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SDM Education Group Holdings Limited

SDM教育集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8363)

THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2023

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*This announcement, for which the directors (the “**Directors**”) of SDM EDUCATION GROUP HOLDINGS LIMITED (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

This announcement will remain on the “Latest Listed Company Information” page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and be posted on the website of the Company at www.sdm.hk.

FINANCIAL HIGHLIGHTS

For the nine months ended 30 September 2023, unaudited operating results of the Company together with its subsidiaries (the “**Group**”) were as follows:

- revenue of the Group for the nine months ended 30 September 2023 was approximately HK\$132.2 million (2022: approximately HK\$111.5 million);
- loss for the period attributable to the shareholders of the Company for the nine months ended 30 September 2023 amounted to approximately HK\$4.7 million as compared to a loss of approximately HK\$10.1 million for the corresponding period last year; and
- basic loss per share for the nine months ended 30 September 2023 was approximately 0.75 HK cents (2022: basic loss per share of approximately 2.20 HK cents).

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The board of Directors (the “**Board**”) of the Company (together with its subsidiaries, the “**Group**”) is pleased to present the unaudited condensed consolidated results of the Group for the three months ended 30 September 2023 and the nine months ended 30 September 2023, together with the unaudited comparative figures for the corresponding period in 2022, as follows:

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2023 (Unaudited)

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2023 (Unaudited) <i>HK\$'000</i>	2022 (Unaudited) <i>HK\$'000</i>	2023 (Unaudited) <i>HK\$'000</i>	2022 (Unaudited) <i>HK\$'000</i>
Revenue	4	43,217	42,333	132,262	111,547
Other income		14,013	22,350	38,224	44,551
Changes in inventories of finished goods		(71)	(254)	76	(167)
Finished goods purchased		(2,698)	(4,913)	(7,939)	(7,951)
Advertising and promotion expenses		(2,961)	(1,926)	(5,758)	(3,548)
Depreciation and amortisation		(12,197)	(13,286)	(37,810)	(41,898)
Staff and teaching consultants services costs		(30,371)	(30,592)	(87,022)	(81,996)
Other expenses		(8,999)	(8,270)	(29,444)	(23,871)
Share option expenses		—	(165)	—	(385)
Finance costs	5	(1,349)	(1,394)	(3,845)	(5,976)
Share of results of an associate		89	(164)	200	(266)
Share of results of joint ventures		(647)	(107)	(918)	(501)
(Loss)/profit before taxation		(1,974)	3,612	(1,974)	(10,461)
Income tax (expense)/credit	6	124	443	(786)	410
(Loss)/profit for the period		(1,850)	4,055	(2,760)	(10,051)

	For the three months ended 30 September		For the nine months ended 30 September	
	2023	2022	2023	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other comprehensive income				
Item that maybe reclassified to profit or loss				
Change in fair value on financial assets at fair value through other comprehensive income, net of tax	—	—	—	—
Exchange differences arising on translation of foreign operations	(665)	1,378	(2,064)	7,756
Other comprehensive income for the period, net of tax	<u>(665)</u>	<u>1,378</u>	<u>(2,064)</u>	<u>7,756</u>
Total comprehensive income for the period	(2,515)	5,433	(4,824)	(2,295)
(Loss)/profit for the period attributable to:				
Owner of the Company	(2,445)	5,490	(4,713)	(10,051)
Non-controlling interests	<u>595</u>	<u>(1,435)</u>	<u>1,953</u>	<u>—</u>
	<u>(1,850)</u>	<u>4,055</u>	<u>(2,760)</u>	<u>(10,051)</u>
Total comprehensive income/(loss) for the period attributable to:				
Owner of the Company	(3,110)	7,141	(6,777)	(663)
Non-controlling interests	<u>595</u>	<u>(1,708)</u>	<u>1,953</u>	<u>(1,632)</u>
	<u>(2,515)</u>	<u>5,433</u>	<u>(4,824)</u>	<u>(2,295)</u>
	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings/(loss) per share:				
Basic and diluted	8 <u>(0.35)</u>	<u>1.19</u>	<u>(0.75)</u>	<u>(2.20)</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2023

1. GENERAL INFORMATION

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Cayman Companies Law on 12 February 2014 and its shares are listed on GEM of the Stock Exchange on 14 October 2014. Its parent is Wealthy Together Limited (“**Wealthy Together**”) (incorporated in the British Virgin Islands). Its ultimate controlling party is Mr. Chiu Ka Lok (“**Mr. Chiu**”), who is also the Chairman and Executive Director of the Company. The addresses of the Company’s registered office and principal place of business are Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands and Room 202B, 2/F., Liven House, 61–63 King Yip Street, Kwun Tong, Kowloon, Hong Kong respectively.

