JIA YAO HOLDINGS LIMITED
嘉耀控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 01626)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended 30 June 2017 increased by approximately 9.5% or RMB20.3 million to approximately RMB235.2 million as compared with the same period in 2016.
- Gross profit for the six months ended 30 June 2017 increased by approximately 12.3% or RMB6.0 million to approximately RMB54.9 million as compared with the same period in 2016.
- Gross profit margin for the six months ended 30 June 2017 increased by approximately 0.6% from approximately 22.7% to approximately 23.3% as compared with the same period in 2016.
- Profit attributable to owners of the Company for the six months ended 30 June 2017 was approximately RMB1.0 million as compared to the loss attributable to owners of the Company of approximately RMB0.3 million for the six months ended 30 June 2016.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2017 (for the six months ended 30 June 2016: Nil).

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 2017 together with the comparative figures for the corresponding period in 2016. The results for the current interim period have been reviewed by the audit committee of the Company and the auditor, 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 Hong Kong Institute of Certified Public Accountants.

Unless otherwise stated, the financial information of the Company in this announcement was stated in Renminbi ("RMB").

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
		Unaudited	Unaudited
	Note	***RMB'000***	*RMB'000*
Revenue	*4*	**235,230**	214,920
Cost of sales		**(180,329)**	(166,027)
Gross profit		**54,901**	48,893
Distribution costs		**(17,824)**	(13,550)
Administrative expenses		**(27,059)**	(26,715)
Other income		**337**	192
Other losses (net)		**(746)**	(342)
Operating profit		**9,609**	8,478
Finance income		**450**	869
Finance costs		**(3,834)**	(6,028)
Finance costs (net)		**(3,384)**	(5,159)
Profit before income tax		**6,225**	3,319
Income tax expense	*6*	**(3,337)**	(2,808)
Profit for the period		**2,888**	511

	Note	Six months ended 30 June 2017 Unaudited *RMB'000*	2016 Unaudited *RMB'000*
Profit/ (loss) attributable to:			
— Owners of the Company		**952**	(291)
— Non–controlling interests		**1,936**	802
Profit for the period		**2,888**	511
Items that may be reclassified to profit or loss			
Currency translation differences		**(286)**	976
Total comprehensive income for the period		**2,602**	1,487
Total comprehensive income for the period attributable to:			
— Owners of the Company		**666**	685
— Non–controlling interests		**1,936**	802
		2,602	1,487
Earnings/ (loss) per share attributable to owners of the Company			
— Basic and diluted earnings/ (loss) per share	*7*	**0.003**	(0.001)

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2017

	Note	**As at 30 June 2017 Unaudited** *RMB'000*	As at 31 December 2016 Audited *RMB'000*
ASSETS			
Non–current assets			
Land use rights		**21,796**	22,098
Property, plant and equipment		**161,875**	167,241
Deferred income tax assets		**3,218**	1,501
		186,889	190,840
Current assets			
Inventories		**103,276**	109,559
Trade and other receivables	*9*	**256,444**	276,313
Restricted cash		**63,004**	54,013
Cash and cash equivalents		**63,714**	58,199
		486,438	498,084
Total assets		**673,327**	688,924
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**2,382**	2,382
Other reserves		**160,186**	160,472
Retained profits		**29,924**	28,972
		192,492	191,826
Non–controlling interests		**38,416**	38,764
Total equity		**230,908**	230,590
LIABILITIES			
Non–current liabilities			
Deferred income tax liabilities		**6,373**	4,043
Current liabilities			
Trade and other payables	*10*	**276,056**	304,291
Borrowings		**159,990**	150,000
		436,046	454,291
Total liabilities		**442,419**	458,334
Total equity and liabilities		**673,327**	688,924

1 GENERAL INFORMATION

Jia Yao Holdings Limited (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" or "China").

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's controlling shareholder is China Civil Aviation (Cayman) Investment Group Limited, which acquired 65.20% shares of the Company in issue on 30 December 2016. The Company's ultimate holding company is HNA Group Co., Ltd.. The Company's registered office is located at Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1–1108, 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.

These condensed consolidated interim financial information are presented in Renminbi ("RMB"), rounded to the nearest thousand, unless otherwise stated.

These condensed consolidated interim financial information have not been audited.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2016, which have been prepared in accordance with HKFRSs.

The comparative condensed consolidated financial information as at 31 December 2016 has been audited by the predecessor auditor.

