JIA YAO HOLDINGS LIMITED
嘉耀控股有限公司

(Incorporated in the Cayman Islands with Limited Liability)
Stock Code : 01626

INTERIM REPORT 2019

CONTENTS

FINANCIAL HIGHLIGHTS

The board (the "Board") of directors (the "Directors") of Jia Yao Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2019 together with the comparative figures for the corresponding period in 2018.

- Revenue for the six months ended 30 June 2019 increased by approximately 0.2% or RMB0.6 million to approximately RMB254.8 million as compared with the corresponding period in 2018.
- Gross profit for the six months ended 30 June 2019 decreased by approximately 13.1% or RMB8.3 million to approximately RMB55.2 million as compared with the corresponding period in 2018.
- Gross profit margin for the six months ended 30 June 2019 decreased by approximately 3.3% from approximately 24.9% to approximately 21.6% as compared with the corresponding period in 2018.
- Profit attributable to owners of the Company decreased from approximately RMB16.1 million for the six months ended 30 June 2018 to loss attributable to owners of the Company of approximately RMB7.8 million for the six months ended 30 June 2019.
- Average trade and note receivables turnover days decreased from approximately 99 days for the year ended 31 December 2018 to approximately 76 days for the six months ended 30 June 2019.
- Average trade and note payables turnover days increased from approximately 260 days for the year ended 31 December 2018 to approximately 279 days for the six months ended 30 June 2019.
- Average inventory turnover days remained constant at 125 days for the year ended 31 December 2018 and for the six months ended 30 June 2019.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (for the six months ended 30 June 2018: nil).

Notes:

(i) Gross profit margin was calculated based on gross profit for the period divided by the revenue for the period.

(ii) Average trade and note receivables turnover days were calculated as the average of the beginning and ending of trade and note receivables balance of the year end/period end divided by the revenue for the year/period and multiplied by the number of days for the year/period (365 days for the year ended 31 December 2018 and 181 days for the six months ended 30 June 2019).

(iii) Average trade and note payables turnover days were calculated as the average of the beginning and ending of trade and note payables balance of the year end/period end divided by the cost of sales for the year/period and multiplied by the number of days for the year/period (365 days for the year ended 31 December 2018 and 181 days for the six months ended 30 June 2019).

(iv) Average inventory turnover days were calculated as the average of the beginning and ending of inventories balance of the year end/period end divided by the cost of sales for the year/period and multiplied by the number of days for the year/period (365 days for the year ended 31 December 2018 and 181 days for the six months ended 30 June 2019).

CORPORATE INFORMATION

Board of Directors

Executive Director

Mr. Yang Yoong An *(Chairman)*
(re-designated on 18 February 2019)

Non-executive Directors

Mr. Feng Bin *(appointed on 18 February 2019)*
Mr. Yang Fan *(appointed on 18 February 2019)*

Independent Non-executive Directors

Mr. Gong Jinjun
Mr. Zeng Shiquan
Mr. Wang Ping

Company Secretary

Mr. Wu Hung Wai *(HKICPA)*

Registered Office

P.O. Box 10008, Willow House, Cricket
Square Grand Cayman, KY1-1001
Cayman Islands

Headquarter and Principal Place of Business in the PRC

No. 6 Qingdao Road
Dongshan Economic Developing District
Yichang, Hubei

Principal Place of Business in Hong Kong

Suite 3212, 32nd Floor, Tower One,
Times Square, No.1 Matheson Street, Causeway Bay
Hong Kong

Audit Committee

Mr. Wang Ping *(Chairman)*
Mr. Gong Jinjun
Mr. Zeng Shiquan

Remuneration Committee

Mr. Gong Jinjun *(Chairman)*
Mr. Yang Fan *(appointed as a member of the Remuneration Committee on 18 February 2019)*
Mr. Wang Ping

Nomination Committee

Mr. Yang Yoong An *(Chairman) (appointed as chairman of the Nomination Committee on 18 February 2019)*
Mr. Zeng Shiquan
Mr. Gong Jinjun

Corporate Website

www.jiayaoholdings.com

Authorised Representatives

Mr. Yang Fan *(appointed on 18 February 2019)*
Mr. Wu Hung Wai

Principal Bankers

China Merchants Bank Yichang Branch
Hubei Bank Corporation Yichang Branch

Principal Share Registrar and Transfer Office

Tricor Services (Cayman Islands) Limited
P.O. Box 10008, Willow House, Cricket Square
Grand Cayman, KY1-1001
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Union Registrars Limited
Suites 3301–04, 33/F
Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

Legal Adviser as to Hong Kong Laws

Loong & Yeung Solicitors
Room 1603, 16th Floor, China Buildings
29 Queen's Road Central
Central, Hong Kong

Auditor

PricewaterhouseCoopers
Certified Public Accountants
22/F., Prince's Building,
Central, Hong Kong

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I am pleased to present the interim report of the Company for the six months ended 30 June 2019.

During the period under review, the Chinese government's emphasis upon the structural reform of the tobacco industry with more stringent regulations presented radical challenges to the sector. Nonetheless, the Group observed a growing popularity in middle to high-end cigarettes among Chinese consumers due to a continued improvement in domestic purchasing power. The Group is dedicated to gaining a stronger foothold in the middle to high-end cigarette packaging market and developing products and design that appeal to young consumers. Riding on the strengthened internal control and advanced technology and development capabilities, the Group continued to keep up with the trend and reinforced its market position as a leading paper cigarette packaging printer.

Therefore, the Group successfully secured the growth in revenue amidst regulatory and economic headwinds for the six months ended 30 June 2019. The Group has recorded RMB254.8 million in revenue, representing a year-on-year increase of 0.2% approximately. The paper cigarette, social product paper packaging and trading business accounted for approximately 95.2%, 2.1% and 2.7% of the revenue respectively.

The Group continued to place great emphasis on upgrading product mix towards middle to high-end paper cigarette to cater consumer demand. At present, in addition to the regular business design, the packaging of paper cigarette has catered for younger generations who are attracted to more prominently fashionable elements and have stronger consumption power.

Looking towards the second half of 2019, the Group will keep a close eye on and proactively cope with any changes in and updates of Chinese government's policies and regulations on tobacco control, and will strive to achieve structural upgrading of the management model through enhancing efficiency and product quality management. Leveraging its outstanding innovation and quality control capabilities, the Group will grasp the opportunities presented ahead. The Group is committed to explore new businesses and income sources, and will devote its efforts to the development of international trading business.

In July 2019, the Group changed its name from "Tourism International Holdings Limited" to "Jia Yao Holdings Limited" with the aim of exploring new opportunities for further diversification of the business.

I would like to express my gratitude for the continued support of all our shareholders, investors, suppliers and customers. As always, our management team and employees will align and leverage all resources available towards maximizing returns for our shareholders.

Yang Yoong An
Chairman of the Board and Executive Director

Hong Kong, 29 August 2019

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

Uncertainties regarding the trade dispute between China and the U.S. continued to undermine the performance of the global and China economy. Alongside with the debt cleanup in China, the Chinese economy was loomed so it merely grew by 6.2%, the slowest pace in 27 years. Inevitably, it damaged the confidence of consumers, and the performance of China tobacco industry was impeded.

