

# SDM



Education Group

## 2022 SDM

ANNUAL REPORT 年報

SDM Education Group Holdings Limited

SDM 教育集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立之有限公司)

Stock code 股份代號 : 8363

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*This report, 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 report 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 report misleading.*

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Chiu Ka Lok (*Chairman*)  
Mr. Chun Chi Ngon Richard  
(*Chief Executive Officer*)  
Dr. Chun Chun

### Non-executive Director

Ms. Yeung Siu Foon

### Independent Non-executive Directors

Mr. Chak Chi Shing  
Dr. Hung Siu Ying Patrick (resigned on 31 March 2023)  
Dr. Kao Ping Suen (appointed on 28 February 2022)

## COMPANY SECRETARY

Mr. Au Wai Keung (resigned on 30 November 2022)  
Mr. Wong Wang Kam (appointed on 1 December 2022)

## COMPLIANCE OFFICER

Mr. Chiu Ka Lok

## AUTHORISED REPRESENTATIVES

Mr. Chiu Ka Lok  
Mr. Chun Chi Ngon Richard

## AUDIT COMMITTEE

Mr. Chak Chi Shing (*Chairman of Audit Committee*)  
Dr. Hung Siu Ying Patrick (resigned on 31 March 2023)  
Dr. Kao Ping Suen (appointed on 28 February 2022)

## REMUNERATION COMMITTEE

Mr. Chak Chi Shing  
(*Chairman of Remuneration Committee*)  
Mr. Chiu Ka Lok  
Dr. Kao Ping Suen (appointed on 28 February 2022)

## NOMINATION COMMITTEE

Mr. Chak Chi Shing  
(*Chairman of Nomination Committee*)  
Mr. Chun Chi Ngon Richard  
Dr. Kao Ping Suen (appointed on 28 February 2022)

## AUDITORS

Zhonghui Anda CPA Limited  
(Public Interest Entity Auditor registered in accordance  
with the Financial Reporting Council Ordinance)

## REGISTERED OFFICE

Windward 3  
Regatta Office Park  
P.O. Box 1350  
Grand Cayman, KY1-1108  
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 202B, 2/F  
Liven House  
61–63 King Yip Street  
Kwun Tong  
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Limited  
Windward 3  
Regatta Office Park  
P.O. Box 1350  
Grand Cayman, KY1-1108  
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited  
Suites 3301–4, 33/F.,  
Two Chinachem Exchange Square,  
338 King's Road, North Point  
Hong Kong

## PRINCIPAL BANKERS

Hang Seng Bank Limited  
Bank of China (Hong Kong) Limited  
United Overseas Bank  
DBS Bank Limited

## WEBSITE ADDRESS

[www.sdm.hk](http://www.sdm.hk)

## STOCK CODE

8363

## CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors (the "**Board**") of SDM Education Group Holdings Limited (the "**Company**"), it is my pleasure to present the audited consolidated financial statements of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2022.

### BUSINESS REVIEW

The Group continues focusing on engaging in business of jazz and ballet and pop dance academy in Hong Kong and childcare services in Singapore.

For the Group's dance academy business, to cope with the intense competition and economy unsteadiness in the recent years, the Group had developed more resources to promote brand image and maintain quality services in order to consolidate our leading position in the industry. During the year 2022, the Group had 23 wholly-owned dance centres (the "**Centres**"). Through the development of the Centres, the Group further enhanced the competitive strengths of the Group by increasing the geographical coverage in Hong Kong.

Due to the impact of the COVID-19 pandemic in Hong Kong in first half of 2022, all the Centres of the Group have been temporarily closed for several months to prioritize the health and safety of our students and staff. Unavoidably, the revenue from this segment for 2022 dropped significantly comparing to 2021. The situation has improved for the dance schools in Hong Kong since the second half of 2022 and that the revenue has gradually resumed to normal levels. This showed that our business has been able to adapt and recover from the challenges posed by the COVID-19 pandemic.

In view of the immense growth in the early childhood education sector in Singapore, the Group has acquired several companies in the region which are principally engaged in the early childhood business since June 2018. Up to the end of 2022, the Group had 14 pre-schools operated in Singapore. The Group believes that such acquisitions provide an excellent development platform and opportunity to establish its own early childhood education brand and curriculum in Singapore, which will maximize return for the Group and the Shareholders as a whole in the long term.

The Group has been seeking for further investment opportunities in different education sectors to enhance the Group's revenue stream and explore potential synergy effect with the Group's existing early childhood education business.

The shares of the Company were successfully listed on GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 14 October 2014. It was a milestone for the Group which also boosted the confidence of the customers and the suppliers in efficiency of the operation and the provision of the quality services by the Group. Facing economic downturn the Group would therefore continue to adopt its previously stated strategy in broadening the development of the operation of day care centres, kindergartens, colleges and enrichment courses in order to generate a stable return for the Group.

To develop its kindergartens business, the Group cooperated with Chatsworth East Asia (BVI) Ltd, a corporation which operates international kindergartens, primary and secondary schools under the brand "Chatsworth" for over 20 years ("**Chatsworth**") to establish its kindergartens business in Hong Kong and Singapore.

## CHAIRMAN'S STATEMENT

### FORWARD

The Group has been actively seeking new business opportunities from time to time in order to diversify its business and enhance the long-term growth potential of the Group and the Shareholder's value.

The Group will continue to enhance the geographical coverage by opening and/or acquiring more dance centres in the future to strengthen our leading position in the industry. New centres will be located near populated residential areas in Hong Kong, in particular, in private housing estates, in areas close to a network of schools or which are currently without the presence of the Group's dance centres. In implementing the expansion plan, the Group will also consider to acquire existing dance centres from other players in the industry, if the right opportunity should arise, as the Group can be immediately benefited from the existing clientele base. In order to expand the dance academy business in Hong Kong, the Company has a plan of open at new dance centra in Kai Tak in late 2023 or in the first quarter in 2024. Other than opening new centres, the Company has continued to provide online dance classes to students as an alternative to on-site classes. In addition, the Company has renovated or relocated some dance centres to provide a better classroom environment to its students.

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

Going forward, the Group will implement a strategy to enhance the Group's current operation, which is to engage in the operation of day care centres, kindergartens, colleges and enrichment courses through acquisition and self establishment.

### A NOTE OF APPRECIATION

On behalf of the Board, I wish to take this opportunity to express my appreciation to our Shareholders, investors, business partners, suppliers, students and the parents for their continuous support and trust to the Group. I would also like to express our sincere thanks to the management and staff for their commitment and contribution throughout the years.

Our business has been able to adapt and recover from the challenges posed by the COVID-19 pandemic. It is important to continue monitoring the situation and staying informed about any changes or developments related to the pandemic and other risks. This will help the Company stay prepared to respond to any future challenges that may arise. By staying focused on providing value to our students and community and being open to new opportunities, I am confident that our education business can continue to thrive in the future.

# 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 million for 2022 (2021: a loss of HK\$11.2 million).

## MANAGEMENT DISCUSSION AND ANALYSIS

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

Apart from those disclosed in Note 19 to the consolidation financial statements, 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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\$45.6 million).

In addition, the Group has issued a convertible note with a face value of US\$25 million (equivalent to HK\$195.4 million). They are classified as current liabilities with carrying amount of approximately HK\$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. 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).

## MANAGEMENT DISCUSSION AND ANALYSIS

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.

### COMMITMENTS

The contractual commitments of the Group were primarily related to capital injection to subsidiaries.

Details of other commitments are set out in Note 40 to the consolidated financial statements.

### MATERIAL ACQUISITIONS AND DISPOSALS

Details of material acquisitions and disposals are set out in Note 38 to the consolidated financial statements.

### 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## CONTINGENT LIABILITIES

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

## FOREIGN EXCHANGE EXPOSURE

As at 31 December 2022, as set out in Note 42 to the consolidated financial statements 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 (“AUS”) 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

With the increase in the average number of subsidiaries in Singapore, 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

Details of events after the reporting period of the Group are set out in Note 46 to the consolidated financial statement.

## CORPORATE GOVERNANCE REPORT

The Group is committed in achieving high standard of corporate governance that is essential for effective management, successful business growth and a healthy corporate culture in return to the benefits of the Company's stakeholders as a whole.

The Board has adopted and complied with the Corporate Governance Code (the "**CG Code**") as set out in Appendix 15 to the GEM Listing Rules. The Directors of the Company will continue to review its corporate governance practices in order to enhance its corporate governance standard, to comply with the increasingly tightened regulatory requirements from time to time, and to meet the rising expectation of shareholders and other stakeholders of the Company.

The Board considers that the Company was in compliance with all applicable code provisions set out in 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.

### THE BOARD OF DIRECTORS

As at 31 December 2022, the Board comprised seven Directors, including three executive Directors, namely Mr. Chiu Ka Lok and Mr. Chun Chi Ngon Richard and Dr. Chun Chun, the one non-executive Director is Ms. Yeung Siu Foon, and the three independent non-executive Directors are Dr. Hung Siu Ying Patrick, Mr. Chak Chi Shing and Dr. Kao Ping Suen.

Mr. Chiu Ka Lok is the Chairman (the "**Chairman**") of the Board and Mr. Chun Chi Ngon Richard is the Chief Executive Officer (the "**CEO**") of the Company.

### RESPONSIBILITIES OF THE BOARD

The overall management of the Company's business is vested in the Board which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All the Directors should make decisions objectively in the interests of the Company. The Board has the full support from the executive Directors and the senior management of the Company and discharge its responsibilities.

The day-to-day management, administration and operation of the Company are delegated to the executive Directors and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the executive Director(s) and senior management. The Board also assumes the responsibilities of maintaining high standard of corporate governance including, among others, developing and reviewing the Company's policies and practices on corporate governance, reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements, and reviewing the Company's compliance with the CG Code. All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective delivery of the Board functions. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

## CORPORATE GOVERNANCE REPORT

The biographical details of the Directors are set out in the section headed “**Biographical Details of Directors and Senior Management**” on pages from 37 to 40 of this report.

The CEO is the father-in-law of the Chairman; Ms. Yeung Siu Soon is the spouse of the CEO and the mother-in-law of the Chairman; Dr. Chun Chun is the spouse of the Chairman and the daughter of the CEO and Ms. Yeung Siu Foon.

Save as disclosed above, the other Board members have no financial, business, family or other material or relevant relationships with each other.

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the code provision A.2.1 of the CG Code, the roles of Chairman and CEO should be separate and should not be performed by the same individual. During the year ended 31 December 2022, the roles of the Chairman and the CEO are segregated and was held by Mr. Chiu Ka Lok and Mr. Chun Chi Ngon Richard respectively. There is clear division of responsibilities between the Chairman and CEO which provides a balance of power and authority.

### BOARD DIVERSITY POLICY

The Company adopted a board diversity policy (the “**Board Diversity Policy**”) on the date of Listing. A summary of the Board Diversity Policy, together with the measurable objectives set for implementing the Board Diversity Policy, and the progress made towards achieving those objectives are disclosed below.

#### Summary of the Board Diversity Policy

The Company recognised and embraced the benefits of having a diverse Board to the quality of its performance. The Board Diversity Policy aimed to set out the approach to achieve diversity on the Board. In designing the Board’s composition, Board diversity has been considered from a number of measurable aspects including gender, age, ethnicity, knowledge and length of services. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regards for the benefits of diversity on the Board.

#### Measurable Objectives

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of services. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

#### Implementation and Monitoring

The Nomination Committee reviewed the Board’s composition under diversified perspectives, and monitored the implementation of the Board Diversity Policy annually.

The Nomination Committee of the Board has reviewed the Board Diversity Policy to ensure its effectiveness and considered that the Group achieved the Board Diversity Policy during the year.

# CORPORATE GOVERNANCE REPORT

## BOARD MEETING

Board meetings involve the active participation, either in person or through other electronic means of communication, the Directors discuss and formulate the overall strategies of the Group, monitor financial performance and discuss the annual and interim and quarterly results, as well as discuss and decide on other significant matters.

The Company Secretary assists in preparing the meeting agenda, and each Director may request the inclusion of items in the agenda. At least 14 days' notice of regular Board meetings is given to all Directors and they can include matters for discussion in the agenda as they think fit. The agenda accompanying Board papers are sent to all the Directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the Directors to review the documents.

All minutes of the Board meetings are recorded in detail and are properly kept by the Company Secretary, which are available for inspection at any reasonable time on reasonable notice by any Director.

Our chairman has held meeting with non-executive Directors without the presence of the executive Directors.

Monthly updates have been sent to the Directors by the management of the Company.

Participation of individual Directors at Board meetings in 2022 is as follows:

| Name of Directors                                     | Number of attendance/<br>number of Board meetings<br>since respective<br>appointment date |
|---|---|
| Number of meetings                                    | 6   |
| <b>Executive Directors:</b>                           |   |
| Mr. Chiu Ka Lok                                       | 6/6   |
| Mr. Chun Chi Ngon Richard                             | 6/6   |
| Dr. Chun Chun   | 6/6   |
| <b>Non-executive Director:</b>                        |   |
| Ms. Yeung Siu Foon                                    | 6/6   |
| <b>Independent non-executive Directors:</b>           |   |
| Mr. Chak Chi Shing                                    | 6/6   |
| Dr. Hung Siu Ying Patrick (resigned on 31 March 2023) | 6/6   |
| Dr. Kao Ping Suen (appointed on 28 February 2022)     | 6/6   |

# CORPORATE GOVERNANCE REPORT

## GENERAL MEETING

For the year ended 31 December 2022, the attendance record of each Director at general meetings is as follows:

| Name of Directors                                     | Number of attendance/number of general meeting since respective appointment date |
|---|--|
| Mr. Chiu Ka Lok                                       | 1/1  |
| Mr. Chun Chi Ngon Richard                             | 1/1  |
| Dr. Chun Chun   | 1/1  |
| Ms. Yeung Siu Foon                                    | 1/1  |
| Mr. Chak Chi Shing                                    | 1/1  |
| Dr. Hung Siu Ying Patrick (resigned on 31 March 2023) | 1/1  |
| Dr. Kao Ping Suen (appointed on 28 February 2022)     | 1/1  |

The Notice of general meeting has been sent to the Shareholders at least 20 clear business days before the annual general meeting.

## BOARD COMMITTEES & CORPORATE GOVERNANCE FUNCTIONS

The Board has established three board committees, namely, audit committee (the “**Audit Committee**”), remuneration committee (the “**Remuneration Committee**”) and nomination committee (the “**Nomination Committee**”), for overseeing particular aspects of the Company’s affairs. All board committees have been established with defined written terms of reference. All the board committees should report to the Board on their decisions or recommendations made.

The Board is responsible for performing the corporate duties set out in the CG Code which included developing and reviewing the Company’s policies and practices on corporate governance, training and continuous professional development of the Directors, the Company’s policies and practices on compliance with legal and regulatory requirements, etc.

All board committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstance, at the Company’s expense.

The practices, procedures and arrangements in conducting meetings of board committees follow in line with, so far as practicable, those of the board meeting set out in above.

### Audit Committee

The Company established the Audit Committee on 26 September 2014 with written terms of reference in compliance with the GEM Listing Rules, in accordance with provisions set out in the CG Code which are available on the websites of the Stock Exchange and the Company.

## CORPORATE GOVERNANCE REPORT

The Audit Committee currently consists of three independent non-executive Directors namely Dr. Hung Siu Ying Patrick, Mr. Chak Chi Shing and Dr. Kao Ping Suen. The chairman of the Audit Committee is Mr. Chak Chi Shing, who has appropriate professional qualifications and experience in accounting matters.

The primary duties of the Audit Committee are mainly to review the financial information and reporting system, risk management and internal control system, audit plan and relationship with external auditors and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control, risk managements or other matters of the Company.

The Audit Committee held 4 meetings during the year. The Group's unaudited quarterly results for the three months ended 31 March 2022 and the nine months ended 30 September 2022, unaudited interim results for the six months ended 30 June 2022 and audited annual results for the year ended 31 December 2021 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

The attendance record of each member of the Audit Committee, the Nomination Committee and the Remuneration Committee is as follows:

| Name of Directors                                     | Number of attendance/number of meetings since respective appointment date |                        |                      |
|---|---|------------------------|----------------------|
|   | Audit Committee   | Remuneration Committee | Nomination Committee |
| Number of meetings                                    | 4   | 1                      | 1                    |
| Mr. Chiu Ka Lok                                       | –   | –                      | 1/1                  |
| Mr. Chun Chi Ngon Richard                             | –   | 1/1                    | –                    |
| Mr. Chak Chi Shing                                    | 4/4   | 1/1                    | 1/1                  |
| Dr. Hung Siu Ying Patrick (resigned on 31 March 2023) | 4/4   | –                      | –                    |
| Dr. Kao Ping Suen (appointed on 28 February 2022)     | 4/4   | 1/1                    | 1/1                  |

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 this report.

# CORPORATE GOVERNANCE REPORT

## Remuneration Committee

The Remuneration Committee of the Company was established on 26 September 2014 in accordance with CG Code. The Remuneration Committee currently comprises one executive Director, namely Mr. Chiu Ka Lok and two independent non-executive Director, namely Mr. Chak Chi Shing and Dr. Kao Ping Suen. Mr. Chak Chi Shing is the chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

The remuneration has been charged with the responsibility of making recommendations to the Board on the appropriate policy and structures for all aspect of Directors and senior management. The Remuneration Committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

Details of the Directors' emolument and remuneration paid to the senior management (excluding the Directors) for the year ended 31 December 2022 are set out in Note 16 to the consolidated financial statements.

## Nomination Committee

The Nomination Committee of the Company was established on 26 September 2014. The Nomination Committee currently comprises one executive Director, namely Mr. Chun Chi Ngon Richard and two independent non-executive Director, namely Mr. Chak Chi Shing and Dr. Kao Ping Suen. Mr. Chak Chi Shing is the chairman of the Nomination Committee. The terms of reference of the Nomination Committee are available at the Company's website and on the website of the Stock Exchange.

The primary duties of the Nomination Committee are mainly to review and monitor the structure, size and composition of the Board to complement the Company's corporate strategy; identify suitable candidates for appointment as directors; make recommendations to the Board on appointment or re-appointment of a succession planning for directors; and assess the independence of independent non-executive Directors.

The Nomination Committee considered the past performance, qualification, general market conditions, the board diversity and the Company's articles of association in selecting and recommending candidates of directorship. The Nomination Committee discussed and reviewed the re-election of Directors.

## DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company has arranged appropriate insurance coverage in respect of legal action against Directors and senior management of the Group in the course of execution of their duties on good faith.

## TERMS OF APPOINTMENT AND RE-ELECTION OF DIRECTORS

The articles of association of the Company (the "**Articles**") provide that subject to the manner of retirement by rotation of directors as from time to time prescribed by the GEM Listing Rules, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation and that every Director shall be subject to retirement by rotation at least once every three years.

All the existing independent non-executive Directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the Articles. Each independent non-executive Directors is required to inform the Company as soon as practicable if there is any change that may affect his/her independence. The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independency pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers these independent non-executive Directors to be independent.

# CORPORATE GOVERNANCE REPORT

## CONTINUOUS PROFESSIONAL DEVELOPMENT

Our Directors are kept informed from time to time on the latest development of any changes to the regulatory requirements and the progress of compliance of applicable rules and regulations by the Company. Our Directors will also be updated from time to time on the business development and operation plans of the Company.

All our Directors are encouraged to participate in continuing professional development seminars and/or courses to update their skills and knowledge on the latest development or changes in the relevant statutes, GEM Listing Rules and corporate governance practices. The Company provides continuing briefings and professional development to Directors to update on the latest development in relation to the GEM Listing Rules and other applicable regulatory requirements as well as the Group's business and governance. The relevant materials were also sent to the Directors who were not available to attend the briefing session for their information. A summary of the continuous professional developments in relation to regulatory update, the duties and responsibilities of the Directors and the business of the Group received by the Directors for the year ended 31 December 2022 is as follows:

| Name of Directors                                     | Training on corporate governance, regulatory development and Directors other relevant topics |
|---|--|
| <b>Executive Directors:</b>                           |  |
| Mr. Chiu Ka Lok                                       | ✓  |
| Mr. Chun Chi Ngon Richard                             | ✓  |
| Dr. Chun Chun   | ✓  |
| <b>Non-executive Director:</b>                        |  |
| Ms. Yeung Siu Foon                                    | ✓  |
| <b>Independent non-executive Directors:</b>           |  |
| Mr. Chak Chi Shing                                    | ✓  |
| Dr. Hung Siu Ying Patrick (resigned on 31 March 2023) | ✓  |
| Dr. Kao Ping Suen (appointed on 28 February 2022)     | ✓  |

# CORPORATE GOVERNANCE REPORT

## INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for the establishment, maintenance and review of the Group's internal control system to safeguard shareholder investments and the assets of the Group. The internal control system of the Group aims to facilitate effective and efficient operation which in turn minimizes the risks to which the Group is exposed. The system can only provide reasonable but not absolute assurance against misstatements or losses.

The Board has conducted a review of the implemented system and procedures, covering financial, operational and legal compliance controls and risk management functions. The Board has concluded that:

- (a) the Group has an internal audit function;
- (b) the risk management and internal control systems are reviewed annually; and
- (c) a review of the effectiveness of the risk management and internal control systems has been conducted and the Group considers them effective and adequate.

The Directors consider that the Group has implemented appropriate procedures safeguarding the Group's assets against unauthorised use or misappropriation, maintaining proper accounting records, execution with appropriate authority and compliance of the relevant laws and regulations. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. Controls are monitored by management review and by a programme of internal audits.

## AUDITORS' REMUNERATION

The fees in respect of audit services provided by the independent auditors to the Group for the year ended 31 December 2022 amounted approximately HK\$1,600,000 (2021: approximately HK\$1,600,000). Non-audit services incurred during the year was nil (2021: nil).

## COMPANY SECRETARY

The company secretary of the Company (the "**Company Secretary**") is responsible for distributing detailed documents to the Directors prior to the Board meetings to ensure that the Directors are able to make informed decisions regarding the matters discussed in the meetings. And all Directors have access to the advice and services of the Company Secretary with a view to ensuring that the Board procedures, and all applicable rules and regulations, are followed.

Mr. Wong Wang Kam ("**Mr. Wong**") was appointed as the Company Secretary on 1 December 2022. He is the primary corporate contact person at the Company. Mr. Wong has taken no less than 15 hours of relevant professional training for the year ended 31 December 2022.

## SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("**EGM**").

## CORPORATE GOVERNANCE REPORT

### Right to Convene Extraordinary General Meeting

The following procedures for Shareholders to convene an extraordinary general meeting are subject to the Articles (as amended from time to time), and the applicable legislations and regulations, in particular the GEM Listing Rules (as amended from time to time):

- (a) any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company (the “**Eligible Shareholder(s)**”) carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition;
- (b) eligible Shareholders who wish to convene an EGM must deposit a written requisition (the “**Requisition**”) signed by the Eligible Shareholder(s) concerned to the head office and principal place of business of the Company in Hong Kong at Room 202B, 2/F, Liven House, 61–63 King Yip Street, Kwun Tong, Hong Kong or Hong Kong branch share registrar and transfer office of the Company, Union Registrars Limited, Suites 3301–4, 33/F, Two Chinachem Exchange Square, 338 King’s Road, North Point, Hong Kong for the attention of the Board and/or the Company Secretary;
- (c) the Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding, the reason(s) to convene an EGM and the details of the business(es) proposed to be transacted in the EGM, and must be signed by the Eligible Shareholder(s) concerned together with a deposit of a sum of money reasonable sufficient to meet the Company’s expenses in serving the notice of the resolution and circulating the statement submitted by the Shareholders concerned in accordance with the statutory requirements to all the registered shareholders;
- (d) the Requisition will be verified with Hong Kong branch share registrar and transfer office of the Company and upon their confirmation that the Requisition is proper and in order, the Board will convene an EGM by serving sufficient notice in accordance with the requirements under the Articles to all the registered Shareholders. On the contrary, if the Requisition has been verified as not in order or the Shareholders concerned have failed to deposit sufficient money to meet the Company’s expenses for the said purposes, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM; and
- (e) if within 21 days of the deposit of the Requisition, the Board fails to proceed to convene such EGM, the Eligible Shareholder(s) himself/herself/themselves may do so, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

### Right to Put Forward Proposals at General Meetings

There are no provisions allowing Shareholders to move new resolutions at the general meetings under the Companies Law (Revised) of Cayman Islands. However, pursuant to the Articles, Shareholders who wish to move a resolution may by means of Requisition convene an EGM following the procedures set out above.

### Right for Raising Enquiries to the Board

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company’s Hong Kong share registrar (details of which are set out in the section headed “**Corporate Information**” of this report).

## CORPORATE GOVERNANCE REPORT

Should there be any enquiries and concerns from the Shareholders, they may send in written enquiries addressed to the head office and principal place of business of the Company in Hong Kong at Room 202B, 2/F., Liven House, 61–63 King Yip Street, Kwun Tong, Hong Kong by post for the attention of the Board and/or the Company Secretary.

Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

### DIVIDEND POLICY

The Company may declare and pay dividends to the Shareholders by way of cash or by other means that the Board considers appropriate. It is the policy of the Board, in recommending dividends, to allow the Shareholders to participate in the Company's profits, and at the same time, to ensure that the Company is to retain adequate reserves for future growth.

Any proposed distribution of final dividends shall be formulated by the Board and will be subject to the Shareholders' approval. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on a number of factors, including the results of operations, cash flows, financial conditions, operating and capital expenditure requirements, distributable profits and other applicable laws and regulations and other factors that the Board may consider important and appropriate.

### INVESTORS RELATIONS

The Company has established a range of communication channels between itself, its Shareholders, and investors. These include answering questions through the annual general meeting, the publication of annual, interim and quarterly reports, notices, announcements and circulars, the Company's website at [www.sdm.hk](http://www.sdm.hk) and meetings with investors and Shareholders. News update of the Group's business development and operation are also available on the Company's website.

### CONSTITUTIONAL DOCUMENTS

During the year under review, there has no change in the Company's constitutional documents.

# ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORT

SDM Education Group Holdings Limited (the “**Company**”) (Stock Code: 8363) and its subsidiaries (collectively the “**Group**” or “**We**”) are pleased to present the Environmental, Social and Governance (“**ESG**”) Report in accordance with the Environment, Social and Governance Reporting Guide (“**ESG Guide**”) set out in Appendix 20 to the GEM Listing Rules published by the Stock Exchange of Hong Kong Limited. For the information of our corporate governance, please refer to the “Corporate Governance Report” in the annual report.

This ESG report mainly covers the major activities of the Group in Hong Kong and Singapore presenting our sustainability approach and performance in environmental and social aspects of our business from 1 January 2022 to 31 December 2022 (“**the Reporting Period**” or “**This Year**”). The Key Performance Indicators (“**KPIs**”) disclosure of This Year will be focused on our headquarters, dance centres and childcare centres. The Group continues strengthening information collection in order to enhance our performance in environmental realm and to disclose relative information of sustainable development.

## ABOUT THE REPORT

The Group contributes to sustainable development by delivering environmental, social and economic benefits to all stakeholders in a balanced way. The Group is pleased to present the environmental, social and governance report (the “**ESG Report**”) for the year ended 31 December 2022 for the purpose of demonstration of its efforts on sustainable developments to the stakeholders.

This ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide as set out in the Appendix 20 to the Listing Rules and is divided into two parts, namely environmental and social. The basis of reporting principles – materiality, quantitative, balance and consistency:

- “Materiality” Principle: Materiality assessment was conducted and reviewed annually to assess the relative importance of the ESG topics identified. Topics that are relevant and important to the operation of the Group and stakeholders must be covered in this Report.
- “Quantitative” Principle: If the KPIs have been established, they must be measurable and applicable to valid comparisons under appropriate conditions.
- “Balance” Principle: The ESG Report is unbiased, and should avoid selections, omissions, or presentation formats that may inappropriately influence a decision or judgment by the Report reader.
- “Consistency” Principle: ESG data presented in this Report are prepared using consistent methodologies over time unless otherwise specified either in text or footnote.

The management and staff of the Group’s respective major functions have participated in the preparation of this ESG Report to assist the Group in identifying relevant and material ESG issues.

This Report is designed to enable the shareholders, investors (including potential investors) and the public to have a more comprehensive understanding of the Company’s corporate governance and culture. The Company is willing to take up more social responsibilities in order to maintain the balance between the interest of shareholders and social benefits. Data contained in this Report is derived from various Company’s documents and reports, as well as summary and statistical data provided by the Company’s subsidiaries.

# ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORT

## BOARD STATEMENT AND GOVERNANCE STRUCTURE

Our Board has an overall responsibility for overseeing and determining our Group's environmental, social, and climate-related risks and opportunities impacting our Group, establishing and adopting the ESG Policy and targets of our Group, and reviewing our Group's performance annually against the ESG targets and revising the ESG strategies as appropriate if significant variance from the target is identified.

As one of the recognized education providers in the industry, the Group values sustainable practices in its business operation. We believe that taking responsibility for the environment and society is the key to enhance the sustainability of the business and bring long-term value for both shareholders and stakeholders of the Group.

We consider ESG commitment as a part of our corporate social responsibility and we pledge to embed ESG considerations into our decision-making process. To achieve This, we have developed the Group Sustainability Committee. The Committee manages and monitors sustainability performance, targets, and implement improvement processes.

Group Sustainability Committee, comprising of management team in operation related department and management team in Administration & HR department. Management team in operation related department is mainly responsible for monitoring the staff awareness on waste reduction, while the management team in Administration & HR department is mainly responsible for the labor practice, green procurement, staff training, and community investment. The Group Sustainability Committee serves as a supportive role to our Board in implementing the agreed ESG Policy, targets and strategies; conducting materiality assessments of environmental-related, climate-related, social-related risks and assess how our Group adapts its business in light of climate change; collecting ESG data from different parties while preparing for the ESG Report; and continuously monitoring of the implementation of measures to address our Group's ESG-related risks. The Group Sustainability Committee has to report to our Board on an annual basis on the ESG performance of our Group and the effectiveness of the ESG systems.

# ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORT

## MATERIALITY ASSESSMENT

The management and staff of the Group have participated in the preparation of the ESG Report to assist the Group in reviewing the operations and identifying relevant ESG issues. Materiality assessment has been conducted to assess the importance of related matters to the businesses and stakeholders. To identify potential material topics for disclosure in the Report, we adopted the disclosure topics of the ESG Reporting Guide. Based on the assessed significant ESG issues, information was collected from relevant departments of the Group and approved by the Board.

As sustainability is essential to the Group’s cultural values, we strive for sustainable development by investing in the economic, social and environmental well-being into our business decision-making. In order to maintain the quality standard of life for both the present and future generations, the Group also promotes environmental protection, makes positive contribution and creates long-term value in the communities through engaging in various charitable events and workshops.

During This Year, the Group committed to a high standard of corporate social responsibility and strictly complied with relevant laws and regulations reporting.

The table underneath showed aspects on the ESG Guide to be assessed and those ESG issues were determined to be material to the Group.

| ESG Aspects as set forth in ESG Guide | Material ESG issues for the Group                                  |
|---------------------------------------|--|
| <b>(A) Environmental</b>              |  |
| A1 Emissions                          | Emission from Business Operation or Vehicle<br>Non-Hazardous Waste |
| A2 Use of Resources                   | Use of Energy  |
| A3 Environment and Natural Resources  | Air Quality  |
| A4 Climate Change                     | Climate Change Mitigation & Adaption                               |
| <b>(B) Social</b>                     |  |
| B1 Employment and Labour Practices    | Labour Practices   |
| B2 Health and Safety                  | Workplace Health and Safety  |
| B3 Development and Training           | Employee Development and Training                                  |
| B4 Labour Standards                   | Anti-child and Forced Labour                                       |
| B5 Supply Chain Management            | Supply Chain Management  |
|                                       | Green Procurement  |
| B6 Product Responsibility             | Product Responsibility   |
|                                       | Intellectual Property  |
| B7 Anti-corruption                    | Anti-corruption  |
| B8 Community Involvement              | Community Programs, Employee Volunteering and Donation             |

# ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORT

## STAKEHOLDER COMMUNICATION

The Group emphasises communication with stakeholders and strives to understand their requirements and aspirations. Therefore, the Group has a variety of channels that allow different stakeholders to share their opinions and demands on its operation and performances on topics covering the environmental, social, and governance aspects. Our major stakeholders include regulators, employees, investors, supplier and community. The table below is an overview of our communication channels with our major stakeholders.

| Relevant Stakeholder | Engagement Ways   | Purpose  |
|----------------------|---|--|
| Regulators           | To request listing companies to comply with Listing Rule Appendix 20          | To facilitate (i) the appropriate risk governance on ESG matters, including climate-related risks and opportunities; (ii) ESG strategy formation procedures; (iii) ESG risk management and monitoring; (iv) the identification of KPIs; and (v) the relevant measurements and mitigating measures. |
| Employees            | To implement the ESG policy set out by the management                         | To promote well-being in the workplace, which is crucial to long-term performance. The Company seizes the opportunities to improve workplace conditions and avoid occupational hazards, take into account public health issues and address weaknesses and shortcomings.                            |
| Investors            | To put influence on the management for ESG target setting and implementation. | To minimize risk caused from ESG, to enhance corporate value while achieving a stable and long-term growth for the benefit of its shareholders.  |
| Suppliers            | The Company has established a Code of Conduct for its suppliers.              | To share the Company's commitment to honesty and integrity, and integrate social, environmental, and sustainability policies into their business processes.  |
| Community            | By making donation  | The Company supports the development of social and solidarity-based companies and is committed to improve education, health, culture and social supportiveness.  |

# ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORT

## A. ENVIRONMENTAL POLICY AND COMPLIANCE

The Group keeps on strictly complying with the laws and regulations relating to the environmental protection, including:

- Air Pollution Control Ordinance (Cap. 311 of the Laws of Hong Kong);
- Waste Disposal Ordinance (Cap. 354 of the Laws of Hong Kong);
- Water Pollution Control Ordinance (cap. 358 of the Laws of Hong Kong);
- Noise Control Ordinance (Cap. 400 of the Laws of Hong Kong);
- Environmental Public Health Act (Chapter 95 of Singapore); and
- Environmental Protection and Management Act (Chapter 94A of Singapore).

To minimise the environmental impacts concerning the activities, products and services, the Group will:

- comply with applicable legal and other requirements which relate to the Group's environmental aspects, and to which the Group subscribes;
- identify environmental impacts associated with the operations and set the targets to reduce stress on the environment in consideration of social expectations;
- prevent pollution, reduce waste and minimise the consumption of resources from all daily operations and actively promote recycle, reuse and replace;
- educate, train and motivate employees to develop a social viewpoint that enables them to conduct business activities in an environmentally responsible manner.

# ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORT

## A1.1 Emissions Data from Gaseous Fuel Consumption

As the Group principally engages in the business of jazz and ballet and pop dance academy, the direct impact to the environment is immaterial with relatively low energy, power and water consumption and low generation of hazardous waste.

- (a) Since the Company did not have town gas consumption during This Year, no emissions data applied.
- (b) The Company has owned motor vehicle during This Year, the emissions data from vehicle applied are set out below:

| Types of air pollutants            | Unit | 2022         | 2021  |
|------------------------------------|------|--------------|-------|
| Nitrogen Oxides (NO <sub>x</sub> ) | kg   | <b>2.252</b> | 1.400 |
| Sulphur Dioxide (SO <sub>2</sub> ) | kg   | <b>0.030</b> | 0.076 |
| Particulate Matter (PM)            | kg   | <b>0.166</b> | 0.103 |

## A1.2 Greenhouse Gas Emission

|                         | 2022           | 2021    | Unit                |
|-------------------------|----------------|---------|---------------------|
| <b>Scope 1</b>          |                |         |                     |
| Direct emission         | <b>5,419</b>   | 12,206  | kgCO <sub>2</sub> e |
| <b>Scope 2</b>          |                |         |                     |
| Indirect emission       | <b>574,645</b> | 600,475 | kgCO <sub>2</sub> e |
| <b>Scope 3</b>          |                |         |                     |
| Other indirect emission | <b>31,472</b>  | 19,199  | kgCO <sub>2</sub> e |
| <b>Total</b>            | <b>611,536</b> | 631,880 | kgCO <sub>2</sub> e |

During This Year, there were 611,536 kgCO<sub>2</sub>e (2021: 631,880 kgCO<sub>2</sub>e) of greenhouse gases emissions emitted from the Group's operation. The overall GHG emission has decreased in This Year, as well as Scope 1 and 2 emissions. Other indirect emission increase mainly from the use of paper. There were total 40 facilities for the Group in 2022<sup>1</sup> (2021: 41). The annual emission intensity was 15,288 kgCO<sub>2</sub>e/facility (2021: 15,412 kgCO<sub>2</sub>e/facility).

Note 1. Total number of facilities in 2022 includes one head office, 23 self-operated dance centres, one kindergarten in Hong Kong; one headquarter and 14 childcare centres in Singapore;

# ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORT

## **Objection**

The Group's objection is to achieve 15% reduction of emission by 2031 from the base year of 2021 (scope 1,2 & 3).

To achieve the objective, following energy saving measures are adopted:

- installation of an energy-saving lighting system,
- set optimal temperature on the air-conditioning
- switch-off the lighting and air-conditioning after office hours.

## **A1.3 Hazardous Waste**

The Group does not generate any hazardous wastes, including chemical wastes, clinical wastes, and hazardous chemicals, in the ordinary course of business.

## **A1.4 Non-hazardous Waste**

Non-hazardous waste produced from the operations of the Group is mainly comprised of general office consumables which have no significant impact on the environment.

During This Year, the Group generated 4.1 tonnes non-hazardous waste in its operation. Non-hazardous waste from the Group's operations was mainly office paper.

The Group's objection is to achieve 15% reduction of non-hazardous wastes by 2031 from the base year of 2021 (scope 1,2 & 3). Accordingly, following measures are adopted:

- provide education and training relating to reduce, recycle, reuse, and replace will be provided to our employees;
- advocates employees to reduce the usage of papers by encouraging internet communication;
- assess the necessity of printing;
- apply duplex printing; and
- reuse single-sided printed papers where appropriate.

# ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORT

## A2.1 Use of resource

### **Energy**

The energy consumed is mainly from purchase of electricity. The total electricity consumed are set out below:

|                                     | 2022             | 2021      | Unit           |
|-------------------------------------|------------------|-----------|----------------|
| Electricity                         | <b>1,275,502</b> | 1,386,392 | kWh            |
| Electricity consumed per facilities | <b>31,888</b>    | 33,814    | kWh/Facility   |
| Petrol                              | <b>2,037</b>     | 5,169     | Liter          |
| Petrol consumed per facilities      | <b>51</b>        | 126       | Liter/Facility |
| No. of facilities                   | <b>40</b>        | 41        | Facility       |

### **Water**

The total water consumed is set out below:

|                               | 2022          | 2021  | Unit                     |
|-------------------------------|---------------|-------|--------------------------|
| Water consumed                | <b>12,016</b> | 8,025 | m <sup>3</sup>           |
| No. of facilities             | <b>40</b>     | 41    | Facility                 |
| Water consumed per facilities | <b>300</b>    | 195.7 | m <sup>3</sup> /Facility |

As shown as the data above, the water consumption of the Group is limited, and we did not encounter any significant issue in sourcing water due to the business nature. So, we will not set a target for water consumption. However, we still have some measures to control water consumption in order to contribute to the environmental protection. For example, employees are reminded to turn off the faucet tight after use and required to report leaking faucet or pipe to the relevant authority in a timely manner. Moreover, pantries and toilets are posted with environmental messages to remind employees of water conservation.

### **Packaging Material**

Due to the business nature of the Group, the management believes that it is not applicable to the Group.

# ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORT

## **A3 Environmental and Natural Resources**

### ***Air Quality***

The Group's water consumption was minimal, hence good indoor air quality has always been the top of the priorities. Pollutants such as ozone produced by photocopiers, stale air drawn in from outside through poorly located fresh air inlets and bacteria that entered the office or accumulated in the ventilation system as a result of poor maintenance can be accumulated indoors if the design, operation and maintenance are improper.

To improve indoor air quality, a range of air pollution prevention measures have been implemented by the Group as follows:

- ensure air inlets are away from any source of pollutants and sufficient ventilation systems;
- test the level of dust and micro-organism in the air;
- clean all air units regularly (e.g. air inlets, air outlets and filters); and
- perform regular maintenance on carpet and furniture upholstery.

In compliance with the Air Pollution Control Ordinance, the Group has been placing more efforts in reducing the emission levels in the operation office.

Being a responsible business and employer, the Group is committed to consistently looking for ways to meet the corporate social responsibilities. The Group focuses on its staff, environment and community as well as its business partners.

## **A4 Climate Change**

Climate change and global warming are the major environmental concerns in the world. Despite having no significant impact on the Group's businesses, the Group still strives to put forward environmental conservation and raise the environmental awareness of the employees.

Since the major business nature of the Group is education, climate change does not have significant impacts on the business directly. With a higher temperature in the future, the Group may need to allocate more spending on cooling.

On the other hand, the Group may experience productivity loss due to increased extreme weather, like typhoons and heavy rain. The Group will review the existing measures for adverse weather conditions and ensure the safety of the employees.

# ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORT

## B. SOCIAL

### B1 Employment and Labour Practices

#### *Employment*

The Group advocates a community spirit that thrives on mutual respect and equal opportunities. The Group complies strictly to equal opportunities legislation including but not limited to, the Sex Discrimination Ordinance, the Race Discrimination Ordinance, the Disability Discrimination Ordinance, Family Status Discrimination Ordinance and Employment Act (Chapter 91 of Singapore). To ensure diversity and equality, the selection process is non-discriminatory and is solely based on the employees' performance, experience, and skills. Employees are also encouraged to express their opinions and targets in job advancement and career development to their senior management.

The Employment of Children Regulations and Employment of Young Persons (Industry) Regulations made under the Employment Ordinance prohibits all employers engaging child and forced labour in the workforce and regulate the hours of work and general conditions of employment of young people in industrial undertakings. With compliance to relevant laws and regulations, the Group did not and will not engage in any forced or child labour. The Staff Code of Conduct is enclosed in the Compliance Manual, which is readily accessible to all employees.

To attract, develop and retain qualified employees, the Group is committed to offering professional development opportunities and a healthy working environment for all employees. Salaries and wage rates are usually subjected to an annual review that are based on performance appraisals and other relevant factors. The Group also provides equal opportunities for all employees along with competitive remuneration and strongly encourages internal promotion and a variety of job opportunities is offered to the existing staff when it is best suited.

The Group's remuneration policies are formulated on the performance of employees with reference to the market condition. For the purpose of ensuring there are formal and transparent procedures for setting policies on the remuneration for the Directors, the Remuneration Committee was established.

## ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORT

There were no non-compliance cases noted in relation to employment and labour standards laws and regulations for This Year. As at 31 December 2022, the Group employed a total of 564 (2021: 462) staffs, including operating staffs in dancing centers, kindergartens, childcare centres and management and supporting staffs in headquarters. All staff members are allocated in Hong Kong and Singapore. The employee compositions by gender, age group, employment type and geographical region were as follows:

| Employee Structure               |              | Number of employees as at 31.12.2022 | Percentage of employees as at 31.12.2022 |
|----------------------------------|--------------|--------------------------------------|--|
| <b>Total number of employees</b> |              | 564                                  | 100%                                     |
| <b>By gender</b>                 | Male         | 23                                   | 4.1%                                     |
|                                  | Female       | 541                                  | 95.9%                                    |
| <b>By age</b>                    | Aged <30     | 228                                  | 40.4%                                    |
|                                  | Aged 31-50   | 220                                  | 39.0%                                    |
|                                  | Aged >50     | 116                                  | 20.6%                                    |
| <b>By employment type</b>        | Senior level | 24                                   | 4.2%                                     |
|                                  | Middle level | 19                                   | 3.4%                                     |
|                                  | Junior level | 521                                  | 92.4%                                    |
| <b>By geographical region</b>    | Hong Kong    | 268                                  | 47.5%                                    |
|                                  | Singapore    | 296                                  | 52.5%                                    |

### **Promotion and Dismissal**

The promotion of the Group's employees is subject to review regularly. The Group has established objective performance indicators for annual performance evaluation. Since we value the skill and experience of our staff, the Group intends to adopt a policy that any promotions will be considered internally first before hiring any outside staff. It is the Group's policy to select the most suitable candidate for appointment to a higher rank based on merit, rather than on the seniority of the candidates. Staff salary payment and promotion will be measured against their progressive performance level, contribution, and achievement against the objectives set by the Group.

The Group was not aware of any material non-compliance with laws and regulations relating to employment and labour practices that had a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, antidiscrimination, and other benefits and welfare during the Reporting Period.

Any termination of employment contract should be based on reasonable, lawful grounds and internal policies, such as the Employee Handbook. The Group strictly prohibits any kind of unfair or illegitimate dismissals. For those who have unsatisfactory working performance or repeatedly made mistakes, the Group would give verbal warning before issuing a warning letter. For those who show no improvement, the Group would consider dismissing the employees according to the relevant laws in Hong Kong and Singapore.

## ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORT

The following table sets for the turnover rates of the Group's employees for the Reporting Period by gender, age group and geographical region.

| Summary of Employee Data      |            | Number of employees resigned in Year 2022 | Turnover rates |
|-------------------------------|------------|---|----------------|
| <b>Overall</b>                |            | 151                                       | 27.9%          |
| <b>By gender</b>              | Male       | 10  | 39.2%          |
|                               | Female     | 141                                       | 27.4%          |
| <b>By age</b>                 | Aged <30   | 50  | 24.3%          |
|                               | Aged 31-50 | 91  | 41.1%          |
|                               | Aged >50   | 10  | 8.8%           |
| <b>By geographical region</b> | Hong Kong  | 136                                       | 55.4%          |
|                               | Singapore  | 15  | 5.1%           |

The Group will continue to provide a well-structured and caring environment to employees to raise their sense of belonging and work efficiency in the Group.

### B2 Employee Health and Safety

To safeguard employees' occupational health and safety, the Group continues focusing on providing a safe, healthy and comfortable environment for its employees to avoid any accident and complies with the relevant laws and regulations, including:

- Occupational Safety and Health Ordinance (Cap. 509 of the Laws of Hong Kong);
- Workplace Safety and Health Act (Chapter 354A of Singapore); and
- Work Injury Compensation Act (Chapter 354 of Singapore)

To ensure the health and safety of the employees, the Group maintains the risk management system including identification, prevention and management of risks and hazards throughout the workplaces as well as follow-up actions for accidents or personal injuries. The Group has taken the following measures:

- maintaining clean and safe working environment which poses no threat to health under the Group's control;
- participating in occupational health and safety related seminars occasionally; and
- conducting fire drills and emergency evacuation simulations to raise employees' awareness of fire prevention and to equip employees with appropriate knowledge and skills in the event of emergency.

# ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORT

## **Occupational Health and Safety Data**

During the Reporting Period, the Group did not record any work-related injury or fatality of employees, nor any lost days due to work injury. In other words, a zero-fatality rate is recorded for three years. There were no non-compliance cases noted in relation to health and safety laws and regulations during This Year.

## **B3 Development and Training**

To encourage employees' development and continuous training, the Group provides various training programs to employees for long-term development and updates their knowledge and skills to maintain their professional competence and enrich the quality of services. During This Year, online trainings related to sale skills and internal exchange meeting were held. Due to the impacts of COVID-19, the Group did not hold external training overseas This Year.

There were 54.7% of employees received training in This Year. The total of 2,368 training hours were conducted in the Reporting Period, and trainings hours (categorized by gender and employee category) are shown below:

| Occupational Training Data                             |              | 2022  |
|--|--------------|-------|
| <b>Percentage of employees trained by Gender</b>       | Male         | 1.7%  |
|  | Female       | 98.3% |
| <b>Percentage of employees trained by Category</b>     | Senior Level | 7.8%  |
|  | Middle Level | 1.7%  |
|  | Junior Level | 90.5% |
| <b>Average Training Hours of Employees by Gender</b>   | Male         | 1.6   |
|  | Female       | 4.5   |
| <b>Average Training Hours of Employees by Category</b> | Senior Level | 7.7   |
|  | Middle Level | 2.0   |
|  | Junior Level | 4.3   |

## **B4 Labour Standard**

The Group follows the Employment of Children Regulation under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong and the Employment Act (Chapter 91 of Singapore) in terms of employment management. To prohibit the use of child and forced labour strictly, well-established recruitment policies are adopted. Policies include verifying the identity documents of all applicants by human resources department during the recruitment process to ensure that our employees are all above the minimum legal working age and no forced labour is hired. In case if there are any irregularities in ages, identities and/or validities of employment status are found, the employment contract will be terminated immediately, and the Group will report the incident to relevant authorities.

The Group lists specific requirements on advertisement to hire the most suitable candidate. All resumes, original identification cards, original certificates should be first checked by human resources ("HR") department during interview. HR department also contacts candidate's preceded employer for reference.

## ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORT

Equal opportunities are given to employees in respect of recruitment, training and development, job advancement, and compensation and benefits. The employees are not discriminated against or deprived of such opportunities on the basis of gender, ethnic background, religion, race, sexual orientation, age, marital status, family status, retirement, disability, pregnancy or any other discrimination prohibited by applicable law. The Group also appreciates the importance of cultural diversity in the development of the Group, and employs employees in a wide range of ages, genders, and ethnicities.

In particular, the Group adopted Board Diversity function under which the Board composition includes members from different skills, industry knowledge, experience, education, background and other qualities without discrimination.

### **B5 Supply Chain Management**

To comply with the laws and regulations, the Group has established stringent internal controls on the procurement of goods and materials through fair and unbiased tendering process. The criteria for selection of subcontractors and suppliers are based on specifications and standards, product, and service quality as well as after service support.

The Group selects qualified suppliers carefully to ensure that the entire production process is in line with its standards and rules. The Group carries out inspections and assessments regularly on suppliers' standards and will terminate collaboration with unqualified suppliers.

#### ***Green Procurement***

Regarding green supply chain management, the Group prefers local suppliers whenever possible to reduce carbon emissions from transportation and to support the local economy. During This Year, the Group worked with 12 major suppliers in Hong Kong and 25 major suppliers in Singapore.

### **B6 Product Responsibility**

Due to the education business nature of the Group, there were no products sold or shipped during This Year and therefore the Group has no recall procedures. During the Reporting Period, there were no material recalls, significant complaints against the service. The Group has committed to comply to all laws and regulations relating to health and safety, advertising, labelling and, privacy matters relating to products and services provided, which include and not limited to:

- Personal Data (Privacy) Ordinance (Cap. 486 of the Laws of Hong Kong);
- The Law of the People's Republic of China on the Protection of Rights and Interests of Consumers;
- The Personal Information Protection Law of the People's Republic of China; and
- Personal Data Protection Act 2012 of Singapore.

# ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORT

## ***Consumer Data Protection and Privacy Policies***

The Group makes its best effort to keep students' data confidential and complies with all relevant laws and regulations. Parents of our students are required to agree on terms of use of information in the application form according to the rules and regulations. Any disclosure of students' information to third party organization needs to obtain consent from parents. The Group always ensures all hard copies of students' information will be shredded after the required retention period.

The Group recognises that good customer and after-sales services are the key factors influencing the success and sustainability of the business. In order to cater for the needs of prompt response to customers, the Group has set up a range of communication channels among different business units to handle customers' queries efficiently.

The Group emphasises the importance of protecting and safeguarding its customers' privacy. Thereby, the Group has been very cautious when collecting, processing and using customers' personal data in order to comply with the provisions of the Personal Data (Privacy) Ordinance. There were no non-compliance cases noted in relation to data privacy related laws and regulations during This Year.

## ***Intellectual Property***

The Group attaches importance on intellectual property rights and has developed policies in accordance with all applicable legal requirements to prohibit intellectual property infringement. As at 31 December 2022, the Group has registered 10 trademarks of the Company logo in Singapore and 13 trademark in Hong Kong. The Group regularly monitors to ensure that intellectual property rights are not being infringed upon. The Group has not encountered any material breaches of relevant laws and regulations relating to privacy and intellectual property rights in the reporting year.

## **B7 Anti-corruption**

During This Year, there was zero concluded legal cases regarding corrupt practices brought against the Group or its employees.

The Group believes that as a trusted education provider, ensuring the trust and integrity exist and building sound reputation are crucial in our business. All staff members are expected to fully adhere to the Group's value, which is in compliance with the laws and regulations of the jurisdictions where the Group operates, including:

- Anti-Money Laundering Law of the People's Republic of China (中華人民共和國反洗錢法);
- Anti-Corruption Law of the People's Republic of China (中華人民共和國反腐敗法);
- Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Chapter 615 of the Laws of Hong Kong);
- Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong); and
- Prevention of Corruption Act (Chapter 241 of Singapore).

## ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORT

We have an established procedure for dealing with students, parents and business partners. The Group emphasizes integrity and prevents unethical pursuit from occurring in complying with relevant laws and regulations. To ensure there will not be any form of corruption, we implemented whistle blowing channels and provide anti-corruption training to our employees.

### ***Whistle-Blowing Channels***

The Group has established a whistleblowing mechanism to maintain integrity and transparency of the Group. The Group also encourages employees and all business-related parties, including parents, to proactively report any suspected misconduct issues (such as negligence, corruption and bribery, etc.) anonymously to the management of the Group by telephone or email. Management will handle the report promptly, fairly and confidentially. On the other hand, the whistleblowing mechanism also ensures that whistle-blowers will not be treated unfairly and will not be dismissed or disciplined without a proper reason.

### ***Anti-corruption Training***

In our employee onboarding process, training regarding the anti-corruption is provided. The content of the training includes but no limit to definition of corruption, types of corruption, details about whistle-blowing system and the consequence of conducting corruption. During the year, the Group has not provided any anti-corruption training to directors and staff.

## **B8 Community Investment**

The Group engaged in the community by focusing mainly on education. Through jazz and ballet, pop dance and dancing shows, the Group encourages children to build up positive energy, realize their potential and share their passion for dancing with the others in the society.

In addition, the Group does not only focus on individual activities, but is also pay attention on the society.

During This Year, in the development of the COVID-19, no social activities were held during the Reporting Period. In This Year, the Group keep made donation to charity. The Group had made HK\$8,500 donation to Hong Kong St. John Ambulance in This Year.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### EXECUTIVE DIRECTORS

**Mr. Chiu Ka Lok (趙家樂) (“Mr. Chiu”)**, aged 47, is our chairman and executive Director. He was appointed as our Director on 12 February 2014 and was re-designated as an executive Director on 24 March 2014. Mr. Chiu is also the member of the remuneration committee of the Company. Mr. Chiu founded our Group in May 2006. Mr. Chiu is primarily responsible for the overall corporate strategies, management and business development of our Group. Prior to establishing Shelly De Mozz, Mr. Chiu was engaged in the production and sales of education software to primary and secondary school teachers. Mr. Chiu was awarded the “Quality Education Fund” from the Government of Hong Kong in 1997 for a “Teachers Learning Programme” project. Since then, Mr. Chiu has continued to develop his career and team in the education industry. Mr. Chiu has approximately ten years of experience in children education and management. Mr. Chiu is the chief executive officer of the Hong Kong Speech and Swallowing Therapy Centre, a company principally engaged in providing swallowing and speech treatment, responsible for business development. He was also a director of Pok Oi Hospital, a charitable organisation providing various services to the local community including child care and education. Mr. Chiu graduated from The University of Science & Technology, Hong Kong, in November 1998, with a bachelor’s degree in computer engineering.