The Company is an investment holding company and its 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.

The unaudited condensed consolidated financial statements are presented in Hong Kong dollars (“**HKS**”), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statement for the nine months ended 30 September 2023 has been prepared in accordance with the Hong Kong Accounting Standards (“**HKAS**”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certificate Public Accountants (“**HKICPA**”) and the applicable disclosure requirements of the GEM Listing Rules. The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

The unaudited condensed consolidated financial statement have been prepared on the historical costs basis except for certain financial instruments that are measured at fair values at the end of each reporting period. Historical costs is generally based on the fair value of the consideration given in exchange for goods and services.

3. ADOPTION OF NEW AND REVISED HKFRSs

In the current period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2023. HKFRSs comprise HKFRS and 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 financial statements and amounts reported for the current period and prior years.

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

4. REVENUE AND SEGMENT INFORMATION

Revenue represents the fair value of amounts received and receivable for goods sold and services provided by the Group to outside customers, less discount during relevant periods. The Group's operation is derived from jazz and ballet and pop dance academy in Hong Kong, early childhood education in Hong Kong and Singapore during the current period.

For the purpose of resources allocation and performance assessment, the chief operating decision maker (“CODM”) (i.e. the chief executive officer of the Group) has reviewed the overall results and financial position of the Group as a whole. Specifically, the Group's reportable segments under HKFRS 8 are as follows:

Dance academy business — jazz and ballet and pop dance academy in Hong Kong.

Early childhood education business — operation of kindergartens and preschools in Hong Kong and Singapore.

Other operating segments include operation of the provision of swallowing and speech treatments and provision of photographic services for children in Hong Kong. None of these segments met the quantitative thresholds for the reportable segments. Accordingly, these were grouped in “Others”.

The following is an analysis of the Group's revenue:

	For the three months ended 30 September		For the nine months ended 30 September	
	2023 (Unaudited) <i>HK\$'000</i>	2022 (Unaudited) <i>HK\$'000</i>	2023 (Unaudited) <i>HK\$'000</i>	2022 (Unaudited) <i>HK\$'000</i>
Dance academy business	17,053	14,117	49,613	31,117
Early childhood education business	23,369	25,352	74,529	73,448
Others				
— provision of swallowing and speech treatments	610	707	3,567	3,186
— provision of photographic services	2,185	2,157	4,553	3,796
	43,217	42,333	132,262	111,547

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segment.

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

The accounting policies of the operating and reportable segments are the same as the Group's accounting policies. Segment profit or loss represents the profit earned/losses incurred by each segment without allocation of certain other gains and losses and other income, central corporate expenses and share of results of an associate and joint ventures.

The CODM makes decisions according to operating results of each 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.

Other segment information

For the nine months ended 30 September 2023

	Dance academy business <i>HK\$'000</i>	Early childhood education business <i>HK\$'000</i>	Others <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Amounts credited (charged) included in the measure of segment results					
Interest income	21	323	2	—	346
Government grants and subsidies	1,497	3,233	—	—	4,730
Amortisation of intangible assets	1,170	2,115	381	—	3,666
Depreciation of property, plant and equipment	1,705	2,202	45	15	3,967
Depreciation of right-of-use assets	14,619	14,382	—	1,176	30,177
Interest on lease liabilities	1,135	1,405	—	71	2,611
Share of results of associates	—	—	—	(200)	(200)
Share of results of joint venture	—	—	—	918	918

Geographical Information

The Group's operations during the current period are located in Hong Kong and Singapore.

Information about the Group's revenue from external customers is presented based on the location of the operations.

	For the three months ended 30 September		For the nine months ended 30 September	
	2023 (Unaudited) <i>HK\$'000</i>	2022 (Unaudited) <i>HK\$'000</i>	2023 (Unaudited) <i>HK\$'000</i>	2022 (Unaudited) <i>HK\$'000</i>
Hong Kong	22,364	22,049	67,084	45,899
Singapore	20,853	20,284	65,178	65,648
	<u>43,217</u>	<u>42,333</u>	<u>132,262</u>	<u>111,547</u>

Information about major customer

No individual customer was accounted for over 10% of the Group's total revenue for both periods.

