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SMART GLOBE HOLDINGS LIMITED

竣球控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8485)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

*This announcement, for which the directors (the “**Directors**”) of Smart Globe Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) 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 (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

FINANCIAL HIGHLIGHTS

- The Group's revenue amounted to approximately HK\$132.2 million for the year ended 31 December 2019 (“**FY19**”) (2018: approximately HK\$123.8 million), representing an increase of approximately 6.8% as compared to the year ended 31 December 2018 (“**FY18**”).
- The profit of the Company is approximately HK\$23.1 million for FY19 (FY18: approximately HK\$17.8 million), representing an increase of more than 29.7% mainly due to increase in revenue generated and cost control implemented for FY19.
- Basic earnings per share for FY19 was approximately HK\$2.31 cents (FY18: HK\$1.78 cents).
- During FY19 and FY18, no dividend was declared.
- A final dividend of HK0.4 cent per share, amounting to an aggregate of HK\$4.0 million in respect of FY19 (FY18: nil), has been proposed by the Directors and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting (“**AGM**”) to be held on 8 May 2020 (Friday).

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

In view of the uncertain global economy, the Group will strive to launch various credit controls, and further tighten the control over operating expenses, while streamlining production control and improving manufacturing efficiency with technology advanced machinery to minimise the labour cost and maximise the facility utilisation rate.

Business Review

As one of the leading printing service providers, the Group is engaged in its core business of printing books products and novelty and packaging products. It provides a full suite of services from pre-press to printing to finishing services, as well as producing custom-made and value added printing products.

For FY19, the Group recorded an increase in its total revenue by approximately 6.8% to approximately HK\$132.2 million from approximately HK\$123.8 million in FY18. This was mainly due to the increase in sale in the book product segment in the United States (“U.S.”) and Hong Kong (“HK”). Profit of the Company was approximately HK\$23.1 million, representing an increase of 29.7% from approximately HK\$17.8 million in FY18.

During FY19, approximately 82.7% of total revenue was contributed by the book products segment amounting to approximately HK\$109.3 million (FY18: approximately HK\$101.7 million). This segment’s performance remains stable for the year under review.

As a strategy to maintain competitiveness in the current operating environment, the Group continue to extend its geographical reach of customers during FY19. Revenues were generated from areas such as the U.S., the People’s Republic of China (the “PRC”) (including Hong Kong), the United Kingdom and the Netherlands, representing 23.7%, 43.9%, 11.8% and 10.4% of our total revenue, respectively.

Outlook

In the year ahead, the Group will continue to explore and capture new business opportunities for potential growth by enhancing our marketing strategy to expand our quality customer base and promote our one-stop printing services to existing and potential customers as well as the Group will strive to further tighten control over its operating expenses and streamline the production processes.

Meanwhile, by leveraging its leading one-stop printing platform, the Group will continue to invest in enhancing its capabilities to improve the overall production efficiency and prepare for any opportunity and potential growth in the future.

The Group will also cautiously explore viable investment and acquisition opportunities that can enhance value of the shareholders of the Company (“**Shareholders**”).

Financial Review

Revenue

Our revenue increased by approximately 6.8% from approximately HK\$123.8 million for FY18 to approximately HK\$132.2 million for FY19. This was mainly due to the net effect of less orders received from customers based in the Netherlands, United Kingdom (“**U.K.**”) and PRC, and more secured orders from customers based in the U.S. and HK which resulted in the increase in total revenue by approximately 6.8%.

Gross profit margin

Our overall gross profit margin increased from approximately 35.9% in FY18 to approximately 37.8% in FY19. The increase in gross profit margin was mainly due to better sales performance and better streamlined production management in the FY19.

Other income

Our other income increased more than 100.0% from approximately HK\$0.3 million in FY18 to approximately HK\$1.6 million in FY19. The increase was mainly due to the increase in receipt of government grants of HK\$0.9 million in FY19.

Allowance for credit losses, net of reversal

Our allowance for credit losses, net decreased by over 100% from allowance for credit losses of approximately HK\$0.5 million in FY18 to reversal of allowance for credit losses of approximately HK\$0.1 million in FY19. The decrease was mainly due to the decrease in trade receivables that were considered irrecoverable in FY19.