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2016, as described in those annual consolidated financial statements, Taxes on income in the six months ended 30 June 2017 and 2016 are accrued using the tax rate that would be applicable to expected total annual profit.

(a) Amendments to HKFRSs effective for the financial year ending 31 December 2017 do not have a material impact on the Group.

(b) Impact of standards issued but not yet applied by the Group.

(i) HKFRS 9 Financial instruments

HKFRS 9 Financial Instruments addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has decided not to adopt HKFRS 9 until it becomes mandatory on 1 January 2018.

The Group has not determined to what extent the new requirement will result in the recognition of financial instruments and how this will affect the Group's profit and classification of cash flows.

(ii) HKFRS 15 Revenue from contracts with customers

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers revenue arising from the sale of goods and the rendering of services and HKAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018. The Group will adopt the new standard from 1 January 2018.

The Group has not yet determined to what extent the new requirement will result in the recognition of revenue and how this will affect the Group's profit and classification of cash flows.

(iii) HKFRS 16 Leases

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the 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 recognized. The only exceptions are short–term and low–value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non–cancellable operating lease commitments of RMB 512,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short–term and low–value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

4 REVENUE AND SEGMENT INFORMATION

Segment information

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)

Revenue

Revenue of the Group consists of the following revenues for the six months ended 30 June 2017 and 2016. All revenues are derived from external customers.

The segment results for the six months ended 30 June 2017:

	Six months ended 30 June 2017		
	Paper cigarette packages	**Social product paper packages**	**Total**
	Unaudited	**Unaudited**	**Unaudited**
	RMB'000	***RMB'000***	***RMB'000***
Segment revenue	**220,730**	**14,500**	**235,230**
Segment profit	**36,652**	**425**	**37,077**
Unallocated expenses			**(27,059)**
Other income			**337**
Other losses (net)			**(746)**
Finance costs (net)			**(3,384)**
Profit before income tax			**6,225**

The segment results for the six months ended 30 June 2016:

	Six months ended 30 June 2016		
	Paper cigarette packages	**Social product paper packages**	**Total**
	Unaudited	**Unaudited**	**Unaudited**
	RMB'000	***RMB'000***	***RMB'000***
Segment revenue	195,256	19,664	214,920
Segment profit	34,164	1,179	35,343
Unallocated expenses			(26,715)
Other income			192
Other losses (net)			(342)
Finance costs (net)			(5,159)
Profit before income tax			3,319

Segment assets and liabilities

Segment assets and liabilities are not disclosed in condensed consolidated financial information as they are not regularly provided to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Geographical information

As all of the Group's revenue is derived from customers located in the PRC and most of the Group's identifiable non-current assets are principally located in the PRC, no geographical segment information is presented.

5 EXPENSE BY NATURE

	Six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Operating profit for the period has been arrived at after charging:		
Staff costs:		
Directors' emoluments	**580**	385
Salaries and other benefits	**43,162**	44,193
Contributions to retirement benefits scheme, excluding those of Directors	**5,812**	5,508
	49,554	50,086
Cost of inventories	**139,446**	123,870
Depreciation of property, plant and equipment	**9,937**	10,420
Transportation cost	**8,135**	9,414
Energy and water expense	**4,437**	4,023
Professional service expense	**1,649**	1,186
Maintenance expense	**1,459**	765
Operating lease rentals in respect of rented premises	**1,187**	961
Amortisation of land use rights	**302**	291
Other operating expenses	**9,106**	5,276
	175,658	156,206
Total expense and losses	**225,212**	206,292

6 INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Current income tax		
— PRC corporate income tax (note i)	**1,207**	1,468
Deferred income tax		
— Deferred tax assets	**(1,717)**	1,500
— Deferred tax liabilities	**3,847**	(160)
Income tax expense	**3,337**	2,808

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

For the six months ended 30 June 2017 and 2016, CIT is provided at the rate of 15% and 25%, respectively on the assessable income of entities within the Group incorporated in mainland China.

(ii) PRC withholding income tax

According to the CIT Law, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding companies established outside the PRC when their PRC subsidiaries declare dividends out of their profits earned after 1 January 2008.

7 EARNINGS/ (LOSS) PER SHARE

(a) Basic

Basic earnings/ (loss) per share is calculated by dividing the profit/ (loss) 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	
	2017	2016
	Unaudited	Unaudited
Profit/ (loss) attributable to the owners of the Company (RMB'000)	**952**	(291)
Weighted average number of ordinary shares in issue ('000)	**300,000**	300,000
Basic earnings/ (loss) per share (RMB)	**0.003**	(0.001)

(b) Diluted

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

As at 30 June 2017 and 2016, no new shares were issued during the period. As a result, diluted earnings/ (loss) per share is the same as basic earnings/ (loss) per share.