5. FINANCE COSTS

	For the three months ended 30 September		For the nine months ended 30 September	
	2023 (Unaudited) <i>HK\$'000</i>	2022 (Unaudited) <i>HK\$'000</i>	2023 (Unaudited) <i>HK\$'000</i>	2022 (Unaudited) <i>HK\$'000</i>
Interest on borrowings	474	578	1,234	2,173
Interest on lease liabilities	875	816	2,611	3,803
	<u>1,349</u>	<u>1,394</u>	<u>3,845</u>	<u>5,976</u>

6. INCOME TAX CREDIT/(EXPENSE)

	For the three months ended 30 September		For the nine months ended 30 September	
	2023 (Unaudited) <i>HK\$'000</i>	2022 (Unaudited) <i>HK\$'000</i>	2023 (Unaudited) <i>HK\$'000</i>	2022 (Unaudited) <i>HK\$'000</i>
Current tax				
— Hong Kong Profits Tax	—	—	—	(122)
— Singapore Corporate Income Tax ("CIT")	(16)	6	(1,309)	(9)
Deferred tax	140	437	523	541
	<u>124</u>	<u>443</u>	<u>(786)</u>	<u>410</u>

The provision for Hong Kong Profits Tax for 2023 is calculated at 16.5% (2022: 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 2022.

Singapore CIT is calculated at 17% (2022: 17%) of the estimated assessable profit eligible for CIT rebate of 20% capped at S\$10,000. 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 from year of assessment.

7. (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the three months ended 30 September 2023 and nine months ended 30 September 2023 attributable to owners of the Company of approximately HK\$2,445,000 and HK\$4,713,000 respectively (2022: the profit for the three months ended 30 September 2022 and loss for the nine months ended 30 September 2022 attributable to owners of the Company of approximately HK\$5,490,000 and HK\$10,051,000 respectively) and the weighted average number of ordinary shares of 686,400,000 and 626,895,238 (2022: weighted average number of ordinary shares of the three months ended 30 September 2022 and nine months ended 30 September 2022: 457,600,000 and 457,600,000 respectively) in issue during the three months ended 30 September 2023 and nine months ended 30 September 2023 respectively.

Diluted earnings per share

No diluted earnings per share for the three months ended 30 September 2022 and 2023 and nine months ended 30 September 2022 and 2023 since there were no potential ordinary shares in during the periods.

8. DIVIDENDS

No dividend was paid or proposed during the nine months ended 30 September 2023, nor has any dividend been proposed since the end of the reporting period (for the nine months ended 30 September 2022: Nil).

9. RESERVES

	Issued share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Fair value reserve <i>HK\$'000</i>	Share options reserve <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2022 (audited)	45,760	158,522	(204)	31,566	14,842	(13,669)	(463,631)	(226,814)	8,624	(218,190)
Loss for the period	—	—	—	—	—	—	(10,051)	(10,051)	—	(10,051)
Exchange differences arising on translation to presentation currency	—	—	9,388	—	—	—	—	9,388	(1,632)	7,756
Profit (Loss) and total comprehensive loss for the period (restated)	—	—	9,388	—	—	—	(10,051)	(663)	(1,632)	(2,295)
Grant of share options	—	—	—	—	385	—	—	385	—	385
Lapse of share options	—	—	—	—	(1,195)	—	1,195	—	—	—
At 30 September 2022 (unaudited)	<u>45,760</u>	<u>158,522</u>	<u>9,184</u>	<u>31,566</u>	<u>14,032</u>	<u>(13,669)</u>	<u>(472,487)</u>	<u>(227,092)</u>	<u>6,992</u>	<u>(220,100)</u>
	Issued share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Fair value reserve <i>HK\$'000</i>	Share options reserve <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2023 (audited)	45,760	158,522	7,091	42,703	6,191	(13,669)	(491,620)	(245,022)	7,698	(237,324)
Loss for the period	—	—	—	—	—	—	(4,713)	(4,713)	1,953	(2,760)
Exchange differences arising on translation to presentation currency	—	—	(2,064)	—	—	—	—	(2,064)	—	(2,064)
Profit (Loss) and total comprehensive income for the period	—	—	(2,064)	—	—	—	(4,713)	(6,777)	1,953	(4,824)
Issue of new shares (<i>Note</i>)	22,880	—	—	—	—	—	—	22,880	—	22,880
Lapse of share options	—	—	—	—	(1,875)	—	1,875	—	—	—
At 30 September 2023 (unaudited)	<u>68,640</u>	<u>158,522</u>	<u>5,027</u>	<u>42,703</u>	<u>4,316</u>	<u>(13,669)</u>	<u>(494,458)</u>	<u>(228,919)</u>	<u>9,651</u>	<u>(219,268)</u>

Note: 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 684,400,000 shares since then.

