Jia Yao Holdings Limited
嘉耀控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 01626)

ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

UNAUDITED CONSOLIDATED RESULTS

For the reasons explained below under "Review of Unaudited Annual Results", the auditing process for the annual results of Jia Yao Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") has not been completed. In the meantime, the board of directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Group for the year ended 31 December 2019 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

		Year ended 31 December	
		2019	2018
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Audited)
Revenue	*3*	**581,257**	567,126
Cost of sales	*5*	**(455,253)**	(444,645)
Gross profit		**126,004**	122,481
Distribution costs	*5*	**(41,324)**	(38,808)
Administrative expenses	*5*	**(65,845)**	(59,724)
Net impairment losses on financial assets		**(174)**	(26)
Other income		**3,137**	3,914
Other losses	*8*	**(9,761)**	(2,625)
Operating profit		**12,037**	25,212

	Note	Year ended 31 December **2019** *RMB'000* **(Unaudited)**	2018 *RMB'000* (Audited)
Finance income		**1,722**	1,252
Finance costs		**(3,928)**	(5,970)
Finance costs (net)	*4*	**(2,206)**	(4,718)
Profit before income tax		**9,831**	20,494
Income tax expense	*6*	**(2,381)**	(3,892)
Profit for the year		**7,450**	16,602
Profit attributable to:			
— Owners of the Company		**4,222**	12,984
— Non-controlling interests		**3,228**	3,618
Profit for the year		**7,450**	16,602
Other comprehensive income			
Currency translation differences		**(1,154)**	(782)
Other comprehensive income, net of tax		**(1,154)**	(782)
Total comprehensive income for the year		**6,296**	15,820
Total comprehensive income for the year attributable to:			
— Owners of the Company		**3,068**	12,202
— Non-controlling interests		**3,228**	3,618
Total comprehensive income for the year		**6,296**	15,820
Earnings per share attributable to owners of the Company			
— Basic earnings per share	*7*	**0.01**	0.04
— Diluted earnings per share	*7*	**0.01**	0.03

UNAUDITED CONSOLIDATED BALANCE SHEET
As at 31 December 2019

	Note	**As at 31 December 2019** ***RMB'000*** **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
ASSETS			
Non-current assets			
Right-of-use assets		**49,904**	–
Land use rights		**–**	20,883
Investment properties		**9,959**	–
Property, plant and equipment		**114,988**	130,358
Prepayment for property, plant and equipment		**2,246**	3,956
Prepayment for land use rights		**–**	34,640
Deferred income tax assets		**5,375**	5,593
		182,472	195,430
Current assets			
Inventories		**148,275**	154,984
Trade and other receivables	*9*	**153,377**	133,908
Restricted cash		**84,300**	86,121
Cash and cash equivalents		**75,899**	212,527
		461,851	587,540
Total assets		**644,323**	782,970

	Note	As at 31 December 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**2,382**	2,382
Other reserves		**169,522**	168,950
Retained earnings		**40,546**	38,050
		212,450	209,382
Non-controlling interests		**47,320**	44,092
Total equity		**259,770**	253,474
LIABILITIES			
Non-current liabilities			
Lease liabilities, non-current		**832**	–
		832	–
Current liabilities			
Trade and other payables	*10*	**325,450**	384,891
Income tax payable		**2,518**	3,803
Borrowings		**55,000**	35,000
Convertible notes		**–**	105,802
Lease Liabilities, current		**753**	–
		383,721	529,496
Total liabilities		**384,553**	529,496
Total equity and liabilities		**644,323**	782,970

NOTES:

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 was renamed to its current name on 4 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.

The unaudited 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 unaudited consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

(i) Compliance with HKFRS and HKCO

Compliance with Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Companies Ordinance (Cap. 622)

The unaudited consolidated financial statements of the Group have been prepared in accordance with HKFRSs and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

(ii) Historical cost convention

The unaudited consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of financial liabilities, which is measured at fair value.

(iii) 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 2019:

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

The Group had to change its accounting policies as a result of adopting HKFRS 16. The Group elected to apply the simplified transition approach and has not restated comparatives for the 2018 reporting period. This is disclosed in note 2.2. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(iv) New standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations have been published that are not mandatory for 31 December 2019 reporting period and have not been early adopted by the Group:

		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
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

None of these is expected to be relevant or have material impact to the unaudited consolidated financial statements of the Group.