Furthermore, since the launch of the "Healthy China 2030" initiative, the Chinese government was expected to further reduce the number of young smokers by slashing the size of smoking population among people over the age of 15 to 20%. With the increasingly strict tobacco control policies and regulations, China's cigarette consumption fell 37% last year; the State Tobacco Monopoly Administration ("STMA") continued to emphasize the structural upgrading of the industry, which included promoting the marketization of cigarette, energy conservation and emission reduction in the production chain. Such policy posed tough challenges to the operating environment of the China tobacco industry during the period under view.

In response to the national policies and challenging market condition, the Company has adopted a flexible approach and constantly adjusted its product mix to seize new opportunities and satisfy the dynamic change of consumer's demand.

Business Review

The Group is principally engaged in the design, printing and distribution of paper cigarette packages in China and to a lesser extent, social product paper packages in the PRC. Hubei Golden Three Gorges Printing Industry Co., Ltd* (湖北金三峽印務有限公司) ("Hubei Golden Three Gorges"), the Group's primary subsidiary, has been established in China for over 20 years. The Group provides paper cigarette packaging services for key cigarette brands designated by the STMA. The Group has also diversified its business to social product paper packages such as packaging for medicines, wines, food and other consumer goods by leveraging its extensive experience and know-how in the cigarette packaging industry.

The Group strived to seek new business and development opportunities, and launched the international trading operation. The operation established in Xiamen, Fujian Province mainly focused on trading of cell phone accessories in Asia. We believe its promising market potential and long-term return will become a new growth driver for our future profits.

Sales and Distribution

The Group places great emphasis on product design and technology development, striving to enhance its technological competitiveness by leveraging its design and development capabilities. As at 30 June 2019, the Group's clients included major provincial tobacco industrial companies and non-provincial tobacco companies under China Tobacco Industry Development Center* (中國煙草實業發展中心), which are located in Hubei, Sichuan, Yunnan, Shaanxi, Henan and other provinces in China. For those existing clients, the Group will strive, by taking advantage of its current status as an approved supplier, to expand to other cigarette brands or sub-brands manufactured by those clients currently not designed and/or printed by the Group into the Group's product portfolio.

To promote the Group's business strategy, the Group intends to set up sales offices in cities where these major customers are located if there appears to be significant business potential. Setting up sales offices near the Group's major customers will enable the Group to maintain good relationships with them and improve the Group's after-sales service to enhance customer satisfaction.

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Product Development and Design

The Group will continue to invest in machinery and equipment to upgrade its production plants and ensure the productivity is up to international standards. The management strives to pursue cutting-edge technology in order to reduce production costs while maintaining or even improving product quality.

Technology Development and Quality Control

The Group attaches high importance on product design and technology development, striving to enhance its technological competitiveness by leveraging its design and development capabilities, and continuing to commit resources to the upgrading of its product research and development capabilities. During the period under review, the Group carried out regulated operation in strict compliance with the ISO9000 quality system standards. Equipped with state-of-the-art and comprehensive inspection equipment and devices, the Group has formulated a complete institutional system that covers every single process for its products in terms of the production flow, standards, record and appraisal for the quality management of imported materials, processes as well as inspection of finished products and product delivery, which in turn assures the continuous enhancement of product quality.

Cost Control

Due to the impact of the current rising prices of raw materials for paper packaging in the industry, in order to keep the fluctuations in the prices of packaging raw materials under effective control, the Group further improved the bidding process by selecting the top—ranking suppliers with strength in the industry during the period under review for carrying out strategic cooperation with the Group to hedge against price fluctuations together.

The Group prepares the budget at the beginning of each year based on the sales forecast, performs evaluation with reference to budget targets, determines standard costs of products based on the actual costs, and formulates applicable procedures and workflows for regulation purposes in order to implement cost control.

Financial Review

Turnover

For the six months ended 30 June 2019, the turnover of the Group was approximately RMB254.8 million, representing an increase of approximately 0.2% over the corresponding period in 2018. Revenue from paper cigarette packages segment, social product paper packages segment and trading business segment accounted for approximately 95.2%, 2.1% and 2.7%, respectively. In order to diversify the Group's business and broaden its revenue base, the Group started the new business on trading of goods (e.g. mainboards of cell phones) of approximately RMB7.1 million during the period under review.

The following table sets forth the breakdown of the Group's sales for the six months ended 30 June 2019:

	For the six months ended 30 June		
	2019	2018	Change (%)
	RMB'000	RMB'000	(approximate)
	(Unaudited)	(Unaudited)	
Paper cigarette packages segment	**242,527**	240,480	+0.9%
Social product paper packages segment	**5,254**	13,794	–61.9%
Trading business segment	**7,051**	–	N/A

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Gross Profit

The Group's gross profit decreased by approximately 13.1% from approximately RMB63.4 million for the six months ended 30 June 2018 to approximately RMB55.2 million for the six months ended 30 June 2019. The Group's gross profit margin decreased by approximately 3.3% from approximately 24.9% to approximately 21.6% as compared with the corresponding period in 2018. The decrease in gross profit margin was primarily due to the increase in costs of major raw materials of paper cigarette packages during the period under review.

Distribution Costs

For the six months ended 30 June 2019, distribution costs comprise: (i) delivery expenses for the transportation of the Group's products to customers; (ii) staff costs and benefits relating to the Group's sales and marketing personnel; (iii) expenses incurred in customer hospitality activities during the Group's normal course of business; (iv) travelling expenses of the staff incurred for the sales and distribution activities; (v) administrative expenses; and (vi) other selling and distribution related expenses. The Group's distribution costs increased by approximately 15.4% from approximately RMB20.2 million for the six months ended 30 June 2018 to approximately RMB23.3 million for the six months ended 30 June 2019. The increase of distribution costs was mainly due to the increase of expenses incurred in customer hospitality activities during the Group's marketing activities on expansion of new market in China during the period under review.

Administrative Expenses

For the six months ended 30 June 2019, administrative expenses consist of (i) staff costs and benefits relating to the Group's administrative personnel; (ii) travelling expenses of administrative staff; (iii) depreciation expenses; (iv) entertainment expenses of administrative staff; (v) research and development expenses; (vi) office expenses; (vii) regulatory expenses; and (viii) other expenses incurred in relation to the Group's administrative operations. The expenses increased by approximately 21.5% from approximately RMB27.6 million for the six months ended 30 June 2018 to approximately RMB33.6 million for the six months ended 30 June 2019. The increase of administrative expenses was mainly due to the increase of research and development costs for new products during the period under review.

Other Income

For the six months ended 30 June 2019, other income mainly consists of non-recurring government grant and change in fair value of financial liability at fair value through profit or loss. The Group's other income decreased by approximately RMB6.5 million to approximately RMB2.8 million during the period under review. The decrease in other income was mainly due to the recognition of fair value gain on convertible notes of approximately RMB8.4 million in last period but no such gain during the period under review.