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.

During the nine months ended 30 September 2023 (the “**Reporting Period**”), the Group had 23 wholly-owned dance centres, one kindergarten in Hong Kong and 13 pre-schools in Singapore. Besides offering wide range of dance courses for children generally between the age of 2 and 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 childhood education business in Hong Kong and Singapore. During the Reporting Period, 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 government’s anti-epidemic regulations and measures. The dance centres were re-opened in April 2022 and the operations resumed back to normal since then. Therefore, the revenue from this segment increased significantly for the Reporting Period.

Singapore

The performance of the Group’s pre-schools in Singapore has been improving gradually since 2021. As at 30 September 2023, the number of enrollment was approximately 1,000 out of total capacity of approximately 1,500 representing utilization of 67% (30 September 2022: 1,100 out of 1,600, representing utilization rate of 68%). The Group is confident that utilization rate will increase steadily in the future.

Financial Review

Revenue of the Group for the Reporting Period 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 increased by approximately HK\$20.7 million from approximately HK\$111.5 million for the corresponding period in 2022 to approximately HK\$132.2 million for the Reporting Period. The increase was mainly due to increase in revenue from Dance Academy Business in Hong Kong by approximately HK\$18.5 million as mentioned under “Business Review”.

Other income of the Group was approximately HK\$38.2 million (2022: HK\$44.5 million). Other income of the Group mainly comprises the management fee income, franchise fee income, sublease rental income, examination handling income, government grants and rent concessions.

Staff and teaching consultants services costs amounted to approximately HK\$87.0 million during the Reporting Period (2022: approximately HK\$81.9 million), representing a increase by approximately 6%. The increase was mainly due to increase salaries during the Reporting Period.

Other operating expenses of the Group was approximately HK\$29.4 million during the Reporting Period (2022: approximately HK\$23.8 million), representing a increase of approximately 23% as compared to the corresponding period in 2022. The increase was mainly due to increase in legal and professional fee.

The Group recorded a loss attributable to owners of the Company for the Reporting Period of approximately HK\$2.7 million as compared to a loss of approximately HK\$10.1 million for the corresponding period of last year. The loss decrease was due to the increase in revenue from Dance Academy Business as mentioned above.

Potential Settlement of Convertible Note

Reference is made to the announcements of the Company dated 27 December 2018, 12 February 2019 and 14 April 2022.

On 11 January 2022, SDM Asia Limited, the wholly-owned subsidiary of the Company, being the issuer (the “**Issuer**”) of the convertible note in the principal amount of US\$25 million (the “**Convertible Note**”), and the Company received the letter from the legal adviser of the noteholder of the Convertible Note (the “**Noteholder**”), requesting to redeem the Convertible Note upon certain events of default (the “**EOD Redemption Notice**”). After consulting the legal adviser of the Group, the Issuer and the Company jointly issued a letter to the Noteholder, pursuant to which the Group reiterated its view that no events of default had occurred.

On 23 February 2022, a purported deed of appointment of receivers of the security documents related to the Convertible Note was alleged to have been executed by the Noteholder. The Noteholder attempted to appoint two receivers (the “**Receivers**”) to take over the Company’s rights and interest in the shares of the Issuer. After consulting legal advice from the legal adviser of the Group, the Company issued a letter to the Issuer’s register agent reaffirming that no events of default had occurred and the purported appointment of Receivers was therefore invalid.

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 announcement, 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. Additional partial repayment of US\$750,000 (equivalent to approximately HK\$5.9 million) was made up to the date of this announcement.

As of the date of this announcement, 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.

Capital Structure

As at 30 September 2023 and 2022, the authorised share capital of the Company was HK\$800,000,000, divided into 8,000,000,000 shares of HK\$0.1 each (the “**Shares**”).

As at 30 September 2022, the issued share capital of the Company was HK\$45,760,000, divided into 457,600,000 shares of HK\$0.1 each.

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 “**Right Issue**”). The issued share capital of the Company increased to HK\$68,640,000 divided into 686,400,000 shares since then.

As at 30 September 2023, the Group had outstanding convertible notes with carrying amount of approximately HK\$257.6 million (2022: HK\$267.6 million). The convertible note with face value of US\$25 million (equivalent to approximately HK\$195 million) carries interest at 8% per annum and matured on 31 March 2023. The convertible note with face value of approximately US\$5.85 million (equivalent to approximately HK\$46 million) carries interest at 8% per annum and will mature on 30 April 2024. The repayment of the convertible notes is guaranteed by the Company.

