Tourism International Holdings Limited
旅業國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01626)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 December 2018 increased by approximately 7.0% or RMB37.1 million to approximately RMB567.1 million as compared with the same period in 2017.
- Gross profit for the year ended 31 December 2018 increased by approximately 4.5% or RMB5.3 million to approximately RMB122.5 million as compared with the same period in 2017.
- Gross profit margin for the year ended 31 December 2018 decreased by approximately 0.5% from approximately 22.1% to approximately 21.6% as compared with the same period in 2017.
- Profit attributable to owners of the Company for the year ended 31 December 2018 increased by approximately 461.8% or RMB10.7 million to approximately RMB13.0 million as compared with the same period in 2017.
- The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (for the year ended 31 December 2017: nil).

The board (the "Board") of directors (the "Directors") of Tourism International Holdings Limited (the "Company") is pleased to announce the consolidated results for the year ended 31 December 2018 of the Company and its subsidiaries (collectively, the "Group") together with the comparative figures for the year ended 31 December 2017, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

		Year ended 31 December	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**567,126**	530,000
Cost of sales	*5*	**(444,645)**	(412,849)
Gross profit		**122,481**	117,151
Distribution costs	*5*	**(38,808)**	(33,317)
Administrative expenses	*5*	**(59,750)**	(60,178)
Other income		**3,914**	342
Other losses		**(2,625)**	(11,751)
Operating profit		**25,212**	12,247
Finance income		**1,252**	1,163
Finance costs		**(5,970)**	(7,852)
Finance costs (net)	*4*	**(4,718)**	(6,689)
Profit before income tax		**20,494**	5,558
Income tax (expense)/credit	*6*	**(3,892)**	747
Profit for the year		**16,602**	6,305
Profit attributable to:			
— Owners of the Company		**12,984**	2,311
— Non-controlling interests		**3,618**	3,994
Profit for the year		**16,602**	6,305
Other comprehensive income			
Currency translation differences		**(782)**	81
Other comprehensive income, net of tax		**(782)**	81
Total comprehensive income for the year		**15,820**	6,386
Total comprehensive income for the year attributable to:			
— Owners of the Company		**12,202**	2,392
— Non-controlling interests		**3,618**	3,994
Total comprehensive income for the year		**15,820**	6,386
Earnings per share attributable to owners of the Company			
— Basic earnings per share	*7*	**0.04**	0.01
— Diluted earnings per share	*7*	**0.03**	0.01

CONSOLIDATED BALANCE SHEET
As at 31 December 2018

	Note	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
ASSETS			
Non-current assets			
Land use rights		**20,883**	21,488
Property, plant and equipment		**130,358**	138,783
Prepayment for property, plant and equipment		**3,956**	–
Prepayment for land use rights		**34,640**	–
Deferred income tax assets		**5,593**	3,909
		195,430	164,180
Current assets			
Inventories		**154,984**	148,429
Trade and other receivables	*8*	**133,908**	216,976
Restricted cash		**86,121**	58,145
Cash and cash equivalents		**212,527**	193,938
		587,540	617,488
Total assets		**782,970**	781,668
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**2,382**	2,382
Other reserves		**168,950**	164,506
Retained earnings		**38,050**	27,330
		209,382	194,218
Non-controlling interests		**44,092**	40,474
Total equity		**253,474**	234,692

	Note	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
LIABILITIES			
Non-current liabilities			
Convertible notes		**–**	106,962
		–	106,962
Current liabilities			
Trade and other payables	*9*	**384,891**	296,497
Income tax payable		**3,803**	3,527
Borrowings		**35,000**	139,990
Convertible notes		**105,802**	–
		529,496	440,014
Total liabilities		**529,496**	546,976
Total equity and liabilities		**782,970**	781,668

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1 GENERAL INFORMATION

Tourism International 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 Jia Yao Holdings Limited and was renamed to its current name on 12 January 2018.

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.

The consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of financial liabilities (including derivative instruments) measured at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

2.2 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

		Effective for annual periods beginning on or after
HKFRS 2 (Amendments)	Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 4 (Amendments)	Insurance contracts	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
HK (IFRIC) 22	Foreign currency transactions and advance consideration	1 January 2018
HKAS 40 (Amendments)	Transfers of investment property	1 January 2018
Annual Improvements 2014-2016 Cycle		1 January 2018

Except for the HKFRS 9 and HKFRS 15, the impacts of which are described below, the other newly adopted standards or amendments listed above did not have significant impact on the Group's consolidated financial statements.

Certain of the Group's accounting policies have been changed to comply with the adoption of HKFRS 9 and HKFRS 15 with a date of transition of January 1, 2018. HKFRS 9 replaces the provisions of HKAS 39 "Financial Instruments" ("HKAS 39") that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. HKFRS 9 also significantly amends other standards dealing with financial instruments such as HKFRS 7 "Financial Instruments — Disclosures". HKFRS 15 replaces the provisions of HKAS 18 "Revenue" ("HKAS 18") and HKAS 11 "Construction Contracts" ("HKAS 11") that relate to the recognition, classification and measurement of revenue and costs.

(i) HKFRS 9 Financial Instruments – Impact of adoption

The Group's financial assets include cash and cash equivalents, restricted cash, trade and other receivables. The Group used modified retrospective approach while adopting HKFRS 9 without restating any comparative information. The reclassification and adjustments arising from the new impairment rules are therefore not reflected in the consolidated balance sheet as at 31 December 2017, but are recognised in consolidated balance sheet on 1 January 2018. The impact on the amounts reported and disclosures set out in the consolidated financial statements for the current and prior year is insignificant.

The Group's financial assets are subject to HKFRS 9's new expected credit loss model.

Impairment on trade receivables for sales of products is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses. The Group was required to revise its impairment methodology under HKFRS 9.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due.

The Group referred to the experience of historical credit losses, integrated with the current situation and the forecast of the future economic situation, and prepared the model which refers to the days past due and the expected credit loss rate during lifetime, in order to assess the expected credit loss. Based on management's assessment, the impact of the change in impairment methodology for the current and prior year is insignificant.

While cash and cash equivalents, restricted cash and other receivables at amortised cost are also subject to the impairment requirements of HKFRS 9, no significant impairment loss was identified.

(ii) HKFRS 15 Revenue from Contracts with Customers – Impact of adoption

The Group adopted the HKFRS 15 without restating any comparative information and the impact on the amounts reported and disclosures set out in the consolidated financial statements for the current and prior year is insignificant.

HKFRS 15 requires that revenue from contracts with customers be recognised upon the transfer of control over goods or services to the customer. Specifically, the Group uses a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer;

Step 2: Identify the performance obligations in the contract;

Step 3: Determine the transaction price;

Step 4: Allocate the transaction price to the performance obligations in the contract;

Step5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group's revenue is mainly from sales of goods. The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods underlying the particular performance obligation is transferred to customers at a point in time.

The impact of the initial adoption of HKFRS 15 on the Group's revenue recognition for the current and prior year is insignificant.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

		Effective for annual periods beginning on or after
HKFRS 16	Leases	1 January 2019
HKFRS 17	Insurance contracts	1 January 2021
HK (IFRIC) 23	Uncertainty over income tax treatments	1 January 2019
HKFRS 9 (Amendments)	Prepayment features with negative compensation	1 January 2019
HKAS 28 (Amendments)	Long-term interests in associates and joint venture	1 January 2019
HKAS 19 (Amendments)	Plan amendment, curtailment or settlement	1 January 2019
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group has already commenced an assessment of the impact of these new or revised standards which are relevant to the Group's operation. Based on management's preliminary assessment, management does not expect the adoption should have material impact to the Group.

HKFRS 16, Leases

HKFRS 16 was issued in January 2016 and will be mandatory for financial year commencing on or after 1 January 2019. It will result in almost all leases being recognised on the lessee's balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

As at 31 December 2018, The Group's future aggregate minimum lease payments under non-cancellable operating leases is approximately RMB207,000, which is less than one year. Management does not expect the initial adoption of HKFRS 16 should have material impact to the Group.

3 SEGMENT INFORMATION

(a) Description of segments and principal activities

The Group manages its businesses 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 (e.g. packages for alcohol, medicines and food)

(b) Segment 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 consolidated statement of comprehensive income.