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 Leases on the group's unaudited financial statements.

As indicated in note 2.1 above, the Group has adopted HKFRS 16 from 1 January 2019, applied the simplified transition approach and has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provision in the standard. Right-of-use assets were measured at the amount of the lease liabilities on adoption. There was no impact to the opening retained earnings. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at 1 January 2019

- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases

- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and

- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

(ii) Measurement of right-of-use assets

Under the simplified transition approach, the associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of prepaid or accrued lease payments relating to that lease recognised in the consolidated balance sheet as at 31 December 2018, if any. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

Land use rights was reclassified to right-of-use assets as of 31 December 2019 and 1 January 2019.

(iii) Adjustments recognised in the consolidated balance sheet on 1 January 2019

Consolidated balance sheet (extract)	**31 December 2018 As originally Presented**	**Impact of HKFRS 16**	**1 January 2019 Restated**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	(Unaudited)	(Unaudited)
Right-of-use assets	–	20,883	20,883
Land use rights	20,883	(20,883)	–

(iv) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

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)

Trading goods — trade sales of goods including mainboards of cell phones

(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 unaudited consolidated statement of comprehensive income.

The unaudited segment results for the year ended 31 December 2019:

	Year ended 31 December 2019			
	Paper cigarette packages *RMB'000* **(Unaudited)**	**Social product paper packages** *RMB'000* **(Unaudited)**	**Trading goods** *RMB'000* **(Unaudited)**	**Total** *RMB'000* **(Unaudited)**
Revenue	**548,847**	**13,180**	**19,230**	**581,257**
Gross profit/(loss)	**128,672**	**(3,162)**	**494**	**126,004**
Distribution costs	**(40,100)**	**(1,224)**	**–**	**(41,324)**
Segment results	**88,572**	**(4,386)**	**494**	**84,680**
Administrative expenses				**(65,845)**
Net impairment losses on financial assets				**(174)**
Other income				**3,137**
Other losses				**(9,761)**
Finance costs (net)				**(2,206)**
Profit before income tax				**9,831**

The audited segment results for the year ended 31 December 2018:

	Year ended 31 December 2018			
	Paper cigarette packages *RMB'000* (Audited)	Social product paper packages *RMB'000* (Audited)	Trading goods *RMB'000* (Audited)	Total *RMB'000* (Audited)
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
Administrative expenses				(59,724)
Net impairment losses on financial assets				(26)
Other income				3,914
Other losses				(2,625)
Finance costs (net)				(4,718)
Profit before income tax				20,494

(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:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
China Mainland	**177,097**	189,834
Hong Kong	**–**	3
	177,097	189,837

(d) Information about major customers

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

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Customer A	**139,991**	132,049
Customer B	**61,943**	70,810
Customer C	**56,325**	73,801
Customer D	**47,432**	4,971
	305,691	281,631

These revenues are attributable to paper cigarette packages.

(e) Other segment information

(i) Depreciation of property, plant and equipment

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Paper cigarette packages	**13,262**	15,156
Social product paper packages	**696**	993
Total	**13,958**	16,149

(ii) Impairment of property, plant and equipment

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Paper cigarette packages	**3,130**	8,417
Social product paper packages	**1,863**	210
Total	**4,993**	8,627

4 FINANCE COSTS (NET)

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Interest on bank borrowings	**3,534**	5,755
Interest income on bank deposits	**(1,722)**	(1,252)
Exchange (gain)/loss, net	**(3)**	181
Other bank charges	**397**	34
	2,206	4,718

5 EXPENSES BY NATURE

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Operating profit for the year has been arrived at after charging:		
Raw materials and consumables used	**395,073**	384,494
Changes in inventories of finished goods and work in progress	**9,160**	(21,468)
Employee benefits expenses	**69,569**	86,764
Depreciation	**13,958**	16,149
Transportation cost	**19,167**	21,822
Energy and water expense	**12,872**	12,547
Recognition of impairment losses	**4,993**	13,522
Social promotion expense	**20,350**	15,733
Real estate tax, stamp duties and other taxes	**3,802**	5,388
Professional service expense	**2,282**	1,108
Office expense	**3,680**	2,663
Operating lease rentals in respect of rented premises	**2,696**	1,566
Auditors' remuneration	**1,400**	1,200
Amortisation	**1,145**	605
Other operating expenses	**2,275**	1,084
Total cost of sales, distribution costs and administrative expenses	**562,422**	543,177

6 INCOME TAX EXPENSE

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current income tax *(note i)*	**2,163**	5,576
Deferred income tax		
— Deferred tax assets	**218**	(1,684)
— Deferred tax liabilities	**–**	–
Income tax expense	**2,381**	3,892

(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% (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 year (2018: 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 2019 (2018: 15%).