Mr. Chiu is the spouse of Dr. Chun Chun, a non-executive Director of the Company and the son-in-law of Mr. Chun Chi Ngon Richard, an executive Director of the Company and Ms. Yeung Siu Foon, a non-executive Director of the Company.

Mr. Chiu had not been a director of any other listed company for the last three preceding years.

**Mr. Chun Chi Ngon Richard (秦志昂) (“Mr. Chun”)**, aged 75, is our chief executive officer and executive Director.

Mr. Chun was appointed as our Director on 12 February 2014 and was redesignated as an executive Director on 24 March 2014. Mr. Chun is also the member of the nomination committee of the Company. Mr. Chun joined our Group in May 2006. Mr. Chun is primarily responsible for procurement, administration and inventory management. Mr. Chun has over 20 years of experience in procurement. Prior to joining our Group, Mr. Chun was the general manager of Mandarin Fashions Limited, a company principally engaged in clothing, from January 1984 to April 1998, and was responsible for the overall management of the Company, meeting customers, purchase order negotiation and finalisation, purchase of raw materials, production supervision, sale of products and exports management.

Mr. Chun is the father-in-law of Mr. Chiu Ka Lok, an executive Director of the Company and the father of Dr. Chun Chun, a non-executive Director of the Company. Mr. Chun is also the spouse of Ms. Yeung Siu Foon, a non-executive Director of the Company.

Mr. Chun had not been a director of any other listed company for the last three preceding years.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Dr. Chun Chun (秦蕤) (“Dr. Chun”)**, aged 47, was appointed as our non-executive Director on 24 March 2014 and re-designated as an executive Director on 10 August 2021. Dr. Chun has approximately 22 years of experience in speech & swallowing therapy. Dr. Chun has worked as a consultant of Hong Kong Speech & Swallowing Therapy Centre, a company principally engaged in providing swallowing and speech treatment. She was responsible for the provision of assessment and treatment for patients and training for internal staff since June 2006. Dr. Chun also worked in various hospitals or bureau. From August 2003 to December 2004, she was the speech and language consultant of the Hong Kong Education Department. From December 2001 to December 2002 and November 1999 to October 2001, Dr. Chun was the speech therapist of Tung Wah Eastern Hospital and Pamela Youde Nethersole Eastern Hospital, respectively. Dr. Chun obtained a bachelor’s degree and doctorate’s degree in Speech and Hearing Sciences from The University of Hong Kong, Hong Kong, in December 1999 and December 2007, respectively. Dr. Chun is a certified VitalStim Therapy Provider, Deep Pharyngeal Neuromuscular Stimulation Provider and an administrator of the Lee Silverman Voice Treatment. Furthermore, since October 2019, Dr. Chun acts as a school supervisor of SDM-Chatsworth International Kindergarten (Boundary Street) which is operated by a subsidiary of the Company.

Dr. Chun is the spouse of Mr. Chiu, an executive Director of the Company and the daughter of Mr. Chun Chi Ngon Richard, an executive Director of the Company and Ms. Yeung Siu Foon, a non-executive Director of the Company.

Dr. Chun had not been a director of any other listed company for the last three preceding years.

### NON-EXECUTIVE DIRECTOR

**Ms. Yeung Siu Foon (楊少寬) (“Ms. Yeung”)**, aged 72, was appointed as our non-executive Director on 24 March 2014. Ms. Yeung has approximately 16 years of experience in education sector as a teacher. From July 1968 to January 1970, Ms. Yeung worked as a panel teacher in Chiu Kwong Kindergarten. From January 1970 to August 1985, Ms. Yeung worked as a panel teacher and kindergarten officer in Rainbow Middle School. Ms. Yeung graduated from Macao Saint Joseph’s Kindergarten College, Macao, in June 1967, with a secondary certificate in kindergarten teacher.

Ms. Yeung is the mother-in-law of Mr. Chiu Ka Lok, an executive Director of the Company and is the mother of Dr. Chun Chun, a non-executive Director of the Company. Ms. Yeung is also the spouse of Mr. Chun Chi Ngon Richard, an executive Director of the Company.

Ms. Yeung had not been a director of any other listed company for the last three preceding years.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### INDEPENDENT NON-EXECUTIVE DIRECTOR

**Mr. Chak Chi Shing (翟志勝) (“Mr. Chak”)**, aged 41, was appointed as our independent non-executive Director on 15 May 2019. Mr. Chak is also the chairman of the remuneration committee, the audit committee and nomination committee of the Company. Mr. Chak obtained a bachelor’s degree in accounting and finance from Curtin University of Technology in Australia. Mr. Chak is a member of CPA Australia and Hong Kong Institute of Certified Public Accountants. Mr. Chak has over 13 years of professional experience in auditing, accounting, corporate finance and financial management and also has years of experience in company secretarial and corporate governance. Mr. Chak is currently the chief financial officer, company secretary and an authorised representative of Tokyo Chuo Auction Holdings Limited (stock code: 1939) from 13 September 2019 and the company secretary and an authorised representative of Hao Wen Holdings Limited (stock code: 8019) from 2 January 2020. Mr. Chak was the executive director of China Shenghai Food Holdings Company Limited (stock code: 1676) from December 2018 to September 2019. Mr. Chak served as the company secretary of Bolina Holdings Co., Ltd. (stock code: 1190) from March 2017 to August 2018, and the company secretary of the Company from March 2016 to July 2016.

Save as disclosed above, Mr. Chak had not been a director of any other listed company for the last three preceding years.

**Dr. Hung Siu Ying Patrick (洪小瑩) (“Dr. Hung”)**, aged 56, was appointed as our independent non-executive Director on 21 September 2020. Dr. Hung is also a member of the audit committee of the Company, obtained a Doctor of Philosophy degree in Electrical Engineering and a Master of Science degree in electrical engineering from Stanford University, and a Bachelor of Science degree in Electrical Engineering from The University of Hong Kong. Dr. Hung was a consulting assistant professor at Stanford University Computer Systems Laboratory from 2003 to 2009. Dr. Hung co-founded Velosti Technology Limited in 2009 and Alta Sicuro Technology Limited in 2015. He was an external examiner at The Hong Kong Polytechnic University and an external assessor at City University of Hong Kong. Dr. Hung was a Taishan scholar in Shandong Province in China and a Confederation of British Industry Overseas scholar in the United Kingdom.

Dr. Hung had not been a director of any other listed company for the last three preceding years.

Dr. Hung resigned as our independent non-executive Director on 31 March 2023.

**Dr. Kao Ping Suen (高炳旋)**, aged 49, was appointed as our independent non-executive Director on 28 February 2022. Dr. Kao is also a member of the audit committee, remuneration committee and nomination committee of the Company, obtained a doctor degree of Education (EdD) in Educational Management (dance education) from the Hong Kong Management Association (HKMA) and the Tarlac State University (TSU) in 2012, a master degree of art from the Chinese University of Hong Kong in 2009, a master degree of education from the Open University of Hong Kong in 2007 and a diploma in dance from the HKU School of Professional and Continuing Education in 2005. He is currently the art director of the Hong Kong Art Troupe of International Folklore, the external secretary of the Hong Kong Schools Dance Association (香港學界舞蹈協會外務秘書), the executive chairman of the Hong Kong Cup International Folklore & Art Festival, the member of the Organising Committee for National Day Celebration by the Circle of Literary and Art in Hong Kong and a guest lecturer of art colleges in the PRC. He is a prestigious icon in the fields of art and education, with 20 years of experiences in playing the role of team leader/director of Hong Kong in the International Festival of Art. Dr. Kao was accredited as a Professional Manager (PMgr) by the HKMA and the Master of Traditional Chinese Culture and Arts by the Chinese Traditional Culture Promotion Society under the Ministry of Culture of the PRC. He is currently the judges of various local, national and international contests of culture and art and is a Doctoral candidate in Business Administration since 2021.

Dr. Kao had not been a director of any other listed company for the last three preceding years.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### SENIOR MANAGEMENT

**Ms. Chan Yuen Hong (陳遠航) (“Ms. Chan”)**, aged 49, joined our Group in April 2007 as marketing officer and was promoted as our general manager and dean of SDM Jazz & Ballet on July 2007. She is primarily responsible for overall school operation including strategic planning, development of curriculum, marketing and general business operation of SDM Jazz & Ballet Academie. Ms. Chan has approximately 16 years of experience in management and marketing. From June 2005 to February 2006, she was the development executive of MV Destination Limited, a company principally engaged in providing event management services, responsible for marketing, promotion and event co-ordination. From July 1998 to July 2003, she was the senior marketing manager of Gold Royal International Enterprise Ltd., a company principally engaged in providing healthcare and beauty services, responsible for product development and training, brand building and marketing. From October 1996 to June 1998, Ms. Chan was a management trainee of The Marco Polo Hong Kong Hotel, responsible for providing assistance to various departments including human resources, marketing, food and beverage, housekeeping, front office and accounts. Ms. Chan graduated from Hong Kong Polytechnic University Hong Kong, in November 1996, with a bachelor’s degree in hotel and catering management. Ms. Chan is currently the chairman of the Hong Kong Children Dance Promotion Association.

Ms. Chan has not been a director of any other listed company for the last three preceding years.

**Ms. Yu Sze Wan (余思韻) (“Ms. Yu”)**, aged 45, was appointed as assistant to general manager in July 2007, as administration and human resources manager in February 2008 and was promoted as head of administrations and deputy general manager in July 2013. Ms. Yu is responsible for coordinating the operation of various departments, human resources planning, and personnel recruitment. Ms. Yu has over 16 years of experience in management. Prior to joining us, Ms. Yu worked as administration assistant in Manulife (International) Limited, a company principally engaged in insurance, investment, asset management and financial planning, responsible for administrative matters, from April 1997 to November 1997. She was a consultant in World Sky International Limited, a company principally engaged in trading and marketing of health products, where she was responsible for providing assistance to improve the workflow, training memo, policies and practices, analyzing training needs, designing employee development programme and conducting product training, from November 1997 to February 2007. Ms. Yu obtained a certificate in secretarial studies from Sacred Heart Canossian Commercial School, Hong Kong, in June 1996. Ms. Yu is the administrative officer of the Hong Kong Children Dance Promotion Association. Ms. Yu obtained certificates in personnel administration and operations as well as in human resources management from the Hong Kong Management Association in 2011.

Ms. Yu has not been a director of any other listed company for the last three preceding years.

## **REPORT OF DIRECTORS**

### **DIRECTORS' REPORT**

The Directors hereby present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2022.

### **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in Note 45 to the consolidated financial statements.

### **SEGMENTAL INFORMATION**

An analysis of the Group's revenue and contribution to the profit from operations by principal activities and geographical area of operations for the year ended 31 December 2022 is set out in Note 6 to the consolidated financial statements.

### **RESULTS AND DIVIDENDS**

The Group's results for the year ended 31 December 2022 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 55 and 56.

No final dividend for the year ended 31 December 2022 is proposed by the Board (2021: Nil).

The Board will continue to review the Group's financial positions and capital needs every year in deciding its dividend recommendations going forward.

### **FINANCIAL SUMMARY**

The summary of the results and of the assets and liabilities of the Group is set out on page 152 of this report.

### **PROPERTY, PLANT AND EQUIPMENT**

Details of the movements during the year in the property, plant and equipment of the Group are set out in Note 18 to the consolidated financial statements.

### **SHARE CAPITAL**

Details of the movements during the year in the share capital of the Company are set out in Note 36 to the consolidated financial statements.

# REPORT OF DIRECTORS

## SHARE OPTION SCHEME

The Company's share option scheme (the "**Share Option Scheme**") was conditionally adopted by a written resolution of the Shareholders on 26 September 2014 (the "**Date of Adoption**"), and is a share incentive scheme prepared in accordance with Chapter 23 of the GEM Listing Rules and is established to recognise and acknowledge the contribution of the Directors, other employees, other eligible participants who have made valuable contribution to the Group. Up to 31 December 2022 and the date of this report, there were 29,710,000 and 26,730,000 share options, respectively granted under the Scheme from the Date of the Adoption.

The following is a summary of the principal terms of the Share Option Scheme but it does not form part of the Share Option Scheme, nor was it intended to be part of the Share Option Scheme nor should it be taken as affecting the interpretation of the rules of the Share Option Scheme:

### (a) Purpose

The Share Option Scheme is a share incentive scheme prepared in accordance with Chapter 23 of the GEM Listing Rules and is established to recognise and acknowledge the contributions that the Eligible Participants (as defined in paragraph (b) below) had or may have made to our Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

- (i) motivate the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and
- (ii) attract and retain or otherwise maintain an on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

### (b) The Participants of the Share Option Scheme

The Board may, at its discretion, offer to grant an option to the following persons (collectively the "**Eligible Participants**") to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (e) below:

- (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;
- (ii) any directors (including independent non-executive directors) of the Company or any of its subsidiaries; and
- (iii) any advisers, consultants, suppliers, customers, distributors and such other persons who in the sole opinion of the Board will contribute or have contributed to the Company or any of its subsidiaries.

Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant.

## REPORT OF DIRECTORS

### (c) Maximum number of shares

The maximum number of shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme shall not, in the absence of Shareholders' approval, in aggregate exceed 10% in nominal amount of total number of shares in issue immediately following the completion of the offering for the Listing of the Shares of the Company (i.e. 20,000,000) (the "**Scheme Limit**"). Options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating the Scheme Limit.

The Company may renew the Scheme Limit at any time subject to prior Shareholders' approval but in any event, the total number of shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme under the limit as refreshed must not exceed 10% of the shares in issue as at the date of the Shareholders' approval of the renewed limit.

A Company's circular dated 6 May 2019 was sent to Shareholders in relation to "Proposal for Refreshment of Share Option Scheme Mandate Limit and Notice of Extraordinary General Meeting" (the "**May Circular**"). Pursuant to the May Circular, the Company proposes to seek the approval of the Shareholders to approve the Refreshment (as defined in the May Circular) so that the total number of Shares (as defined in the May Circular) which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not exceed 35,410,000 Shares, representing 10% of the Shares in issue as at the date of approval of the Refreshment by the Shareholders on 2 May 2019, assuming that the number of Shares in issue remains unchanged prior to the date of the extraordinary general meeting to be held by the Company on 27 May 2019 (the "**2019 May EGM**"). The Refreshment is approved by the Shareholders at the 2019 May EGM.

Pursuant to the 2019 May EGM, the Company granted an aggregate of 24,787,000 share options at an exercise price of HK\$1.10 per share and 10,623,000 share options at an exercise price of HK\$1.00 per share, on 4 October 2019 and 11 October 2019 respectively, details of which are set out in the Company's announcements dated 4 October 2019 and 11 October 2019.

The Company issued another circular dated 18 December 2019 to the Shareholders in relation to "Proposal for Refreshment of Share Option Scheme Mandate Limit and Notice of Extraordinary General Meeting" (the "**December Circular**"). Pursuant to the December Circular, the Company proposes to seek the approval of the Shareholders to approve the Refreshment (as defined in the December Circular) so that the total number of Shares (as defined in the December Circular) which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not exceed 35,410,000 Shares, representing 10% of the Shares in issue as at the date of approval of the Refreshment by the Shareholders on 13 December 2019, assuming that the number of Shares in issue remains unchanged prior to the date of the extraordinary general meeting to be held by the Company on 10 January 2020 (the "**2020 January EGM**"). The Refreshment is approved by the Shareholders at the 2020 January EGM.

Pursuant to the 2020 January EGM, the Company granted 6,380,000 share options at an exercise price of HK\$1.20 per share on 11 February 2020, 2,300,000 share options at an exercise price of HK\$1.44 per share on 25 February 2020 and 26,730,000 share options at HK\$0.40 per share on 15 June 2021 to certain eligible participants, subject to the acceptance of the grantees, under the Share Option Scheme adopted by the Company on 26 September 2014, details of which are set out in the Company's announcements dated 11 February 2020 25 February 2020 and 15 June 2021.

## REPORT OF DIRECTORS

**(d) Maximum number of options to any one individual**

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the issued shares of the Company as at the date of grant.

**(e) Price of Shares**

The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price must be at least the higher of:

- (i) the official closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average of the official closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a share.

**(f) Time of exercise of option and duration of the Share Option Scheme**

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption.

## REPORT OF DIRECTORS

As at 31 December 2022 the Company had 29,710,000 outstanding share options under the Share Option Scheme carrying rights for the holders thereof to subscribe for an aggregate of 29,710,000 new Shares, which represented 6.49% of the Shares of the Company, details of movements of which are set out below:

| Date of grant    | Owners/Grantees             | Number of share options |         |           |              |           | At<br>31 December<br>2022 | Exercise period                      | Exercise<br>Price<br>HK\$ |
|------------------|-----------------------------|-------------------------|---------|-----------|--------------|-----------|---------------------------|--------------------------------------|---------------------------|
|                  |                             | At<br>1 Jan 2022        | Granted | Exercised | Lapsed       | Cancelled |                           |                                      |                           |
| 4 October 2019   | <b>Directors</b>            |                         |         |           |              |           |                           |                                      |                           |
|                  | – Mr. Chiu Ka Lok           | 3,541,000               | –       | –         | (3,541,000)  | –         | –                         | 4 October 2019 to 3 October 2022     | 1.10                      |
|                  | – Mr. Chun Chi Ngon Richard | 3,541,000               | –       | –         | (3,541,000)  | –         | –                         | 4 October 2019 to 3 October 2022     | 1.10                      |
|                  | – Ms. Yeung Siu Foon        | 3,541,000               | –       | –         | (3,541,000)  | –         | –                         | 4 October 2019 to 3 October 2022     | 1.10                      |
|                  | – Dr. Chun Chun             | 3,541,000               | –       | –         | (3,541,000)  | –         | –                         | 4 October 2019 to 3 October 2022     | 1.10                      |
|                  | <b>Employees</b>            | 10,623,000              | –       | –         | (10,623,000) | –         | –                         | 4 October 2019 to 3 October 2022     | 1.10                      |
| 11 February 2020 | <b>Employees</b>            | 980,000                 | –       | –         | (300,000)    | –         | 680,000                   | 1 January 2023 to 10 February 2023   | 1.20                      |
|                  |                             |                         |         |           | (Note 1)     |           |                           |                                      |                           |
|                  | <b>Consultants</b>          | 2,100,000               | –       | –         | (2,100,000)  | –         | –                         | 11 February 2021 to 10 February 2022 | 1.20                      |
|                  | <b>Business partner</b>     | 1,000,000               | –       | –         | (1,000,000)  | –         | –                         | 11 February 2021 to 10 February 2022 | 1.20                      |
| 25 February 2020 | <b>Employees</b>            | 300,000                 | –       | –         | –            | –         | 300,000                   | 1 January 2023 to 24 February 2023   | 1.44                      |
|                  | <b>Consultants</b>          | 2,000,000               | –       | –         | –            | –         | 2,000,000                 | 1 January 2023 to 24 February 2023   | 1.44                      |
| 15 June 2021     | <b>Employees</b>            | 15,192,000              | –       | –         | –            | –         | 15,192,000                | 15 June 2021 to 14 June 2024         | 0.40                      |
|                  | <b>Supplier</b>             | 3,846,000               | –       | –         | –            | –         | 3,846,000                 | 15 June 2021 to 14 June 2024         | 0.40                      |
|                  | <b>Business partner</b>     | 7,692,000               | –       | –         | –            | –         | 7,692,000                 | 15 June 2021 to 14 June 2024         | 0.40                      |
|                  |                             | 57,897,000              | –       | –         | (28,187,000) | –         | 29,710,000                |                                      |                           |

Note 1: During the Reporting Period, the employee who was granted 300,000 options in total resigned from the position and left the Group.

The total number of Shares available for issue under the Share Option Scheme is 41,110,000, which represented 5.99% of 686,400,000 Share in issue of the Company as at the date of this report.

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

### 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.

### RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in Note 47 to the consolidated financial statements and page 59 in the consolidated statement of changes in equity respectively.

## REPORT OF DIRECTORS

### DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2022 and 2021, the Company had no distributable reserve calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentage of sales or purchases attributable to the Group's five largest customers or suppliers was less than 30%.

None of the Directors, or any of their close associate(s) or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's 5 largest customers and 5 largest suppliers during the year ended 31 December 2022.

### DIRECTORS

The Directors during the year and up to the date of report are as follows:

#### Executive Directors

Mr. Chiu Ka Lok (*Chairman*)

Mr. Chun Chi Ngon Richard (*Chief Executive Officer*)

Dr. Chun Chun

#### Non-executive Director

Ms. Yeung Siu Foon

#### Independent non-executive Directors

Mr. Chak Chi Shing

Dr. Hung Siu Yung Patrick (resigned on 31 March 2023)

Dr. Kao Ping Suen (appointed on 28 February 2022)

In accordance with the Company's articles of association, Mr. Chun Chi Ngon Richard, Dr. Chun Chun and Mr. Chak Chi Shing will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received, from each of the independent non-executive Directors, a confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive Directors as independent.

## REPORT OF DIRECTORS

### BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of the Directors of the Group are set out on pages from 37 to 40 of this report.

### DIRECTORS' SERVICE CONTRACTS

Each of the executive and non-executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the month of the Listing and will continue thereafter until terminated in accordance with the terms of the agreement. Independent non-executive Directors are appointed for a term of three years initially and will continue thereafter unless terminated by either party giving at least three months' notice in writing.

Save as disclosed above, none of the Directors has entered into any service contracts with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment compensation other than the statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance, to which the Company, its holding company or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### CONTROLLING SHAREHOLDER'S INTEREST IN CONTRACTS

Save as disclosed in the paragraphs headed "**Continuing Connected Transactions**" in this report and Related Party Transactions in Note 45 to the consolidated financial statements, no contract of significance, to which the company, its holding company or subsidiaries was a party and in which a controlling shareholder of the company had a material interest, whether directly or in directly, subsisted at the end of the year or at any time during the year.

### EMOLUMENT POLICY

The remuneration committee will review and determine the remuneration and compensation packages of the Directors with reference to their responsibilities, workload, time devoted to the Group and the performance of the Group. The Directors and other employees who have made valuable contribution to the Group may also receive options to be granted under the Share Option Scheme.

### 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.

## REPORT OF DIRECTORS

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2022, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

#### *Long positions in the Shares of the Company*

| Name of Directors and chief executive | Nature of interest/<br>Holding capacity                                       | Number of<br>ordinary shares held | Number of<br>underlying<br>Shares held | Percentage<br>of issued<br>share capital<br>(Note 1) |
|---------------------------------------|---|-----------------------------------|--|--|
| Mr. Chiu Ka Lok                       | Interest of a controlled corporation,<br>beneficial owner and family interest | 278,750,000<br>(Note 2)           | –                                      | 60.92%   |
| Dr. Chun Chun                         | Beneficial owner and family interest  | 278,750,000<br>(Note 3)           | –                                      | 60.92%   |

Notes:

- (1) As at 31 December 2022, the Company's issued ordinary share capital was HK\$45,760,000 divided into 457,600,000 Shares of HK\$0.1 each.
- (2) Wealthy Together Limited ("**Wealthy Together**"), is wholly and beneficially owned by Mr. Chiu Ka Lok, an executive Director and the Chairman of the Company. Mr. Chiu Ka Lok is deemed to be interested in 198,750,000 Shares held by Wealthy Together by virtue of his 100% shareholding interest in Wealthy Together. Mr. Chiu Ka Lok beneficially owned 31,000,000 Shares and Dr. Chun Chun, being the spouse of Mr. Chiu Ka Lok, beneficially owned 49,000,000 Shares. By virtue of the SFO, Mr. Chiu Ka Lok is deemed to be interested in 278,750,000 Shares.
- (3) Dr. Chun Chun, a non-executive Director, is the spouse of Mr. Chiu Ka Lok and is therefore deemed to be interested in all the shares held/owned by Mr. Chiu Ka Lok (by himself or through Wealthy Together) by virtue of the SFO.
- (4) Mr. Chiu Ka Lok and Dr. Chun Chun are both beneficially deemed to be interested in 3,541,000 Shares each which may be issued to them upon the exercise of the share options granted to them on 4 October 2019 under the Share Option Scheme. Also, as Mr. Chiu Ka Lok and Dr. Chun Chun are the spouse of each other, they are both deemed to be interested in all the underlying Shares held/owned by each other by virtue of the SFO.

## REPORT OF DIRECTORS

Save as disclosed above, as at 31 December 2022, none of the Directors and chief executive of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer referred to rule 5.46 of the GEM Listing Rules.

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as is known to the Directors, as at 31 December 2022, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions (directly or indirectly) in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

#### *Long positions in the Shares of the Company*

| Name of Shareholder | Nature of interest/<br>holding capacity | Number of shares        | Percentage of<br>interests in<br>the Company's<br>issued share capital<br>(Note 1) |
|---------------------|---|-------------------------|--|
| Wealthy Together    | Beneficial owner                        | 198,750,000<br>(Note 2) | 43.43%   |
| Hui Pui Cheung      | Beneficial owner                        | 39,980,000              | 8.74%  |
| Chen Jiabin         | Interest of a controlled<br>corporation | 28,000,000              | 6.12%  |
| Tycoon Mind Limited | Beneficial owner                        | 28,000,000              | 6.12%  |

Notes:

- (1) As at 31 December 2022, the Company's issued ordinary share capital was HK\$45,760,000 divided into 457,600,000 Shares of HK\$0.1 each.
- (2) Wealthy Together is beneficially and wholly owned by Mr. Chiu Ka Lok, an executive Director and the Chairman of the Company. By virtue of the SFO, Mr. Chiu Ka Lok is deemed to be interested in the shares held by Wealthy Together.

Save as disclosed above, the Directors were not aware of any other persons, other than the Directors or the chief executive of the Company who held an interest or short positions in the shares and underlying shares of the Company as at 31 December 2022 which required to be recorded pursuant to Section 336 of SFO.

## REPORT OF DIRECTORS

### RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during the year ended 31 December 2022 are set out in Note 45 to the consolidated financial statements. Save as the building management fees, rent and rates received from other related companies, which constitute continuing connected transactions and are exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules, none of these related party transactions constitute connected transactions as defined under the GEM Listing Rules.

Details of the connected transactions is summarized in the paragraph headed "**Continuing Connected Transactions**" below.

### CONTINUING CONNECTED TRANSACTIONS

The Group has entered into certain sub-lease agreements (the "**Sub-lease Agreements**") with Dunn's Education Limited, Rainbow Creative Arts Limited and Sunshine Chinese Painting. Dunn's Education Limited is owned as to 33.33% by Mr. Chiu Ka Lok, Rainbow Creative Arts Limited is wholly-owned by Mr. Chiu Ka Lok, Sunshine Chinese Painting is a sole proprietorship of Ms. Yeung Siu Foon, the non-executive Director and the mother-in-law of Mr. Chiu Ka Lok, one of the executive Directors and a controlling Shareholder. Accordingly, each of Dunn's Education Limited, Rainbow Creative Arts Limited and Sunshine Chinese Painting is a connected person of the Company under the GEM Listing Rules. Hence any transactions entered into between the Group and Dunn's Education Limited, Rainbow Creative Arts Limited and/or Sunshine Chinese Painting will constitute connected transactions for the Company under Chapter 20 of the GEM Listing Rules. Details of such connected transactions are as below.