The segment results for the year ended 31 December 2018:

	Year ended 31 December 2018		
	Paper cigarette packages *RMB'000*	**Social product paper packages** *RMB'000*	**Total** *RMB'000*
Revenue	**541,226**	**25,900**	**567,126**
Gross profit	**120,382**	**2,099**	**122,481**
Distribution costs	**(36,641)**	**(2,167)**	**(38,808)**
Segment results	**83,741**	**(68)**	**83,673**
Unallocated expenses			**(59,750)**
Other income			**3,914**
Other losses			**(2,625)**
Finance costs (net)			**(4,718)**
Profit before income tax			**20,494**

The segment results for the year ended 31 December 2017:

	Year ended 31 December 2017		
	Paper cigarette packages *RMB'000*	Social product paper packages *RMB'000*	Total *RMB'000*
Revenue	504,054	25,946	530,000
Gross profit	116,243	908	117,151
Distribution costs	(31,122)	(2,195)	(33,317)
Segment results	85,121	(1,287)	83,834
Unallocated expenses			(60,178)
Other income			342
Other losses			(11,751)
Finance costs (net)			(6,689)
Profit before income tax			5,558

(c) 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:

	2018	2017
	RMB'000	*RMB'000*
China Mainland	**189,834**	160,248
Hong Kong	**3**	23
	189,837	160,271

(d) Information about major customers

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

	2018	2017
	RMB'000	*RMB'000*
Customer A	**132,049**	131,521
Customer B	**70,810**	94,179
Customer C	**36,331**	41,055
Customer D	**73,801**	36,919
	312,991	303,674

These revenues are attributable to paper cigarette packages.

(e) Other segment information

(i) Depreciation of property, plant and equipment

	2018	2017
	RMB'000	*RMB'000*
Paper cigarette packages	**15,156**	18,608
Social product paper packages	**993**	1,715
Total	**16,149**	20,323

(ii) Impairment of property, plant and equipment

	2018	2017
	RMB'000	*RMB'000*
Paper cigarette packages	**8,417**	10,840
Social product paper packages	**210**	–
Total	**8,627**	10,840

4 FINANCE COSTS (NET)

	2018 *RMB'000*	2017 *RMB'000*
Interest on bank borrowings	**5,755**	8,028
Interest income on bank deposits	**(1,252)**	(1,163)
Exchange loss/(gain), net	**181**	(378)
Other bank charges	**34**	202
	4,718	6,689

5 EXPENSE BY NATURE

	2018 *RMB'000*	2017 *RMB'000*
Operating profit for the year has been arrived at after charging:		
Raw materials and consumables used	**384,494**	359,551
Changes in inventories of finished goods and work in progress	**(21,468)**	(33,031)
Employee benefits expenses	**86,764**	88,409
Depreciation	**16,149**	20,323
Transportation cost	**21,822**	19,988
Energy and water expense	**12,547**	12,397
Recognition of impairment losses	**13,548**	12,210
Social promotion expense	**15,733**	8,342
Real estate tax, stamp duties and other taxes	**5,388**	4,117
Professional service expense	**1,108**	5,473
Office expense	**2,663**	2,399
Operating lease rentals in respect of rented premises	**1,566**	1,645
Auditors' remuneration	**1,200**	1,050
Amortisation	**605**	610
Other operating expenses	**1,084**	2,861
Total cost of sales, distribution costs and administrative expenses	**543,203**	506,344

6 INCOME TAX (EXPENSE)/CREDIT

	2018 *RMB'000*	2017 *RMB'000*
Current income tax *(note i)*	**(5,576)**	(5,704)
Deferred income tax		
— Deferred tax assets	**1,684**	2,408
— Deferred tax liabilities *(note ii)*	**–**	4,043
Income tax (expense)/credit	**(3,892)**	747

(i) Current income tax

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

The subsidiaries established in Hong Kong are subject to Hong Kong profits tax at the rate of 16.5% (2017: 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 year (2017: nil).