Other Losses

For the six months ended 30 June 2019, other losses mainly consists of losses on disposal of production scrap and change in fair value of financial liability at fair value through profit or loss. The Group's other losses increased by approximately RMB6.4 million to approximately RMB7.6 million during the period under review. The increase in other losses was mainly due to the recognition of fair value loss on convertible notes of approximately RMB3.1 million during the period under review and increase on loss arising from disposal of production scrap of approximately RMB3.5 million during the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Finance Costs (net)

For the six months ended 30 June 2019, net finance costs primarily consist of interest income on bank deposits, interest payments on interest-bearing obligations, finance costs arising on early redemption of note receivables when the Group sells its note receivables to the banks and other financial institutions at a discount in exchange for immediate cash and bank fees and charges. The net finance costs decreased by approximately 45.7% from approximately RMB3.2 million for the six months ended 30 June 2018 to approximately RMB1.8 million for the six months ended 30 June 2019. The decrease in net finance costs was mainly due to the decease of bank interest expenses because of reducing bank borrowings during the period under review.

Income Tax Credit/(Expense)

The Group recorded an income tax credit of approximately RMB0.5 million for the six months ended 30 June 2019 as compared to the income tax expense of approximately RMB2.0 million for the six months ended 30 June 2018 mainly due to the net loss incurred by a PRC subsidiary during the period under review.

(Loss)/Profit Attributable to Owners of the Company

As a result of the foregoing, the group recorded loss attributable to owners of the Company of approximately RMB7.8 million for the six months ended 30 June 2019 as compared to the profit attributable to owners of the Company of approximately RMB16.1 million for the six months ended 30 June 2018.

Trade and Other Receivables

Trade and other receivables decreased by approximately 5.2% from approximately RMB133.9 million as at 31 December 2018 to approximately RMB127.0 million as at 30 June 2019. The decrease was mainly due to the net effect of: (1) decrease of trade receivables from approximately RMB113.8 million as at 31 December 2018 to approximately RMB63.1 million as at 30 June 2019; (2) increase of note receivables from approximately RMB8.0 million as at 31 December 2018 to approximately RMB29.5 million as at 30 June 2019; and (3) increase of payments in advance from approximately RMB5.1 million as at 31 December 2018 to approximately RMB24.7 million as at 30 June 2019.

Trade and Other Payables

Trade and other payables decreased by approximately 32.4% from approximately RMB384.9 million as at 31 December 2018 to approximately RMB260.0 million as at 30 June 2019. The decrease was mainly due to the net effect of: (1) decrease of trade payables from approximately RMB189.4 million as at 31 December 2018 to approximately RMB86.6 million as at 30 June 2019; (2) decrease of note payables from approximately RMB175.4 million as at 31 December 2018 to approximately RMB164.0 million as at 30 June 2019; (3) decrease of salary payables from approximately RMB9.2 million as at 31 December 2018 to approximately RMB5.8 million as at 30 June 2019; and (4) decrease of taxes payable of approximately RMB7.7 million as at 31 December 2018 to approximately RMB0.2 million as at 30 June 2019.

Liquidity and Financial Resources

The Group recorded net current assets of approximately RMB57.4 million as at 30 June 2019, compared with net current assets of approximately RMB58.0 million as at 31 December 2018. The Group maintained a healthy liquidity position during the six months ended 30 June 2019. The Group's operations were principally financed by internal resources and interest-bearing borrowings during the period under review.

As at 30 June 2019, the Group's cash and cash equivalents, which were held mainly in Renminbi and Hong Kong dollars, were approximately RMB123.9 million, compared with approximately RMB212.5 million as at 31 December 2018.

Borrowings and Gearing Ratio

The Group's interest-bearing borrowings (including convertible notes issued on 18 October 2017) were approximately RMB134.4 million as at 30 June 2019 (as at 31 December 2018: approximately RMB140.8 million). The Group's interest-bearing borrowings were mainly denominated in Renminbi and Hong Kong dollars as at 30 June 2019 and 31 December 2018. The Group's interest-bearing borrowings was repayable within one year. This ratio is calculated as net debt divided by total capital. The gearing ratios are as follows:

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Total borrowings	**134,417**	140,802
Less: cash and cash equivalents	**(123,896)**	(212,527)
Net debt	**10,521**	(71,725)
Total equity	**245,124**	253,474
Total capital	**255,645**	181,749
Gearing ratio (%)	**4.1**	Not applicable

It is the policy of the Group to adopt a consistently prudent financial management strategy, hence sufficient liquidity is maintained with appropriate levels of borrowings to meet the funding requirements of the Group's investments and operations.

Capital Expenditure

During the six months ended 30 June 2019, the Group's total capital expenditure amounted to approximately RMB1.4 million (for the six months ended 30 June 2018: RMB0.5 million), which was mainly used in purchase of plant and machineries.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Treasury Policies

The Group adopted a prudent strategy towards the treasury and funding policies, and attached high importance to the risk control and transactions directly related to the Group's principal business. Funds, primarily denominated in Renminbi and Hong Kong dollars, are normally placed with banks in short or medium term deposits for working capital of the Group.

Charge of Assets

The Group's assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group (including note payables and borrowings of the Group):

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Land use rights	**7,988**	1,297
Property, plant and equipment	**20,238**	30,921
Trade receivables	**18,939**	–
Pledged bank deposits	**82,516**	86,121
	129,681	118,339

Significant Investments, Material Acquisitions and Disposals of Subsidiaries and Associated Companies

There are no significant investments, material acquisition and disposal of subsidiaries and associated companies by the Group for the six months ended 30 June 2019.

Contingent Liabilities

As at 30 June 2019, the Group did not have any significant contingent liabilities (as at 31 December 2018: nil).

Foreign Exchange Risks

The Group's transactions were mainly conducted in Renminbi, and the major receivables and payables are denominated in Renminbi. Following the launch of international trading operation in 2019, the Group has a relatively small amount of transactions conducted in US dollars.

The Group's exposure to foreign currency risk related primarily to certain bank balances and cash, trade and other receivables and trade and other payables maintained in Hong Kong Dollars and US dollars. The Group did not use derivative financial instruments to hedge against the volatility associated with foreign currency transactions and other financial assets and liabilities arising in the ordinary course of business during the six months ended 30 June 2019. However, the Directors will continue to monitor foreign exchange risks and will take prudent measure to minimise the same. The Group will consider hedging significant foreign currencies when the need arises.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Placing of Convertible Notes

On 15 September 2017, the Company entered into the placing agreement (the "Placing Agreement") with First Shanghai Securities Limited (the "Placing Agent") pursuant to which the Company conditionally agreed to issue, and the Placing Agent conditionally agreed to procure placees (the "Placees" and each a "Placee"), on a best efforts basis, to subscribe for convertible notes with the principal amount of up to HK$120,000,000 (the "Convertible Notes") at a consideration equal to the aggregate principal amount of the Convertible Notes, and at the initial conversion price of HK$2.00 to HK$2.10 per Share (the "Placing"). The initial conversion price was subsequently agreed by the Company and the Placing Agent to be HK$2.025 per Share pursuant to the Placing Agreement (the "Conversion Price").