The remaining subsidiaries established in the PRC are subject to the PRC CIT rate of 25% (2018: 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 2019 for reinvestment. No PRC withholding income tax was provided for unremitted earnings of the PRC subsidiaries as at 31 December 2019.

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.

	2019 (Unaudited)	2018 (Audited)
Profit attributable to the owners of the Company (RMB'000)	**4,222**	12,984
Weighted average number of ordinary shares in issue ('000)	**300,000**	300,000
Basic earnings per share (RMB)	**0.01**	0.04

(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

The Convertible Notes matured on 17 October 2019. The Company has redeemed all the Convertible Notes in the total amount of HK$120,000,000. For the year ended 31 December 2019, the Company has no dilutive effect, diluted earnings per share is the same as the basic earnings per share (unaudited). Diluted earnings per share for the year ended 31 December 2018 is as follows:

	Year ended 31 December 2018 (Audited)
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

8 OTHER LOSSES

	2019 *RMB'000* **(Unaudited)**	2018 *RMB'000* (Audited)
Change in fair value of financial liability at fair value through profit or loss	**4,407**	–
Loss on disposal of property, plant and equipment	**428**	956
Loss on disposal of raw material	**4,720**	1,669
Others	**206**	–
	9,761	2,625

9 TRADE AND OTHER RECEIVABLES

(a) Trade and other receivables

	As at 31 December 2019 *RMB'000* (Unaudited)	As at 31 December 2018 *RMB'000* (Audited)
Trade receivables due from third parties	**133,481**	113,883
Less: allowance for doubtful debts	**(264)**	(90)
	133,217	113,793
Note receivables	**8,377**	8,000
Deposits paid	**6,517**	5,476
Advance to employees	**3,028**	1,485
Payments in advance	**2,194**	5,069
Others	**44**	85
	20,160	20,115
Total trade and other receivables	**153,377**	133,908

(b) Trade receivables pledged

As at 31 December 2019, the trade receivables amounting to RMB73,311,000 has been pledged as security for bank borrowings of the Group (as at 31 December 2018: none).

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

	As at 31 December 2019 *RMB'000* (Unaudited)	As at 31 December 2018 *RMB'000* (Audited)
0 to 90 days	**132,241**	101,390
91 to 180 days	**953**	9,743
181 to 360 days	**153**	1,590
Over 360 days	**134**	1,160
	133,481	113,883

(c) Trade receivables by segment

Trade receivables by segment are as follows:

	As at 31 December 2019 *RMB'000* **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
Paper cigarette packages	**128,222**	109,164
Social product paper packages	**1,777**	4,719
Trading goods	**3,482**	–
	133,481	113,883

(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 2019 *RMB'000* **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
At 1 January	**90**	101
Provision for impairment recognised during the year	**174**	4
Impaired receivables collected	**–**	(15)
At 31 December	**264**	90

(e) Past due but not impaired

As at 31 December 2019, trade receivables of RMB34,677,000 (31 December 2018: RMB16,169,000) 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 2019 *RMB'000* **(Unaudited)**	As at 31 December 2018 *RMB'000* (Audited)
Up to 3 months	**34,180**	13,772
3 to 6 months	**363**	1,476
6 months to 1 year	**–**	785
Over 1 year	**134**	136
	34,677	16,169

10 TRADE AND OTHER PAYABLES

	As at 31 December 2019 *RMB'000* (Unaudited)	As at 31 December 2018 *RMB'000* (Audited)
Trade payables due to third parties	**137,730**	189,434
Note payables	**168,000**	175,390
Salary payables	**9,053**	9,214
Tax payables	**2,787**	7,667
Others	**7,880**	3,186
	187,720	195,457
Total trade and other payables	**325,450**	384,891

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

	As at 31 December 2019 *RMB'000* (Unaudited)	As at 31 December 2018 *RMB'000* (Audited)
Up to 6 months	**136,024**	171,660
6 months to 1 year	**234**	17,774
1 year to 2 years	**1,472**	–
	137,730	189,434

11 SUBSEQUENT EVENTS

Following the outbreak of Coronavirus Disease 2019 ("the COVID-19 outbreak) in early 2020, the operations of Hubei Golden Three Gorges Printing Industry Co., Ltd.* (湖北金三峽印務有限公司) has been suspended on 23 January 2020 as part of the Chinese government's countermeasures in containing the Novel Coronavirus Outbreak.