Charges on the Group's Assets

As at 30 September 2023 and 2022, the entire shares in SDM Asia Limited and SDM Australian Education Limited held by the Group were pledged as securities for the two convertible notes which the details are mentioned under the section "Capital Structure" as above.

MATERIAL ACQUISITIONS

No material acquisitions were taken place during the Reporting Period.

SIGNIFICANT INVESTMENTS

As at 30 September 2023, there were no significant investments held by the Group (2022: Nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Looking forward, the Group will endeavour to strengthen its position in the dance institution industry in Hong Kong and overseas markets. 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 education business in Australia since 2019.

The acquisition are in line with the business development plan and expansion plan of the Group. The Board believes that the acquisition provides 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 a excellent investment opportunity for the Group to further establish its position in education and related businesses.

The Group will continue searching for suitable opportunities to expand its business into Hong Kong, Mainland China and overseas markets.

MATERIAL EVENTS AFTER THE REPORTING DATE

There are no material events after the Reporting Period.

CONTINGENT LIABILITIES

As at 30 September 2023 and 2022, the Group did not have any significant contingent liabilities.

OTHER INFORMATION

Disclosure of Interests

(a) *Interests of Directors and chief executives*

As at 30 September 2023, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and 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 Divisions 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) to be notified to the Company and the Stock Exchange pursuant to the required standards of dealings 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/ Holding capacity	Number of ordinary shares held	Number of underlying shares held	Percentage of interest in the Company’s issued share capital (Note 1)
Mr. Chiu Ka Lok (“Mr. Chiu”)	Interest of a controlled corporation, beneficial owner and family interest	418,125,000 (Note 2)	—	60.92%
Dr. Chun Chun	Beneficial owner and family interest	418,125,000 (Note 3)	—	60.92%

Notes:

- (1) As at 30 September 2023, the total issued share capital of the Company was HK\$68,640,000 divided into 686,400,000 Shares of HK\$0.1 each.
- (2) Wealthy Together is wholly and beneficially owned by Mr. Chiu, an executive Director and the chairman of the Company. Mr. Chiu is deemed to be interested in 298,125,000 Shares held by Wealthy Together by virtue of his 100% shareholding interest in Wealthy Together. Mr. Chiu Ka Lok beneficially owned 46,500,000 shares and Dr. Chun Chun being the spouse of Mr. Chiu Ka Lok, beneficially owned 73,500,000 shares. By virtue of the SFO Mr. Chiu Ka Lok is deemed to be interested in 418,125,000 shares.
- (3) Dr. Chun Chun, an executive Director, is the spouse of Mr. Chiu and is therefore deemed to be interested in all the shares held/owned by Mr. Chiu (by himself or through Wealthy Together) by virtue of the SFO.

Save as disclosed above, as at 30 September 2023, none of the Directors nor chief executives of the Company had or was deemed to have any other interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 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) to be notified to the Company and the Stock Exchange pursuant to the required standards of dealings by Directors as referred to in rule 5.46 of the GEM Listing Rules.

(b) 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 30 September 2023, 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 or underlying Shares of the Company

Name of Shareholder	Nature of interest/ holding capacity	Number of shares	Percentage of interests in the Company's issued share capital (Note 2)
Wealthy Together	Beneficial owner	298,125,000 (Note 1)	43.43%
Hui Pui Cheung	Beneficial owner	39,980,000	5.82%
Chance Wise Investments Limited	Interest of a controlled corporation	75,000,629	10.93%
Fok Yuk Tong	Interest of a controlled corporation	75,000,629	10.93%
Hsieh Ching Chun	Interest of a controlled corporation	75,000,629	10.93%
Pacific Foundation Securities Limited	Beneficial owner	75,000,629	10.93%
PF Group Holdings Limited	Interest of a controlled corporation	75,000,629	10.93%

Notes:

- (1) Wealthy Together is beneficially and wholly-owned by Mr. Chiu, an executive Director and the Chairman of the Company. By virtue of the SFO, Mr. Chiu is deemed to be interested in the shares held by Wealthy Together.
- (2) As at 30 September 2023, the total issued share capital of the Company was HK\$68,640,000, divided into 686,400,000 Shares of HK\$0.1 each.

Save as disclosed above, as at 30 September 2023, the Directors were not aware of any other persons (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares of the Company which 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.