Other gains and losses

Our other gains and losses decreased by approximately 66.3% of approximately HK\$0.7 million in FY18 to approximately of HK\$0.2 million in FY19. Such variance is mainly due to loss on disposal of plant and equipment for FY19.

Selling and distribution costs

Our distribution costs increased by approximately 17.5% from approximately HK\$6.3 million in FY18 to approximately HK\$7.5 million in FY19. This was mainly due to the increase of approximately HK\$0.6 million in transportation and freight charges resulting from higher sales volume during the year under review.

Administrative expenses

Our administrative expenses decreased slightly by approximately 4.0% from approximately HK\$16.4 million in FY18 to approximately HK\$15.8 million in FY19. Not much variance was noted by us.

Finance costs

Our finance costs decreased by approximately 23.7% from approximately HK\$0.5 million in FY18 to approximately HK\$0.4 million in FY19. This was mainly due to less invoice financing loans were obtained during the year under review.

Income tax expense

Our income tax expense increased by approximately 33.4% from approximately HK\$3.9 million in FY18 to approximately HK\$5.2 million in FY19. It was mainly due to the increase in assessable profit that is subject to Hong Kong profits tax.

Tax on overseas profits has been calculated on the estimated assessable profits for FY19 at the rates of tax prevailing in the countries in which the Group operates.

Profit for the year

As a result of the above factors, profit for the FY19 stood at approximately HK\$23.1 million (FY18: approximately HK\$17.8 million).

The above financial data were chosen to be presented in this annual results announcement as they represent a material financial impact on the financial statements of the Group for FY18 and/or FY19. The board of Directors (the “**Board**”) believes that by presenting the changes of these financial data, they can effectively explain the financial performance of the Group for FY19.

FUTURE DEVELOPMENT AND PROSPECTS

In the year ahead, the Group hopes to utilise its growth potential. The Group will continue to explore new business opportunities for existing products in different markets so as to promote a diversified quality customer base by implementing strategic initiatives and enhancing marketing efforts. In addition, the Group will strive to tighten control over its operating expenses and streamline the production processes.

Meanwhile, by leveraging its leading one-stop printing platform, the Group will continue to enhance its capabilities. Improved production efficiency and the enhancement of manufacturing flexibility are expected to add a competitive advantage to the Group and hence may generate more sales orders from both existing and new customers.

FINAL DIVIDEND

A final dividend of HK0.4 cent per share, amounting to an aggregate of HK\$4.0 million in respect of the FY19 (FY18: nil), has been proposed by the Directors and is subject to approval of the Shareholders at the AGM.

CAPITAL STRUCTURE

The shares of the Company were successfully listed on GEM of the Stock Exchange on 28 December 2017. There has been no change in the capital structure of the Group since then. The share capital of the Group only comprises ordinary shares.

As at 31 December 2019, the Company's issued share capital was HK\$10,000,000 and the number of its issued ordinary shares was 1,000,000,000 of HK\$0.01 each.

LIQUIDITY AND FINANCIAL RESOURCES

The Group financed its operations with shareholders' equity, cash generated from operations and bank borrowings.

The Group maintained bank deposits, bank balances and cash amounting to approximately HK\$42.7 million as at 31 December 2019 (31 December 2018: approximately HK\$29.4 million), increased by approximately 45.2% as compared with that as at 31 December 2018. The functional currency of our Company is Hong Kong dollar. As at 31 December 2019, 74.1% of our Group's cash and bank balances was denominated in Hong Kong dollar (31 December 2018: 90.5%) and the remaining 25.9% (31 December 2016: 9.5%) in other currencies, mainly the US dollar and Renminbi ("**RMB**").

The Group's non-current assets increased to approximately HK\$36.8 million as at 31 December 2019 (31 December 2018: approximately HK\$35.2 million), primarily due to the net effect of depreciation of property, plant and equipment and addition of property, plant and equipment.

As at 31 December 2019, the Group's current assets amounted to approximately HK\$106.0 million, mainly comprised of inventories of approximately HK\$11.6 million (31 December 2018: approximately HK\$10.7 million), trade and other receivables of approximately HK\$48.6 million (31 December 2018: approximately HK\$51.8 million), certificates of deposit of approximately HK\$3.0 million (31 December 2018: approximately HK\$3.0 million) and bank balance and cash of approximately HK\$42.7 million (31 December 2018: approximately HK\$29.4 million).