For the years ended 31 December 2021 and 2022 the total rental and fees paid to our Group by Dunn's Education Limited under the Sub-lease Agreements amounted to approximately HK\$1,116,000 and HK\$62,000, respectively, of which approximately HK\$65,000 and HK\$62,000, respectively, were in relation to the sub-leasing of the Taikoo Centre.

For the years ended 31 December 2021 and 2022 the total rental and fees paid to our Group by Rainbow Creative Arts Limited under the Sub-lease Agreements amounted to approximately HK\$2,118,000 and HK\$955,000, respectively, of which approximately HK\$768,000 and HK\$448,000, respectively, were in relation to the sub-leasing of the Taikoo Centre.

For the years ended 31 December 2021 and 2022 the total rental and fees paid to our Group by Sunshine Chinese Painting under the Sub-lease Agreements amounted to approximately HK\$192,000 and nil, respectively.

Since each of the percentage ratios (other than the profits ratio) for transactions contemplated under the Sub-lease Agreements, on aggregate basis, is less than 5% and the total annual consideration is less than HK\$3,000,000, the transactions under the Sub-lease Agreements are therefore exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

The Directors, including the independent non-executive Directors, consider that the continuing connected transactions above are conducted on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole and are in the ordinary and usual course of the business. The Directors, including the independent non-executive Directors, are also of the view that the annual caps of all of the exempted continuing connected transactions above are fair and reasonable.

## REPORT OF DIRECTORS

### AUDIT COMMITTEE

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

Currently the audit committee comprises three independent non-executive directors, who have reviewed the consolidated financial statements for the year ended 31 December 2022.

### NON-COMPETITION UNDERTAKINGS

Each of the controlling shareholders of the Company has undertaken to the Company in the deed of non-competition (the "**Deed of Non-Competition**") that it/he will not, and procure its/his associates (other than members of our Group) not to directly or indirectly be involved in or undertake any business that directly or indirectly competes, or may compete, with the Group's business or undertaking, or hold shares or interest in any companies or business that compete directly or indirectly with the business engaged by the Group from time to time except where the controlling Shareholders hold less than 5% of the total issued share capital of any company (whose shares are listed on the Stock Exchange or any other stock exchange) which is engaged in any business that is or may be in competition with any business engaged by any member of the Group.

For the year ended 31 December 2022, the Company has received an annual written confirmation from each controlling shareholder of the Company in respect of its/his and its/his associates' compliance with the Deed of Non-Competition. The independent non-executive Directors have also reviewed and were satisfied that each of the controlling shareholders of the Company had complied with the Deed of Non-Competition.

### CORPORATE GOVERNANCE

During the year ended 31 December 2022, the Company has complied with the code provisions as set out in the CG Code contained in Appendix 15 of the GEM Listing Rules.

A report on the principal corporate governance practices adopted by the Company is set out in the section headed "**Corporate Governance Report**" of this report.

### SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirm that the Company complies with the minimum of public float as required under the GEM Listing Rules.

### MATERIAL EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in "EVENTS AFTER THE REPORTING PERIOD" in Note 48 to the consolidated financial statements, the Group had no material events after the reporting period.

## REPORT OF DIRECTORS

### AUDITOR

Zhonghui Anda CPA Limited was appointed as the auditor of the company for the year ended 31 December 2022.

The consolidated financial statements have been audited by Zhonghui Anda CPA Limited who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

By order of the Board

**Mr. Chiu Ka Lok**

*Chairman*

Hong Kong, 28 April 2023

## INDEPENDENT AUDITOR'S REPORT



**To the shareholders of SDM Education Group Holdings Limited**

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

### DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of SDM Education Group Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 55 to 151, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

### BASIS FOR DISCLAIMER OF OPINION

We draw attention to note 2 to the consolidated financial statements which mentions that 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.

## INDEPENDENT AUDITOR'S REPORT

### RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards (“**HKFRSS**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report. However, 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.

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the “**Code**”), and we have fulfilled our other ethical responsibilities in accordance with the Code.

#### **ZHONGHUI ANDA CPA Limited**

Certified Public Accountants

Li Shun Fai

Audit Engagement Director

Practising Certificate Number P05498

Hong Kong, 28 April 2023

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

|  | Notes  | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|--|--------|------------------|------------------|
| <b>Continuing operations</b>   |        |                  |                  |
| Revenue  | 7      | 164,832          | 178,576          |
| Other income   | 8      | 55,105           | 51,732           |
| Other net gains and losses   | 8      | 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   | 12     | (46,559)         | (51,602)         |
| Amortisation   | 12     | (7,207)          | (7,379)          |
| Staff and teaching consultants services costs                            | 15     | (112,457)        | (108,683)        |
| Other expenses   |        | (38,590)         | (39,201)         |
| Impairment loss on goodwill and intangible assets                        | 19, 20 | (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                    | 31     | –                | 104,039          |
| Loss on change in fair value of convertible notes through profit or loss | 33(c)  | (8,572)          | (20,744)         |
| Share options expenses   | 37     | (550)            | (5,301)          |
| Finance costs  | 9      | (7,128)          | (11,645)         |
| Share of results of joint ventures                                       | 21     | (317)            | (195)            |
| Share of results of an associate   | 22     | (175)            | 131              |
| <b>(Loss)/profit before taxation</b>                                     |        | <b>(36,415)</b>  | 51,279           |
| Income tax expenses  | 10     | (387)            | (1,295)          |
| <b>(Loss)/profit for the year from continuing operations</b>             | 12     | <b>(36,802)</b>  | 49,984           |
| <b>Discontinued operations</b>   |        |                  |                  |
| Loss for the year from discontinued operations                           | 11     | –                | (11,167)         |
| <b>(Loss)/profit for the year</b>  |        | <b>(36,802)</b>  | 38,817           |
| <b>(Loss)/profit for the year attributable to owners of the Group</b>    |        |                  |                  |
| – from continuing operations   |        | (37,190)         | 49,445           |
| – from discontinued operations   |        | –                | (11,193)         |
|  |        | <b>(37,190)</b>  | 38,252           |
| <b>Profit for the year attributable to non-controlling interests</b>     |        |                  |                  |
| – from continuing operations   |        | 388              | 539              |
| – from discontinued operations   |        | –                | 26               |
|  |        | <b>388</b>       | 565              |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

|   | Notes | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|---|-------|------------------|------------------|
| <b>(Loss)/profit for the year</b>   |       | <b>(36,802)</b>  | 38,817           |
| <b>Other comprehensive income for the year</b>  |       |                  |                  |
| <i>Items that may be reclassified subsequently to profit or loss:</i>   |       |                  |                  |
| Exchange gain on translation of financial statements of foreign operations  |       | <b>5,981</b>     | 5,361            |
| Change in fair value on financial liabilities designated at fair value through profit or loss attributable to change in credit risk | 33(c) | <b>11,137</b>    | 31,566           |
| <b>Other comprehensive income for the year</b>  |       | <b>17,118</b>    | 36,927           |
| <b>Total comprehensive (loss)/income for the year</b>   |       | <b>(19,684)</b>  | 75,744           |
| <b>Total comprehensive (loss)/income attributable to owners of the Group:</b>   |       |                  |                  |
| – from continuing operations  |       | <b>(18,758)</b>  | 50,783           |
| – from discontinued operations  |       | –                | 20,524           |
|   |       | <b>(18,758)</b>  | 71,307           |
| <b>Total comprehensive (loss)/income attributable to non-controlling interests:</b>   |       |                  |                  |
| – from continuing operations  |       | <b>(926)</b>     | 4,437            |
| – from discontinued operations  |       | –                | –                |
|   |       | <b>(926)</b>     | 4,437            |
|   |       | <b>HK cents</b>  | HK cents         |
| <b>Basic (loss)/earning per share</b>   |       |                  |                  |
| From continuing and discontinued operations   | 14    | <b>(8.13)</b>    | 9.45             |
| From continuing operations  |       | <b>(8.13)</b>    | 12.21            |
| From discontinued operations  |       | –                | (2.76)           |
| <b>Diluted (loss)/earning per share</b>   |       |                  |                  |
| From continuing and discontinued operations   | 14    | <b>(8.13)</b>    | 8.99             |
| From continuing operations  |       | <b>(8.13)</b>    | 11.61            |
| From discontinued operations  |       | –                | (2.62)           |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

|   | Notes      | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|---|------------|------------------|------------------|
| <b>Non-current assets</b>                                     |            |                  |                  |
| Property, plant and equipment                                 | 18(a)      | 13,693           | 17,727           |
| Right-of-use assets   | 18(b)      | 68,378           | 71,246           |
| Goodwill  | 19         | 84,743           | 99,710           |
| Intangible assets   | 20         | 62,958           | 70,636           |
| Interests in joint ventures                                   | 21         | 156              | 156              |
| Loans to joint ventures                                       | 21         | 440              | 757              |
| Interest in an associate                                      | 22         | 1,381            | 1,546            |
| Deposits for acquisitions of subsidiaries and businesses      | 23         | 17,765           | 18,187           |
| Other receivables, deposits and prepayments                   | 25         | 14,511           | 13,306           |
| Deferred tax assets   | 36         | 30               | 30               |
|   |            | <b>264,055</b>   | 293,301          |
| <b>Current assets</b>   |            |                  |                  |
| Inventories   | 24         | 1,892            | 1,958            |
| Trade and other receivables, deposits and prepayments         | 25         | 61,894           | 50,847           |
| Amounts due from related parties                              | 27         | 9,679            | 9,901            |
| Amounts due from non-controlling shareholders of subsidiaries | 28         | 664              | 664              |
| Cash and cash equivalents                                     | 29         | 25,699           | 29,508           |
| Tax recoverable   |            | 316              | 264              |
|   |            | <b>100,144</b>   | 93,142           |
| <b>Current liabilities</b>                                    |            |                  |                  |
| Trade and other payables                                      | 30         | 63,645           | 57,839           |
| Deferred income   | 26         | 33,052           | 32,824           |
| Amounts due to related parties                                | 27         | 28,010           | 13,722           |
| Amounts due to non-controlling shareholders of subsidiaries   | 28         | 258              | 246              |
| Convertible notes   | 33(c)      | 277,934          | 281,775          |
| Bank and other borrowings                                     | 33(a), (b) | 41,649           | 49,359           |
| Lease liabilities   | 34         | 63,491           | 64,158           |
| Tax payable   |            | 1,515            | 1,942            |
| Provisions  | 32         | 4,350            | 4,126            |
|   |            | <b>513,904</b>   | 505,991          |
| <b>Net current liabilities</b>                                |            | <b>(413,760)</b> | (412,849)        |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

|  | Notes      | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|--|------------|------------------|------------------|
| <b>Total assets less current liabilities</b> |            | <b>(149,705)</b> | (119,548)        |
| <b>Non-current liabilities</b>               |            |                  |                  |
| Provisions                                   | 32         | <b>7,235</b>     | 7,702            |
| Deferred tax liabilities                     | 36         | <b>4,397</b>     | 5,463            |
| Bank and other borrowings                    | 33(a), (b) | <b>4,763</b>     | 5,390            |
| Lease liabilities                            | 34         | <b>71,224</b>    | 80,087           |
|  |            | <b>87,619</b>    | 98,642           |
| <b>NET LIABILITIES</b>                       |            | <b>(237,324)</b> | (218,190)        |
| <b>EQUITY</b>                                |            |                  |                  |
| Share capital                                | 35         | <b>45,760</b>    | 45,760           |
| Reserves                                     |            | <b>(290,782)</b> | (272,574)        |
| Equity attributable to owners of the Company |            | <b>(245,022)</b> | (226,814)        |
| Non-controlling interests                    | 45         | <b>7,698</b>     | 8,624            |
| <b>TOTAL EQUITY</b>                          |            | <b>(237,324)</b> | (218,190)        |

Approved and authorised for issue by the Board of Directors on 28 April 2023.

**Chiu Ka Lok**  
Director

**Chun Chi Ngon Richard**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

|  | Attributable to owners of the Company |                |                   |                     |                        |                |                     | Total     | Non-controlling interests | Total equity |
|--|---------------------------------------|----------------|-------------------|---------------------|------------------------|----------------|---------------------|-----------|---------------------------|--------------|
|  | Share capital                         | Share premium* | Exchange reserve* | Fair value reserve* | Share options reserve* | Other reserve* | Accumulated losses* |           |                           |              |
|  | HK\$'000                              | HK\$'000       | HK\$'000          | HK\$'000            | HK\$'000               | HK\$'000       | HK\$'000            | HK\$'000  | HK\$'000                  | HK\$'000     |
| <b>At 1 January 2021</b>                       | 38,460                                | 133,707        | (5,868)           | -                   | 9,790                  | (2,080)        | (502,132)           | (328,123) | (2,534)                   | (330,657)    |
| Profit for the year                            | -                                     | -              | -                 | -                   | -                      | -              | 38,252              | 38,252    | 565                       | 38,817       |
| Other comprehensive income/(loss)              | -                                     | -              | 5,664             | 31,566              | -                      | -              | -                   | 37,230    | (303)                     | 36,927       |
| Total comprehensive income for the year        | -                                     | -              | 5,664             | 31,566              | -                      | -              | 38,252              | 75,482    | 262                       | 75,744       |
| Dividend paid to NCI                           | -                                     | -              | -                 | -                   | -                      | -              | -                   | -         | (693)                     | (693)        |
| Change in ownership interest of NCI (Note 45)  | -                                     | -              | -                 | -                   | -                      | (11,589)       | -                   | (11,589)  | 11,589                    | -            |
| Grant of share options (Note 37)               | -                                     | -              | -                 | -                   | 5,301                  | -              | -                   | 5,301     | -                         | 5,301        |
| Lapse of share options (Note 37)               | -                                     | -              | -                 | -                   | (249)                  | -              | 249                 | -         | -                         | -            |
| Issue of consideration shares (Notes 31 & 35)  | 7,300                                 | 24,815         | -                 | -                   | -                      | -              | -                   | 32,115    | -                         | 32,115       |
| <b>Balance as at 31 December 2021</b>          | 45,760                                | 158,522        | (204)             | 31,566              | 14,842                 | (13,669)       | (463,631)           | (226,814) | 8,624                     | (218,190)    |
| <b>At 1 January 2022</b>                       | 45,760                                | 158,522        | (204)             | 31,566              | 14,842                 | (13,669)       | (463,631)           | (226,814) | 8,624                     | (218,190)    |
| (Loss)/profit for the year                     | -                                     | -              | -                 | -                   | -                      | -              | (37,190)            | (37,190)  | 388                       | (36,802)     |
| Other comprehensive income/(loss)              | -                                     | -              | 7,295             | 11,137              | -                      | -              | -                   | 18,432    | (1,314)                   | 17,118       |
| Total comprehensive income/(loss) for the year | -                                     | -              | 7,295             | 11,137              | -                      | -              | (37,190)            | (18,758)  | (926)                     | (19,684)     |
| Grant of share options (Note 37)               | -                                     | -              | -                 | -                   | 550                    | -              | -                   | 550       | -                         | 550          |
| Lapse of share options (Note 37)               | -                                     | -              | -                 | -                   | (9,201)                | -              | 9,201               | -         | -                         | -            |
| <b>Balance as at 31 December 2022</b>          | 45,760                                | 158,522        | 7,091             | 42,703              | 6,191                  | (13,669)       | (491,620)           | (245,022) | 7,698                     | (237,324)    |

Note: Other reserves represent the difference between (i) the nominal value of share capital of the subsidiaries and the consideration pursuant to the reorganisation underwent in preparation for the listing of the shares of the Company; (ii) the consideration to acquire additional interest in subsidiaries and the respective share of the carrying amounts of net assets acquired; (iii) the consideration to dispose of partial interest in subsidiaries without losing controls and the carrying amounts of the attributable net assets disposed of; and (iv) the capital contribution from non-controlling interest and increment in non-controlling interests.

\* The reserves accounts comprise the Group's reserves of HK\$290,782,000 (2021: HK\$272,574,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

|  | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|--|------------------|------------------|
| <b>Cash flows from operating activities</b>                                  |                  |                  |
| <b>Continuing operations</b>   |                  |                  |
| (Loss)/profit before taxation  | (36,415)         | 51,279           |
| Adjustments for:   |                  |                  |
| Amortisation   | 7,207            | 7,379            |
| COVID-19 related rent concessions received                                   | (2,219)          | (1,432)          |
| Depreciation   | 46,559           | 51,602           |
| Finance costs  | 7,128            | 11,645           |
| Forfeiture of deposits for acquisitions of subsidiaries and businesses       | –                | 17,723           |
| Gain on change in fair value of consideration payables                       | –                | (104,039)        |
| Gain on disposal of a subsidiary   | (145)            | –                |
| Loss on de-registration of subsidiaries                                      | 44               | –                |
| Loss on change in fair value of convertible notes                            | 8,572            | 20,744           |
| Impairment loss on goodwill  | 15,271           | 3,596            |
| Impairment loss on intangible assets   | 896              | –                |
| Impairment loss on property, plant and equipment and right-of-use assets     | 1,023            | 795              |
| Interest income  | (577)            | (747)            |
| Loss on disposal of property, plant and equipment                            | 234              | 53               |
| Net exchange (gains)/losses  | (258)            | 1,292            |
| Net impairment loss recognised on financial assets and prepayments           | 614              | 989              |
| Share of results of an associate   | 175              | (131)            |
| Share of results of joint ventures   | 317              | 195              |
| Share options expenses   | 550              | 5,301            |
| Operating cash flows before working capital changes                          | 48,976           | 66,244           |
| Decrease in trade and other payables   | 5,806            | 18,222           |
| Increase/(decrease) in deferred income                                       | 228              | (6,422)          |
| Decrease/(increase) in amounts due from related parties                      | 222              | (1,035)          |
| Decrease in inventories  | 66               | 246              |
| Decrease in provisions   | (243)            | (190)            |
| (Increase)/decrease in trade and other receivables, deposits and prepayments | (12,252)         | 1,677            |
| <b>Cash generated from operations</b>  | <b>42,803</b>    | <b>78,742</b>    |
| Income taxes paid  | (185)            | (1,976)          |
|  | <b>42,618</b>    | <b>76,766</b>    |
| <b>Discontinued operation</b>  | <b>–</b>         | <b>4,193</b>     |
| <b>Net cash generated from operating activities</b>                          | <b>42,618</b>    | <b>80,959</b>    |

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

|   | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|---|------------------|------------------|
| <b>Cash flows from investing activities</b>                               |                  |                  |
| Purchase of property, plant and equipment                                 | (2,583)          | (5,380)          |
| Interest received   | 577              | 747              |
| Payment of consideration payables   | –                | (25,232)         |
| Net cash outflow arising from acquisitions of subsidiaries and businesses | –                | (6,934)          |
| Deposits paid for acquisitions of subsidiaries and businesses             | –                | (5,778)          |
| Refund for deposit paid for acquisitions of subsidiaries and businesses   | –                | 797              |
|   | (2,006)          | (41,780)         |
| <b>Discontinued operation</b>   | –                | 4,182            |
| <b>Net cash used in investing activities</b>                              | (2,006)          | (37,598)         |
| <b>Cash flows from financing activities</b>                               |                  |                  |
| Payment of lease liabilities  | (41,323)         | (41,967)         |
| Repayment of bank and other borrowings                                    | (31,169)         | (2,342)          |
| Finance cost paid   | (2,826)          | (4,195)          |
| Repayment of corporate bonds  | –                | (50,000)         |
| Proceeds from issuance of convertible notes                               | –                | 3,028            |
| Proceeds from issuance of share capital                                   | –                | 7,800            |
| Advances from related parties   | 15,310           | 10,293           |
| Proceeds from bank and other borrowings                                   | 22,832           | 54,749           |
|   | (37,176)         | (22,634)         |
| <b>Discontinued operation</b>   | –                | (16,726)         |
| <b>Net cash used in financing activities</b>                              | (37,176)         | (39,360)         |
| <b>Net decrease in cash and cash equivalents</b>                          | 3,436            | 4,001            |
| <b>Cash and cash equivalents at the beginning of the year</b>             | 29,508           | 38,458           |
| <b>Effect of foreign exchange rate changes</b>                            | (7,245)          | (12,951)         |
| <b>Cash and cash equivalents at the end of the year</b>                   | 25,699           | 29,508           |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 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, P.O.Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The address of its principal place of business is Room 202B, 2/F, Liven House, 61-63 King Yip Street, Kwun Tong, Hong Kong. The Company’s shares are listed on the GEM of The Stock Exchange of Hong Kong Limited (the “**SEHK**”).

The Company is an investment holding company. The principal subsidiaries are mainly engaged in (i) business of jazz and ballet and pop dance academy in Hong Kong; (ii) operation of kindergartens and pre-schools in Hong Kong and Singapore; (iii) provision of swallowing and speech treatments in Hong Kong; and (iv) provision of photographic services in Hong Kong.

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

At the extraordinary general meeting of the shareholders of the Company held on 20 September 2021, a special resolution was passed to change the name of the Company from “SDM Group Holdings Limited” to “SDM Education Group Holdings Limited” and the Chinese name of “SDM教育集團控股有限公司” has been adopted as the dual foreign name of the Company (the “**Change of Company English Name and Adoption of Chinese Name**”). A Certificate of Incorporation on “Change of Company English Name and Adoption of Chinese Name” were issued by the Registrar of the Companies in Cayman Islands with effect from 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. GOING CONCERN BASIS

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 which may cast significant doubt on the Group’s ability to continue as a going concern. In the contrary, the Directors consider it is appropriate to prepare the consolidated financial statements on a going concern basis as the Group is expected to have sufficient financial resources to meet its obligation as they fall due for at least the next twelve months based on its projected cash flow forecasts. The Group’s Directors have 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 consider that the Group is financially viable to continue as a going concern.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 2. GOING CONCERN BASIS (CONTINUED)

In addition, the Group can also improve its financial position, immediate liquidity and cash flows, by adopting the following measures:

- (a) the Group is negotiating with lenders to extend repayment of loans and interests;
- (b) the Group is implementing cost-saving measures to improve its operating cash flows and financial position; and
- (c) the Group is negotiating with creditors for debt restructuring.

Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The effects of these potential adjustments have not been reflected in the consolidated financial statements.

## 3. 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on The GEM of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the Directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 5 to the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The significant accounting policies applied in the preparation of the consolidated financial statements are set out below.

### Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

In the Company's statement of financial position the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### **Business combination and goodwill**

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income, the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

### **Associates**

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Associates (Continued)

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

### Joint venture

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over the economic activity when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the "venturers").

Investment in a jointly controlled entity is accounted for in the financial statements by the equity method of accounting and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the jointly controlled entity in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Company's share of the net fair value of the jointly controlled entity's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the income statement.

The Group's share of a jointly controlled entity's post-acquisition profits or losses is recognised in the income statement, and its share of the post-acquisition movements in reserves is recognised in the reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Company's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

Unrealised profits on transactions between the Company and its jointly controlled entities are eliminated to the extent of the Company's interests in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Foreign currency translation

#### (i) **Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

#### (ii) **Transactions and balances in each entity's financial statements**

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

#### (iii) **Translation on consolidation**

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in consolidated profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their costs less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

|                                    |                      |
|------------------------------------|----------------------|
| Leasehold improvements             | Over the lease terms |
| Furniture, fittings and equipments | 20-33.33%            |
| Motor vehicles                     | 33.33%               |

The useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in consolidated profit or loss.

### Leases

#### *The Group as lessee*

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal annual rates are as follows:

|                               |             |
|-------------------------------|-------------|
| Properties leased for own use | 2 – 5 years |
|-------------------------------|-------------|

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US\$ 5,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Leases (Continued)

#### *The Group as lessor*

##### *Operating leases*

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

### Intangible assets

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives.

Amortisation commences when the intangible assets are available for use. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives, as follows:

|                        |              |
|------------------------|--------------|
| Customer relationships | 3 – 10 years |
|------------------------|--------------|

Other intangible assets mainly include brand name, trademarks and intellectual property. Intangible assets with a finite useful lives are carried at cost less accumulated amortisation and any impairment losses. Intangible assets with indefinite useful lives including trademark are carried at cost less any subsequent accumulated impairment losses.

### Discontinued operations

A discontinued operation is a component of the Group, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale. It also occurs when the operation is abandoned.

When an operation is classified as discontinued, a single amount is presented in the statement of profit or loss and other comprehensive income, which comprises:

- The post-tax profit or loss of the discontinued operation; and
- The post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in consolidated profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in consolidated profit or loss.

### Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in consolidated profit or loss.

Financial assets of the Group are classified under the following categories:

- Financial assets at amortised cost;
- Investments at fair value through profit or loss.

#### (i) **Financial assets at amortised cost**

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial assets (Continued)

#### (ii) *Investments at fair value through profit or loss*

Financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost and the conditions of debt investments at fair value through other comprehensive income unless the Group designates an equity investment that is not held for trading as at fair value through other comprehensive income on initial recognition.

Investments at fair value through profit or loss are subsequently measured at fair value with any gains or losses arising from changes in fair values recognised in consolidated profit or loss. The fair value gains or losses recognised in consolidated profit or loss are net of any interest income and dividend income. Interest income and dividend income are recognised in consolidated profit or loss.

### Loss allowances for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("**lifetime expected credit losses**") for trade receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in consolidated profit or loss as an impairment gain or loss.

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value.

### Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Convertible notes

Convertible notes which entitle the holder to convert the notes into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The fair value of any derivative features embedded in the compound instruments is included in the liability component. The difference between the proceeds of issue of the convertible notes and the fair values assigned to the liability component, representing the embedded option for the holder to convert the notes into equity of the Group, is included in equity as capital reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption. The derivative components are measured at fair value with gains and losses recognised in profit or loss.

Transaction costs are apportioned between the liability and equity components of the convertible bonds based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

### Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

### Other financial liabilities

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance;

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue recognition (Continued)

- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

### Other revenue

Rental income is recognised on a straight-line basis over the lease terms.

Interest income is recognised using the effective interest method.

### Employee benefits

#### (i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### (ii) *Pension obligations*

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income. Contributions to the plan vest immediately.

The Group makes legally required contributions to the Central Provident Fund ("CPF") in Singapore for its employees employed in Singapore who are Singapore citizens or permanent residents as prescribed by the Central Provident Fund Act of Singapore. The Group's obligation, in regard to the defined contribution plan, is limited to the amount it contributes to the CPF. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

The Group makes legally required contributions to the Superannuation Funds in Australia for its employees employed in Australia. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

#### (iii) *Termination benefits*

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits, and when the Group recognises restructuring costs and involves the payment of termination benefits.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Share-based payments

The Group issues equity-settled share-based payments to certain directors, employees and consultants. Equity-settled share-based payments are measured at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 37 to the financial statements.

Equity-settled share-based payments to directors and employees are measured at the fair value (excluding the effect of non-market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in consolidated profit or loss in the period in which they are incurred.

### Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in consolidated profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Taxation (Continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in consolidated profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### Segment reporting

Operating segments and the amounts of each segment item reported in the financial statements are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources and assessing the performance of the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Related parties

A related party is a person or entity that is related to the Group.