8 DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2017 (for the six months ended 30 June 2016: Nil).

9 TRADE AND OTHER RECEIVABLES

	As at 30 June 2017 Unaudited ***RMB'000***	As at 31 December 2016 Audited *RMB'000*
Trade receivables	**177,846**	206,356
Less: allowance for doubtful debts	**(646)**	(146)
	177,200	206,210
Note receivables	**50,000**	34,726
Advance to employees	**15,248**	9,789
Payments in advance	**6,859**	14,874
Deposits paid	**7,063**	9,856
Others	**74**	858
	79,244	70,103
Total of trade and other receivables	**256,444**	276,313

As at 30 June 2017, account receivables with net book value of RMB137,695,000 (31 December 2016: RMB139,795,000) have been pledged as securities for bank borrowings of the Group amounting to RMB159,990,000 (31 December 2016: RMB150,000,000).

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

	As at 30 June 2017 Unaudited ***RMB'000***	As at 31 December 2016 Audited *RMB'000*
0 to 90 days	**138,572**	142,243
91 to 180 days	**35,041**	56,294
181 to 360 days	**2,553**	4,089
Over 360 days	**1,680**	3,730
	177,846	206,356

10 TRADE AND OTHER PAYABLES

	As at 30 June 2017 Unaudited *RMB'000*	As at 31 December 2016 Audited *RMB'000*
Trade payables	**128,265**	177,968
Note payables	**125,990**	107,600
Salary payables	**6,423**	7,807
Taxes payable	**4,454**	6,268
Dividend payables to non-controlling interests	**2,284**	–
Other payables — due to related party	**1,704**	–
Others	**6,936**	4,648
	147,791	126,323
Total trade and other payables	**276,056**	304,291

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

	As at 30 June 2017 Unaudited *RMB'000*	As at 31 December 2016 Audited *RMB'000*
Up to 6 months	**120,139**	167,647
6 months to 1 year	**5,806**	6,644
1 year to 2 years	**2,320**	3,677
	128,265	177,968

11 COMMITMENT

(a) Operating lease commitments — the Group as lessee

	As at 30 June 2017 Unaudited ***RMB'000***	As at 31 December 2016 Audited *RMB'000*
Within one year	**512**	740
Later than 1 year and no later than 5 years	**–**	365
Later than 5 years	**–**	38
	512	1,143

(b) Capital commitment

	As at 30 June 2017 Unaudited ***RMB'000***	As at 31 December 2016 Audited *RMB'000*
Property, plant and equipment	**–**	2,900

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

China's GDP growth was recorded as approximately 6.9% for the first half of 2017, which exceeded analysts' expectations of a 6.8% expansion. During the first half of 2017, sales and total taxable profits of cigarettes projected satisfactory progress as the accumulative sales of cigarettes of approximately 24.75 million boxes reached more than 50% of the annual sales target and the total taxable profits of approximately RMB592.9 billion was more than half of the total taxable profits target. The sales performance of the tobacco industry in China so far aligns with the expectation of the State Tobacco Monopoly Administration of the PRC ("STMA").

Destocking continues to be the key tasks of the industry and slim cigarettes gain increasing popularity. Many new products were launched in the market in the first half of 2017 and it affected the sales of traditional brands. With diverse product portfolio and extensive market footholds, the Group enjoys competitive advantages in product development, recording solid business performance in the first half of 2017.

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 15 out of the 30 key cigarette brands designated by the STMA, including, among others, Pride (嬌子), Haomao (好貓) and Double Happiness (雙喜). 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.

Sales and Distribution

As at 30 June 2017, the Group's clients included 12 provincial tobacco industrial companies and 8 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.

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 and the Group, and 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 2017, the turnover of the Group was approximately RMB235.2 million, representing an increase of approximately 9.5% over the same period in 2016. Sales in paper cigarette packages segment increased by approximately RMB25.5 million while sales in social product paper packages segment decreased by approximately RMB5.2 million during the period. The increase in sales was primarily attributable to the increase in sales order mainly in the market of Henan and Yunnan due to various newly launched series of sub–brand of the cigarette brand “Huang Jin Ye (黃金葉)” and “Yu Xi (玉溪)” during the period.