As at 31 December 2019, the Group's current liabilities amounted to approximately HK\$23.4 million, mainly comprised of trade and other payables of approximately HK\$16.1 million (31 December 2018: approximately HK\$19.3 million), contract liabilities of approximately HK\$0.2 million (31 December 2018: approximately HK\$0.5 million), taxation payable of approximately HK\$4.7 million (31 December 2018: approximately HK\$0.3 million), lease liabilities/obligations under finance leases of approximately HK\$2.5 million (31 December 2018: approximately HK\$4.3 million), and zero bank borrowing (31 December 2018: approximately HK\$7.4 million).

As at 31 December 2019, the net current assets of the Group increased by approximately HK\$19.1 million or approximately 30.1% to approximately HK\$82.5 million (31 December 2018: approximately HK\$63.4 million).

The Group had lease liabilities/obligations under finance leases of approximately HK\$2.5 million as at 31 December 2019 (31 December 2018: total bank borrowings and obligations under finance leases of approximately HK\$13.0 million).

The Group's gearing ratio, which is total interest-bearing liabilities divided by total equity was approximately 2.1% as at 31 December 2019 (31 December 2018: approximately 13.4%). The Group's current ratio (calculated on the basis of the Group's current assets over current liabilities) stood at approximately 4.5 as at 31 December 2019 (2018: approximately 3.0).

TREASURY POLICIES

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the period under review. To manage the Group's liquidity risk, the management monitors the Group's liquidity position and maintains sufficient cash and cash equivalents within the Group, as well as ensuring the availability of funding through an adequate amount of committed credit facilities and the ability to settle the payables of the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

As its revenue is mainly denominated in United States dollars (“US\$”) and Hong Kong dollars (“HK\$”), and HK\$ is pegged to US\$, the Group’s exposure to fluctuations in exchange rate in relation to the Group’s revenue is relatively low.

The Group is also exposed to foreign exchange risks as the Group’s production is mainly in the PRC. The continuing depreciation of RMB may lead to a decrease of our cost of production. During FY19, the Group has not entered into any financial instrument for hedging purposes nor other hedging instruments to hedge against foreign exchange rate risks. The Group will keep on reviewing and monitoring the exchange fluctuation between RMB and HK\$, and will consider entering into hedging arrangement as and when appropriate.

CAPITAL EXPENDITURE

During FY19, the Group had acquired plant and equipment at approximately HK\$4.7 million (FY18: HK\$4.6 million).

CAPITAL COMMITMENTS

As at 31 December 2019, the Group had no significant capital commitments.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no material contingent liabilities.

MATERIAL INVESTMENTS

The Group had not made or held any significant investments during FY19.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in “Future Plans and Use of Proceeds” of the prospectus of the Company (the “**Prospectus**”), the Group did not have other plans for material investments or capital assets.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURE

During FY19, the Group had not made any significant acquisition or disposal of subsidiaries, associates or joint venture.

EMPLOYEES' INFORMATION AND EMOLUMENT POLICIES

Employees of the Group

Our employees are based in Hong Kong and He Yuan, Guangdong Province, the PRC. As at 31 December 2019, there were 333 (2018: 343) employees in the Group. The total staff costs, including directors' emoluments, amounted to approximately HK\$27.4 million for FY19 (FY18: approximately HK\$32.8 million). Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical insurance, and grants discretionary incentive bonuses to eligible staff based on their performance and contributions to the Group.

Employees of He Yuan Factory

The workers working at our production site located at Heyuan Hi-Tech Development Zone, Heyuan, Guangdong Province, the PRC ("**He Yuan Factory**") are employed by the He Yuan Factory. As at 31 December 2019, there were 320 (2018: 329) employees in the He Yuan Factory.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold, or redeemed any of the securities of the Company during FY19.

UPDATE ON DIRECTORS' INFORMATION

During FY19, there was no change in the information of the Directors pursuant to Rule 17.50A (1) of the GEM Listing Rules.