- (A) A person or a close member of that person's family is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
  
- (B) An entity is related to the Group if any of the following conditions applies:
  - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
  - (iii) Both entities are joint ventures of the same third party;
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group;
  - (vi) The entity is controlled or jointly controlled by a person identified in (A);
  - (vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

### Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### **Impairment of non-financial assets (Continued)**

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in consolidated profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### **Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

### **Events after the reporting period**

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

### **Critical judgments in applying accounting policies**

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

#### **a) *Going concern basis***

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful completion of the debt restructuring and certain measures as mentioned in note 2 to improve its operating results and cash flows. The directors of the Company believe that the Group will have sufficient funds to finance its current working capital requirements in the next twelve months from the end of the reporting date. Details are explained in note 2 to consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (CONTINUED)

### Critical judgments in applying accounting policies (Continued)

#### **b) Lease term and discount rate determination**

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstance occurs which affects this assessment and that is within the control of the lessee.

The Group uses the lessee's incremental borrowing rates to discount future lease payments since interest rates implicit in the leases are not readily determinable. In determining the discounts rates for its leases, the Group refers to a rate that is readily observable as the starting point and then applies judgement and adjusts such observable rate to determine the incremental borrowing rate.

### Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

#### **a) Impairment of intangible assets**

The policy for impairment of intangible assets of the Group is based on an evaluation of their recoverable amount with reference to expected future cash flows based on management's estimation. A considerable amount of judgement is required in estimating the expected future cash flows from the Group's intangible assets. If the recoverable amounts are less or more than expected than the carrying amounts of the intangible assets, or changes in facts and circumstances which may result in revisions of the estimated future cash flows, impairment or reversal of impairment loss may be required.

#### **b) Impairment of property, plant and equipment and right-of-use assets**

Property, plant and equipment and right-of-use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the present value of estimated future cash flows. Where the future cash flows are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of future estimate cash flows, a material impairment loss may arise.

#### **c) Impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the end of the reporting period was HK\$84,743,000 after an impairment loss of HK\$15,271,000 was recognised during the year ended 31 December 2022. Details of the impairment loss calculation are provided in note 19 to consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (CONTINUED)

### Key sources of estimation uncertainty (Continued)

#### d) *Fair value of convertible notes*

The best evidence of fair value is the published price quotations in an active market. In the absence of such information, the fair value is determined by an independent professional valuer. Such valuation is subject to limitations of the valuation models adopted and the uncertainty in estimates used by the management of the Group in the assumptions. Should the estimates and the relevant parameters of the valuation models be changed, there would be material changes in the fair value of certain financial instruments without quoted prices. Further details are given in note 33(c) to the consolidated financial statements.

## 6. 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.

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

No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 6. 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.

| 2022   | Continuing operations              |  |                    | Discontinued operation                            | Total<br>HK\$'000 |
|--|------------------------------------|--|--------------------|---|-------------------|
|  | Dance academy business<br>HK\$'000 | Early childhood education business<br>HK\$'000 | Others<br>HK\$'000 | Adult education and training business<br>HK\$'000 |                   |
| <b>Revenue</b>   | 55,121                             | 100,636  | 9,075              | –   | 164,832           |
| <b>Segment results</b>   | (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)          |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 6. SEGMENT INFORMATION (CONTINUED)

| 2021   | Continuing operations              |  |                    | Discontinued operation                            | Total    |
|--|------------------------------------|--|--------------------|---|----------|
|  | Dance academy business<br>HK\$'000 | Early childhood education business<br>HK\$'000 | Others<br>HK\$'000 | Adult education and training business<br>HK\$'000 |          |
| Revenue  | 74,548                             | 93,433   | 10,595             | 6,224   | 184,800  |
| Segment results  | 10,506                             | 9,043  | 3,025              | (8,014)   | 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   |                                    |  |                    |   | 40,112   |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 6. SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2022

|  | Continuing operations  |                                    |          |             | Discontinued operation                | Consolidated |
|--|------------------------|------------------------------------|----------|-------------|---------------------------------------|--------------|
|  | Dance academy business | Early childhood education business | Others   | Unallocated | Adult education and training business |              |
|  | HK\$'000               | HK\$'000                           | HK\$'000 | HK\$'000    | HK\$'000                              | HK\$'000     |
| <b>Amounts credited/(charged) included in the measure of segment results</b> |                        |                                    |          |             |                                       |              |
| 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)        |

For the year ended 31 December 2021

|  | Continuing operations    |                                  |          |             | Discontinued operation                | Consolidated |
|--|--------------------------|----------------------------------|----------|-------------|---------------------------------------|--------------|
|  | Dance education business | Early childhood academy business | Others   | Unallocated | Adult education and training business |              |
|  | HK\$'000                 | HK\$'000                         | HK\$'000 | HK\$'000    | HK\$'000                              | HK\$'000     |
| <b>Amounts credited/(charged) included in the measure of segment results</b> |                          |                                  |          |             |                                       |              |
| 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)        |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 6. 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   | 2021     | 2022  | 2021     |
|                                    | HK\$'000   | HK\$'000 | HK\$'000  | HK\$'000 |
| Australia (discontinued operation) | –  | 6,224    | –   | –        |
| Hong Kong                          | 75,502   | 93,557   | 61,206  | 57,859   |
| Singapore                          | 89,329   | 85,019   | 188,308   | 222,106  |
|                                    | <b>164,831</b>   | 184,800  | <b>249,514</b>  | 279,965  |

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.

### 7. 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     |
|   | HK\$'000              | HK\$'000 | HK\$'000               | HK\$'000 | HK\$'000       | HK\$'000 |
| <b>Revenue from contract with customers</b> |                       |          |                        |          |                |          |
| 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                                       | <b>164,832</b>        | 178,576  | –                      | 6,224    | <b>164,832</b> | 184,800  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 7. REVENUE (CONTINUED)

For the year ended 31 December 2021

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 8. OTHER INCOME AND OTHER NET GAINS AND LOSSES

|  | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|--|------------------|------------------|
| <b>Other income</b>  |                  |                  |
| 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 (Note (a))                  | 2,219            | 1,432            |
| Government grants (Note (b))   | 23,753           | 22,510           |
| Others   | 5,056            | 3,962            |
|  | <b>55,105</b>    | 51,732           |
| <b>Other net gains and losses</b>                                      |                  |                  |
| 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)             |
|  | <b>125</b>       | (19,068)         |

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\$7,891,000 (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.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 9. FINANCE COSTS

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

### 10. INCOME TAX EXPENSES

|  | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|--|------------------|------------------|
| 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)            |
|  | <b>2,093</b>     | 2,358            |
|  | <b>2,417</b>     | 2,536            |
| Deferred tax (Note 36)                 | (2,030)          | (1,241)          |
|  | <b>387</b>       | 1,295            |

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 10. INCOME TAX EXPENSES (CONTINUED)

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 11. DISCONTINUED OPERATIONS

On 27 April 2021, the Group has decided to cease its operations in Australia (“**Australia segment**”) due to the outbreak of COVID-19 pandemic, the principal activities of the Australia segment are adult education and training business. Accordingly, the cessation of Australia segment is presented as a discontinued operation in the consolidated financial statements of the Group for the year ended 31 December 2021.

(a) The results of the discontinued operation are presented below:

|  | 2021<br>HK\$'000 |
|--|------------------|
| Revenue – adult education and training business      | 6,224            |
| Other income   | (63)             |
| Advertising and promotion expenses                   | (1,397)          |
| Staff and teaching consultants services costs        | (7,661)          |
| Other expenses                                       | (1,138)          |
| Impairment loss on lease receivables                 | (3,784)          |
| Finance costs  | (3,348)          |
| <b>Loss for the year from discontinued operation</b> | <b>(11,167)</b>  |

(b) The loss for the year from discontinued operation has been arrived at after charging/(crediting):

|                                      | 2021<br>HK\$'000 |
|--------------------------------------|------------------|
| Interest income                      | 159              |
| Interest on lease liabilities        | (629)            |
| Impairment loss on lease receivables | (3,784)          |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

|   | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|---|------------------|------------------|
| The Group's (loss)/profit for the year from continuing operations has been arrived at after charging/(crediting): |                  |                  |
| Auditor's remuneration*   | <b>1,600</b>     | 1,600            |
| Consultants service costs*  | <b>2,784</b>     | 2,518            |
| COVID-19 – related rent concessions received (Note 8)   | <b>(2,219)</b>   | (1,432)          |
| Building management fee*  | <b>6,126</b>     | 5,863            |
| Legal and professional fee*   | <b>4,094</b>     | 4,199            |
| Depreciation:   |                  |                  |
| Right-of-use assets (Note 18(b))  | <b>40,213</b>    | 43,721           |
| Owned assets (Note 18(a))   | <b>6,346</b>     | 7,881            |
| <b>Total depreciation</b>   | <b>46,559</b>    | 51,602           |
| Amortisation of intangible assets (Note 20)   | <b>7,207</b>     | 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  | <b>(35)</b>      | 265              |
| – other financial assets  | <b>649</b>       | 724              |
| <b>Net impairment loss recognised on financial assets</b>   | <b>614</b>       | 989              |

\* included in "other expenses"

### 13. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 15. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

|   | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|---|------------------|------------------|
| Directors' fees   | 3,742            | 2,930            |
| Wages and salaries  | 99,484           | 96,790           |
| Retirement benefits scheme contributions                        | 9,231            | 8,963            |
| Total staff costs (note)<br>(including directors' remuneration) | 112,457          | 108,683          |
| Share options expenses  | 550              | 5,301            |
| Employee benefit expense (including directors' remuneration)    | 113,007          | 113,984          |

Notes:

Included in staff costs are teaching consultants services costs of HK\$3,773,000 (2021: HK\$4,110,000) for the delivery of courses by instructors. These instructors do not enter into employment contract with the Group.

### 16. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's emoluments, disclosed pursuant to the Listing Rules, section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

|  | Directors' fees<br>HK\$'000 | Other emoluments                        |                                  |  | Total<br>HK\$'000 |
|--|-----------------------------|---|----------------------------------|--|-------------------|
|  |                             | Salaries and other benefits<br>HK\$'000 | Share based payments<br>HK\$'000 | Retirement benefits scheme contributions<br>HK\$'000 |                   |
| <b>2022</b>                                |                             |   |                                  |  |                   |
| <i>Executive directors</i>                 |                             |   |                                  |  |                   |
| Mr. Chiu Ka Lok                            | 1,537                       | -                                       | -                                | 18   | 1,555             |
| Mr. Chun Chi Ngon Richard (Note a)         | 330                         | -                                       | -                                | -  | 330               |
| Dr. Chun Chun (Note b)                     | 1,635                       | -                                       | -                                | 14   | 1,649             |
| <i>Non-executive director</i>              |                             |   |                                  |  |                   |
| Ms. Yeung Siu Foon                         | 60                          | -                                       | -                                | -  | 60                |
| <i>Independent non-executive directors</i> |                             |   |                                  |  |                   |
| Dr. Kao Ping Suen (Note e)                 | 54                          | -                                       | -                                | -  | 54                |
| Dr. Hung Siu Ying Patrick (Note d)         | 63                          | -                                       | -                                | -  | 63                |
| Mr. Chak Chi Shing                         | 63                          | -                                       | -                                | -  | 63                |
|  | 3,742                       | -                                       | -                                | 32   | 3,774             |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 16. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

|  | Directors' fees<br>HK\$'000 | Other emoluments                        |                                  |  | Total<br>HK\$'000 |
|--|-----------------------------|---|----------------------------------|--|-------------------|
|  |                             | Salaries and other benefits<br>HK\$'000 | Share based payments<br>HK\$'000 | Retirement benefits scheme contributions<br>HK\$'000 |                   |
| <b>2021</b>                                |                             |   |                                  |  |                   |
| <i>Executive directors</i>                 |                             |   |                                  |  |                   |
| Mr. Chiu Ka Lok                            | 889                         | –                                       | –                                | 18   | 907               |
| Mr. Chun Chi Ngon Richard (Note a)         | 380                         | –                                       | –                                | –  | 380               |
| Dr. Chun Chun (Note b)                     | 1,273                       | –                                       | –                                | 18   | 1,291             |
| <i>Non-executive director</i>              |                             |   |                                  |  |                   |
| Ms. Yeung Siu Foon                         | 205                         | –                                       | –                                | –  | 205               |
| <i>Independent non-executive directors</i> |                             |   |                                  |  |                   |
| Dr. Yuen Man Chun Royce (Note c)           | 83                          | –                                       | –                                | –  | 83                |
| Dr. Hung Siu Ying Patrick (Note d)         | 50                          | –                                       | –                                | –  | 50                |
| Mr. Chak Chi Shing                         | 50                          | –                                       | –                                | –  | 50                |
|  | 2,930                       | –                                       | –                                | 36   | 2,966             |

Notes:

- (a) Mr. Chun Chi Ngon Richard is also the Chief Executive Officer of the Group.
- (b) Redesignated from the non-executive director to an executive director on 10 August 2021.
- (c) Resigned on 30 November 2021.
- (d) Resigned on 31 March 2023.
- (e) Appointed on 28 February 2022.

No emoluments were paid by the Group to any directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2021: nil).

There were no arrangements under which a director waived or agreed to waive any remuneration during the year (2021: nil).

The value of share options granted to directors is measured according to the Group's accounting policy for share-based compensation set out in note 4. The details of these benefits in kind including the principal terms and number of options granted are disclosed under the heading "Share options" in the Directors' Report and note 37.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 17. FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

The five individuals whose emoluments were the highest in the Group for the year included two (2021: two) directors whose emoluments are reflected in the analysis presented above. The aggregate emoluments payable to the remaining three (2021: three) individuals during the year are as follows:

The aggregate emoluments payable to the remaining three (2021: three) individuals during the year are as follows:

|  | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|--|------------------|------------------|
| Salaries and other benefits              | <b>6,234</b>     | 3,174            |
| Retirement benefit scheme contributions  | <b>214</b>       | 195              |
|  | <b>6,448</b>     | 3,369            |
| The emoluments fell the following bands: |                  |                  |
| Emolument bands:                         |                  |                  |
| Nil – HK\$1,000,000                      | <b>2</b>         | 2                |
| HK\$1,000,001 – HK\$1,500,000            | <b>1</b>         | 1                |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 18. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

#### (a) Property, plant and equipment

|   | Leasehold<br>improvements<br>HK\$'000 | Furniture,<br>fixtures and<br>equipment<br>HK\$'000 | Motor vehicle<br>HK\$'000 | Total<br>HK\$'000 |
|---|---------------------------------------|---|---------------------------|-------------------|
| <b>Cost</b>   |                                       |   |                           |                   |
| At 1 January 2021                                   | 41,990                                | 9,495   | 107                       | 51,592            |
| Additions   | 4,754                                 | 626   | –                         | 5,380             |
| Written off/Disposal                                | (3,172)                               | (434)   | –                         | (3,606)           |
| Exchange realignment                                | (179)                                 | (86)  | –                         | (265)             |
| At 31 December 2021 and 1 January 2022              | 43,393                                | 9,601   | 107                       | 53,101            |
| Additions   | 2,301                                 | 282   | –                         | 2,583             |
| Written off/Disposal                                | (975)                                 | (166)   | –                         | (1,141)           |
| Exchange realignment                                | 172                                   | 47  | –                         | 219               |
| <b>At 31 December 2022</b>                          | <b>44,891</b>                         | <b>9,764</b>  | <b>107</b>                | <b>54,762</b>     |
| <b>Accumulated depreciation and impairment loss</b> |                                       |   |                           |                   |
| At 1 January 2021                                   | 23,132                                | 7,475   | 107                       | 30,714            |
| Depreciation  | 6,836                                 | 1,045   | –                         | 7,881             |
| Written off/Disposal                                | (2,824)                               | (341)   | –                         | (3,165)           |
| Impairment loss                                     | 238                                   | 45  | –                         | 283               |
| Exchange realignment                                | (270)                                 | (69)  | –                         | (339)             |
| At 31 December 2021 and 1 January 2022              | 27,112                                | 8,155   | 107                       | 35,374            |
| Depreciation  | 5,537                                 | 809   | –                         | 6,346             |
| Written off/Disposal                                | (644)                                 | (140)   | –                         | (784)             |
| Impairment loss                                     | 70                                    | 15  | –                         | 85                |
| Exchange realignment                                | 44                                    | 4   | –                         | 48                |
| <b>At 31 December 2022</b>                          | <b>32,119</b>                         | <b>8,843</b>  | <b>107</b>                | <b>41,069</b>     |
| <b>Carrying amount</b>                              |                                       |   |                           |                   |
| <b>At 31 December 2022</b>                          | <b>12,772</b>                         | <b>921</b>  | <b>–</b>                  | <b>13,693</b>     |
| At 31 December 2021                                 | 16,281                                | 1,446   | –                         | 17,727            |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 18. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (CONTINUED)

#### (b) Right-of-use assets

|   | Properties leased<br>for own use<br>HK\$'000 | Furniture<br>& Fixtures,<br>equipment<br>HK\$'000 | Total<br>HK\$'000 |
|---|--|---|-------------------|
| <b>Cost</b>   |  |   |                   |
| At 1 January 2021                                   | 260,192                                      | 452   | 260,644           |
| Additions (Note)                                    | 19,158                                       | –   | 19,158            |
| Exchange realignment                                | 2,079  | –   | 2,079             |
| At 31 December 2021 and 1 January 2022              | 281,429                                      | 452   | 281,881           |
| Additions (Note)                                    | 38,528                                       | –   | 38,528            |
| Exchange realignment                                | 291  | –   | 291               |
| <b>At 31 December 2022</b>                          | <b>320,248</b>                               | <b>452</b>  | <b>320,700</b>    |
| <b>Accumulated depreciation and impairment loss</b> |  |   |                   |
| At 1 January 2021                                   | 163,864                                      | 213   | 164,077           |
| Depreciation  | 43,614                                       | 107   | 43,721            |
| Impairment loss                                     | 512  | –   | 512               |
| Exchange realignment                                | 2,325  | –   | 2,325             |
| At 31 December 2021 and 1 January 2022              | 210,315                                      | 320   | 210,635           |
| Depreciation  | 40,106                                       | 107   | 40,213            |
| Impairment loss                                     | 938  | –   | 938               |
| Exchange realignment                                | 536  | –   | 536               |
| <b>At 31 December 2022</b>                          | <b>251,895</b>                               | <b>427</b>  | <b>252,322</b>    |
| <b>Carrying amount</b>                              |  |   |                   |
| <b>At 31 December 2022</b>                          | <b>68,353</b>                                | <b>25</b>   | <b>68,378</b>     |
| At 31 December 2021                                 | 71,114                                       | 132   | 71,246            |

Notes: The amount includes right-of-use assets resulting from new leases entered, lease modification and reassessment of extension options.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 18. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS (CONTINUED)

#### Impairment assessment

The Directors of the Group considered the situation, market development and future performance of the CGU and concluded there was indication for impairment and conducted impairment assessment on recoverable amounts of the property, plant and equipment and right-of-use assets with carrying amounts of HK\$13,693,000 (2021: HK\$17,727,000) and HK\$68,378,000 (2021: HK\$71,246,000) respectively.

During the year ended 31 December 2021, Columbia Junior Academy Pte Limited ("**CJA**") has closed operation in Singapore in October 2021 and SDM Childcare Centre (Bartley) Pte. Ltd ("**Bartley**") made net loss of SGD192,000 (equivalent to approximately HK\$1,112,000). The recoverable amounts of CGUs of CJA and Bartley have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial forecast approved by the Directors of the Group covering the following 5 years with a pre-tax discount rate is 14% as at 31 December 2021.

For the year ended 31 December 2022, the recoverable amounts of CGUs of Between Two Trees (Clarke Quay) Pte. Ltd ("**Clarke Quay**"), SDM Childcare Centre (Flora Vista) Pte. Ltd ("**Flora Vista**") and SDM Childcare Centre (Greenwich) Pte. Ltd ("**Greenwich**") have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial forecast approved by the Directors of the Group covering the following 5 years with a pre-tax discount rate is 15.5% as at 31 December 2022.

Based on the assessment and the allocation, impairment loss of HK\$85,000 (2021: HK\$283,000) and HK\$938,000 (2021: HK\$512,000), have been recognised against the carrying amount of property, plant and equipment and right-of-use assets respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 19. GOODWILL

|   | Acquired dancing business<br>HK\$'000 | Early childhood education business<br>HK\$'000 | Adult education and training business<br>HK\$'000 | Provision of swallowing and speech treatment business<br>HK\$'000 | Provision of photographic services business<br>HK\$'000 | Total<br>HK\$'000 |
|---|---------------------------------------|--|---|---|---|-------------------|
| <b>Cost</b>   |                                       |  |   |   |   |                   |
| At 1 January 2021   | 1,897                                 | 80,636   | 38,409  | 15,147  | 9,725   | 145,814           |
| Acquired on acquisitions of subsidiaries and business (Note 38) | -                                     | 6,457  | -   | -   | -   | 6,457             |
| Exchange realignment  | -                                     | (2,213)  | -   | -   | -   | (2,213)           |
| At 31 December 2021 and 1 January 2022                          | 1,897                                 | 84,880   | 38,409  | 15,147  | 9,725   | 150,058           |
| Exchange realignment  | -                                     | 731  | -   | -   | -   | 731               |
| <b>At 31 December 2022</b>                                      | <b>1,897</b>                          | <b>85,611</b>                                  | <b>38,409</b>                                     | <b>15,147</b>   | <b>9,725</b>  | <b>150,789</b>    |
| <b>Accumulated impairment loss:</b>                             |                                       |  |   |   |   |                   |
| At 1 January 2021   | 1,897                                 | 2,446  | 38,409  | 2,400   | 1,600   | 46,752            |
| Impairment loss   | -                                     | 3,596  | -   | -   | -   | 3,596             |
| At 31 December 2021 and 1 January 2022                          | 1,897                                 | 6,042  | 38,409  | 2,400   | 1,600   | 50,348            |
| Impairment loss   | -                                     | 15,271   | -   | -   | -   | 15,271            |
| Exchange realignment  | -                                     | 427  | -   | -   | -   | 427               |
| <b>At 31 December 2022</b>                                      | <b>1,897</b>                          | <b>21,740</b>                                  | <b>38,409</b>                                     | <b>2,400</b>  | <b>1,600</b>  | <b>66,046</b>     |
| <b>Carrying amount</b>  |                                       |  |   |   |   |                   |
| <b>At 31 December 2022</b>                                      | <b>-</b>                              | <b>63,871</b>                                  | <b>-</b>  | <b>12,747</b>   | <b>8,125</b>  | <b>84,743</b>     |
| At 31 December 2021   | -                                     | 78,838   | -   | 12,747  | 8,125   | 99,710            |

The Group tests for impairment of goodwill annually, or more frequently if there are indications that goodwill might be impaired.

Management considers that each subsidiary/sub-group of subsidiaries engaging in the early childhood education business, provision of swallowing and speech treatments business and provision of photographic service business respectively represents a separate CGU or a group of CGU where the goodwill is related to multiple CGUs for the purpose of goodwill impairment testing.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 19. GOODWILL (CONTINUED)

Goodwill are allocated to each business as follows:

|   | 2022<br>Cost<br>HK\$'000 | 2022<br>Accumulated<br>impairment<br>HK\$'000 | Net<br>HK\$'000 | 2021<br>Cost<br>HK\$'000 | 2021<br>Accumulated<br>impairment<br>HK\$'000 | Net<br>HK\$'000 |
|---|--------------------------|---|-----------------|--------------------------|---|-----------------|
| <b>Acquired Dancing Business</b>  | 1,897                    | (1,897)                                       | -               | 1,897                    | (1,897)                                       | -               |
| <b>Early childhood education business</b>   |                          |   |                 |                          |   |                 |
| Columbia Academy Pte Limited and Columbia Junior Academy Pte Limited (collectively referred to as the "Columbia Group") | 10,815                   | (10,815)                                      | -               | 10,889                   | (926)   | 9,963           |
| Tinkerland Private Limited ("Tinkerland")   | 9,241                    | -   | 9,241           | 9,305                    | -   | 9,305           |
| Between Two Trees Pte Limited and The Lighthouse Keepers Pte Limited (collectively referred to as the "BTT Group")      | 5,712                    | -   | 5,712           | 5,751                    | -   | 5,751           |
| ECLC (as defined in Note 38)  | 2,446                    | (2,446)                                       | -               | 2,446                    | (2,446)                                       | -               |
| Happy Family Businesses (as defined in Note 38)   | 7,288                    | -   | 7,288           | 7,338                    | -   | 7,338           |
| Brain Explorers Businesses (as defined in Note 38)  | 2,652                    | (2,652)                                       | -               | 2,670                    | (2,670)                                       | -               |
| Tinytots Sports (as defined in Note 38)   | 3,821                    | -   | 3,821           | 3,796                    | -   | 3,796           |
| Moriah Group (as defined in Note 38)  | 5,827                    | (5,827)                                       | -               | 5,867                    | -   | 5,867           |
| Ichiban Entities (as defined in Note 38)  | 3,212                    | -   | 3,212           | 3,234                    | -   | 3,234           |
| Global Tots Group (as defined in Note 38)   | 34,597                   | -   | 34,597          | 33,584                   | -   | 33,584          |
|   | 85,611                   | (21,740)                                      | 63,871          | 84,880                   | (6,042)                                       | 78,838          |
| <b>Adult education and training business</b>  |                          |   |                 |                          |   |                 |
| Ability Education (as defined in Note 38)   | 22,960                   | (22,960)                                      | -               | 22,960                   | (22,960)                                      | -               |
| CSE (as defined in Note 38)   | 15,449                   | (15,449)                                      | -               | 15,449                   | (15,449)                                      | -               |
|   | 38,409                   | (38,409)                                      | -               | 38,409                   | (38,409)                                      | -               |
| <b>Provision of swallowing and speech treatments business</b>   |                          |   |                 |                          |   |                 |
| Hong Kong Speech & Swallowing Therapy Co. Limited ("Hong Kong Speech")  | 15,147                   | (2,400)                                       | 12,747          | 15,147                   | (2,400)                                       | 12,747          |
| <b>Provision of photographic services business</b>  |                          |   |                 |                          |   |                 |
| Stage Production House Limited (formerly known as Stage Photography Company Limited) ("Stage Production")               | 9,725                    | (1,600)                                       | 8,125           | 9,725                    | (1,600)                                       | 8,125           |
|   | 150,789                  | (66,046)                                      | 84,743          | 150,058                  | (50,348)                                      | 99,710          |

The recoverable amount of the relevant CGUs is determined based on a value in use calculation. The calculations use cash flow projections based on financial budgets approved by management covering a 5-year period, and at discount rates as at 31 December 2022. The CGUs' cash flows beyond the 5-year period are extrapolated using a growth rate as at 31 December 2022 that is with reference to the historical performance of the relevant CGUs and the relevant industry growth forecasts that do not exceed the average long-term growth rate for the relevant industry.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 19. GOODWILL (CONTINUED)

The discount rates and growth rates applied to the cash flow projections are as follows:

|  | 2022          | 2021   |
|--|---------------|--------|
| Early childhood education business                     |               |        |
| – Singapore  |               |        |
| Average growth rate (within 5-year period)             | <b>19.96%</b> | 18.90% |
| Average growth rate (beyond 5-year period)             | <b>1.46%</b>  | 1.46%  |
| Discount rate  | <b>15.50%</b> | 14.00% |
| Provision of swallowing and speech treatments business |               |        |
| Average growth rate (within 5-year period)             | <b>8.10%</b>  | 9.00%  |
| Average growth rate (beyond 5-year period)             | <b>2.50%</b>  | 2.50%  |
| Discount rate  | <b>15.00%</b> | 15.00% |
| Provision of photographic services business            |               |        |
| Average growth rate (within 5-year period)             | <b>4.50%</b>  | 4.40%  |
| Average growth rate (beyond 5-year period)             | <b>2.50%</b>  | 2.50%  |
| Discount rate  | <b>15.00%</b> | 15.00% |

Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue and gross margin, such estimation is based on the CGUs' past performance and management's expectations on the market development.