Hubei Golden Three Gorges Printing Industry Co., Ltd. ("Hubei Golden Three Gorges") is qualified as a High New Tech Enterprises according to the Corporate Income Tax Law of the PRC and subject to a reduced corporate income tax ("CIT") rate of 15% in 2018 (2017: 15%).

The remaining subsidiaries established in the PRC are subject to the PRC CIT rate of 25% (2017: 25%).

(ii) PRC withholding income tax

Under relevant tax laws and regulations, dividends distributed from the PRC subsidiaries to non-PRC tax resident Group entities shall be subject to the withholding income tax at 10%. In the current year, the Group plans to use the unremitted earnings of the PRC subsidiaries up to 31 December 2018 for reinvestment. No PRC withholding income tax was provided for unremitted earnings of the PRC subsidiaries as at 31 December 2018.

7 EARNINGS PER SHARE

(a) Basic earnings per share

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

	2018	2017
Profit attributable to the owners of the Company (RMB'000)	**12,984**	2,311
Weighted average number of ordinary shares in issue ('000)	**300,000**	300,000
Basic earnings per share (RMB)	**0.04**	0.01

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares

As at 31 December 2018, the Company has only one category of dilutive potential ordinary shares, the convertible notes, which are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the change in fair value of convertible notes.

	For the year ended 31 December 2018
Profit attributable to the owners of the Company (RMB'000)	**12,984**
Change in fair value of convertible notes (RMB'000)	**(1,226)**
Profit used to determine diluted earnings per share (RMB'000)	**11,758**
Weighted average number of ordinary shares in issue ('000)	**300,000**
Adjustments for convertible notes ('000)	**59,259**
Weighted average number of ordinary shares for diluted earnings per share ('000)	**359,259**
Diluted earnings per share (RMB)	**0.03**

As at 31 December 2017, the convertible notes is anti-diluted, diluted earnings per share is the same as the basic earnings per share.

8 TRADE AND OTHER RECEIVABLES

(a) Trade and other receivables

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Trade receivables due from third parties	**113,883**	159,159
Less: allowance for doubtful debts	**(90)**	(101)
	113,793	159,058
Note receivables	**8,000**	25,273
Deposits paid	**5,476**	15,204
Advance to employees	**1,485**	13,394
Payments in advance	**5,069**	3,571
Others	**85**	476
	20,115	57,918
Total trade and other receivables	**133,908**	216,976

(b) Trade receivables pledged

As at 31 December 2018, no trade receivables has been pledged as security for bank borrowings of the Group (as at 31 December 2017, the trade receivables amounting to RMB114,623,000 has been pledged as security for bank borrowings of the Group amounting to RMB139,990,000).

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

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
0 to 90 days	**101,390**	149,991
91 to 180 days	**9,743**	1,002
181 to 360 days	**1,590**	4,731
Over 360 days	**1,160**	3,435
	113,883	159,159

(c) Trade receivables by segment

Trade receivables by segment are as follows:

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Paper cigarette packages	**109,164**	153,210
Social product paper packages	**4,719**	5,949
	113,883	159,159

(d) Impaired trade receivables

Movements in the provision for impairment of trade receivables that are assessed for impairment collectively are as follows:

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
At 1 January	**101**	146
Provision for impairment recognised during the year	**4**	–
Impaired receivables collected	**(15)**	(45)
At 31 December	**90**	101

(e) Past due but not impaired

As at 31 December 2018, trade receivables of RMB16,169,000 (31 December 2017: RMB31,561,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Up to 3 months	**13,772**	23,510
3 to 6 months	**1,476**	1,022
6 months to 1 year	**785**	5,581
Over 1 year	**136**	1,448
	16,169	31,561

9 TRADE AND OTHER PAYABLES

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Trade payables due to third parties	**189,434**	152,369
Note payables	**175,390**	116,100
Salary payables	**9,214**	9,502
Tax payables	**7,667**	6,648
Dividends payable to non-controlling interests	**–**	2,284
Payables to immediate holding company	**–**	2,463
Others	**3,186**	7,131
	195,457	144,128
Total trade and other payables	**384,891**	296,497

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

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Up to 6 months	**171,660**	139,465
6 months to 1 year	**17,774**	11,155
1 year to 2 years	**–**	1,749
	189,434	152,369

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

According to a recent report "A Civil Society Perspective 2018 — Tobacco Control in China", as of December 2018, over 20 cities in China, including tier 1 cities such as Shanghai and Shenzhen, have introduced stricter tobacco control policies prohibiting smoking in public areas. In view of the rising health consciousness of the public, cities such as Beijing and Hangzhou have extended such regulations to include e-cigarette products, thus further discouraged the sales of tobacco. As a result, China's tobacco production has experienced negative growth for four consecutive months from September to December in late 2018, with December at the lowest point at -24.7%.