FINANCIAL HIGHLIGHTS

Earnings per share (HK cents)

Earnings per ordinary share based on profit attributable to owners of the Group

	2019	2018
(i) Based on weighted average number of ordinary shares	<u>HK 2.31 cents</u>	<u>HK 1.78 cents</u>
(ii) On a fully diluted basis	<u>Not applicable</u>	<u>Not applicable</u>

The calculation of basic earnings per share is based on the profit of the Company of approximately HK\$23,142,000 for FY19 (2018: approximately HK\$17,838,000) and on the weighted average number of 1,000,000,000 (2018: 1,000,000,000) ordinary shares in issue during FY19.

Diluted earnings per share for the years ended 31 December 2019 and 2018 are not presented as there is no dilutive potential ordinary share.

Revenue (HK\$'000)

	Year ended 31 December				
	2015	2016	2017	2018	2019
Revenue	<u>67,985</u>	<u>114,260</u>	<u>150,367</u>	<u>123,812</u>	<u>132,194</u>

Net profit (loss) for the year (HK\$'000)

	Year ended 31 December				
	2015	2016	2017	2018	2019
Profit (loss) for the year attributable to owners of the Company	<u>7,239</u>	<u>10,694</u>	<u>(177)</u>	<u>17,838</u>	<u>23,142</u>

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high standards of corporate governance to safeguard the interests of its Shareholders and enhance its corporate value. The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the Corporate Governance Code and Corporate Governance Report in Appendix 15 to the GEM Listing Rules (the "**CG Code**").

During FY19, the Company has complied with the code provisions set out in the CG Code, except that Mr. Lam Tak Ling Derek ("**Mr. Lam**") is currently performing the roles of chairman and chief executive officer of our Company. Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should not be performed by the same individual. Taking into account Mr. Lam's strong expertise in the printing industry, our Board considered that the roles of chairman and chief executive officer being performed by Mr. Lam enables more effective and efficient overall business planning, decision making and implementation thereof by our Group. In order to maintain good corporate governance and fully comply with such code provision, our Board will regularly review the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

The Board will continue to monitor and renew the Company's corporate governance practices to ensure compliance with the CG Code.

The Board conducted reviews of the system of internal controls of the Group to ensure an effective and adequate internal control system is in place. The Board also conducted meetings to discuss financial, operational and risk management control.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the required standards of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for securities transactions by the Directors in respect of the shares of the Company (the "**Code of Conduct**"). Having made specific enquiries with the Directors, all Directors have confirmed that they have complied with the required standards set out in the Code of Conduct during the year ended 31 December 2019.

SHARE OPTION SCHEME

The Company has conditionally adopted a share option scheme on 4 December 2017 (the "**Scheme**"). The terms of the Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules. No share options have been granted since the adoption of the Scheme and there was no option outstanding as at 31 December 2019.

SUFFICIENCY OF PUBLIC FLOAT

To the best knowledge of the Directors and based on the information that is publicly available to the Company, at least 25% of the Company's issued share capital were held by the public as at the date of this announcement.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK0.4 cent per share for FY19 to be paid on or before 5 June 2020 (Friday) to the Shareholders whose names appear on the Company's register of members at the close of business on 15 May 2020 (Friday). The proposed final dividend are subject to the approval by the Shareholders at the AGM to be held on 8 May 2020 (Friday).

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining entitlement to attend and vote at the AGM, the register of members of the Company will be closed from 5 May 2020 (Tuesday) to 8 May 2020 (Friday), both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the AGM, all transfer of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 pm. on 4 May 2020 (Monday).

The proposed final dividend is subject to the approval of the Shareholders at the AGM. The record date for the proposed final dividend is 15 May 2020 (Friday). For the purpose of determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from 14 May 2020 (Thursday) to 15 May 2020 (Friday) (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, Shareholders must deliver their relevant share certificates and transfer forms to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, located at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4: 30 p.m. on 13 May 2020 (Wednesday) for registration of the relevant transfer.