### **As at 31 December 2022**

After reviewing business plans and cashflow forecast for coming five years, the directors of the Company have consequently determined impairment of goodwill directly related to Clarke Quay, Flora Vista and Greenwich amounting to HK\$15,271,000. The impairment loss on goodwill has been presented as a separate item in profit or loss. All of the recoverable amounts of the CGUs of Clarke Quay, Flora Vista and Greenwich amounted to HK\$nil as at 31 December 2022.

### **As at 31 December 2021**

After reviewing business plans and cashflow forecast for coming five years, the directors of the Company have consequently determined impairment of goodwill directly related to CJA and Bartley amounting to HK\$3,596,000. The impairment loss on goodwill has been presented as a separate item in profit or loss. All of the recoverable amounts of the CGUs of CJA and Bartley amounted to HK\$nil as at 31 December 2021.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 20. INTANGIBLE ASSETS

|   | Customer relationships<br>HK\$'000 | Brand name<br>HK\$'000 | Trademark<br>HK\$'000 | Intellectual property<br>HK\$'000 | Total<br>HK\$'000 |
|---|------------------------------------|------------------------|-----------------------|-----------------------------------|-------------------|
| <b>Cost</b>   |                                    |                        |                       |                                   |                   |
| At 1 January 2021   | 32,348                             | 5,429                  | 10,173                | 38,539                            | 86,489            |
| Acquired on acquisitions of subsidiaries and business (Note 38) | 452                                | –                      | –                     | –                                 | 452               |
| Exchange realignment  | 90                                 | –                      | –                     | –                                 | 90                |
| At 31 December 2021 and 1 January 2022                          | 32,890                             | 5,429                  | 10,173                | 38,539                            | 87,031            |
| Exchange realignment  | (274)                              | –                      | –                     | –                                 | (274)             |
| <b>At 31 December 2022</b>                                      | <b>32,616</b>                      | <b>5,429</b>           | <b>10,173</b>         | <b>38,539</b>                     | <b>86,757</b>     |
| <b>Accumulated amortisation</b>                                 |                                    |                        |                       |                                   |                   |
| At 1 January 2021   | 7,947                              | –                      | –                     | –                                 | 7,947             |
| Charge for the year   | 7,379                              | –                      | –                     | –                                 | 7,379             |
| Exchange realignment  | 1,069                              | –                      | –                     | –                                 | 1,069             |
| At 31 December 2021 and 1 January 2022                          | 16,395                             | –                      | –                     | –                                 | 16,395            |
| Charge for the year   | 7,207                              | –                      | –                     | –                                 | 7,207             |
| Impairment loss recognised in the year                          | 896                                | –                      | –                     | –                                 | 896               |
| Exchange realignment  | (699)                              | –                      | –                     | –                                 | (699)             |
| <b>At 31 December 2022</b>                                      | <b>23,799</b>                      | <b>–</b>               | <b>–</b>              | <b>–</b>                          | <b>23,799</b>     |
| <b>Carrying amount</b>  |                                    |                        |                       |                                   |                   |
| <b>At 31 December 2022</b>                                      | <b>8,817</b>                       | <b>5,429</b>           | <b>10,173</b>         | <b>38,539</b>                     | <b>62,958</b>     |
| At 31 December 2021   | 16,495                             | 5,429                  | 10,173                | 38,539                            | 70,636            |

Note: The customer relationships are amortised on a straight-line method over the period of 3 to 10 years. The brand name, trademark and intellectual property are with indefinite useful lives as the directors of the Company are of the opinion that they have no foreseeable limit to the period over which the Group's early childhood education business and swallowing and speech treatments business are expected to generate net cash flows for the Group.

The management of the Company assesses the possible impairment of the Group's intangible assets at end of each reporting period. At the end of the reporting period, the carrying value of intangible assets of HK\$62,958,000 (2021: HK\$70,636,000). HK\$896,000 impairment loss has been recognised for the year (2021: HK\$nil). This situation will be closely monitored, and adjustments made in future periods, if future market activity indicates that such adjustments are appropriate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 21. INTERESTS IN JOINT VENTURES AND LOANS TO JOINT VENTURES

|   | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|---|------------------|------------------|
| <b>Interests in joint ventures</b>            |                  |                  |
| Cost of unlisted investment in joint ventures | 156              | 156              |
| Share of post-acquisition losses              | –                | –                |
|   | <b>156</b>       | 156              |
| <b>Loan to a joint venture</b>                |                  |                  |
| Loan to Guangzhou Delilong (as defined below) | 2,285            | 2,285            |
| Share of post-acquisition losses              | (1,845)          | (1,528)          |
|   | <b>440</b>       | 757              |

The loan to Guangzhou Delilong is unsecured, non-interest bearing and financed to it for its business development.

As at 31 December 2022 and 2021, details of the Group's interests in joint ventures which are unlisted corporate entities whose quoted market price is not available, are as follows:

| Name of joint venture                                | Form of business structure | Place of incorporation | Place of business | Particulars of issued and paid up capital/ registered capital | % of interest held as at 31 December |           | Principal activities       |
|--|----------------------------|------------------------|-------------------|---|--------------------------------------|-----------|----------------------------|
|  |                            |                        |                   |   | 2022<br>%                            | 2021<br>% |                            |
| 廣州德理隆商務服務有限公司<br>("Guangzhou Delilong") (note)       | Co-operative joint venture | PRC                    | PRC               | –   | 66                                   | 66        | Operation of kindergartens |
| Milang and Rainbow Limited<br>("Milang and Rainbow") | Co-operative joint venture | BVI                    | Hong Kong         | US\$40,000  | 50                                   | 50        | Inactive                   |

Note:

Guangzhou Delilong is jointly controlled by the Group and the other investor by virtue of contractual arrangements between both parties. Therefore, it is classified as joint venture of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 21. INTERESTS IN JOINT VENTURES AND LOANS TO JOINT VENTURES (CONTINUED)

#### Summarised financial information of the joint ventures

Summarised financial information in respect of the Group's significant joint ventures is set out below. The summarised financial information below represents amounts shown in the joint ventures' financial statements prepared in accordance with HKFRSS.

The joint ventures are accounted for using the equity method in these consolidated financial statements.

#### *Guangzhou Delilong*

|   | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|---|------------------|------------------|
| Current assets  | –                | 2,723            |
| Non-current assets  | <b>1,186</b>     | 194              |
| Current liabilities   | <b>(3,981)</b>   | (5,232)          |
| Net liabilities   | <b>(2,795)</b>   | (2,315)          |
| Included in the above assets and liabilities:                                       |                  |                  |
| Cash and cash equivalent  | –                | 1,594            |
| Current financial liabilities<br>(excluding trade and other payables and provision) | –                | (2,577)          |
|   | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
| Revenue   | <b>1,088</b>     | 15,135           |
| Profit/(loss) and total comprehensive income/(loss) for the year                    | <b>1,088</b>     | (295)            |
| Included in the above profit/(loss) for the year:                                   |                  |                  |
| Depreciation and amortisation   | –                | 7                |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 21. INTERESTS IN JOINT VENTURES AND LOANS TO JOINT VENTURES (CONTINUED)

#### Summarised financial information of the joint ventures (Continued)

##### Guangzhou Delilong (Continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in Guangzhou Delilong recognised in the consolidated financial statements:

|  | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|--|------------------|------------------|
| Net liabilities of Guangzhou Delilong  | (2,795)          | (2,315)          |
| Proportion of ownership interests in Guangzhou Delilong held by Group                                  | 66%              | 66%              |
|  | (1,845)          | (1,528)          |
| Loan to Guangzhou Delilong   | 2,285            | 2,285            |
| Carrying amount of the Group's interest in Guangzhou Delilong in the consolidated financial statements | 440              | 757              |

#### Aggregate information of joint ventures that are not individually material

|  | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|--|------------------|------------------|
| The Group's share of profit from operations and total comprehensive income | –                | –                |
| Carrying amount of the Group's interest in the joint ventures              | 156              | 156              |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 22. INTEREST IN AN ASSOCIATE

|                          |  | 2022         | 2021     |
|--------------------------|--|--------------|----------|
|                          |  | HK\$'000     | HK\$'000 |
| Interest in an associate |  | <b>1,381</b> | 1,546    |

  

| Name of associate                                | Form of business structure  | Place of incorporation and business | Issued and fully paid share capital | % if attributable equity interest held as at 31 December |           | Principal activities       |
|--|-----------------------------|-------------------------------------|-------------------------------------|--|-----------|----------------------------|
|  |                             |                                     |                                     | 2022<br>%  | 2021<br>% |                            |
| Sunflower Preschool @ Dakota Pte. Ltd ("Dakota") | Limited liabilities company | Singapore                           | S\$50,000                           | <b>49%</b>   | 49%       | Operation of kindergartens |

The Group acquired 49% of equity interest of Dakota at a consideration of HK\$1,210,000 during the year ended 31 December 2019. Dakota is an unlisted corporate entity whose quoted market price is not available.

#### Summarised financial information of the associate

Summarised financial information in respect of the Group's associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSS.

The associate is accounted for using the equity method in these consolidated financial statements.

|  | 2022           | 2021     |
|--|----------------|----------|
|  | HK\$'000       | HK\$'000 |
| Current assets   | <b>1,032</b>   | 759      |
| Non-current assets   | <b>3,376</b>   | 2,574    |
| Current liabilities  | <b>(2,134)</b> | (721)    |
| Non-current liabilities  | <b>(2,233)</b> | (2,196)  |
| Net assets   | <b>41</b>      | 416      |
| Included in the above amounts of assets and liabilities:                         |                |          |
| Cash and cash equivalents  | <b>169</b>     | 222      |
| Current financial liabilities (excluding trade and other payables and provision) | <b>(944)</b>   | (50)     |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 22. INTEREST IN AN ASSOCIATE (CONTINUED)

#### Summarised financial information of the associate (Continued)

|   | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|---|------------------|------------------|
| Revenue   | <b>3,970</b>     | 2,432            |
| (Loss)/profit and total comprehensive (expense)/income for the year         | <b>(744)</b>     | 327              |
| Included in the above profit for the year:<br>Depreciation and amortisation | <b>341</b>       | 348              |

Reconciliation of the above summarised financial information to the carrying amount of the interest in Dakota Pte Ltd recognised in the consolidated financial statements:

|  | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|--|------------------|------------------|
| Net assets of Dakota Pte Ltd   | <b>41</b>        | 416              |
| Proportion of ownership interest in Dakota Pte Ltd held by the Group                             | <b>49%</b>       | 49%              |
| Goodwill   | <b>20</b>        | 204              |
|  | <b>1,361</b>     | 1,342            |
| Carrying amount of the investments in Dakota Pte Ltd<br>in the consolidated financial statements | <b>1,381</b>     | 1,546            |

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 24. INVENTORIES

|  | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|--|------------------|------------------|
| Finished goods – uniforms, shoes, accessories and others | 1,892            | 1,958            |

### 25. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

|   | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|---|------------------|------------------|
| Trade receivables   | 4,279            | 5,052            |
| Less: ECL allowance   | (328)            | (294)            |
|   | 3,951            | 4,758            |
| Rental deposits   | 14,219           | 13,289           |
| Loan receivables (Note)                                     | 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                 | 22,471           | 13,615           |
| 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 (Note)              | (4,281)          | (5,350)          |
| Other receivables   | (2,928)          | (2,322)          |
| Non-current portion   | (14,511)         | (13,306)         |
| Current portion   | 61,894           | 50,847           |

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.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 25. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

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<br>HK\$'000 | 2021<br>HK\$'000 |
|---------------|------------------|------------------|
| 0 – 3 months  | 2,585            | 2,817            |
| 3 – 6 months  | 410              | 222              |
| Over 6 months | 956              | 1,719            |
|               | <b>3,951</b>     | 4,758            |

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

|  | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|--|------------------|------------------|
| Balance at 1 January                     | 294              | 294              |
| ECL allowance recognised during the year | 37               | –                |
| Exchange realignment                     | (3)              | –                |
| Balance at 31 December                   | <b>328</b>       | 294              |

### 26. DEFERRED INCOME

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

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 26. 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<br>HK\$'000 | 2021<br>HK\$'000 |
|--------------------|------------------|------------------|
| Within one year    | 30,698           | 31,450           |
| More than one year | 2,354            | 1,374            |
|                    | <b>33,052</b>    | 32,824           |

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.

### 27. AMOUNTS DUE FROM/(TO) RELATED PARTIES

#### Amounts due from related parties

|  | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|--|------------------|------------------|
| Amount due from a joint venture:   |                  |                  |
| – Guangzhou Delilong   | 1                | –                |
| Amounts due from other related parties:                                    |                  |                  |
| – Dr. Chun Chun  | 754              | 583              |
| – Wealthy Together (Note i)  | 3,359            | 3,974            |
| – Rainbow Creative Arts Limited (“Rainbow”) (Note ii)                      | 769              | 769              |
| – Excel Concept Technology Development Limited (“Excel Concept”) (Note ii) | 5,554            | 4,898            |
| – Red Vocal Limited (“Red Vocal”) (Note iii)                               | –                | 265              |
| – Others   | 431              | 336              |
|  | <b>10,867</b>    | 10,825           |
| Impairment loss allowance  | <b>(1,189)</b>   | (924)            |
|  | <b>9,678</b>     | 9,901            |
| Total amounts due from related parties                                     | <b>9,679</b>     | 9,901            |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 27. AMOUNTS DUE FROM/(TO) RELATED PARTIES (CONTINUED)

#### Amounts due (to) related parties (Continued)

|   | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|---|------------------|------------------|
| Amount due to a joint venture:  |                  |                  |
| – Milang & Rainbow  | 125              | 125              |
| Amount due to directors:  |                  |                  |
| – Chiu Ka Lok   | 21,000           | 6,555            |
| – Chun Chi Ngon Richard   | 3,143            | 3,300            |
| – Yeung Siu Foon  | 1,500            | 1,500            |
|   | 25,643           | 11,355           |
| Amounts due to other related parties:   |                  |                  |
| – Rainbow (Note ii)   | 114              | 114              |
| – TIM EDPlatform Ltd (“TIM EDPlatform”) (Note v)  | 81               | 81               |
| – Hong Kong Association of Children Dance Promotion Company Limited (“HKACD”) (Note iv) | 657              | 657              |
| – Excel Concept (Note ii)   | 1,390            | 1,390            |
|   | 2,242            | 2,242            |
| Total amounts due to related parties  | 28,010           | 13,722           |

Notes:

- (i) Wealthy Together is 100% beneficially owned by the Controlling Shareholder.
- (ii) Rainbow and Excel Concept are 100% beneficially owned and controlled by the Controlling Shareholder.
- (iii) Red Vocal is 50% beneficially owned and controlled by Excel Concept.
- (iv) HKACD is 100% owned and controlled by a director of the Group.
- (v) TIM EDPlatform is 73% beneficially owned and controlled by Excel Concept and the Controlling Shareholder.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 27. AMOUNTS DUE FROM/(TO) RELATED PARTIES (CONTINUED)

All balances as at 31 December 2022 and 2021 are unsecured, non-interest bearing and repayable on demand which are classified as current as they are expected to be recovered within twelve months from the end of reporting period. The amounts due from related companies are non-trade in nature. As at 31 December 2022, amounts due from related parties included lease receivables for short term leases of HK\$3,419,000 (2021: HK\$3,701,000).

Details of impairment assessment of amounts due from related parties for the year ended 31 December 2022 are set out in Note 42.4.

Maximum amount of the amounts due from related parties outstanding during the respective year:

|   | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|---|------------------|------------------|
| Amounts due from joint venture:         |                  |                  |
| – Guangzhou Delilong                    | 1                | –                |
| Amounts due from other related parties: |                  |                  |
| – Dr. Chun Chun                         | 2,708            | 2,600            |
| – Wealthy Together                      | 3,892            | 3,354            |
| – Rainbow                               | 769              | 236              |
| – Excel Concept                         | 5,251            | 4,898            |
| – 南湖幼兒園                                 | 750              | 750              |
| – Others                                | 907              | 863              |

### 28. AMOUNTS DUE FROM/(TO) NON-CONTROLLING SHARE HOLDERS OF SUBSIDIARIES

All balances were non-trade in nature, unsecured, non-interest bearing and repayable on demand.

### 29. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

|                          | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|--------------------------|------------------|------------------|
| Cash at bank and in hand | 25,699           | 29,508           |

The bank balances carried interest at average market rates of 0.1% (2021: 0.1%) per annum as at 31 December 2022.

Included in cash and cash equivalents of the Group is HK\$118,000 (2021: HK\$128,000) of bank balances denominated in Renminbi (“RMB”) placed with banks in the PRC. RMB is not a freely convertible currency. Under the PRC’s Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 30. TRADE AND OTHER PAYABLES

|   | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|---|------------------|------------------|
| 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 (note)                       | 43,789           | 34,746           |
|   | <b>63,645</b>    | 57,839           |

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.

### 31. CONSIDERATION PAYABLES

#### Acquisition of Global Win Group

Pursuant to the sales and purchase agreement dated 18 September 2017 and subsequent supplemental agreements on 30 March 2018 and 19 June 2018 (collectively referred to "Global Win S&P Agreements") entered into by the Company and the Controlling Shareholder, and a non-executive director, Dr. Chun Chun, (collectively referred to as the "Vendors"), the Company acquired the entire issued share capital of Global Win (BVI) Limited ("Global Win") at 31 July 2018 with total consideration of HK\$32,000,000 which shall be satisfied by way of issue of 80,000,000 new ordinary shares of the Company to each of the Vendors in proportion to their respective shareholdings in Global Win ("Global Win Consideration Payable"). The principal assets of Global Win is its investment in the wholly owned subsidiaries, Hong Kong Speech and Stage Production (collectively refer to as the "Global Win Group").

Pursuant to the Global Win S&P Agreements, the Global Win Consideration Payable, subject to adjustment, shall be paid in three installments, which shall be satisfied by the allotment and issue of the respective maximum number of new ordinary shares of the Company within five business days after the date of issuance of the audited financial statements for Global Win Group for the 1 to 12 full months, 13 to 24 months and 25 to 36 months following the completion of the acquisition of Global Win ("Relevant Periods").

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 31. CONSIDERATION PAYABLES (CONTINUED)

### Acquisition of Global Win Group (Continued)

Pursuant to the Global Win S&P Agreements, the Vendors jointly and severally and irrevocably and unconditionally guarantee to the Company that the audited consolidated net profit after taxation (excluding all income or loss generated from activities outside the ordinary and usual course of business) ("**Actual Net Profit**") of Global Win Group based on the audited financial statements for the respective Relevant Periods, shall not be less than the guaranteed profits ("**Guaranteed Profits**"). If the Actual Net Profit is less than the Guarantee Profits, the number of new ordinary shares of the Company to be issued as consideration should be adjusted in accordance with the terms of the Global Win S&P Agreements. The details of the Global Win S&P Agreements are set out in the circular issued by the Company dated 6 July 2018.

As at 31 December 2021, 80,000,000 new ordinary shares of the Company had been fully issued in accordance with the Global Win S&P Agreements.

The Global Win Consideration Payable is recognised at fair value. Subsequent to the initial recognition, the Global Win Consideration Payable is measured at fair value with changes in fair value recognised in profit or loss. The fair value of the Global Win Consideration Payable at the date of obtaining the control of Global Win of HK\$36,000,000 is determined by reference to the quoted market price of HK\$0.45 per each of the ordinary shares of the Company at the date of obtaining the control of Global Win. As at 31 December 2020, the fair value of the Global Win Consideration Payable is HK\$128,400,000 which is determined by reference to the quoted market price of HK\$2.40 per each of the ordinary shares of the Company at 31 December 2020. During the year ended 31 December 2021, 26,500,000 shares were issued at HK\$0.51 per shares in July 2021 and 27,000,000 shares were issued at HK\$0.40 per shares in October 2021 (note 35). The Group recognised a gain on change in fair value of Global Win Consideration Payable of HK\$104,085,000 in profit or loss during the year ended 31 December 2021.

### Acquisition of Ichiban Entities

Pursuant to the first term sheet dated 23 September 2019, the supplemental term sheet dated 28 February 2020 and the sales and purchase agreement dated 1 April 2020 (collectively referred to "**Ichiban S&P Agreements**"), entered into by a wholly-owned subsidiary of the Group and the vendors, the Group acquired the pre-schools business at cash consideration of S\$692,000 (equivalent to approximately HK\$3,737,000). The Group recognised a loss in fair value change of S\$8,000 (equivalent to approximately HK\$46,000) in profit or loss during the year ended 31 December 2021. As at 31 December 2021, the balance was fully settled.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 32. PROVISIONS

The amount represents provision for reinstatement cost:

|   | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|---|------------------|------------------|
| As at 1 January   | 11,828           | 12,290           |
| Acquired on acquisitions of subsidiaries and businesses (Note 38) | –                | 144              |
| Utilised during the year  | (279)            | (431)            |
| Exchange realignment  | 36               | (175)            |
| As at 31 December   | 11,585           | 11,828           |
| Analysed as:  |                  |                  |
| – current   | 4,350            | 4,126            |
| – non-current   | 7,235            | 7,702            |
|   | 11,585           | 11,828           |

The provision is made based on the best estimate of the reinstatement costs for restoring the leased properties at the end of the respective reporting period which will be the expected timing of the outflows of economic benefits.

### 33. BORROWINGS

|                    | Notes | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|--------------------|-------|------------------|------------------|
| <b>Current</b>     |       |                  |                  |
| Bank borrowings    | (a)   | 35,147           | 15,282           |
| Other borrowings   | (b)   | 6,502            | 34,077           |
| Convertible notes  | (c)   | 277,934          | 281,775          |
| <b>Non-current</b> |       |                  |                  |
| Other borrowings   | (b)   | 4,763            | 5,390            |
|                    |       | 324,346          | 336,524          |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 33. BORROWINGS (CONTINUED)

#### (a) Bank borrowings

The carrying amounts of bank borrowings that contain a repayable on demand clause (classified as current liabilities) but are repayable based on schedule repayment dates set out in the loan agreements are as follows:

|               | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|---------------|------------------|------------------|
| Within 1 year | 35,147           | 15,282           |

As at 31 December 2022, the interest rate of the Group's bank loans as at 31 December 2022 was 1% to 2.5% per annum (2021: 2.5%) below HKD prime rate. The bank loans are guaranteed by an executive director.

#### (b) Other borrowings

As at 31 December 2021, a loan of HK\$31,000,000 included in the current portion bears interest at 20.625% per annum for the first three months from the date of drawdown, and 17.175% per annum for the fourth and twelfth months from the date of drawdown. The loan was guaranteed by Dr. Chun Chun and Mr. Chiu Ka Lok and pledged by properties owned by Dr. Chun Chun and Mr. Chiu Ka Lok. The loan was fully settled during 31 December 2022.

As at 31 December 2022, a loan of S\$817,000 (equivalent to approximately HK\$4,763,000) (2021: S\$933,000 (equivalent to approximately HK\$5,390,000)) included in the non-current portion bears interest at 7.25% to 8% per annum and repayable in 2025 to 2026.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 33. BORROWINGS (CONTINUED)

#### (c) Convertible notes

##### *Singapore Convertible Note*

Movements of Singapore Convertible Note as follows:

|                                     | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|-------------------------------------|------------------|------------------|
| 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)          |
| <b>As at 31 December</b>            | <b>276,020</b>   | 264,838          |

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.

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 (Note 39).

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).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 33. BORROWINGS (CONTINUED)

#### (c) Convertible notes (Continued)

##### **Australia Convertible Note**

Movements of Australia Convertible Note as follows:

|   | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|---|------------------|------------------|
| 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            |
| <b>As at 31 December</b>  | <b>1,914</b>     | 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.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 33. BORROWINGS (CONTINUED)

### (c) Convertible notes (Continued)

#### ***Australia Convertible Note (Continued)***

The principal conversion and redemption terms are as follows:

#### *Redemption at maturity*

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

#### *Redemption at the option of the Group*

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

#### *Redemption for a relevant event*

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

#### *Redemption upon event of default*

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

As 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 33. BORROWINGS (CONTINUED)

#### (c) Convertible notes (Continued)

##### **Australia Convertible Note (Continued)**

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

As at 31 December 2022 and 2021, only US\$5,850,000 (equivalent to approximately HK\$45,630,000 of the Australia Convertible Note has not been redeemed.

According to Australia CN Subscription Agreement, when the EBITDA of SAEL are lower than USD1,250,000 for and any financial year prior to the maturity date, the noteholders shall have absolute right to demand for full redemption. The Group are unable to meet this target for the year ended 31 December 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<br>HK\$'000 | 2021<br>HK\$'000 |
|---|------------------|------------------|
| As at 1 January   | <b>281,775</b>   | 289,683          |
| Issuance of convertible notes   | –                | 3,887            |
| Fair value changes on convertible notes through profit or loss  | <b>8,572</b>     | 20,744           |
| Fair value changes on financial liabilities designated at fair value through profit or loss attributable to change in credit risk | <b>(11,137)</b>  | (31,566)         |
| Exchange realignment  | <b>(1,276)</b>   | (973)            |
| As at 31 December   | <b>277,934</b>   | 281,775          |
| Analysed as:  |                  |                  |
| Current   | <b>277,934</b>   | 281,775          |

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 34. LEASE LIABILITIES

|   | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|---|------------------|------------------|
| Total minimum lease payments:               |                  |                  |
| Due within one year                         | <b>66,970</b>    | 69,812           |
| Due in the second to fifth years            | <b>79,792</b>    | 83,389           |
| Due after the fifth year                    | <b>11,317</b>    | 8,096            |
|   | <b>158,079</b>   | 161,297          |
| Future finance charges on lease liabilities | <b>(23,364)</b>  | (17,052)         |
| Present value of lease liabilities          | <b>134,715</b>   | 144,245          |

|  | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|--|------------------|------------------|
| Present value of minimum lease payments:                             |                  |                  |
| Due within one year  | <b>63,491</b>    | 64,158           |
| Due in the second to fifth years                                     | <b>67,196</b>    | 76,940           |
| Due after the fifth year   | <b>4,028</b>     | 3,147            |
|  | <b>134,715</b>   | 144,245          |
| Less: Portion due within one year included under current liabilities | <b>(63,491)</b>  | (64,158)         |
| Portion due after one year included under non-current liabilities    | <b>71,224</b>    | 80,087           |

As at 31 December 2022, lease liabilities amounting to HK\$134,715,000 (2021: HK\$144,245,000) are effectively secured by the related underlying assets as the rights to the leased asset would be reverted to the lessor in the event of default by repayment by the Group.

During the year ended 31 December 2022, the total cash outflows for the leases are HK\$33,816,000 (2021: HK\$32,706,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 34. LEASE LIABILITIES (CONTINUED)

#### Extension options

##### (i) *Properties leased for own use*

"The Group has obtained the right to use other properties as its dance centres, kindergartens, colleges and offices through tenancy agreements. The leases typically run for an initial period of 2 to 9 years (2021: 2 to 9 years). Several lease arrangements include variable lease component which is based on receipt of turnover, in which one of them incurred variable lease payment during the years ended 31 December 2022 and 2021.