SHARE OPTION SCHEME

The Company's share option scheme (the "**Share Option Scheme**") was conditionally adopted by a written resolutions of the shareholders of the Company 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 recognize and acknowledge the contribution of the Directors, other employees and other eligible participants who have made valuable contribution to the Group.

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 the 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 circular dated 6 May 2019 was sent to shareholders by the Company 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 of the Company 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 at the Latest Practicable Date (as defined in the May Circular), 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 of the Company at the 2019 May EGM.

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 (one share for each option) at an exercise price of HK\$1.20 per share on 11 February 2020 to certain full-time employees of the subsidiaries of the Company and business partners and consultants of the Company, 2,300,000 share options (one share for each option) at an exercise price of HK\$1.44 per share on 25 February 2020 to certain consultants and full-time employees of the subsidiaries of the Company and 26,730,000 share options (one share for each option) at an exercise price of HK\$0.80 per share on 15 June 2021 to certain employees, supplier and business partners of the Company, 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.

As at 30 September 2023, the Company had 27,325,892 outstanding share options under the Share Option Scheme carrying rights for the holders thereof to subscribe for an aggregate of 27,325,892 new Shares, details of movements of which are set out below:

Date of grant	Owners/ Grantees	Number of share options					Adjustment on Rights Issue during the period*	At 31 March 2023	Exercise period	Exercise Price HK\$
		At 1 January 2023	Granted	Exercised	Lapsed	Cancelled				
11 February 2020	Employees	680,000	—	—	(680,000)	—	—	—	11 February 2020 to 10 February 2023	1.20
25 February 2020	Employee	300,000	—	—	(300,000)	—	—	—	1 January 2023 to 24 February 2023	1.44
	Consultants	2,000,000	—	—	(2,000,000)	—	—	—	1 January 2023 to 24 February 2023	1.44
15 June 2021	Employees	15,192,000	—	—	—	—	338,675	15,530,675	15 June 2021 to 14 June 2024	0.391
	Supplier	3,846,000	—	—	—	—	85,739	3,931,739	15 June 2021 to 14 June 2024	0.391
	Business partner	7,692,000	—	—	—	—	171,478	7,863,478	15 June 2021 to 14 June 2024	0.391
		<u>29,710,000</u>	<u>—</u>	<u>—</u>	<u>(2,980,000)</u>	<u>—</u>	<u>595,892</u>	<u>27,325,892</u>		

* As a result of Rights Issue, adjustments were made to the exercise price of and the number of the outstanding share options under the Share Option Scheme with effect from 13 March 2023.

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 announcement.

COMPETING INTERESTS

The Directors are not aware of any business or interest of the Directors or the controlling Shareholders 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 interest which any such person has or may have with the Group during the Reporting Period.

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 the 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 of the controlling Shareholders 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.

CODE OF CORPORATE GOVERNANCE PRACTICES

The Company endeavors to adopt prevailing best corporate governance practices. For the nine months ended 30 September 2023, the Company had complied with all the code provisions set out in the Corporate Governance Code as contained in Appendix 15 of the GEM Listing Rules and there has been no deviation in relation thereto.

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 standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules (the “**Required Standard of 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 of Dealings during the Reporting Period. Further, the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors for the nine months ended 30 September 2023.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the Reporting Period.

AUDIT COMMITTEE

The financial information in this announcement has not been audited by the auditor of the Company. The Company's audit committee (the "Audit Committee"), comprising Dr. Kao Ping Suen, Mr. Chak Shi Shing and Mr. Sek Sing Chor, being the independent non-executive Directors, has reviewed with the Company's management the accounting principles and practices adopted by the Group and financial reporting matters including a review of the unaudited consolidated results of the Group for the nine months ended 30 September 2023. There were no disagreements within the Audit Committee in relation to the accounting treatment adopted by the Company.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises Mr. Chiu Ka Lok (Chairman), Mr. Chun Chi Ngon Richard (Chief Executive Officer) and Dr. Chun Chun as the executive Directors, Ms. Yeung Siu Foon as the non-executive Director and Dr. Kao Ping Suen and Mr. Chak Shi Shing and Mr. Sek Sing Chor, as the independent non-executive Directors.

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

Hong Kong, 13 November 2023

As at the date of this announcement, the executive Directors are Mr. Chiu Ka Lok, Mr. Chun Chi Ngon Richard and Dr. Chun Chun, the non-executive Director is Ms. Yeung Siu Foon and the independent non-executive Directors are Dr. Kao Ping Suen, Mr. Chak Chi Shing and Mr. Sek Sing Chor.