Nonetheless, as China's GDP per capita grew to nearly USD10,000 in 2018 according to the estimates of the National Development and Reform Commission, steady rise in disposable income led to an increase in consumers' demand for cigarettes. Hence, China's cigarette consumption increased from 2,348.7 billion sticks in 2017 to 2,371.8 billion sticks in 2018.

In respond to the market situation, the Group has adopted a flexible strategy and constantly adjusted its product structure to seize new opportunities and enhanced the quality of its products and services, in order to 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 China. 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 State Tobacco Monopoly Administration of China ("STMA"). The Group has also diversified its business to social product paper packages such as medicine, wine, food and other consumer goods by leveraging its extensive experience and know-how in the cigarette packaging industry.

Sales and Distribution

Regarding the paper cigarette packaging segment, the Group believes that its solid and stable business relationship with customers is vital for excelling within the cigarette packages industry. As of 31 December 2018, 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), their operations span across China with production centers located in Hubei, Sichuan, Yunnan, and other provinces. During the year, the Group continued to set up branch offices in areas where its major clients are located, such as Jiangsu, to reinforce customer relations.

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.

The Group attaches high importance to 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 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 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.

Technology Development and Quality Control

Regarding quality control, the Group pursues perfection, professionalization and standardization by paying close attention to managing and controlling product quality. During the year under review, the Group was engaged in regulated operations in strict compliance with 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 the whole process of production, ensuring continuous enhancement of product quality.

In addition, the Group's product quality and safety control laboratory was accredited by China National Accreditation Service for Conformity Assessment in 2018. Meanwhile, the Group has also refined its quality and surveying management system and obtained accreditation for its G7 printing technology. The Group is resolved to enhance its product quality in response to the demand of customers.

Cost Control

Facing the rising prices of paper packaging raw materials, the Group has adopted effective measures to minimize the impact of fluctuations in their prices. In particular, the Group has negotiated with the top-ranking suppliers each year on the volume of supplies and guaranteed swift payment in exchange for a fixed price for paper materials.

Meanwhile, the Group has also conducted internal evaluation to improve production procedures and materials usage, in hopes of raising production efficiency and shortening product cycle. Ultimately, these measures have allowed the Group to control the production cost per unit.

Financial Review

Revenue

For the year ended 31 December 2018, the revenue of the Group was approximately RMB567.1 million, representing an increase of approximately 7.0% over the same period in 2017, among which revenue from paper cigarette packages segment and social product paper packages segment accounted for approximately 95.4% and 4.6%, respectively. The increase in sales was primarily attributable to the increase in sales order mainly from the markets of Yunnan, Hunan and Henan in China during the year.

The following table sets forth the breakdown of the Group's revenue for the year ended 31 December 2018:

	For the year ended 31 December		
	2018	2017	Change (%)
	RMB'000	*RMB'000*	*(approximate)*
Paper cigarette packages segment	**541,226**	504,054	+7.4%
Social product paper packages segment	**25,900**	25,946	-0.2%

Gross Profit

The Group's gross profit increased by approximately 4.5% from approximately RMB117.2 million for the year ended 31 December 2017 to approximately RMB122.5 million for the year ended 31 December 2018. The Group's gross profit margin decreased by approximately 0.5% from approximately 22.1% to approximately 21.6% as compared with the same period in 2017.

Distribution Costs

For the year ended 31 December 2018, distribution costs comprise: (i) delivery expenses for transportation of our products to customers; (ii) staff costs and benefits relating to our Group's sales and marketing personnel; (iii) expenses incurred in customer hospitality activities during our normal course of business; (iv) travelling expenses of our staff incurred for sales and distribution activities; (v) administrative expenses; and (vi) other selling and distribution related expenses. The Group's distribution costs increased by approximately 16.5% from approximately RMB33.3 million for the year ended 31 December 2017 to approximately RMB38.8 million for the year ended 31 December 2018. 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 year.