At this point in time, Hubei Golden Three Gorges Printing Industry Co., Ltd. has gradually resumed its operation starting from the mid-March 2020. However, the Group is not yet able to quantify the full financial impact. In the case of a prolonged coronavirus crisis, there may be a negative effect on the Group's 2020 financial results.

MANAGEMENT DISCUSSION AND ANALYSIS

UNAUDITED GROUP RESULTS

For the year ended 31 December 2019, based on unaudited financial information, total revenue of RMB581.3 million (unaudited) (2018: RMB567.1 million (audited)) was achieved, while the paper cigarette, social product paper packaging and trading business accounted for approximately 94.4%, 2.3% and 3.3% of the revenue respectively. Gross profit margin was approximately 21.7% (unaudited) (2018: 21.6% (audited)), increased by 0.1% year-on-year.

Profit attributable to owners of the Company decreased by approximately 67.5% to approximately RMB4.2 million (unaudited) (2018: RMB13.0 million (audited)). Basic earnings per share was RMB0.01 (unaudited) (2018: 0.04 (audited)) and diluted earnings per share was RMB0.01 (unaudited) (2018: 0.03 (audited)). The board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: nil).

Market Review

During the year, the trade tensions between China and the US invariably impacted the China and global economy. Along with growing financial stress, China's economic growth slowed to 6.1% in 2019, hitting the slowest pace in 30 years. The increasing worries about jobs and incomes from the slowing economy further dampened consumer sentiment and caused Chinese consumers to cut back discretionary spending, thus impacting the tobacco industry.

Meanwhile, Chinese government placed much emphasis on the structural reform of tobacco industry during the year under review with more stringent regulations; radical challenges were presented to the sector. The proposal to implement more tobacco control measures in the "Opinions of the State Council on the implementation of healthy China Action" with the objective to further promote the initiative of "Healthy China 2030" has caused reshuffling of the industry. Research from ASKCI Consultancy has shown that the total number of tobacco enterprises in China in the first three quarters of 2019 declined to 106 with 15% of loss-making companies, hinting the pressure from the reform.

In response to the challenging market condition, the Group has taken aggressive measures and proactively adjusted its product mix to satisfy the dynamic change of consumer's demand and explore new revenue source with the aim to move steadily forward in the grim and complex market.

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 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), their operations span across China with production centers located in Hubei, Sichuan, Yunnan, and other provinces.

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.

FUTURE OUTLOOK

Although China and the United States have signed off phase-one of trade deal in early 2020, the global and China economies are expected to remain challenging in near term given intensifying social unrest in several countries, weather-related disasters, and the spread of the coronavirus pandemic (COVID-19) in the first quarter of 2020 have posted new challenges to recovery. Meanwhile, the China tobacco industry continues deepen structural reform, by establishing green supply chains which enforce a higher environmental standard, enhancing brand promotions, and adjusting product structures to propel middle to high-end cigarette consumption.

The impact of the COVID-19 outbreak has impeded business activities globally and in China, and has brought about additional uncertainties in the Group's operating environment. As far as the Group's businesses are concerned, the outbreak has so far caused operational delays. While the situation remains fluid at this stage, the pandemic is likely to unleash wide-ranging havocs to China and the world. In view of this, the Group has already carried out a careful assessment of the overall impact of the pandemic on its operations and has taken all possible contingency measures to contain such impact. On a positive note, Chinese government has announced the lockdown lift in Hubei province starting early April and the Group's business is expected to resume in full. The Group expects that the pandemic is unlikely to wane for some time and makes it difficult to predict the impacts of the outbreak for the time being. To mitigate the potential financial hits of this challenging situation, the Group has also taken a number of cost control initiatives and it will closely monitor the development so as to make corresponding adjustments in business strategies.