The Conversion Shares shall be allotted and issued under the general mandate granted by the shareholders of the Company to the Directors at the annual general meeting of the Company held on 9 June 2017.

The noteholder will have the right to convert the whole or part of the principal amount of the Convertible Notes into shares of the Company at the Conversion Price at any time from the date following 180 days or half year after of issue of Convertible Notes and up to the fourteenth (14th) day prior to and exclusive of the Maturity Date, and shall bear interest from the date of issue of the Convertible Notes at 4.80% per annum and is payable annually.

The Convertible Notes shall mature on the date falling 24 months from the date of the issue of the Convertible Notes (the "Maturity Date"). Any Convertible Notes which remains outstanding on the Maturity Date shall be redeemed by the Company at the then outstanding principal amount together with any interest accrued but has not been paid.

Completion of the placing of Convertible Notes took place on 18 October 2017 pursuant to which the Convertible Notes in the principal amount of HK$120,000,000 were issued to not less than six Placees. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each Placee and its ultimate beneficial owners is Independent Third Parties. The net proceeds from the Placing, after the deduction of related expenses, were approximately HK$117.0 million. The net proceeds from the Placing were intended to be used as to approximately not more than 20% for general working capital of the Group, and as to approximately not less than 80% for the Group's development purposes in order to expand into new areas including asset management and hospitality related businesses. Further details of the placing of the Convertible Notes are as set out in the announcements of the Company dated 17 September 2017, 26 September 2017, 4 October 2017 and 18 October 2017.

As disclosed in the announcement of the Company dated 23 April 2019, the net proceeds from the placing of the Convertible Notes of approximately HK$17.3 million had been applied by the Group as general working capital of the Group as of 23 April 2019. The remaining proceeds in the amount of approximately HK$99.7 million remain unutilised (the ''Unutilised Proceeds'') as of 23 April 2019. In light of the contemplated expansion into new business area of trading and related investment, the Board has resolved to reallocate the use of the Unutilised Proceeds such that approximately 80% of which would be used for expansion into new business area of trading and related investment while the remaining 20% would continue to be used for general working capital of the Group.

As at the date of this report, the net proceeds from the placing of the Convertible Notes of approximately HK$19.3 million and HK$2.8 million had been applied by the Group as general working capital of the Group and expansion into trading business, respectively, which is consistent with the aforementioned intended use of proceeds. The remaining proceeds in the amount of approximately HK$94.9 million remain unutilised as at the date of this report.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Human Resources and Remuneration

As at 30 June 2019, the Group employed 571 employees (as compared with 850 employees as at 31 December 2018) with total staff cost of approximately RMB35.5 million incurred for the six months ended 30 June 2019 (as compared with approximately RMB41.6 million for the same period of 2018). The Group's remuneration packages are generally structured with reference to market terms and individual performance. The Company adopted a share option scheme as incentive to its Directors and eligible employees. In relation to staff training, the Group also provides different types of programs for staff to improve their skills, develop their respective expertise and showcase their potentials.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (for the six months ended 30 June 2018: nil).

Future Outlook

As the Chinese government is doubling its efforts in regulation of prohibiting smoking in public and indoor areas and reducing cigarette consumption, designs of cigarette paper package become more important for cigarette brands to attract consumers and increasing sales. In preparation for the traditional peak season of tobacco in the second half of the year, the Group will step up its efforts in developing products and creating design that appeal to young consumers, and to innovate its products in order to draw greater brand distinction and uniqueness.

In the second half of 2019, the industry will continue to deepen structural reform, by establishing green supply chains which enforce a higher environmental standard, enhancing brand promotion, and adjusting product structures to propel middle to high-end cigarette consumption. The Group will devote tremendous efforts in its product development to shift its product mix towards middle to high-end cigarette packages and thus turn them into a major source of revenue and safeguard profit. We believe the Group can exert its competitive edge in design, printing and sales and consolidate its leading position in the tobacco industry.

The Group will employ effective development strategy and gradually expand its business from the cigarette industry into new areas including international trading. The Group believes the future growth driver will depend on the development of new products and outreach to new markets, as well as joint venture processing. The Group is confident that it will add greater flexibility to operations for generation of substantial and sustainable profit for the shareholders of the Company.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or Any of the Associated Corporations

As at 30 June 2019, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Cap. 571 of the laws of Hong Kong (the "SFO")) which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests which they are taken or deemed to have under such provisions of the SFO) or which, pursuant to section 352 of the SFO, have been entered in the register referred to therein, or have been, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, notified to the Company and the Stock Exchange were as follows:

(i) Long positions in the shares of the Company (the "Shares")

Name	Capacity/Nature of interest	No. of ordinary shares held	Approximate percentage of shareholding *(Note 3)*
Mr. Yang Yoong An ("Mr. Yang")	Interest of a controlled corporation *(Note 1)*	209,362,000	69.79%
Mr. Feng Bin ("Mr. Feng")	Interest of a controlled corporation *(Note 2)*	15,638,000	5.21%

(ii) Long positions in the ordinary shares of associated corporation

Name	Name of associated corporation	Capacity/ Nature of interest	No. of ordinary shares held	Approximate percentage of shareholding
Mr. Yang	Spearhead Leader Limited ("Spearhead Leader")	Beneficial owner	1	100%

Notes:

1. Mr. Yang beneficially owns the entire issued share capital of Spearhead Leader. Therefore, Mr. Yang is deemed, or taken to be, interested in 209,362,000 shares of the Company held by Spearhead Leader for the purpose of the SFO. Mr. Yang is the sole director of Spearhead Leader.

2. Mr. Feng beneficially owns the entire issued share capital of Star Glide Limited. Therefore, Mr. Feng is deemed, or taken to be, interested in 15,638,000 Shares held by Star Glide Limited for the purpose of the SFO. Mr. Feng is the sole director of Star Glide Limited.

3. Calculated on the basis of 300,000,000 Shares in issue as at 30 June 2019.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

Other members of our Group

Name of subsidiary	Name of shareholder	Approximate percentage of shareholding
Hubei Golden Three Gorges Printing Industry Co., Ltd.	Hubei Three Gorges Tabacco Co., Ltd.	17.14%

Save as disclosed herein, as at 30 June 2019, none of the Directors and chief executives of the Company, or their respective associates, had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which, pursuant to section 352 of the SFO, have been entered in the register referred to therein, or have been, pursuant to the Model Code notified to the Company and the Stock Exchange.