The following table sets forth the breakdown of the Group's sales for the six months ended 30 June 2017:

	For the six months ended 30 June		
	2017	2016	Change (%)
	RMB'000	*RMB'000*	(approximate)
	(Unaudited)	(Unaudited)	
Paper cigarette packages segment	**220,730**	195,256	+13.0%
Social product paper packages segment	**14,500**	19,664	–26.3%

Gross Profit

The Group's gross profit increased by approximately 12.3% from approximately RMB48.9 million for the six months ended 30 June 2016 to approximately RMB54.9 million for the six months ended 30 June 2017. The Group's gross profit margin increased by approximately 0.6% from approximately 22.7% to approximately 23.3% as compared with the same period in 2016. The Group recorded a steady increase in both gross profit and gross profit margin during the period.

Distribution Expenses

For the six months ended 30 June 2017, distribution expenses comprise: (i) delivery expenses for the transportation of products of the Group 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 Group's staff incurred for the sales and distribution activities; (v) administrative expenses; and (vi) other selling and distribution related expenses. The Group's distribution expenses increased by approximately 31.5% from approximately RMB13.6 million for the six months ended 30 June 2016 to approximately RMB17.8 million for the six months ended 30 June 2017. The increase was mainly due to the increase in expenses on customer hospitality activities and business travel of sales representatives for expansion of sales network in China during the period.

Administrative Expenses

For the six months ended 30 June 2017, 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 1.3% from approximately RMB26.7 million for the six months ended 30 June 2016 to approximately RMB27.1 million for the six months ended 30 June 2017.

Other Income

For the six months ended 30 June 2017, other income mainly consists of non-recurring government grant. The Group's other income increased by approximately RMB0.15 million to approximately RMB0.3 million during the period.

Other Losses (net)

For the six months ended 30 June 2017, net other losses mainly consists of net losses arising from disposal of property, plant and equipment. The Group's net other losses increased by approximately RMB0.4 million to approximately RMB0.7 million during the period.

Finance Costs (net)

For the six months ended 30 June 2017, 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 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 34.4% from approximately RMB5.2 million for the six months ended 30 June 2016 to approximately RMB3.4 million for the six months ended 30 June 2017. The decrease was mainly due to the decrease of finance costs arising from early redemption of note receivables during the period.

Income Tax Expense

The Group's income tax expense increased by approximately 18.8% from approximately RMB2.8 million for the six months ended 30 June 2016 to approximately RMB3.3 million for the six months ended 30 June 2017. The increase was mainly due to the increase of the Group's profit before income tax for the period.

Profit/Loss Attributable to Owners of the Company

As a result of the foregoing, the Group recorded a profit attributable to owners of the Company for the six months ended 30 June 2017 of approximately RMB1.0 million as compared to the loss attributable to owners of the Company of approximately RMB0.3 million for the six months ended 30 June 2016.

Trade and Other Receivables

Trade and other receivables decreased by approximately 7.2% from approximately RMB276.3 million as at 31 December 2016 to approximately RMB256.4 million as at 30 June 2017. The decrease was mainly due to the net effect of: (1) decrease of trade receivables from approximately RMB206.2 million as at 31 December 2016 to approximately RMB177.2 million as at 30 June 2017; (2) increase of note receivables from approximately RMB34.7 million as at 31 December 2016 to approximately RMB50.0 million as at 30 June 2017; and (3) decrease of payments in advance from approximately RMB14.9 million as at 31 December 2016 to approximately RMB6.9 million as at 30 June 2017.

Trade and Other Payables

Trade and other payables decreased by approximately 9.3% from approximately RMB304.3 million as at 31 December 2016 to approximately RMB276.1 million as at 30 June 2017. The decrease was mainly due to the net effect of: (1) decrease of trade payables from approximately RMB178.0 million as at 31 December 2016 to approximately RMB128.3 million as at 30 June 2017; and (2) increase of note payables from approximately RMB107.6 million as at 31 December 2016 to approximately RMB126.0 million as at 30 June 2017.

Liquidity and Financial Resources

The Group recorded net current assets of approximately RMB50.4 million as at 30 June 2017, compared with net current assets of approximately RMB43.8 million as at 31 December 2016. The Group maintained a healthy liquidity position during the six months ended 30 June 2017. The Group's operations were principally financed by internal resources and bank borrowings during the period.

As at 30 June 2017, the Group's cash and cash equivalents, which were held mainly in Renminbi and Hong Kong dollars, were approximately RMB63.7 million, compared with approximately RMB58.2 million as at 31 December 2016.