Fully aware of the volatility in the outlook, the Group will be extra vigilant and will devote tremendous efforts in product development and shift its product mix towards middle to high-end cigarette packages, turning them into a major source of revenue and to protect profitability. The Group will continue to exert its competitive edge in design, printing and sales and consolidate its leading position in the tobacco industry.

The Group will also keep a close eye on the rapidly changing market conditions, and proactively cope with the 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. The Group will continue to explore the possibility of cooperating with potential brands and strive to develop new products in order to attract young consumers so as to maintain the Group's leading role within the industry.

In addition, the Group will continually devise effective business strategies, and explore more opportunities from different areas includes but not limited to the cigarette industry as well as international trading services. The Group is confident that, with the management and entire staff working closely together, Jia Yao will maintain its market leadership and create long-term value for shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

The Group recorded net current assets of approximately RMB78.1 million as at 31 December 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 year ended 31 December 2019. The Group's operations were principally financed by internal resources and interest-bearing borrowings during the year.

As at 31 December 2019, the Group's cash and cash equivalents, which were held mainly in Renminbi and Hong Kong dollars, were approximately RMB75.9 million, compared with approximately RMB212.5 million as at 31 December 2018.

Borrowings and Gearing Ratio

The Group's interest-bearing borrowings was approximately RMB55.0 million as at 31 December 2019 (as at 31 December 2018: approximately RMB140.8 million). The decrease was mainly due to the repayment of convertible notes during the year. The Group's interest-bearing borrowings were mainly denominated in Renminbi as at 31 December 2019 (as at 31 December 2018: Renminbi and Hong Kong dollars). 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	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Total borrowings	**55,000**	140,802
Less: cash and cash equivalents	**(75,899)**	(212,527)
Net debt	**(20,899)**	(71,725)
Total equity	**259,770**	253,474
Total capital	**238,871**	181,749
Gearing ratio (%)	**Not applicable**	Not applicable

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 2019, the Group's total capital expenditure amounted to approximately RMB11.5 million (2018: approximately RMB56.2 million), which was mainly used in purchase of 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):

	2019 ***RMB'000*** **(Unaudited)**	2018 *RMB'000* (Audited)
Land use rights	**5,343**	1,297
Plant and equipment	**19,410**	30,921
Trade receivables	**73,311**	–
Restricted cash	**84,300**	86,121
	182,364	118,339

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 2019 (2018: nil).

Contingent Liabilities

As at 31 December 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 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 2019.

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.

The Convertible Notes matured on 17 October 2019. The Company has redeemed all the Convertible Notes in the total amount of HK$120,000,000.

HUMAN RESOURCES AND REMUNERATION

As at 31 December 2019, the Group employed 570 employees (as compared with 850 employees as at 31 December 2018) with total staff cost of approximately RMB69.6 million incurred for the year ended 31 December 2019 (as compared with approximately RMB86.8 million for the year ended 31 December 2018). The Group's remuneration packages are generally structured with reference to market terms and individual merits.

DIVIDEND

The board of directors of the Company has resolved not to declare a dividend for the year ended 31 December 2019 (2018: nil), on the assumption that the audited annual results of the company for the year ended 31 December 2019 to be published upon completion of the auditing process will be consistent in all material respects with the unaudited results set out herein.

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 2019.

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 2019.

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 2019.

REVIEW OF UNAUDITED ANNUAL RESULTS

The auditing process for the annual results for the year ended 31 December 2019 has not been completed due to restrictions in force in parts of China to combat the COVID-19 coronavirus outbreak. The unaudited annual results contained herein have not been agreed with the Company's auditors. An announcement relating to the audited results will be made when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants.

The unaudited annual results contained herein have been reviewed by the audit committee of the Company.

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.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to (i) the audited results for the year ended 31 December 2019 as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein, (ii) the proposed date on which the forthcoming annual general meeting will be held, and (iii) the period during which the register of members holding ordinary shares will be closed in order to ascertain shareholders' eligibility to attend and vote at the said meeting (and the proposed arrangements relating to dividend payment, if any). In addition, the Company will issue further announcement as and when necessary if there are other material developments in the completion of the auditing process.

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

On behalf of the Board
Jia Yao Holdings Limited
Yang Yoong An
Chairman and Executive Director

Hong Kong, 31 March 2020

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*