GOVERNANCE CODE

During the year ended 31 December 2022, 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 2022 (2021: Nil) nor propose any dividend since the end of the reporting period.

ANNUAL GENERAL MEETING

The 2023 annual general meeting will be held on or before 30 June 2023. 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 two independent non-executive directors, who have reviewed the consolidated financial statements for the year ended 31 December 2022.

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 2022:

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 the consolidated financial statements which mentions that the Group incurred a loss of approximately HK\$36,802,000 for the year ended 31 December 2022 and, as of that date, the Group had net current liabilities and net liabilities of approximately HK\$413,760,000 and HK\$237,324,000, respectively. 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. We consider 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, 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 2022 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 2022. 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.

RESUMPTION OF TRADING

At the request of the Company, trading in the shares of the Company (the "Shares") on the Stock Exchange has been suspended with effect from 9:00 a.m. on 3 April 2023 pending the release of this annual results announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 2 May 2023.

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

Hong Kong, 28 April 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.

This announcement will remain at www.hkexnews.hk on the "Latest Listed Company Information" page of the Stock Exchange's website for at least 7 days from the date of its posting and on the Company website at www.sdm.hk.