Some leases include an option to renew the lease for an additional period after the end of the contract term. Where practicable, the Group seeks to include such extension options exercisable by the Group to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. If the Group is not reasonably certain to exercise the extension options, the future lease payments during the extension periods are not included in the measurement of lease liabilities. The potential exposure to these future lease payments as at 31 December 2022 and 2021 are summarised below:

|                                | 2022  |  | 2021  |  |
|--------------------------------|---|--|---|--|
|                                | Lease liabilities recognised (discounted)<br>HK\$'000 | Potential future lease payments under extension options not included in lease liabilities (undiscounted)<br>HK\$'000 | Lease liabilities recognised (discounted)<br>HK\$'000 | Potential future lease payments under extension options not included in lease liabilities (undiscounted)<br>HK\$'000 |
| Dance centres – Hong Kong      | 27,246  | 13,907   | 27,246  | 16,068   |
| Kindergartens – Singapore      | 44,261  | –  | 45,722  | –  |
| Kindergartens – Hong Kong      | 3,389   | 2,502  | 5,391   | 3,694  |
| Colleges – Australia           | 56,542  | 91,030   | 63,248  | 104,663  |
| Offices                        | 3,277   | –  | 2,638   | –  |
| <b>Total lease liabilities</b> | <b>134,715</b>  | <b>107,439</b>   | <b>144,245</b>  | <b>124,425</b>   |

##### (ii) *Other leases*

The Group leases office equipment under leases expiring in 3 years (2021: 4 years). Some leases include an option to renew the lease when all terms are renegotiated, while some include an option to purchase the leased equipment at the end of the lease term at a price deemed to be a bargain purchase option. None of the leases includes variable lease payments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 35. SHARE CAPITAL

|   | Number<br>of shares<br>'000 | Share<br>capital<br>HK\$'000 |
|---|-----------------------------|------------------------------|
| <b>Ordinary shares of HK\$0.1 each</b>                                      |                             |                              |
| <b>Authorised:</b>  |                             |                              |
| At 1 January 2021, 31 December 2021,<br>1 January 2022 and 31 December 2022 | 8,000,000                   | 800,000                      |
| <b>Issued:</b>  |                             |                              |
| At 1 January 2021   | 384,600                     | 38,460                       |
| Issue of consideration shares on 8 July 2021 (note a)                       | 26,500                      | 2,650                        |
| Issue of consideration shares on 19 October 2021 (note b)                   | 27,000                      | 2,700                        |
| Issue of new shares on 24 November 2021 (note c)                            | 19,500                      | 1,950                        |
| At 31 December 2021, 1 January 2022 and 31 December 2022                    | 457,600                     | 45,760                       |

Note:

- (a) On 8 July 2021, the Company issued 26,500,000 ordinary shares as share consideration for settlement of consideration payable on the acquisition of Global Win Group (note 31). The fair value of each share was HK\$0.51 on 8 July 2021.
- (b) On 19 October 2021, the Company issued 27,000,000 ordinary shares as share consideration for settlement of consideration payable on the acquisition of Global Win Group (note 31). The fair value of each share was HK\$0.40 on 19 October 2021.
- (c) On 24 November 2021, the Company issued 19,500,000 ordinary shares under the General Mandate for raising working capital. The fair value of each share was HK\$0.40 on 24 November 2021.

The share capital of the Company comprises of fully paid ordinary shares. All fully paid ordinary shares are equally eligible to receive dividends and to the repayment of capital and represent one vote at shareholders' meetings of the Company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 36. DEFERRED TAX

The movement during the year in the deferred tax assets/(liabilities) is as follows:

|   | Accelerated<br>accounting<br>depreciation<br>HK\$'000 | Intangible<br>assets<br>HK\$'000 | Total<br>HK\$'000 |
|---|---|----------------------------------|-------------------|
| At 1 January 2021                                     | 43  | (6,707)                          | (6,664)           |
| Exchange realignment                                  | –   | 67                               | 67                |
| Credited to profit or loss for the year (Note 10)     | (13)  | 1,254                            | 1,241             |
| Acquisitions of subsidiaries and businesses (Note 38) | –   | (77)                             | (77)              |
| At 31 December 2021 and 1 January 2022                | 30  | (5,463)                          | (5,433)           |
| Exchange realignment                                  | 18  | (982)                            | (964)             |
| Credited to profit or loss for the year (Note 10)     | (18)  | 2,048                            | 2,030             |
| At 31 December 2022                                   | 30  | (4,397)                          | (4,367)           |

The amounts recognised in the consolidated statement of financial position are as follows:

|                              | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|------------------------------|------------------|------------------|
| Deferred tax assets          | 30               | 30               |
| Deferred tax liabilities     | (4,397)          | (5,463)          |
| Net deferred tax liabilities | (4,367)          | (5,433)          |

The Group has unrecognised tax losses of HK\$281,906,000 (2021: HK\$243,830,000) to carry forward against future taxable income. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$10,544,000 (2021: HK\$8,641,000) that will expire in five years from the year of origin. All other tax losses may be carried forward indefinitely.

At 31 December 2022, the Group has deductible temporary differences of HK\$16,598,000 (2021: HK\$19,611,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 37. SHARE-BASED EMPLOYEE COMPENSATION

The Company has a share option scheme (the “**Share Option Scheme**”) which was adopted pursuant to a resolution passed on 26 September 2014 for the primary purpose of providing incentives to directors, eligible employees and consultants. Under the Share Option Scheme, the Board of Directors of the Company may grant options to eligible persons to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Company or to customers for maintaining business relationship. The Share Option Scheme is valid and effective for a period of 10 years from the date of adoption.

The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company’s shareholders.

There is no general requirement that an option must be held for any minimum period before it can be exercised but the Board of Directors is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company’s shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company’s share.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 37. SHARE-BASED EMPLOYEE COMPENSATION (CONTINUED)

During the year ended 31 December 2022, a total of nil share options have been granted pursuant to the Share Option Scheme (2021: 26,730,000).

The terms and conditions of the grants are as follows:

|                                     | Number of instruments | Vesting conditions  |
|-------------------------------------|-----------------------|---|
| Options granted on 4 October 2019   |                       |   |
| – directors                         | 14,164,000            | These options vested immediately and exercisable within three years from the date of grant.   |
| – employees (Note)                  | 10,623,000            |   |
| Options granted on 11 October 2019  |                       |   |
| – consultants                       | 10,623,000            | These options vested immediately and exercisable within one year from the date of grant.  |
| Options granted on 11 February 2020 |                       |   |
| – business partner and consultants  | 3,100,000             | These options will be vested on the first anniversary of the date of grant and exercisable within one year from such anniversary date.  |
| – employees                         | 3,280,000             | The options will be vested on 1 January 2023 and exercisable from 1 January 2023 to 24 February 2023 (both day inclusive). The vesting of these options is subject to the fulfilment of certain annual performance targets as determined by the Board for the year ending 31 December 2022. |
| Options granted on 25 February 2020 |                       |   |
| – consultants                       | 2,000,000             | The options will be vested on 1 January 2023 and exercisable from 1 January 2023 to 24 February 2023 (both day inclusive). The vesting of the options is subject to the fulfilment of certain annual performance targets as determined by the Board for the year ending 31 December 2022    |
| – employees                         | 300,000               |   |
| Options granted on 15 June 2021     |                       |   |
| – employees                         | 15,192,000            | The options vested immediately and exercisable within three years from the date of grant.   |
| – suppliers and business partners   | 11,538,000            |   |
| Total share options granted         | 70,820,000            |   |

Note: Included 3,541,000 shares options granted to Ms. Chiu Ka Wai, an associate of the Controlling Shareholder.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 37. SHARE-BASED EMPLOYEE COMPENSATION (CONTINUED)

Share options and weighted average exercise price are as follows for the reporting periods presented:

|                                   | 2022              |                                      | 2021        |                                      |
|-----------------------------------|-------------------|--------------------------------------|-------------|--------------------------------------|
|                                   | Number            | Weighted average exercise price HK\$ | Number      | Weighted average exercise price HK\$ |
| Outstanding at 1 January          | 57,097,000        | 0.80                                 | 32,667,000  | 1.14                                 |
| Granted                           | –                 | –                                    | 26,730,000  | 0.40                                 |
| Lapsed                            | (27,387,000)      | 1.11                                 | (2,300,000) | 1.10                                 |
| <b>Outstanding at 31 December</b> | <b>29,710,000</b> | <b>0.50</b>                          | 57,097,000  | 0.80                                 |
| <b>Exercisable at 31 December</b> | <b>2,980,000</b>  | <b>1.39</b>                          | 30,367,000  | 1.14                                 |

No share options were exercised during the years ended 31 December 2022 and 2021.

The options outstanding at 31 December 2022 had an exercise price of HK\$0.5 to HK\$1.39 (2021: HK\$0.4 to HK\$1.44) and a weighted average remaining contractual life of 1.32 years (2021: 1.55 years).

#### Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The fair value of options granted were determined using binomial option pricing model. The contractual life of the share option is used as an input into this model.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 37. SHARE-BASED EMPLOYEE COMPENSATION (CONTINUED)

### Fair value of share options and assumptions (Continued)

The following principal assumptions were used in the valuation:

|   | 2021              |
|---|-------------------|
| Grant date  | 15 June           |
| Share price at date of grant  | HK\$0.37          |
| Expected volatility   | 90.48%            |
| Expected option life  | N/A               |
| Dividend yield  | 0%                |
| Risk-free interest rate (based on Hong Kong Government bonds yield) | 0.17%             |
| Suboptimal factor*  | 2.2               |
| Fair value at grant date  | HK\$0.165 – 0.200 |
| Exercise price at date of grant                                     | HK\$0.40          |

\* Suboptimal factor is not applicable for external parties (i.e. business partners and consultants). Employee's suboptimal factor is estimated by empirical research.

The underlying expected volatility was determined by reference to historical data, calculated based on the weighted average remaining life of the share options, adjusted for any expected changes to future volatility based on publicly available information. Expectations of early exercise are incorporated into the binomial lattice model. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate. Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

In total, HK\$550,000 of expense has been recognised in profit or loss for the year ended 31 December 2022 (2021: HK\$5,301,000) and the corresponding amount of which has been credited to "Share option reserve". No liabilities were recognised due to share-based payment transactions.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 38. ACQUISITIONS OF SUBSIDIARIES AND BUSINESSES

For the year ended 31 December 2021, the Group had an acquisition due to business expansion, in acquiring a controlling stake in a company for total consideration of approximately HK\$6,934,000. For the company set out in note (i) below, in the stage with relevant economic resources as at the date of the respective acquisitions which are considered as businesses. Therefore, those acquisitions are considered as business combinations under HKFRS 3 and accounted for using acquisition method. For the other acquisitions as mentioned in note (ii) below are the companies did not have any substantial economic resources and processes for creating economic benefits; accordingly, the Group considers the nature of these acquisitions as acquisitions of assets in substance.

#### Year ended 31 December 2021

##### (i) Business combination

|   | Note | Principal activity                   | Date of acquisition | Proportion of shares acquired | Consideration<br>HK\$'000 |
|---|------|--------------------------------------|---------------------|-------------------------------|---------------------------|
| Cherie Hearts @ Eastgate Pte Ltd<br>("Cherie Hearts") | (a)  | Operation of pre-school in Singapore | 1 January 2021      | 100%                          | 6,934                     |

Note:

- (a) Pursuant to a sale and purchase agreement dated 27 October 2020, the Group acquired all business assets of Cherie Hearts @ Eastgate Pte Ltd. at total cash consideration of S\$1,200,000 (equivalent to approximately HK\$6,934,000).

Acquisition-related costs amounting to HK\$49,000 have been excluded from the consideration transferred and have been recognised as other expenses in the consolidated statement of profit or loss and other comprehensive income.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 38. ACQUISITIONS OF SUBSIDIARIES AND BUSINESSES (CONTINUED)

#### Year ended 31 December 2021 (Continued)

##### (i) Business combination (Continued)

Assets acquired and liabilities recognised at the date of acquisition

|  | Cherie Hearts<br>HK\$'000 |
|--|---------------------------|
| Intangible assets (Note 20)                                | 452                       |
| Trade and other receivables                                | 872                       |
| Trade and other payables                                   | (800)                     |
| Deferred tax liabilities (Note 36)                         | (77)                      |
|  | 447                       |
|  | Cherie Hearts<br>HK\$'000 |
| Consideration  | 6,934                     |
| Fair value of identifiable net assets/liabilities acquired | (477)                     |
| Goodwill arising on acquisition                            | 6,457                     |

### 39. PLEDGE OF ASSETS

The entire equity interests in SDM Asia Limited and SAEL held by the Group were pledged as securities under the convertible notes (see Note 33(c)).

### 40. COMMITMENTS

The Group has commitment to contribute a registered capital of RMB3,000,000 (2021: RMB3,000,000) to Guangzhou Delilong and a subsidiary, 廣州樂動心弦文化發展有限公司(「廣州樂動心弦」), as at 31 December 2022.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 41. CAPITAL MANAGEMENT

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged during the year.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the net debt to equity ratio. For this purpose net debt is defined as borrowings (which includes borrowings (note 33) and lease liabilities) less cash and cash equivalents. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The directors of the Group reviews the capital structure regularly taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through issuance of new shares and the raising of borrowings to maintain sufficient cash for acquisitions and daily operations. As at 31 December 2022, the "total capital", representing the aggregate amount of total capital deficiency and convertible notes (note 33(c)), of the Group is HK\$40,610,000 (2021: HK\$63,585,000).

The net debt to equity ratio at the reporting date was:

|                           | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|---------------------------|------------------|------------------|
| Borrowings                |                  |                  |
| Current                   | <b>319,583</b>   | 331,134          |
| Non-current               | <b>4,763</b>     | 5,390            |
| Lease liabilities         |                  |                  |
| Current                   | <b>63,491</b>    | 64,158           |
| Non-current               | <b>71,224</b>    | 80,087           |
| Net debt                  | <b>459,061</b>   | 480,769          |
| Total capital             | <b>40,610</b>    | 63,585           |
| Net debt to capital ratio | <b>11.30</b>     | 7.56             |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

#### 42.1 Categories of financial assets and liabilities

The carrying amounts presented in the consolidated statement of financial position relate to the following categories of financial assets and financial liabilities:

|  | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|--|------------------|------------------|
| <b>Financial assets</b>  |                  |                  |
| Financial assets at amortised cost                             |                  |                  |
| – trade and other receivables                                  | 69,518           | 57,813           |
| – loans to joint ventures                                      | 440              | 757              |
| – amount due from related parties                              | 9,679            | 9,901            |
| – amount due from non-controlling shareholders of subsidiaries | 664              | 664              |
| – cash and cash equivalents                                    | 25,699           | 29,508           |
|  | <b>106,000</b>   | 98,643           |
| <b>Financial liabilities</b>                                   |                  |                  |
| Financial liabilities at amortised cost                        |                  |                  |
| – trade and other payable                                      | 48,526           | 41,258           |
| – amounts due to related parties                               | 28,010           | 13,722           |
| – amounts due to non-controlling shareholders of subsidiaries  | 258              | 246              |
| – bank and other borrowings                                    | 46,412           | 54,749           |
| – lease liabilities  | 134,715          | 144,245          |
| Financial liabilities at FVTPL                                 |                  |                  |
| – convertible notes  | 277,934          | 281,775          |
|  | <b>535,855</b>   | 535,995          |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

#### 42.2 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposures to currency risk arise from its overseas sales and purchases, which are primarily denominated in US\$, RMB, S\$ and AU\$. These are not the functional currencies of the group entities to which these transactions relate. The Group also holds investments in debt and equity securities denominated in foreign currencies. Further the Group has borrowings denominated in foreign currencies, primarily US\$.

The Group currently does not have a foreign currency hedging policy. However, the directors of the Company monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Foreign currency denominated financial assets and liabilities, translated into Hong Kong dollars at the closing rates, are as follows:

|  | Exposure to foreign currencies<br>(expressed in Hong Kong dollars) |                   |                 |                  |
|--|--|-------------------|-----------------|------------------|
|  | 2022   |                   |                 |                  |
|  | US\$<br>HK\$'000   | RMB\$<br>HK\$'000 | S\$<br>HK\$'000 | AU\$<br>HK\$'000 |
| Bank balances and cash   | 1  | 118               | 14,800          | 1,395            |
| Amounts due from related parties                                 | –  | 11                | –               | –                |
| Convertible notes  | (277,934)  | –                 | –               | –                |
| Net exposure arising from<br>recognised assets and (liabilities) | (277,933)  | 129               | 14,800          | 1,395            |

  

|  | Exposure to foreign currencies<br>(expressed in Hong Kong dollars) |                   |                 |                  |
|--|--|-------------------|-----------------|------------------|
|  | 2021   |                   |                 |                  |
|  | US\$<br>HK\$'000   | RMB\$<br>HK\$'000 | S\$<br>HK\$'000 | AU\$<br>HK\$'000 |
| Bank balances and cash   | 6  | 128               | 8,993           | 53               |
| Amounts due from related parties                                 | –  | 7                 | –               | –                |
| Convertible notes  | (281,775)  | –                 | –               | –                |
| Net exposure arising from<br>recognised assets and (liabilities) | (281,769)  | 135               | 8,993           | 53               |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

### 42.2 Foreign currency risk (Continued)

The Group is mainly exposed to the effects of fluctuation in RMB, S\$ and AU\$.

Management considers the foreign exchange exposure of US\$ against Hong Kong dollars at the end of the reporting period. As the Hong Kong dollars is currently pegged to US\$, no significant fluctuation is anticipated. Accordingly, no sensitivity analysis is prepared.

The following table illustrates the sensitivity of the Group's loss after income tax for the year and equity in regards to an appreciation in the group entities' functional currencies against RMB, S\$ and AU\$. These sensitivity rates are the rates used when reporting foreign currency risk internally to key management personnel and represents x management's best assessment of the possible change in foreign exchange rates.

|             | Sensitivity rate | Decrease in profit or loss<br>HK\$'000 | Decrease in equity<br>HK\$'000 |
|-------------|------------------|--|--------------------------------|
| <b>2022</b> |                  |  |                                |
| RMB         | 5%               | 6                                      | 6                              |
| S\$         | 5%               | 9                                      | 9                              |
| AU\$        | 5%               | 3                                      | 3                              |
| <b>2021</b> |                  |  |                                |
| RMB         | 5%               | 7                                      | 7                              |
| S\$         | 5%               | 1                                      | 1                              |
| AU\$        | 5%               | 3                                      | 3                              |

The same % depreciation in the group entities' functional currencies against the respective foreign currencies would have the same magnitude on the Group's loss for the year and equity but of opposite effect.

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nevertheless, the analysis above is considered to be representative of the Group's exposure to foreign currency risk.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

#### 42.3 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from bank and other borrowings. Borrowings bearing variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The exposure to interest rates for the Group's short term bank deposits is considered immaterial.

The Group has not used any interest rate swaps to mitigate its exposure associated with interest rate risk. However, the directors of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

For the obligation arising from put options written to non-controlling shareholders of a subsidiary (Note 33), which will be settled by a variable amount subject to a cap, results in a gross financial liabilities. Therefore, the "gross" financial liabilities are deemed borrowings. The Group has not managed the interest rate risk of the deemed borrowings in the same way as the other borrowings.

In the opinion of the directors of the Group, a reasonably possible change in interest rate on bank balances is not expected to have significant impact to the Group in the near future, hence sensitivity analysis is not presented.

The Group manages interest rate risk by monitoring its interest rate profile as set out below. The Group adopts a policy of ensuring that over 50% of its borrowings are on a fixed rate basis, through the contractual terms of the borrowings. The Group is exposed to changes in market interest rates on its bank borrowings, which are at variable rates. Other long term borrowings are at fixed interest rates.

The effective interest rates of the Group's borrowings at the reporting date were as follows:

|                             | 2022                      |                | 2021                      |                |
|-----------------------------|---------------------------|----------------|---------------------------|----------------|
|                             | Effective interest rate % | HK\$'000       | Effective interest rate % | HK\$'000       |
| Fixed rate borrowings:      |                           |                |                           |                |
| – Bank and other borrowings | 2.75-8                    | 46,412         | 2.75-20.625               | 54,749         |
| – Convertible notes         | 8                         | 277,934        | 8                         | 281,775        |
| – Lease liabilities         | 3-5                       | 134,715        | 3-5                       | 144,245        |
| <b>Total borrowings</b>     |                           | <b>459,061</b> |                           | <b>480,769</b> |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

### 42.4 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and from its investing activities.

The Group's maximum exposure to credit risk for the components of the consolidated statement of financial position at 31 December 2022 and 2021 is the carrying amount as disclosed in note 42.1.

#### **Trade receivables**

(i) *Dancing academy business, early childhood education business and provision of photographic services business*

Trade receivables from the third parties mainly represent receivables from students, schools and 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. No credit period is granted for tutoring and examination fee as they are normally received in advance.

The directors of the Company are of the opinion that the credit risks of the receivables from are minimal as there are from creditworthy students and financial institutions with no history of defaults. As such, the Group applies a simplified approach in calculating ECL at an amount equal to lifetime ECL.

(ii) *Adult education and training business*

Trade receivables from the third parties mainly represent receivables from students. Credit period is granted for tuition fee based on the number of instalments and enrolment period.

The directors of the Company are of the opinion that the credit risks of these receivables is not significant and ECL was measured at an amount equal to lifetime ECL for receivables from students.

(iii) *Provision of swallowing and speech treatment business*

Trade receivables from the third parties mainly represent receivables from schools. The directors of the Company are of the opinion that the credit risks of these receivables are minimal as there are from creditworthy schools with no history of defaults. The credit risk is insignificant. No impairment is made for these receivables.

On the above basis, the ECL for trade receivables as at 31 December 2022 was determined by applying the ECL rate ranging from 0% to 6.91% (2021: 0% to 6.91%). Accordingly, the loss allowance of HK\$328,000 (2021: HK\$294,000) is provided for trade receivables as at 31 December 2022.

The Group's concentration of credit risk by geographical locations is mainly in Singapore (2021: Singapore), which accounted for 62.5% (2021: 53.8%) of the total trade receivables as at 31 December 2022.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

### 42.4 Credit risk (Continued)

#### *Other receivables*

The management would make periodic collective and individual assessment on the recoverability of other receivables based on historical settlement records and past experience and current external information and adjusted to reflect probability-weighted forward-looking information, including the default rate where the relevant debtors operates. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In these regards, the credit risk of other receivables are considered to be low.

The management is of opinion that there is no significant increase in credit risk on other receivables since initial recognition as the risk of default is low after considering the factors as set out in note 3 and, thus, ECL recognised is based on 12m ECL. The ECL rate applied for other receivables ranging from 0.16% to 6.91% (2021: 0.11% to 6.91%).

#### *Amounts due from related parties and non-controlling shareholders of subsidiaries*

Details of the amounts due from related parties and non-controlling shareholders of subsidiaries are set out in Notes 27 and 28 respectively. At the end of the reporting period, the directors of the Company have assessed the financial position of the debtors as well as the economic outlook of the industries in which the debtors operate and concluded that there has been no significant increase in credit risk since initial recognition of the amounts due from related parties and non-controlling shareholders of subsidiaries. Accordingly, the loss allowance for amounts due from related parties and non-controlling shareholders of subsidiaries is measured at an amount equals to 12m ECL.

The movement in the allowance for impairment in respect of amounts due from related parties and non-controlling shareholders of subsidiaries during the current year was as follows:

|  | Amounts due from related parties<br>HK\$'000 | Amounts due from non-controlling shareholders of subsidiaries<br>HK\$'000 |
|--|--|---|
| Balance at 1 January 2021                      | 659  | 3   |
| Net remeasurement of loss allowance            | 265  | –   |
| Balance at 31 December 2021 and 1 January 2022 | 924  | 3   |
| Net remeasurement of loss allowance            | 265  | –   |
| <b>Balance at 31 December 2022</b>             | <b>1,189</b>                                 | <b>3</b>  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

### 42.4 Credit risk (Continued)

#### ***Bank balances and pledged time deposits***

The Group also has concentration of credit risk on bank balances and pledged time deposits which are deposited with banks with good reputation. The directors of the Company are of the opinion that the credit risks of these receivables are minimal as there are from creditworthy financial institutions with no history of defaults. The credit risk is insignificant. No impairment is made for these balances.

### 42.5 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

The Group manages its liquidity needs on a consolidated basis by carefully monitoring scheduled debt servicing payments for long term financial liabilities as well as forecast cash inflows and outflows due in day to day business. Liquidity needs are monitored in various time bands, on a day to day and week to week basis, as well as on the basis of a rolling 30 day projection. Long term liquidity needs for a 180-day and 360-day lookout period are identified monthly. Net cash requirements are compared to available borrowing facilities in order to determine headroom or any shortfalls. This analysis shows if available borrowing facilities are expected to be sufficient over the lookout period.

The Group maintains cash and short-term bank deposits to meet its liquidity requirements for 30-day periods at a minimum. Funding for longer-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell longer-term financial assets.

Analysed below is the Group's remaining contractual maturities for its non-derivative financial liabilities as at 31 December 2022 and 2021. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay.

The contractual maturity analysis below is based on the undiscounted cash flows of the financial liabilities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

#### 42.5 Liquidity risk (Continued)

|  | Within<br>1 year or on<br>demand<br>HK\$'000 | 1 to 2 years<br>HK\$'000 | 2 to 5 years<br>HK\$'000 | Over 5 years<br>HK\$'000 | Total<br>undiscounted<br>cash flow<br>HK\$'000 | Carrying<br>amounts<br>HK\$'000 |
|--|--|--------------------------|--------------------------|--------------------------|--|---------------------------------|
| <b>2022</b>  |  |                          |                          |                          |  |                                 |
| <b>Financial liabilities</b>   |  |                          |                          |                          |  |                                 |
| Trade and other payables   | 48,526                                       | -                        | -                        | -                        | 48,526   | 48,526                          |
| Amounts due to related parties and<br>non-controlling shareholders of subsidiaries | 28,268                                       | -                        | -                        | -                        | 28,268   | 28,268                          |
| Bank and other borrowings (note)   | 46,412                                       | -                        | -                        | -                        | 46,412   | 46,412                          |
| Lease liabilities  | 66,970                                       | 33,814                   | 45,978                   | 11,317                   | 158,079  | 134,715                         |
| Convertible notes  | 277,934                                      | -                        | -                        | -                        | 277,934  | 277,934                         |
|  | <b>468,110</b>                               | <b>33,814</b>            | <b>45,978</b>            | <b>11,317</b>            | <b>559,219</b>                                 | <b>535,855</b>                  |

|  | Within<br>1 year or on<br>demand<br>HK\$'000 | 1 to 2 years<br>HK\$'000 | 2 to 5 years<br>HK\$'000 | Over 5 years<br>HK\$'000 | Total<br>undiscounted<br>cash flow<br>HK\$'000 | Carrying<br>amounts<br>HK\$'000 |
|--|--|--------------------------|--------------------------|--------------------------|--|---------------------------------|
| <b>2021</b>  |  |                          |                          |                          |  |                                 |
| <b>Financial liabilities</b>   |  |                          |                          |                          |  |                                 |
| Trade and other payables   | 41,258                                       | -                        | -                        | -                        | 41,258   | 41,258                          |
| Amounts due to related parties and<br>non-controlling shareholders of subsidiaries | 13,968                                       | -                        | -                        | -                        | 13,968   | 13,968                          |
| Bank and other borrowings (note)   | 54,749                                       | -                        | -                        | -                        | 54,749   | 54,749                          |
| Lease liabilities  | 69,812                                       | 40,282                   | 43,107                   | 8,096                    | 161,297  | 144,245                         |
| Convertible notes  | 281,775                                      | -                        | -                        | -                        | 281,775  | 281,775                         |
|  | <b>461,562</b>                               | <b>40,282</b>            | <b>43,107</b>            | <b>8,096</b>             | <b>553,047</b>                                 | <b>535,995</b>                  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

### 42.5 Liquidity risk (Continued)

Note: Bank loans with a repayment on demand clause are included in the “Within 1 year or on demand” time band in the above maturity analysis. As at 31 December 2022, the aggregate undiscounted principal amounts of these bank loans amounted to HK\$35,147,000 (2021: HK\$15,282,000). Taking into account the Group’s financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid within eleven (2021: seven) years after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

#### Maturity analysis – Bank loans with a repayment on demand clause based on scheduled repayments

|      | Less than<br>1 year<br>HK\$'000 | 1 to 2<br>years<br>HK\$'000 | 2 to 5<br>years<br>HK\$'000 | Over<br>5 years<br>HK\$'000 | Total<br>undiscounted<br>cash flow<br>HK\$'000 | Total<br>carrying<br>amounts<br>HK\$'000 |
|------|---------------------------------|-----------------------------|-----------------------------|-----------------------------|--|--|
| 2022 | 2,607                           | 3,748                       | 16,369                      | 14,170                      | 36,894   | 35,147                                   |
| 2021 | 568                             | 2,532                       | 7,680                       | 5,830                       | 16,610   | 15,282                                   |

The Group considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular, its cash resources and other liquid assets that readily generate cash. The Group’s existing cash resources and other liquid assets significantly exceed the cash outflow requirements.