Administrative Expenses

For the year ended 31 December 2018, administrative expenses consist of (i) staff costs and benefits relating to our Group's administrative personnel; (ii) travelling expenses of administrative staff; (iii) depreciation expenses arising from daily operation; (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 our administrative operations. The expenses decreased by approximately 0.7% from approximately RMB60.2 million for the year ended 31 December 2017 to approximately RMB59.8 million for the year ended 31 December 2018.

Other Income

For the year ended 31 December 2018, other income mainly consists of non-recurring government grant, change in fair value of financial liability at fair value through profit or loss and sundry income. The Group's other income increased by approximately RMB3.6 million to approximately RMB3.9 million during the year. The increase of other income was mainly due to the increase of government grants and the recognition of fair value gain on convertible notes of approximately RMB1.2 million during the year.

Other Losses

For the year ended 31 December 2018, other losses was mainly from losses on disposal of property, plant and equipment. The Group's other losses decreased by approximately RMB9.1 million to approximately RMB2.6 million during the year. The decrease of other losses was mainly due to the decrease of losses on disposal of property, plant and equipment and no recognition of fair value loss on convertible notes during the year (recognition of fair value loss on convertible notes of approximately of RMB7.0 million for the year ended 31 December 2017).

Finance Costs (net)

For the year ended 31 December 2018, net finance costs primarily consist of interest income on bank deposits, interest payments on interest-bearing obligations and bank charges. The finance costs decreased by approximately 29.5% from approximately RMB6.7 million for the year ended 31 December 2017 to approximately RMB4.7 million for the year ended 31 December 2018. The decrease of net financial costs was mainly due to the decrease of interest on bank borrowings by approximately RMB2.3 million during the year.

Income Tax Expense

For the year ended 31 December 2018, the Group recorded income tax expense of approximately RMB3.9 million (the Group recorded income tax credit of approximately RMB0.7 million for the year ended 31 December 2017).

Profit Attributable to Owners of the Company

As a result of the foregoing, the Group's profit attributable to owners of the Company increased by approximately 461.8% from approximately RMB2.3 million for the year ended 31 December 2017 to approximately RMB13.0 million for the year ended 31 December 2018.

Trade and Other Receivables

Trade and other receivables decreased by approximately 38.3% from approximately RMB217.0 million as at 31 December 2017 to approximately RMB133.9 million as at 31 December 2018. The decrease was mainly attributable to the net effect of: (i) decrease of trade receivables from approximately RMB159.1 million as at 31 December 2017 to approximately RMB113.8 million as at 31 December 2018; (ii) decrease of note receivables from approximately RMB25.3 million as at 31 December 2017 to approximately RMB8.0 million as at 31 December 2018; (iii) increase of payments in advance from approximately RMB3.6 million as at 31 December 2017 to approximately RMB5.1 million as at 31 December 2018; (iv) decrease of advance of employees from approximately RMB13.4 million as at 31 December 2017 to approximately RMB1.5 million as at 31 December 2018; and (v) decrease of deposits paid from approximately RMB15.2 million as at 31 December 2017 to approximately RMB5.5 million as at 31 December 2018.

Trade and Other Payables

Trade and other payables increased by approximately 29.8% from approximately RMB296.5 million as at 31 December 2017 to approximately RMB384.9 million as at 31 December 2018. The increase was mainly attributable to the increase of trade payables from approximately RMB152.4 million as at 31 December 2017 to approximately RMB189.4 million as at 31 December 2018 and increase of note payables from approximately RMB116.1 million as at 31 December 2017 to approximately RMB175.4 million as at 31 December 2018.

Liquidity and Financial Resources

The Group recorded net current assets of approximately RMB58.0 million as at 31 December 2018, compared with net current assets of approximately RMB177.5 million as at 31 December 2017. The decrease of net current assets was mainly due to the reclassification of convertible notes from non-current liabilities to current liabilities as at 31 December 2018. The Group maintained a healthy liquidity position during the year ended 31 December 2018. The Group's operations were principally financed by internal resources and interest-bearing borrowings during the year.