Interests of Substantial Shareholders in Shares and Underlying Shares of the Company

So far as is known to the Directors, as at 30 June 2019, the following persons (not being a Director or chief executive of the Company) had interests or short positions in shares, underlying shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the SFO) which fell 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 as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in the shares of the Company

Name of shareholders	Capacity/Nature of interest	No. of ordinary shares held/ interested	Approximate percentage of shareholding *(note 3)*
Spearhead Leader	Beneficial owner	209,362,000	69.79%
Star Glide Limited	Beneficial owner	15,638,000	5.21%
Ms. Cai Yaohui ("Ms. Cai")	Interest of spouse *(note 1)*	209,362,000	69.79%
Ms. Zhao Yi ("Ms. Zhao")	Interest of spouse *(note 2)*	15,638,000	5.21%

Notes:

1. Ms. Cai is the spouse of Mr. Yang. Accordingly, Ms. Cai is deemed, or taken to be, interested in all Shares and underlying Shares in which Mr. Yang is interested in for the purpose of the SFO.

2. Ms. Zhao is the spouse of Mr. Feng. Accordingly Ms. Zhao is deemed, or taken to be, interested in all shares of the Company in which Mr. Feng is interested in for the purpose of the SFO.

3. Calculated on the basis of 300,000,000 Shares in issue as at 30 June 2019.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

Save as disclosed above, as at 30 June 2019, the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which fell 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 adopted a share option scheme (the "Share Option Scheme") pursuant to a shareholders' resolution passed on 6 June 2014. The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 30,000,000 shares, being 10% of the shares of the Company in issue on the listing date of the Company (ie. 27 June 2014), without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any 12-month period 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. Options granted to substantial shareholders, independent non-executive Directors, or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial shareholder, independent non-executive Directors, or any of their respective associates) in any 12-month period in excess of 0.1% of the Company's issued share capital in aggregate or with an aggregate value in excess of HK$5,000,000 must be also approved by the Company's shareholders.

The subscription price of share in respect of options granted under the Share Option Scheme shall be solely determined by the Board, but may not be less than the higher of (i) the Stock Exchange's closing price of the Company's shares on the date of the grant of the share options which must be a business day; (ii) the average Stock Exchange's closing price of the Company's shares for the five business days immediately preceding the date of the grant; and (iii) the nominal value of a share of the Company.

The Share Option Scheme will remain in force for a period of ten years commencing on the adoption date (i.e. 6 June 2014) and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof unless terminated earlier by the Shareholders in general meeting.

No options were granted, exercised, cancelled or lapsed and there were no outstanding options under the Share Option Scheme from the date of its adoption to the date of this report. A summary of the principal terms and conditions of the Share Option Scheme is set out in Appendix V to the prospectus of the Company dated 17 June 2014.

Competing Business and Conflicts of Interests

None of the Directors is engaged in any business which competes or is likely to compete with the business of the Group, and none of them has any other conflicts of interests with the Group during the period under review and up to the date of this report.

Purchase, Sales or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company throughout the six months ended 30 June 2019.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

Corporate Governance

The Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. The Company has adopted the Corporate Governance Code contained in Appendix 14 of the Listing Rules (the "Corporate Governance Code") as its own code on corporate governance and had complied with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules for the six months ended 30 June 2019.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the code of conduct and the required standard set out in the Model Code regarding directors' securities transactions for the six months ended 30 June 2019.

Audit Committee and Review of Interim Results

The Company has an audit committee (the "Audit Committee") with terms of reference aligned with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules for the primary duties of reviewing and providing supervision on the financial reporting process, internal controls and risk management systems of the Company. The Audit Committee consists of three independent non-executive Directors, namely Mr. Wang Ping (as Chairman), Mr. Zeng Shiquan and Mr. Gong Jinjun.

The interim financial results of the Group for the six months ended 30 June 2019 are unaudited but 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 as well as the Listing Rules and that adequate disclosures have been made. The Audit Committee has also reviewed this report.

The results for the current interim period have been reviewed by the auditors of the Company, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

Changes of Information of Directors

There is no change in Directors' information that is required to be disclosed in accordance with Rule 13.51B(1) of the Listing Rules since the publication of the annual report for the year ended 31 December 2018 of the Company and up to the date of this report.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL INFORMATION

To The Board of Directors of Jia Yao Holdings Limited (formerly known as Tourism International Holdings Limited)
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated interim financial information set out on pages 18 to 40, which comprises the condensed consolidated balance sheet of Jia Yao Holdings Limited (formerly known as Tourism International Holdings Limited) (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2019 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim financial reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 August 2019

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Note	Six months ended 30 June 2019 Unaudited RMB'000	2018 Unaudited RMB'000
Revenue	5	**254,832**	254,274
Cost of sales	8	**(199,677)**	(190,838)
Gross profit		**55,155**	63,436
Distribution costs	8	**(23,313)**	(20,207)
Administrative expenses	8	**(33,572)**	(27,631)
Net impairment losses on financial assets		**(223)**	(26)
Other income	6	**2,817**	9,288
Other losses	7	**(7,603)**	(1,249)
Operating (loss)/profit		**(6,739)**	23,611
Finance income		**810**	649
Finance costs		**(2,562)**	(3,877)
Finance costs (net)		**(1,752)**	(3,228)
(Loss)/profit before income tax		**(8,491)**	20,383
Income tax credit/(expense)	9	**480**	(2,048)
(Loss)/profit for the period		**(8,011)**	18,335
(Loss)/profit attributable to:			
— Owners of the Company		**(7,836)**	16,051
— Non-controlling interests		**(175)**	2,284
(Loss)/profit for the period		**(8,011)**	18,335
Items that may not be reclassified to profit or loss			
Currency translation differences		**(339)**	47
Total comprehensive (loss)/income for the period		**(8,350)**	18,382
Total comprehensive (loss)/income for the period attributable to:			
— Owners of the Company		**(8,175)**	16,098
— Non-controlling interests		**(175)**	2,284
Total comprehensive (loss)/income for the period		**(8,350)**	18,382
(Loss)/earnings per share from operations attributable to owners of the Company			
— Basic (loss)/earnings per share	10	**(0.026)**	0.054
— Diluted (loss)/earnings per share	10	**(0.026)**	0.021

The notes on pages 23 to 40 are an integral part of these condensed consolidated interim financial information.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2019

	Note	**As at 30 June 2019 Unaudited RMB'000**	As at 31 December 2018 Audited RMB'000
ASSETS			
Non-current assets			
Land use rights	*12*	**56,346**	20,883
Property, plant and equipment	*12*	**124,105**	130,358
Prepayment for property, plant and equipment	*13*	**330**	3,956
Prepayment for land use rights		**–**	34,640
Deferred income tax assets		**6,074**	5,593
Right-of-use assets	*12*	**2,133**	–
		188,988	195,430
Current assets			
Inventories	*15*	**121,113**	154,984
Trade and other receivables	*14*	**126,993**	133,908
Restricted cash	*16*	**82,516**	86,121
Cash and cash equivalents	*16*	**123,896**	212,527
		454,518	587,540
Total assets		**643,506**	782,970
EQUITY			
Equity attributable to the owners of the Company			
Share capital	*17*	**2,382**	2,382
Other reserves		**168,611**	168,950
Retained profits		**30,214**	38,050
		201,207	209,382
Non-controlling interests		**43,917**	44,092
Total equity		**245,124**	253,474