ANNUAL GENERAL MEETING

The AGM will be held on 8 May 2020 (Friday). A notice convening the meeting will be issued and sent to the Shareholders in due course.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") comprises Mr. Li Chun Hung, Mr. Ong Chor Wei and Mr. Yam Kam Kwong, all of whom are independent non-executive directors of the Company. The Audit Committee has adopted terms of reference which are in line with the code provisions of the CG Code. The Audit Committee has reviewed the results of the Group for FY19.

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The board (the “**Board**”) of directors (the “**Directors**”) of Smart Globe Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2019, together with the comparative figures for the year ended 31 December 2018, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	<i>Notes</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Revenue	3	132,194	123,812
Cost of sales		<u>(82,290)</u>	<u>(79,389)</u>
Gross profit		49,904	44,423
Other income	4	1,642	329
Reversal of allowance (allowance) for credit losses on trade receivables, net		102	(534)
Other gains and losses	5	246	731
Selling and distribution costs		(7,453)	(6,341)
Administrative expenses		(15,753)	(16,402)
Finance costs		<u>(377)</u>	<u>(494)</u>
Profit before taxation		28,311	21,712
Taxation	6	<u>(5,169)</u>	<u>(3,874)</u>
Profit for the year		23,142	17,838
Other comprehensive expense for the year			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising from translation of a foreign operation		<u>(1,086)</u>	<u>(2,933)</u>
Total comprehensive income for the year		<u>22,056</u>	<u>14,905</u>
Earnings per share			
Basic (HK cents)	8	<u>2.31</u>	<u>1.78</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	<i>Notes</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		<u>36,824</u>	<u>35,206</u>
Current assets			
Inventories		11,590	10,690
Trade receivables, prepayments and deposits	9	48,619	51,782
Certificates of deposit		2,989	2,983
Tax recoverable		—	288
Bank balances and cash		<u>42,735</u>	<u>29,429</u>
		105,933	95,172
Current liabilities			
Trade and other payables	10	16,071	19,309
Contract liabilities		177	528
Taxation payable		4,657	259
Lease liabilities/obligations under finance leases — due within one year		2,530	4,352
Bank borrowings		—	<u>7,372</u>
		<u>23,435</u>	<u>31,820</u>
Net current assets		<u>82,498</u>	<u>63,352</u>
Total assets less current liabilities		<u>119,322</u>	<u>98,558</u>
Non-current liabilities			
Lease liabilities/obligations under finance leases — due after one year		—	<u>1,292</u>
		—	<u>1,292</u>
Net assets		<u>119,322</u>	<u>97,266</u>
Capital and reserves			
Share capital	11	10,000	10,000
Reserves		<u>109,322</u>	<u>87,266</u>
Total Equity		<u>119,322</u>	<u>97,266</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000 (Note)	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2018	<u>10,000</u>	<u>43,645</u>	<u>12,290</u>	<u>363</u>	<u>16,063</u>	<u>82,361</u>
Profit for the year	—	—	—	—	17,838	17,838
Other comprehensive expense — exchange differences arising from translation of a foreign operation	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,933)</u>	<u>—</u>	<u>(2,933)</u>
Total comprehensive (expense) income for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,933)</u>	<u>17,838</u>	<u>14,905</u>
At 31 December 2018	<u>10,000</u>	<u>43,645</u>	<u>12,290</u>	<u>(2,570)</u>	<u>33,901</u>	<u>97,266</u>
Profit for the year	—	—	—	—	23,142	23,142
Other comprehensive expense — exchange differences arising from translation of a foreign operation	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,086)</u>	<u>—</u>	<u>(1,086)</u>
Total comprehensive (expense) income for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,086)</u>	<u>23,142</u>	<u>22,056</u>
At 31 December 2019	<u><u>10,000</u></u>	<u><u>43,645</u></u>	<u><u>12,290</u></u>	<u><u>(3,656)</u></u>	<u><u>57,043</u></u>	<u><u>119,322</u></u>

Note: The special reserve of the Group represented the difference between the nominal value of the share capital of the Company and the nominal value of the share capital of CP Printing Limited (“CP Printing”) pursuant to a group reorganisation in preparation for the listing of the Company’s shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL

Smart Globe Holdings Limited (the “**Company**”) is a public limited company incorporated in the Cayman Islands and its shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The ultimate holding company is Master Sage Limited (“**Master Sage**”), a company incorporated in the British Virgin Islands (the “**BVI**”), which is ultimately controlled by Mr. Lam Tak Ling Derek (“**Mr. Lam**”) and Mr. Chan Yee Yeung (“**Mr. Chan**”).

The consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Company and its subsidiaries has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) for the first time in the current year:

HKFRS 16	Leases
HK (IFRIC) — Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 — 2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 16 “Leases” (“HKFRS 16**”)**

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 “**Leases**” (“**HKAS 17**”), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK (IFRIC) — Int 4 “Determining whether an Arrangement contains a Lease” and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 5.59% per annum.

	At 1 January 2019 <i>HK\$'000</i>
Operating lease commitments disclosed as at 31 December 2018	1,042
Lease liabilities discounted at relevant incremental borrowing rate	878
Add: Termination option reasonably certain not to be exercised by the Group	2,236
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	3,114
Add: Obligations under finance leases recognised at 31 December 2018	5,644
Lease liabilities as at 1 January 2019	<u>8,758</u>
Analysed as	
Current	6,207
Non-current	2,551
	<u>8,758</u>

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	<i>HK\$'000</i>
Right of use assets relating to operating leases recognised upon application of HKFRS 16	3,114
Amounts included in property, plant and equipment as at 31 December 2018	
— Assets previously under finance lease (note)	11,998
	<u>15,112</u>
By class:	
Plant and office	3,114
Machineries	11,998
	<u>15,112</u>

The management of the Group considered that the discounting impact arising from the refundable deposits paid is immaterial.

Note: In relation to assets previously under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under leases as at 1 January 2019 amounting to HK\$11,998,000 as right-of-use assets. In addition, the Group reclassified the obligations under finance leases of HK\$4,352,000 and HK\$1,292,000 to lease liabilities as current and non-current liabilities respectively at 1 January 2019.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 <i>HK\$000</i>	Adjustments <i>HK\$000</i>	Carrying amounts under HKFRS 16 at 1 January 2019 <i>HK\$000</i>
Non-current assets			
Property, plant and equipment			
— Machineries	34,370	(11,998)	22,372
— Leased machineries	—	11,998	11,998
— Leased properties	—	3,114	3,114
Current liabilities			
Obligations under finance leases	(4,352)	4,352	—
Lease liabilities	—	(6,207)	(6,207)
Non-current liabilities			
Obligations under finance leases	(1,292)	1,292	—
Lease liabilities	—	(2,551)	(2,551)

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents amounts received or receivable from production and printing of books, novelty and packaging products. Revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specified location. Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 60 to 120 days upon delivery.

All sales contracts are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

The disaggregated information of revenue by types of products sold are as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Revenue recognised at a point in time		
Books products	109,298	101,743
Novelty and packaging products	22,896	22,069
	<u>132,194</u>	<u>123,812</u>

The Group's operating activities are attributable to a single operating segment focusing on production, distribution and printing of books, novelty and packaging products. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies that conform to HKFRSs and are regularly reviewed by the executive directors of the Company, being the chief operating decision maker ("CODM"). Accordingly, the Group has only one operating segment. No further discrete financial information nor analysis of this single segment is presented as the CODM reviews the financial information of the Group as a whole.

The Group's operations are located in Hong Kong and the PRC.

Information about the Group's revenue from external customers is presented based on the geographical location of the customers. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers	
	2019	2018
	HK\$'000	HK\$'000
Hong Kong	52,876	42,495
United States	31,324	13,631
United Kingdom	15,618	37,509
Netherlands	13,761	16,218
Australia	6,898	—
The PRC	5,097	10,818
Others	6,620	3,141
	<u>132,194</u>	<u>123,812</u>
	Non-current assets	
	2019	2018
	HK\$'000	HK\$'000
The PRC	36,675	35,184
Hong Kong	149	22
	<u>36,824</u>	<u>35,206</u>

Revenue from customers contributing over 10% of total revenue of the Group during the year are as follows:

	2019	2018
	HK\$'000	HK\$'000
Customer I	17,110	21,222
Customer II	N/A¹	15,830

¹ The corresponding revenue did not contribute over 10% of the total revenue of the Group.