As at 31 December 2018, the Group's cash and cash equivalents, which were held mainly in Renminbi and Hong Kong dollars, were approximately RMB212.5 million, compared with approximately RMB193.9 million as at 31 December 2017.

Borrowings and Gearing Ratio

The Group's interest-bearing borrowings was approximately RMB140.8 million as at 31 December 2018 (as at 31 December 2017: approximately RMB247.0 million). The decrease was mainly due to the decrease of interest-bearing bank borrowings during the year. The Group's interest-bearing borrowings were mainly denominated in Renminbi and Hong Kong dollars as at 31 December 2017 and 2018. The Group's interest-bearing borrowings was repayable within 1 year. This ratio is calculated as net debt divided by total capital. The gearing ratios are as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Total borrowings	**140,802**	246,952
Less: cash and cash equivalents	**(212,527)**	(193,938)
Net debt	**(71,725)**	53,014
Total equity	**253,474**	234,692
Total capital	**181,749**	287,706
Gearing ratio (%)	**Not applicable**	18%

It is the policy of the Group to adopt a consistently prudent financial management strategy. 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 year ended 31 December 2018, the Group's total capital expenditure amounted to approximately RMB56.2 million (2017: approximately RMB7.5 million), which was mainly used in purchase of plant and machineries and prepayment for land use rights.

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):

	2018	2017
	RMB'000	*RMB'000*
Land use rights	**1,297**	20,569
Plant and equipment	**30,921**	102,693
Trade receivables	**–**	114,623
Restricted cash	**86,121**	58,145
	118,339	296,030

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

There are no significant investments, material acquisition and disposal of subsidiaries, associates and joint ventures by the Group for the year ended 31 December 2018 (2017: nil).

Contingent Liabilities

As at 31 December 2018, the Group did not have any significant contingent liabilities (as at 31 December 2017: nil).

Foreign Exchange Risks

The Group's transactions were mainly conducted in RMB, the functional currency of the Group, and the major receivables and payables are denominated in RMB. The Group's exposure to foreign currency risk related primarily to certain bank balances and cash, other receivables and other payables maintained in Hong Kong 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 year ended 31 December 2018.

Human Resources and Remuneration

As at 31 December 2018, the Group employed 850 employees (as compared with 788 employees as at 31 December 2017) with total staff cost of approximately RMB86.8 million incurred for the year ended 31 December 2018 (as compared with approximately RMB88.4 million for the year ended 31 December 2017). The Group's remuneration packages are generally structured with reference to market terms and individual merits.

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, 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 to the directors of the Company at the annual general meeting 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 Bonds 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. 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 at the date of this announcement, the net proceeds from the placing of the Convertible Notes of approximately HK$13.9 million had been applied by the Group as general working capital of the Group, which is consistent with the intended use of proceeds as indicated. The remaining proceeds in the amount of approximately HK$103.1 million remain unutilised as at the date of this announcement.

Adequacy of Public Float

Immediately after the close of the mandatory unconditional cash offers made by First Shanghai Securities Limited for and on behalf of Spearhead Leader Limited on 15 February 2019, the public held 66,034,000 Shares, representing approximately 22.01% of the entire issued share capital of the Company. As such, the Company could not satisfy the minimum public float requirement of 25% as set out under Rules 8.08(1)(a) and 13.32 of the Listing Rules.

The Company therefore made an application to the Stock Exchange for a temporary waiver from strict compliance with Rules 8.08(1)(a) and 13.32 of the Listing Rules and the waiver was granted by the Stock Exchange on 1 March 2019 for the period commencing from 15 February 2019 to 17 April 2019.