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 30 June 2019

	Note	As at 30 June 2019 Unaudited RMB'000	As at 31 December 2018 Audited RMB'000
LIABILITIES			
Non-current liabilities			
Lease liabilities, non-current		1,309	–
Current liabilities			
Trade and other payables	*20*	260,040	384,891
Income tax payable		1,775	3,803
Borrowings	*19*	25,000	35,000
Convertible notes	*18*	109,417	105,802
Lease liabilities, current		841	–
		397,073	529,496
Total liabilities		398,382	529,496
Total equity and liabilities		643,506	782,970

The notes on pages 23 to 40 are an integral part of these condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Unaudited					
	Attributable to the owners of the Company					
	Share capital	Other reserves	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2019	**2,382**	**168,950**	**38,050**	**209,382**	**44,092**	**253,474**
Loss for the period	**–**	**–**	**(7,836)**	**(7,836)**	**(175)**	**(8,011)**
Other comprehensive loss	**–**	**(339)**	**–**	**(339)**	**–**	**(339)**
Balance at 30 June 2019	**2,382**	**168,611**	**30,214**	**201,207**	**43,917**	**245,124**
Balance at 1 January 2018	2,382	164,506	27,330	194,218	40,474	234,692
Profit for the period	–	–	16,051	16,051	2,284	18,335
Other comprehensive income	–	47	–	47	–	47
Balance at 30 June 2018	2,382	164,553	43,381	210,316	42,758	253,074

The notes on pages 23 to 40 are an integral part of these condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Note	Six months ended 30 June 2019 Unaudited RMB'000	2018 Unaudited RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations		(79,159)	57,550
Interest received		810	649
Interest paid		(2,408)	(3,542)
Income tax paid		(2,571)	(3,765)
Net cash (used in)/generated from operating activities		(83,328)	50,892
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,363)	(16,100)
Proceeds from disposal of property, plant and equipment		1	294
Net cash used in investing activities		(1,362)	(15,806)
Cash flows from financing activities			
Proceeds from borrowings		87,000	80,000
Repayments of borrowings		(97,000)	(109,990)
Changes in restricted cash pledged for borrowings and note payables		3,605	(30,187)
Net cash used in financing activities		(6,395)	(60,177)
Net decrease in cash and cash equivalents		(91,085)	(25,091)
Effect of foreign exchange rate changes		2,454	1,525
Cash and cash equivalents at beginning of the period		212,527	193,938
Cash and cash equivalents at end of the period	*16*	123,896	170,372

The notes on pages 23 to 40 are an integral part of these condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2019

1 General information

Jia Yao Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 5 August 2013. The Company was formerly known as Tourism International Holdings Limited and the name of the Company was changed to its current name on 19 June 2019.

The Company and its subsidiaries (together, the "Group") are engaged in the design, printing and sales of paper cigarette packages and social product paper packages in Hubei Province, the People's Republic of China (the "PRC").

The Company's registered office is located at P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1–1001, Cayman Islands, and the address of the principal place of business is No. 6 Qingdao Road, Dongshan Economic Developing District, Yichang, Hubei Province, the PRC.

The Company's ordinary shares was listed on the main board of The Stock Exchange of Hong Kong Limited on 27 June 2014.

This condensed consolidated interim financial information is presented in Renminbi, ("RMB"), rounded to the nearest thousand, unless otherwise stated. This condensed consolidated interim financial information set out on pages 18 to 40 has been approved for issue by the Company's board of directors (the "Board") on 29 August 2019.

This condensed consolidated interim financial information has not been audited.

2 Basis of preparation and significant accounting policies

This condensed consolidated interim financial information for the six months ended 30 June 2019 has been prepared in accordance with HKAS 34, 'Interim financial reporting'.

This condensed consolidated interim financial information has been prepared on an accrual basis and under the historical cost convention except for certain financial instrument that have been measured at fair value.

The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2018, and any public announcements made by the Group during the interim reporting period.

Except as described below, the Group's accounting policies applied in preparing the condensed consolidated interim financial information are consistent with those policies applied in preparing the 2018 annual consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2019

2 Basis of preparation and Significant accounting policies *(continued)*

2.1 Standards, amendments and interpretations effective in 2019

On 1 January 2019, the Group adopted the following new standards, amendments and interpretations. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

HKFRS 16	Leases
HK(IFRIC) 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities
HKAS 28 (Amendments)	Long-term interests in associates and joint venture
HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23	Annual Improvements to HKFRSs 2015–2017 cycle

Except for the impact of adoption of HKFRS 16 set out in note 2.3 below, the adoption of other applicable new and amended standards and interpretations did not have any material impact on the condensed consolidated interim financial information of the Group.

2.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2019

The following new standards and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2019 and have not been early adopted:

Standards	Key requirements	Effective for annual periods beginning on or after
HKAS 1 and HKAS 8 (Amendment)	Definition of material	1 January 2020
HKFRS 3 (Amendment)	Definition of a business	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	To be determined

The above new standards, amendments to existing standards and interpretations are effective for annual periods beginning on or after 1 January 2020 and have not been applied in preparing this condensed consolidated interim financial information. The impact of new standards and amendments to standards and interpretations above is still under assessment by the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2019

2 Basis of preparation and Significant accounting policies *(continued)*

2.3 Change in Accouting Policies

HKFRS 16, Leases

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019.

The Group has adopted HKFRS 16 from its mandatory adoption date of 1 January 2019. The Group has applied the simplified transition approach and has not restated comparative amounts for the 2018 reporting period. Right-of-use assets will be measured at the amount of the lease liability on adoption. The Group applied the exemption for short-term leases that with lease term of 12 months or less. On the initial application date of HKFRS 16, all of the leases are short-term leases thus no impact to the financial statements as at 1 January 2019 for transition to HKFRS 16.

The Group's leasing activities and how these are accounted for

The Group leases only offices for long-term contracts. Rental contracts are typically made for fixed periods of 2 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of properties were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and,
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2019

2 Basis of preparation and Significant accounting policies *(continued)*

2.3 Change in Accouting Policies *(continued)*

HKFRS 16, Lease *(Continued)*

The Group's leasing activities and how these are accounted for (Continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets represent leased properties under long term contracts and are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

3 Estimates

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended 31 December 2018.

4 Financial risk management and financial instruments

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

There have been no changes in the risk management policies since year end.