### 42.6 Fair value measurements of financial instruments

Financial assets and liabilities measured at fair value in the consolidated statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability and significance of inputs to the measurements, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and not using significant unobservable inputs.
- Level 3: significant unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

#### 42.6 Fair value measurements of financial instruments (Continued)

The financial assets and liabilities measured at fair value in the consolidated statement of financial position on a recurring basis are grouped into the fair value hierarchy as follows:

|                              | Note | 2022                |                     |                     | Total<br>HK\$'000 |
|------------------------------|------|---------------------|---------------------|---------------------|-------------------|
|                              |      | Level 1<br>HK\$'000 | Level 2<br>HK\$'000 | Level 3<br>HK\$'000 |                   |
| <b>Financial liabilities</b> |      |                     |                     |                     |                   |
| Convertible notes            | (a)  | –                   | –                   | <b>277,934</b>      | <b>277,934</b>    |

  

|                              | Note | 2021                |                     |                     | Total<br>HK\$'000 |
|------------------------------|------|---------------------|---------------------|---------------------|-------------------|
|                              |      | Level 1<br>HK\$'000 | Level 2<br>HK\$'000 | Level 3<br>HK\$'000 |                   |
| <b>Financial liabilities</b> |      |                     |                     |                     |                   |
| Convertible notes            | (a)  | –                   | –                   | 281,775             | 281,775           |

There were no transfers between Level 1 and Level 2 during the year ended 31 December 2022 (2021: Nil).

The methods and valuation techniques used for the purpose of measuring fair values categorised in Levels 2 and 3 are unchanged compared to the previous reporting periods and are described below. The Group engages third party qualified valuers to perform the sensitivities as below.

- (a) (i) For the convertible notes issued by SDM Asia Limited

As at 31 December 2022, the fair value of the Singapore Convertible Note was measured with reference to the enterprise value of SDM Asia Limited. The significant unobservable inputs used are the discount rate of 15% (2021: 15%) and long-term growth rate of 3% (2021: 3%) adopted in the enterprise valuation.

As at 31 December 2022, it is estimated that with all other variables held constant, an increase or a decrease in long-term growth rate by 0.5%, would have increased or decreased the Group's loss for the year by HK\$1,582,000 (2021:HK\$1,594,000) or HK\$1,465,000 (2021:HK\$1,729,000), respectively.

As at 31 December 2022, it is estimated that with all other variables held constant, an increase or a decrease in discount rate by 1%, would have decreased or increased the Group's loss for the year by HK\$4,389,000 (2021:HK\$4,383,000) or HK\$5,108,000 (2021: HK\$5,454,000), respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 42. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (CONTINUED)

#### 42.6 Fair value measurements of financial instruments (Continued)

- (ii) For the convertible notes issued by SAEL

As at 31 December 2021, the fair value of the Australia Convertible Note was measured with reference to the enterprise value of SDM Australia Education Limited. The significant unobservable inputs used are the recovery rate of 37.14% adopted in the enterprise valuation.

As at 31 December 2021, it is estimated that with all other variables held constant, the recovery rate multiplied by 95% and 105%, would have increased or decreased the Group's loss for the year by HK\$227,000 or HK\$227,000, respectively.

- (b) The fair value of equity linked notes was determined with reference to expected proceeds to be received from disposal of the underlying securities.

The reconciliation of the carrying amounts of the Group's financial instruments classified within Level 3 of the fair value hierarchy is as follows:

|   | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|---|------------------|------------------|
| As at 1 January                                       | 281,775          | 289,683          |
| Fair value changes through profit or loss             | 8,572            | 20,744           |
| Fair value changes through other comprehensive income | (11,137)         | (31,566)         |
| Exchange difference                                   | (1,276)          | 2,914            |
| As at 31 December                                     | 277,934          | 281,775          |

There have been no transfers into or out of Level 3 during the year ended 31 December 2022 (2021: Nil).

Fair value charges on convertible notes are recognised in profit or loss and as a separate item in profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 43. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The changes in the Group's liabilities arising from financing activities can be classified as follows:

|   | Amounts due to related parties<br>HK\$'000 | Amounts due to non-controlling shareholders of subsidiaries<br>HK\$'000 | Convertible Notes<br>HK\$'000 | Corporate bonds<br>HK\$'000 | Interest payable<br>HK\$'000 | Bank and other borrowings<br>HK\$'000 | Lease Liabilities<br>HK\$'000 | Total<br>HK\$'000 |
|---|--|---|-------------------------------|-----------------------------|------------------------------|---------------------------------------|-------------------------------|-------------------|
| At 1 January 2021   | 3,429                                      | 224   | 289,683                       | 50,000                      | 2,096                        | 2,342                                 | 197,219                       | 544,993           |
| Net financing cash flows  | 10,293                                     | -   | (1,860)                       | (52,697)                    | (2,096)                      | 48,212                                | (73,721)                      | (71,869)          |
| Finance costs   | -  | -   | -                             | 2,697                       | -                            | 4,195                                 | 4,753                         | 11,645            |
| Change in fair value through other comprehensive income   | -  | -   | (31,566)                      | -                           | -                            | -                                     | -                             | (31,566)          |
| Change in fair value through profit or loss   | -  | -   | 20,744                        | -                           | -                            | -                                     | -                             | 20,744            |
| Increase in lease liabilities arising from entering into new leases and reassessment of lease options during the year | -  | -   | -                             | -                           | -                            | -                                     | 19,158                        | 19,158            |
| Exchange difference   | -  | 22  | 1,746                         | -                           | -                            | -                                     | (1,732)                       | 36                |
| Proceed from issue of convertible notes   | -  | -   | 3,028                         | -                           | -                            | -                                     | -                             | 3,028             |
| COVID-19 rent concession (Note 8)   | -  | -   | -                             | -                           | -                            | -                                     | (1,432)                       | (1,432)           |
| <b>At 31 December 2021 and 1 January 2022</b>   | <b>13,722</b>                              | <b>246</b>  | <b>281,775</b>                | <b>-</b>                    | <b>-</b>                     | <b>54,749</b>                         | <b>144,245</b>                | <b>494,737</b>    |
| Net financing cash flows  | 15,310                                     | -   | -                             | -                           | -                            | (11,163)                              | (41,323)                      | (37,176)          |
| Finance costs   | -  | -   | -                             | -                           | -                            | 2,826                                 | 4,302                         | 7,128             |
| Change in fair value through other comprehensive income   | -  | -   | (11,137)                      | -                           | -                            | -                                     | -                             | (11,137)          |
| Change in fair value through profit or loss   | -  | -   | 8,572                         | -                           | -                            | -                                     | -                             | 8,572             |
| Increase in lease liabilities arising from entering into new leases and reassessment of lease options during the year | -  | -   | -                             | -                           | -                            | -                                     | 38,528                        | 38,528            |
| COVID-19 rent concession (Note 8)   | -  | -   | -                             | -                           | -                            | -                                     | (2,219)                       | (2,219)           |
| Exchange difference   | (1,022)                                    | 12  | (1,276)                       | -                           | -                            | -                                     | (8,818)                       | (11,104)          |
| <b>At 31 December 2022</b>  | <b>28,010</b>                              | <b>258</b>  | <b>277,934</b>                | <b>-</b>                    | <b>-</b>                     | <b>46,412</b>                         | <b>134,715</b>                | <b>487,329</b>    |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 44. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in these consolidated financial statements, the Group has following transactions and balances with related parties.

|   | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|---|------------------|------------------|
| Short-term lease income from related companies: |                  |                  |
| – Rainbow                                       | 2,083            | 2,118            |
| – Dunn's Education                              | 1,221            | 1,116            |
| – Sunshine Chinese Painting                     | –                | 192              |
| – HKACD   | 144              | 58               |
|   | <b>3,448</b>     | 3,484            |

The above transactions constitute continuing connected transactions as defined in chapter 20 in accordance with the GEM Listing Rules. However, these transactions are exempt from the disclosure requirements as they are below the de minimis threshold.

As at 31 December 2022, bank borrowings of HK\$95,000 were guaranteed by Dr. Chun Chun and pledged by a property owned by Dr. Chun Chun. Dr. Chun Chun did not charge the Group for the guarantee provided and pledge of her property. In addition, the repayment of Group's corporate bonds were guaranteed by Wealthy Together.

As at 31 December 2021, bank borrowings of HK\$15,282,000 were guaranteed by Mr. Chiu Ka Lok. Mr. Chiu Ka Lok did not charge the Group for the guarantee provided.

Other than the transactions disclosed above, no other transaction, arrangement or contract of significance to which the Company was a party and in which a director of the Company or a connected entity of the director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### Key management personnel remuneration

Key management of the Group are members of the board of directors, as well as members of the "management board" of the parent company. Key management personnel remuneration includes the following expenses:

|                          | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|--------------------------|------------------|------------------|
| Short-term benefits      | 6,270            | 6,627            |
| Post employment benefits | 325              | 338              |
| Share-based payments     | –                | 2,462            |
|                          | <b>6,595</b>     | 9,427            |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 45. INTERESTS IN SUBSIDIARIES

Particulars of the principal subsidiaries of the Group as at 31 December 2022 and 2021 are as follows:

| Name of company                     | Place of incorporation/ establishment | Place of business | Type of legal entity      | Particulars of issued and paid up capital/ registered capital | Percentages of ownership interest held by the Company | Principal activities                          |
|-------------------------------------|---------------------------------------|-------------------|---------------------------|---|---|---|
| Ability Education                   | Australia                             | Australia         | Limited liability company | AUS\$1,115,000  | Nil<br>(2021: Nil)                                    | Provision of educational services             |
| Between Two Trees Pte. Ltd.         | Singapore                             | Singapore         | Limited liability company | S\$100,000  | 100%<br>(2021: 100%)                                  | Holding licenses of a pre-school in Singapore |
| CSE                                 | Australia                             | Australia         | Limited liability company | AUS\$10   | Nil<br>(2021: Nil)                                    | Provision of educational services             |
| ECLC (Note b)                       | Hong Kong                             | Hong Kong         | Limited liability company | HK\$21,290,000  | 90.90%<br>(2021: 90.90%)                              | Provision of educational services             |
| Global Win                          | BVI                                   | Hong Kong         | Limited liability company | US\$100   | 100%#<br>(2021: 100%#)                                | Investment holding                            |
| Global Tots @ Braddell Pte. Ltd.    | Singapore                             | Singapore         | Limited liability company | S\$60,000   | 100%<br>(2021: 100%)                                  | Operation of a pre-school in Singapore        |
| Global Tots @ Eastgate Pte. Ltd.    | Singapore                             | Singapore         | Limited liability company | S\$100,000  | 100%<br>(2021: 100%)                                  | Operation of a pre-school in Singapore        |
| Global Tots @ Mountbatten Pte. Ltd. | Singapore                             | Singapore         | Limited liability company | S\$90,000   | 100%<br>(2021: 100%)                                  | Operation of a pre-school in Singapore        |
| Global Tots @ Sembawang Pte. Ltd.   | Singapore                             | Singapore         | Limited liability company | S\$90,000   | 100%<br>(2021: 100%)                                  | Operation of a pre-school in Singapore        |
| Global Tots Pte. Ltd.               | Singapore                             | Singapore         | Limited liability company | S\$1,200,000  | 100%<br>(2021: 100%)                                  | Operation of a pre-school in Singapore        |
| Hong Kong Speech                    | Hong Kong                             | Hong Kong         | Limited liability company | HK\$1,001,600   | 100%<br>(2021: 100%)                                  | Provision of Swallowing and speech treatments |
| Prism (Note b)                      | Hong Kong                             | Hong Kong         | Limited liability company | HK\$15,018,500  | 40%<br>(2021: 40%)                                    | Provision of educational services             |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 45. INTERESTS IN SUBSIDIARIES (CONTINUED)

| Name of company  | Place of incorporation/ establishment | Place of business | Type of legal entity      | Particulars of issued and paid up capital/ registered capital | Percentages of ownership interest held by the Company | Principal activities  |
|--|---------------------------------------|-------------------|---------------------------|---|---|---|
| SDM Chatsworth International Nursery Limited ("SDM Chatsworth")  | Hong Kong                             | Hong Kong         | Limited liability company | HK\$125   | 80%<br>(2021: 80%)                                    | Investment holding  |
| SDM Academie Limited   | Hong Kong                             | Hong Kong         | Limited liability company | HK\$10,000  | 100%<br>(2021: 100%)                                  | Jazz and ballet academy   |
| SAEL   | BVI                                   | Hong Kong         | Limited liability company | US\$100   | 100%#<br>(2021: 100%#)                                | Investment holding  |
| SDM Jazz & Ballet Academie Co. Limited   | Hong Kong                             | Hong Kong         | Limited liability company | HK\$100   | 100%<br>(2021: 100%)                                  | Provision of management services to group entities and joint ventures |
| Stage Production   | Hong Kong                             | Hong Kong         | Limited liability company | HK\$100   | 100%<br>(2021: 100%)                                  | Provision of photographic services                                    |
| SDM Asia Limited   | BVI                                   | Singapore         | Limited liability company | US\$100   | 100%#<br>(2021: 100%#)                                | Investment holding  |
| SDM Childcare Centre (Jurong East) Pte. Ltd.   | Singapore                             | Singapore         | Limited liability company | S\$100,000  | 100%<br>(2021: 100%)                                  | Operation of a pre-school in Singapore                                |
| Between Two Trees (Clarke Quay) Pte. Ltd. (formerly known as SDM Childcare Centre (Clarke Quay) Pte. Ltd.) | Singapore                             | Singapore         | Limited liability company | S\$500,000  | 100%<br>(2021: 100%)                                  | Operation of a pre-school in Singapore                                |
| SDM Childcare Centre Pte. Ltd.   | Singapore                             | Singapore         | Limited liability company | S\$189,000  | 100%<br>(2021: 100%)                                  | Operation of a pre-school in Singapore                                |
| SDM Childcare Centre (Bartley) Pte. Ltd.   | Singapore                             | Singapore         | Limited liability company | S\$100,000  | 100%<br>(2021: 100%)                                  | Operation of a pre-school in Singapore                                |
| SDM International Pre-school Pte. Ltd.   | Singapore                             | Singapore         | Limited liability company | S\$100,000  | 100%<br>(2021: 100%)                                  | Operation of a pre-school in Singapore                                |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 45. INTERESTS IN SUBSIDIARIES (CONTINUED)

| Name of company   | Place of incorporation/ establishment | Place of business | Type of legal entity      | Particulars of issued and paid up capital/ registered capital | Percentages of ownership interest held by the Company | Principal activities                   |
|---|---------------------------------------|-------------------|---------------------------|---|---|--|
| SDM-Moriah Preschool (Flora Vista) Pte. Ltd. (formerly known as SDM Childcare Centre (Flora Vista) Pte. Ltd.) | Singapore                             | Singapore         | Limited liability company | S\$100,000  | 100% (2021: 100%)                                     | Operation of a pre-school in Singapore |
| SDM-Moriah Preschool (Greenwich) Pte. Ltd. (formerly known as SDM Childcare Centre (Greenwich) Pte. Ltd.)     | Singapore                             | Singapore         | Limited liability company | S\$100,000  | 100% (2021: 100%)                                     | Operation of a pre-school in Singapore |
| SDM-Ichiban Preschool Pte. Ltd. (formerly known as SDM Childcare Pte. Ltd.)                                   | Singapore                             | Singapore         | Limited liability company | S\$100,000  | 100% (2021: 100%)                                     | Operation of a pre-school in Singapore |
| SF Kids   | Singapore                             | Singapore         | Limited liability company | S\$1,000  | 100% (2021: 100%)                                     | Education management                   |
| Tinkerland  | Singapore                             | Singapore         | Limited liability company | S\$100,000  | 100% (2021: 100%)                                     | Operation of a pre-school in Singapore |
| The Lighthouse Keepers Pte. Ltd.  | Singapore                             | Singapore         | Limited liability company | S\$500,000  | 100% (2021: 100%)                                     | Operation of a pre-school in Singapore |
| Tinytots Sports   | Singapore                             | Singapore         | Limited liability company | S\$50,000   | 60% (2021: 60%)                                       | Provision of enrichment courses        |
| 廣州樂動心弦 (Note a)   | Guangzhou                             | Guangzhou         | Limited liability company | RMB3,000,000  | 100% (2021: 100%)                                     | Jazz and ballet academy                |

# Issued capital held directly by the Company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 45. INTERESTS IN SUBSIDIARIES (CONTINUED)

Notes:

- (a) 廣州樂動心弦 is a wholly foreign owned subsidiary in the PRC. In addition, no registered capital was paid as of 31 December 2022. In accordance with the memorandum and articles of association of 廣州樂動心弦, the shareholder of 廣州樂動心弦 is required to pay the registered capital up to RMB3,000,000 before 14 September 2035.
- (b) SDM Chatsworth held 60% voting power by virtue of the agreement with other investor and can exercise control over Prism accordingly. Prism held 3.93% (2021: 3.93%) voting power of ECLC, as at 31 December 2022, SDM Art Limited held 90.9% equity interest of ECLC.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

Except for Prism which incurred obligation arising from put options written to non-controlling shareholders of a subsidiary and convertible notes issued by SDM Asia Limited and SAEL, none of the subsidiaries had issued any debt securities at the end of the reporting period.

The Group includes two (2021: two) subsidiaries with material non-controlling interests ("NCI"), the details and the summarised financial information, before intragroup eliminations, are as follows:

|   | SF Kids          |                  | Prism            |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2022<br>HK\$'000 | 2021<br>HK\$'000 | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
| Proportion of ownership interests and voting rights held by the NCI | <b>40%</b>       | 40%              | <b>60%</b>       | 60%              |
| Current assets  | <b>982</b>       | 2,571            | <b>4,749</b>     | 4,460            |
| Non-current assets  | <b>29,150</b>    | 37,933           | <b>4,500</b>     | 4,500            |
| Current liabilities   | <b>(384)</b>     | (1,941)          | <b>(22,315)</b>  | (21,018)         |
| Non-current liabilities   | –                | –                | <b>(306)</b>     | (306)            |
| Net assets/(liabilities)  | <b>29,748</b>    | 38,563           | <b>(13,372)</b>  | (12,364)         |
| Carrying amount of NCI  | <b>11,899</b>    | 15,425           | <b>(8,023)</b>   | (7,418)          |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 45. INTERESTS IN SUBSIDIARIES (CONTINUED)

|  | For the year<br>ended<br>31 December<br>2022<br>HK\$'000 | For the year<br>ended<br>31 December<br>2021<br>HK\$'000 | For the year<br>ended<br>31 December<br>2022<br>HK\$'000 | For the year<br>ended<br>31 December<br>2021<br>HK\$'000 |
|--|--|--|--|--|
| Revenue  | 312  | 4,344  | –  | –  |
| Total expenses   | (93)   | (5,734)  | (1,008)  | (1,798)  |
| Profit/(loss) for the period/year  | 219  | 1,390  | (1,008)  | (1,652)  |
| Other comprehensive income for the<br>period/year                          | 22   | 103  | –  | –  |
| Profit/(loss) and total comprehensive<br>income/(loss) for the period/year | 241  | 1,493  | (1,008)  | (1,652)  |
| Profit/(loss) attribute to NCI   | 88   | 556  | (605)  | (991)  |
| Total comprehensive income/(loss)<br>attributable to NCI                   | 97   | 597  | (605)  | (991)  |
| Dividend paid to NCI   | –  | (693)  | –  | –  |
| Net cash flows generated from/(used in)<br>operating activities            | 754  | 2,331  | (138)  | (534)  |
| Net cash flows generated from/(used in)<br>investing activities            | –  | –  | (23)   | 516  |
| Net cash flows used in financing activities                                | (403)  | (1,733)  | –  | –  |
| Net increase/(decrease) in cash and<br>cash equivalents                    | 351  | 598  | (161)  | (18)   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 45. INTERESTS IN SUBSIDIARIES (CONTINUED)

### Changes in ownership interest in subsidiaries

During the year ended 31 December 2022, the Group has the following changes in ownership interest in subsidiaries:

As at 31 December 2021, the Group indirectly holds 50% of the effective equity interest of Obaby Playgroup Holdings Limited (formerly known as “**Dr. Code Limited**”). On 7 July 2022, the remaining 50% of effective equity interest was transferred to the Group, therefore, the equity interest held by SDM Art Limited has been increased to 100%.

During the year ended 31 December 2021, the Group has the following changes in ownership interest in subsidiaries:

On 30 November 2021, ECLC issued 280,000,000 shares and allotted to SDM Art Limited to repay a loan from Prism in the principal amount of HK\$2,000,000, therefore, the equity interest held by SDM Art Limited has been increased to 90.90%. The non-cash transaction was regarded as an equity transaction and the carrying amount of the Group’s additional interest in ECLC of approximately HK\$11,589,000 was debited to equity as other reserve during the year ended 31 December 2021.

## 46. 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

## 47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

|  | Note | 2022<br>HK\$'000 | 2021<br>HK\$'000 |
|--|------|------------------|------------------|
| <b>Non-current assets</b>                    |      |                  |                  |
| Investments in subsidiaries                  |      | 24,208           | 32,002           |
| Amounts due from subsidiaries                |      | 5,991            | 50,780           |
| Other receivables                            |      | 402              | 402              |
|  |      | <b>30,601</b>    | 83,184           |
| <b>Current assets</b>                        |      |                  |                  |
| Other receivables, deposits and prepayments  |      | 1,112            | 364              |
| Amounts due from related parties             |      | 4,183            | 7,655            |
| Cash and cash equivalents                    |      | 31               | 2,090            |
|  |      | <b>5,326</b>     | 10,109           |
| <b>Current liabilities</b>                   |      |                  |                  |
| Other payables and accrued charges           |      | 198              | 6,510            |
| Amounts due to related parties               |      | 24,679           | 7,076            |
| Amounts due to subsidiaries                  |      | 50,328           | 148,303          |
| Bank and other borrowings                    |      | –                | 31,000           |
|  |      | <b>75,205</b>    | 192,889          |
| <b>Net current liabilities</b>               |      | <b>(69,879)</b>  | (182,780)        |
| <b>Total assets less current liabilities</b> |      | <b>(39,278)</b>  | (99,596)         |
| <b>Net liabilities</b>                       |      | <b>(39,278)</b>  | (99,596)         |
| <b>Capital and reserves</b>                  |      |                  |                  |
| Share capital                                | 35   | 45,760           | 45,760           |
| Reserves (Note)                              |      | (85,038)         | (145,356)        |
| <b>Total equity</b>                          |      | <b>(39,278)</b>  | (99,596)         |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note: The movement of the Company's reserves are as follows:

|   | Share<br>premium<br>HK\$'000 | Other<br>reserve<br>HK\$'000 | Share<br>options<br>reserve<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
|---|------------------------------|------------------------------|---|-----------------------------------|-------------------|
| As at 1 January 2021                                | 133,707                      | (1,685)                      | 9,790                                   | (441,992)                         | (300,180)         |
| Grant of share options                              | –                            | –                            | 5,301                                   | –                                 | 5,301             |
| Lapse of share options                              | –                            | –                            | (249)                                   | 249                               | –                 |
| Issue of consideration shares                       | 24,815                       | –                            | –                                       | –                                 | 24,815            |
| Gain and total comprehensive<br>income for the year | –                            | –                            | –                                       | 124,708                           | 124,708           |
| As at 31 December 2021<br>and 1 January 2022        | <b>158,522</b>               | <b>(1,685)</b>               | <b>14,842</b>                           | <b>(317,035)</b>                  | <b>(145,356)</b>  |
| Grant of share options                              | –                            | –                            | 550                                     | –                                 | 550               |
| Lapse of share options                              | –                            | –                            | (9,201)                                 | 9,201                             | –                 |
| Gain and total comprehensive<br>income for the year | –                            | –                            | –                                       | 59,768                            | 59,768            |
| As at 31 December 2022                              | <b>158,522</b>               | <b>(1,685)</b>               | <b>6,191</b>                            | <b>(248,066)</b>                  | <b>(85,038)</b>   |

## FINANCIAL SUMMARY

For the five years ended 31 December 2018, 2019, 2020, 2021 and 2022

### RESULTS

|   | 2022<br>HK\$'000 | 2021<br>HK\$'000 | 2020<br>HK\$'000 | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|---|------------------|------------------|------------------|------------------|------------------|
| Revenue                                     | <b>164,832</b>   | 178,576          | 156,294          | 128,724          | 76,492           |
| Profit/(loss) before taxation               | <b>(36,415)</b>  | 51,279           | (320,488)        | (105,884)        | (59,554)         |
| Income tax (expense)/credit                 | <b>(387)</b>     | (1,295)          | (845)            | (427)            | (170)            |
| Profit/(loss) for the year                  | <b>(36,802)</b>  | 49,984           | (321,333)        | (106,311)        | (59,724)         |
| Profit/(loss) for the year attributable to: |                  |                  |                  |                  |                  |
| Equity shareholders of the Company          | <b>(37,190)</b>  | 49,445           | (311,798)        | (98,807)         | (53,505)         |
| Non-controlling interests                   | <b>388</b>       | 539              | (9,535)          | (7,504)          | (6,219)          |
|   | <b>(36,802)</b>  | 49,984           | (321,333)        | (106,311)        | (59,724)         |

### ASSETS AND LIABILITIES

|  | 2022<br>HK\$'000 | 2021<br>HK\$'000 | 2020<br>HK\$'000 | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|--|------------------|------------------|------------------|------------------|------------------|
| Total assets   | <b>364,199</b>   | 386,443          | 465,452          | 537,582          | 191,236          |
| Total liabilities  | <b>(601,523)</b> | (604,633)        | (796,109)        | (628,891)        | (183,864)        |
| Net (liabilities)/assets                                     | <b>(237,324)</b> | (218,190)        | (330,657)        | (91,309)         | 7,372            |
| Equity attributable to equity<br>shareholders of the Company | <b>(245,022)</b> | (226,814)        | (328,123)        | (79,280)         | 13,863           |
| Non-controlling interests                                    | <b>7,698</b>     | 8,624            | (2,534)          | (12,029)         | (6,491)          |
| (Capital deficiency)/total equity                            | <b>(237,324)</b> | (218,190)        | (330,657)        | (91,309)         | 7,372            |

**SDM Education Group Holdings Limited**  
**SDM 教育集團控股有限公司**

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