The restoration of public float is proposed to be conducted by way of sale down of Shares by Spearhead Leader Limited to independent third party(ies) who is/are not connected person(s) (as defined in the Listing Rules) of the Company (''Sale Down''). Since Mr. Yang Yoong An (being sole shareholder and sole director of Spearhead Leader Limited) is executive director of the Company, his dealings in which for the purpose of Part XV of the SFO is or is to be treated as interested (including Spearhead Leader Limited) with any of the Shares are restricted under Appendix 10 to the Listing Rules until the date when the annual results of the Company for the year ended 31 December 2018 is published. In light of the above, the Company has been informed that the Sale Down cannot be commenced until after the Publication of the 2018 Results Announcement. For details, please refer to the announcement dated 5 March 2019. And further announcement(s) will be made by the Company regarding the restoration of public float as and when appropriate.

Future Outlook

Owing to growing governmental efforts in regulating and reducing cigarette consumption, the designs of cigarette paper package has become more important for attracting consumers and driving sales. The Group will continue to upgrade and innovate its products in order to solidify the uniqueness of its brand, and put more efforts in developing products that are appealing to young consumers, in hopes of bolstering its competitiveness in the market.

Meantime, the tobacco industry is gradually changing its practices by establishing green supply chains that set high environmental standard for production, as well as enhancing promotional effects through branding and adjusting product structures to propel middle to high-end cigarette consumption. While more regulating measures on the tobacco industry can be expected, based on its strong capabilities and expertise, the Group will strengthen its product development efforts to steadily increase the portion of middle to high-end cigarette packages in order to turn them into a major source of revenue, thus safeguarding profit.

Looking forward to 2019, the Group will strive to expand its market reach by capitalizing markets that have potentials of generating more profit, particularly the Guangxi market where the Group aims at becoming an approved paper cigarette package supplier. At the same time, the Group will continue to set up branch offices in locations where its major customers are based, such as Kunshan city, in order to better facilitate its business development.

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.

Purchase, Sale 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 on the Stock Exchange or any other stock exchange, by private arrangement or by general offer throughout the year ended 31 December 2018.

Corporate Governance

Our Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. The Company has complied with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules for the year ended 31 December 2018.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiry 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 year ended 31 December 2018.

Event After the year ended 31 December 2018

The Company has undergone a change in controlling shareholder after Spearhead Leader Limited and Star Glide Limited executed the sale and purchase agreement on 20 November 2018 acquiring 179,964,000 and 15,638,000 ordinary shares of the Company (the "Share(s)") respectively, which was completed on 21 November 2018. Upon the close of the mandatory unconditional cash offers on 15 February 2019, Spearhead Leader Limited held 218,328,000 Shares, constituting an aggregate of approximately 72.78% of the Company's total issued capital. For further details, please refer to the announcements of the Company dated 16 November 2018 and 15 February 2019 respectively, and the composite offer and response document of the Company dated 25 January 2019.

Save as disclosed above, there was no material subsequent event during the period from 1 January 2019 to the date of this announcement.

REVIEW OF ANNUAL RESULTS

The Group's annual results for the year ended 31 December 2018 have been reviewed by the audit committee of the Company, 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 current members of the audit committee of the Company are Mr. Wang Ping, Mr. Gong Jinjun and Mr. Zeng Shiquan.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting is scheduled to be held on Friday, 31 May 2019.

For the purpose of determining the shareholders of the Company who are entitled to attend and vote at the annual general meeting, the register of members of the Company will be closed from Tuesday, 28 May 2019 to Friday, 31 May 2019, both days inclusive. In order to qualify for the right to attend and vote at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Union Registrars Limited at Suites 3301-04,33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Monday, 27 May 2019.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated balance sheet, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in this announcement have been agreed by the Group's auditor, PricewaterhouseCoopers. The work performed by PricewaterhouseCoopers 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 HKICPA and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

ACKNOWLEDGEMENT

The chairman of the Board would like to thank the Board, the management and all of our staff for their hard work and dedication, as well as the shareholders of the Company for their support to the Group.

On behalf of the Board
Tourism International Holdings Limited
Yang Yoong An
Chairman and Executive Director

Hong Kong, 29 March 2019

As at the date of this announcement, the Board comprises six Directors, namely: Mr. Yang Yoong An as executive Director; Mr. Feng Bin and Mr. Yang Fan as non-executive Directors; Mr. Gong Jinjun, Mr. Zeng Shiquan and Mr. Wang Ping as independent non-executive Directors.

If there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail.

* *For identification purpose only*