4.2 Liquidity risk

Compared to 2018 year end, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

5 Revenue and segment information

Segment information

The Group manages its business by divisions. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management, being the chief operation decision maker, for the purposes of resource allocation and performance assessment, the Group's reportable and operating segments are as follows:

Paper cigarette packages	—	design, printing and sale of paper cigarette packages
Social product paper packages	—	design, printing and sale of social product paper packages (including packages for alcohol, medicines and food)
Trading goods		

Revenue

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties is measured in the same way as in the condensed consolidated statement of comprehensive income.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2019

5 Revenue and segment information *(continued)*

Revenue *(continued)*

The segment results for the six months ended 30 June 2019:

	Six months ended 30 June 2019			
	Paper cigarette packages RMB'000	**Social product paper packages RMB'000**	**Trading RMB'000**	**Total RMB'000**
Segment revenue	**242,527**	**5,254**	**7,051**	**254,832**
Gross profit/(loss)	**56,105**	**(1,129)**	**179**	**55,155**
Distribution costs	**(22,562)**	**(751)**	**–**	**(23,313)**
Segment results	**33,543**	**(1,880)**	**179**	**31,842**
Administrative expenses				**(33,572)**
Net impairment losses on financial assets				**(223)**
Other income				**2,817**
Other losses				**(7,603)**
Finance costs (net)				**(1,752)**
Loss before income tax				**(8,491)**

The segment results for the six months ended 30 June 2018:

	Six months ended 30 June 2018			
	Paper cigarette packages RMB'000	Social product paper packages RMB'000	Trading RMB'000	Total RMB'000
Segment revenue	240,480	13,794	–	254,274
Gross profit	63,113	323	–	63,436
Distribution costs	(19,125)	(1,082)	–	(20,207)
Segment results	43,988	(759)	–	43,229
Administrative expenses				(27,631)
Net impairment losses on financial assets				(26)
Other income				9,288
Other losses				(1,249)
Finance costs (net)				(3,228)
Profit before income tax				20,383

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2019

5 Revenue and segment information *(continued)*

Segment assets and liabilities

The total of non-current assets other than financial instruments and deferred tax assets, broken down by location of the assets, is shown as follows:

	As at 30 June 2019 Unaudited RMB'000	As at 31 December 2018 Audited RMB'000
China Mainland	180,781	189,834
Hong Kong	2,133	3
	182,914	189,837

6 Other income

	Six months ended 30 June	
	2019 Unaudited RMB'000	2018 Unaudited RMB'000
Government grants	2,817	840
Change in fair value of financial liability at fair value through profit or loss	–	8,385
Others	–	63
	2,817	9,288

7 Other losses

	Six months ended 30 June	
	2019 Unaudited RMB'000	2018 Unaudited RMB'000
Loss on disposal of property, plant and equipment, net	323	612
Loss on disposal of production scrap	4,147	613
Change in fair value of financial liability at fair value through profit or loss *(note 18)*	3,133	–
Others	–	24
	7,603	1,249

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2019

8 Expense by nature

	Six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
	RMB'000	RMB'000
Operating (loss)/profit for the period has been arrived at after charging:		
Staff costs:		
Directors' emoluments	**510**	372
Salaries and other benefits	**32,152**	38,419
Contributions to retirement benefits scheme, excluding those of Directors	**2,803**	2,810
	35,465	41,601
Cost of inventories	**178,622**	157,784
Depreciation of property, plant and equipment	**7,058**	8,321
Transportation cost	**8,841**	9,296
Energy and water expense	**4,890**	6,093
Social entertainment expense	**11,418**	8,273
Real estate tax, stamp duties and other taxes	**2,232**	2,835
Professional service expense	**1,614**	1,192
Office expense	**1,807**	1,060
Operating lease rentals in respect of rented premises	**903**	706
Auditors' remuneration	**765**	752
Amortisation of land use rights	**603**	302
Other operating expenses	**2,344**	461
	221,097	197,075
Total expense	**256,562**	238,676

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2019

9 Income tax credit/(expense)

	Six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
	RMB'000	RMB'000
Current income tax		
— PRC corporate income tax *(i)*	**–**	(1,905)
Deferred income tax		
— Deferred tax assets	**480**	(143)
Income tax credit/(expense)	**480**	(2,048)

(i) PRC corporate income tax ("CIT")

The Company is not subject to any taxation in the Cayman Islands.

Hong Kong subsidiaries are subject to Hong Kong profits tax at the rate of 16.5% (2018: 16.5%). Hong Kong profits tax has not been provided for subsidiaries incorporated in Hong Kong as these subsidiaries did not have estimated assessable profit for the period.

Hubei Golden Three Gorges Printing Industry Co., Ltd. ("Hubei Golden Three Gorges"), a subsidiary of the Company, was established in the PRC and has been recognised as the High New Tech Enterprises in 2015. According to the tax incentives of the Corporate Income Tax Law of the PRC (the "CIT Law") for High New Tech Enterprises, Hubei Golden is subject to a reduced corporate income tax rate of 15% in 2019 (2018: 15%).

Dangyang Golden Three Gorges Printing Industry Co., Ltd., another subsidiary of the Company established in the PRC, is subject to the PRC corporate income tax, which has been calculated based on the corporate income tax rate of 25% (2018: 25%).

(ii) PRC withholding income tax

Under relevant tax laws and regulations, dividends distributed from the Company's subsidiaries established in the PRC (the "PRC subsidiaries") to non-PRC tax resident Group entities shall be subject to the withholding income tax at 10%. The Group plans to use the unremitted earnings of the PRC subsidiaries up to 30 June 2019 and 2018 for reinvestment. No PRC withholding income tax was provided for unremitted earnings of the PRC subsidiaries as at 30 June 2019 and 2018.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2019

10 (Loss)/earnings per share

(a) Basic

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
(Loss)/profit attributable to the owners of the Company (RMB'000)	**(7,836)**	16,051
Weighted average number of ordinary shares in issue ('000)	**300,000**	300,000
Basic (loss)/earnings per share (RMB)	**(0.026)**	0.054

(b) Diluted

Diluted loss per share for the six months end 30 June 2019 has not been presented as the Company's outstanding convertible notes had no dilutive effect for the six months ended 30 June 2019.

11 Dividend

The Board of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2019

12 Land use rights, property, plant and equipment and right-of-use assets

	Land use rights RMB'000	Property, plant and equipment RMB'000	Right-of-use assets RMB'000
Six months ended 30 June 2019 (unaudited)			
Net book value			
Opening net book amount as at 1 January 2019	**20,883**	**130,358**	**–**
Additions	**36,066**	**3,564**	**2,399**
Disposals	**–**	**(2,759)**	**–**
Depreciation and amortisation	**(603)**	**(7,058)**	**(266)**
Closing net book amount as at 30 June 2019	**56,346**	**124,105**	**2,133**
Six months ended 30 June 2018 (unaudited)			
Net book value			
Opening net book amount as at 1 January 2018	21,488	138,783	–
Additions	–	492	–
Disposals	–	(906)	–
Depreciation and amortisation	(302)	(8,321)	–
Closing net book amount as at 30 June 2018	21,186	130,048	–

As at 30 June 2019, land use rights and plant and equipment with net book value of RMB28,226,000 (31 December 2018: RMB32,218,000) (note 21) have been pledged as securities for the Group's bank borrowings of RMB25,000,000 (31 December 2018: RMB35,000,000) (note 19).