4. OTHER INCOME

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Government grant (note)	1,179	271
Bank and other interest income	154	36
Sundry income	309	22
	<u>1,642</u>	<u>329</u>

Note: Government grants represent export incentive and other incentive payments received by the Group from the relevant government department. There are no unfulfilled conditions attached to those grants.

5. OTHER GAINS AND LOSSES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Net exchange gain	277	432
(Loss) gain on disposal of property, plant and equipment	(31)	299
	<u>246</u>	<u>731</u>

6. TAXATION

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax		
Charge for the year	4,477	3,396
Underprovision in prior years	42	110
	<u>4,519</u>	<u>3,506</u>
PRC Enterprise Income Tax		
Charge for the year	618	349
Underprovision in prior year	32	19
	<u>650</u>	<u>368</u>
	<u><u>5,169</u></u>	<u><u>3,874</u></u>

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%.

Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

Under the Law of the PRC on Enterprise Income Tax (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% for both years.

7. DIVIDENDS

No dividend has been paid or proposed for ordinary shares of the Company during the year ended 31 December 2019. Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2019 of HK0.4 cent (2018: nil for the year ended 31 December 2018) per ordinary share, in an aggregate amount of HK\$4,000,000 (2018: nil), has been proposed by the directors of the Company and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the following data:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Profit for the year attributable to owners of the Company	<u>23,142</u>	<u>17,838</u>
	2019 <i>'000</i>	2018 <i>'000</i>
Weighted average number of ordinary shares	<u>1,000,000</u>	<u>1,000,000</u>

No diluted earnings per share is presented as there were no potential ordinary shares in issue during the year.

9. TRADE RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade receivables	47,666	48,593
Less: Allowance for credit losses	<u>(2,039)</u>	<u>(2,141)</u>
	45,627	46,452
Rental deposits	171	171
Prepayments and deposits	<u>2,821</u>	<u>5,159</u>
Total trade receivables, prepayments and deposits	<u>48,619</u>	<u>51,782</u>

The Group allows credit period ranging from 60 to 120 days. The following is an aged analysis of trade receivables, net of allowance for credit losses, presented based on the goods delivery date, which were the respective revenue recognition dates, at the end of reporting period:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within 30 days	10,507	16,983
31 to 60 days	10,498	6,297
61 to 90 days	5,720	7,330
Over 90 days	18,902	15,842
	<u>45,627</u>	<u>46,452</u>

10. TRADE AND OTHER PAYABLES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade payables	9,535	11,668
Accrued expenses	5,279	6,092
Other payables	1,257	1,549
	<u>16,071</u>	<u>19,309</u>

The credit period of trade payables is 30 to 90 days.

The following is an aged analysis of trade payables based on the invoice date at the end of reporting period:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within 30 days	8,628	9,282
31 to 60 days	726	1,922
61 to 90 days	94	190
Over 90 days	87	274
	<u>9,535</u>	<u>11,668</u>

11. SHARE CAPITAL

The share capital as at 31 December 2019 and 31 December 2018 represents the issued share capital of the Company with details as follows:

	Number of shares	Share capital <i>HK\$000</i>
Authorised:		
At 1 January 2018, 31 December 2018 and 31 December 2019	<u>2,000,000,000</u>	<u>20,000</u>
Issued and fully paid:		
At 1 January 2018, 31 December 2018 and 31 December 2019	<u>1,000,000,000</u>	<u>10,000</u>

PRELIMINARY ANNOUNCEMENT OF THE RESULTS

Scope of work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

APPRECIATION

On behalf of the Board, I would like to extend my sincere gratitude to our business partners, Shareholders, staff and management for their continuous dedication, commitment and support.

By Order of the Board
Smart Globe Holdings Limited
Lam Tak Ling Derek
Chairman

Hong Kong, 20 March 2020

As at the date of this announcement, the executive Directors are Mr. Lam Tak Ling Derek, Mr. Chan Yee Yeung, Ms. Tse Yuen Shan Ivy; and the independent non-executive Directors are Mr. Li Chun Hung, Mr. Ong Chor Wei and Mr. Yam Kam Kwong.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at <http://www.hkgem.com> for at least 7 days from the date of its posting and on the websites of the Company at <http://www.smartglobehk.com>.