Borrowings and Gearing Ratio

The Group's interest–bearing borrowings was approximately RMB160.0 million as at 30 June 2017 (as at 31 December 2016: approximately RMB150.0 million). The gearing ratio (defined as total debt divided by total equity) increased from approximately 65.1% as at 31 December 2016 to approximately 69.3% as at 30 June 2017. The increase in gearing ratio was mainly due to the increase of interest–bearing borrowings as at 30 June 2017. The Group's interest–bearing borrowings were mainly denominated in Renminbi as at 30 June 2017 and 31 December 2016. All borrowings were repayable within 1 year.

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 2017, the Group's total capital expenditure amounted to approximately RMB5.7 million (for the six months ended 30 June 2016: RMB5.4 million), which was mainly used in purchase of plant and machineries.

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 2017 *RMB'000* **(Unaudited)**	As at 31 December 2016 *RMB'000* (Audited)
Land use rights	**21,796**	22,098
Property, plant and equipment	**125,256**	132,026
Trade receivables	**137,695**	139,795
Pledged bank deposits	**63,004**	54,013
	347,751	347,932

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

Save as disclosed herein, there are no significant investments, material acquisition and disposal of subsidiaries and associated companies by the Group for the six months ended 30 June 2017.

Contingent Liabilities

As at 30 June 2017, the Group did not have any significant contingent liabilities (as at 31 December 2016: Nil).

Foreign Exchange Risks

The Group's transactions were mainly conducted in Renminbi, the functional currency of the Group, and the major receivables and payables are denominated in Renminbi. 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 six months ended 30 June 2017.

Human Resources and Remuneration

As at 30 June 2017, the Group's employed 796 employees (as compared with 850 employees as at 31 December 2016) with total staff cost of approximately RMB49.6 million incurred for the six months ended 30 June 2017 (as compared with approximately RMB50.1 million for the same period of 2016). 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, details of the scheme are set out in the paragraph headed "Share Option Scheme" in the interim report for the six months ended 30 June 2017. 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 2017 (for the six months ended 30 June 2016: Nil).

Future Outlook

Leveraging on the synergies with the major shareholder of the Company, the Group is optimistic to the development of the cigarette industry in the second half of 2017. With consumption of the stock in the first half of 2017, greater demand for cigarettes in the next half year of 2017 due to Chinese traditional festivals will boost the sales of cigarette in the coming half year.

Following the change in ownership of the Company as a result of the mandatory unconditional Cash offer by China Civil Aviation (Cayman) Investment Group Limited, the financial scale of the Company has been strengthened and the Group intends to expand and diversify its business scope. In the future, the Group will upgrade cigarette product portfolio and expand its market share in existing markets through participating in more tender processes. At the same time, the Group will seek improvement in production capacity on new products, creating new growth points by expanding market share and upgrading product variety with new pricing of new products. The Group will step up the promotion and marketing efforts in Jiangsu, Guangdong, Guangxi and other markets to strive for more tenders. Internal efficiency control will continue to be exercised in order to lower the production costs as well as to enhance the production efficiency.

Furthermore, benefitting from the resources of its controlling shareholder, the Group's business will also gradually expand from the cigarette industry into new areas including asset management and hospitality related businesses. The Group will actively explore any such investment and business opportunities in the future, thereby diversifying its business risks and enhancing returns to its Shareholders.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Competing Business and Conflicts of Interests

None of the Directors, management, controlling shareholders or substantial shareholders of the Company or any of their respective associates (as defined under the Listing Rules) 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, 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 2017.

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 the Listing Rules (the "Corporate Governance Code") as its own code on corporate governance and had complied with the Corporate Governance Code for the six months ended 30 June 2017.

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 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 2017.

Audit Committee and Review of Interim Results

The Company has established 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 2017 is 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 announcement.

The results for the current interim period have been reviewed by the auditors of the Company, PricewaterhouseCoopers in Hong Kong, 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.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

The announcement is published on the respective website of the Stock Exchange (www.hkexnews.hk) and the Company (www.jiayaoholdings.com). The Company's interim report for the six months ended 30 June 2017 will be despatched to the shareholders of the Company and published at the aforementioned websites in due course.

By Order of the Board
Jia Yao Holdings Limited
Li Tie
Chairman

Hong Kong, 29 August 2017

As at the date of this announcement, the Board comprises seven Directors, namely: Mr. Li Tie, Mr. Liu Daoqi and Mr. Huang Erwei as executive Directors; Mr. Yang Yoong An as non-executive Director; 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 purposes only*