13 Prepayment for property, plant and equipment

Prepayment for property, plant and equipment represents the prepayments for production equipment.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2019

14 Trade and other receivables

	As at 30 June 2019 Unaudited RMB'000	As at 31 December 2018 Audited RMB'000
Trade receivables	**63,422**	113,883
Less: allowance for doubtful debts	**(313)**	(90)
	63,109	113,793
Note receivables	**29,500**	8,000
Deposits paid	**4,470**	5,476
Advance to employees	**5,187**	1,485
Payments in advance	**24,685**	5,069
Others	**42**	85
	63,884	20,115
Total trade and other receivables	**126,993**	133,908

As at 30 June 2019, trade receivables with net book value of RMB18,938,591 (31 December 2018: Nil) (note 21) have been pledged as securities for the Group's bank borrowings of RMB25,000,000 (31 December 2018: Nil) (note 19).

The ageing analysis of the trade receivables based on invoice date is as follows:

	As at 30 June 2019 Unaudited RMB'000	As at 31 December 2018 Audited RMB'000
0 to 90 days	**48,365**	101,390
91 to 180 days	**14,047**	9,743
181 to 360 days	**277**	1,590
Over 360 days	**733**	1,160
	63,422	113,883

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2019

15 Inventories

	As at 30 June 2019 Unaudited RMB'000	As at 31 December 2018 Audited RMB'000
Raw materials and packaging materials	**44,486**	50,238
Finished goods	**66,970**	99,208
Work in progress	**10,427**	11,240
Provision for Inventory	**(770)**	(5,702)
	121,113	154,984

16 Cash and cash equivalents and restricted cash

	As at 30 June 2019 Unaudited RMB'000	As at 31 December 2018 Audited RMB'000
Cash at bank and on hand	**206,412**	298,648
Less: Restricted cash	**(82,516)**	(86,121)
Cash and cash equivalents	**123,896**	212,527

As at 30 June 2019, Hubei Golden Three Gorges pledged deposits of RMB82,516,000 (31 December 2018: RMB86,121,000) at bank as collateral for issuance of note payables (note 21).

17 Share capital

Ordinary shares, issued and fully paid:

	Number of shares	Share capital HKD'000	HKD'000
Authorised:			
Ordinary shares of HK$0.01 each			
As at 31 December 2018 and 30 June 2019	2,000,000,000	20,000	15,880
Issued and fully paid:			
Ordinary shares of HK$0.01 each			
As at 31 December 2018 and 30 June 2019	300,000,000	3,000	2,382

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2019

18 Convertible notes

On 18 October 2017, the Company completed an issuance of convertible notes with a coupon rate of 4.8% per annum at a total principal value of HK$120,000,000. Its maturity date is 18 October 2019.

According to the agreement, the convertible notes can be converted into the Company's shares at the noteholder's option from the day following 180 days after the date of issue to 4 October 2019. The conversion price is HKD2.025. Any principal amount that remains outstanding upon maturity date shall be redeemed.

The convertible notes were initially recognised as financial liabilities at fair value and measured at fair value through profit and loss at 30 June 2018. The fair value of convertible notes was HK$124,379,000 (equivalent to approximately RMB109,417,000) as at 30 June 2019.

The convertible notes recognised in the condensed consolidated balance sheet were as follows:

	RMB'000
Fair value as at 1 January 2019	105,802
Fair value change recognized *(note 7)*	3,133
Exchange reserves	482
Fair value as at 30 June 2019	109,417

(i) Valuation inputs and relationships to fair value

			30 June 2019	
Description	**Fair value RMB'000**	**Unobservable inputs**	**Range of inputs**	**Relationship of unobservable inputs to fair value**
Convertible notes	109,417	Volatility	39.812%	Increased volatility factor (+5%) would increase fair value by RMB528,000; lower volatility factor (-5%) would decrease fair value by RMB704,000
		Stock price	HK$1.70	Increased stock price factor (+HK$0.1) would increase fair value by RMB1,320,000; lower stock price factor (-HK$0.1) would decrease fair value by RMB968,000
		Discount Rate	11.292%	Increased discount rate factor (+1%) would decrease fair value by RMB264,000; lower discount rate factor (-1%) would increase fair value by RMB264,000

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2019

18 Convertible notes *(continued)*

(ii) Valuation processes

The management of the Group involved an independent valuer that performs the valuations of convertible notes required for financial reporting purposes, including level 3 fair values. Discussions of valuation processes and results are held independently.

The main level 3 inputs used by the Group are derived and evaluated as follows:

- The stock prices are based on the closing stock price of the Company as at the Date of Valuation.
- The expected volatility rates are estimated based on the historical price volatilities of the Company and also with the reference to historical price volatilities of comparable companies.
- Discount rates for convertible notes are determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset.

19 Borrowings

	As at 30 June 2019 Unaudited RMB'000	As at 31 December 2018 Audited RMB'000
Secured short-term bank borrowings	**25,000**	35,000

As at 30 June 2019, short-term bank borrowings of RMB25,000,000 (as at 31 December 2018: RMB35,000,000) of the Group were secured by pledging trade receivables (note 14), land use rights and property, plant and equipment (note 12) of the Group.

The effective interest rates on the Group's borrowings were as follows:

	As at 30 June 2019 Unaudited	As at 31 December 2018 Audited
Fixed-rate borrowings	**5.80%**	6.02%

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2019

20 Trade and other payables

	As at 30 June 2019 Unaudited RMB'000	As at 31 December 2018 Audited RMB'000
Trade payables	**86,603**	189,434
Note payables	**164,000**	175,390
Salary payables	**5,764**	9,214
Taxes payable	**203**	7,667
Others	**3,470**	3,186
	173,437	195,457
Total trade and other payables	**260,040**	384,891

The ageing analysis of trade payables based on invoice date is as follows:

	As at 30 June 2019 Unaudited RMB'000	As at 31 December 2018 Audited RMB'000
Up to 6 months	**82,364**	171,660
6 months to 1 year	**1,687**	17,774
1 year to 2 years	**2,552**	–
	86,603	189,434

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2019

21 Pledge of assets and corporate guarantees

The Group's assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group (including note payables and borrowings of the Group):

	Note	**As at 30 June 2019 Unaudited RMB'000**	As at 31 December 2018 Audited RMB'000
Property, plant and equipment	*12*	**20,238**	30,921
Pledged bank deposits	*16*	**82,516**	86,121
Trade receivables	*14*	**18,939**	–
Land use rights	*12*	**7,988**	1,297
		129,681	118,339

22 Capital Commitment

	As at 30 June 2019 Unaudited RMB'000	As at 31 December 2018 Audited RMB'000
Property, plant and equipment	**4,333**	6,188

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2019

23 Related-party transactions

As at 30 June 2019, the Company's immediate holding company is Spearhead Leader Limited, which held 69.79% shares of the Company in issue and is wholly owned by Mr. Yang Yoong An.

Transactions with related parties

The following transactions are carried out by the Group with related parties:

(i) Key management compensation

	Six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
	RMB'000	RMB'000
Key management compensation	**546**	372

24 Subsequent events

As from 30 June 2019 to the date of this report, save as disclosed in this report, the Board is not aware of any significant events requiring disclosure that have occurred.