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Jia Yao Holdings Limited

嘉耀控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01626)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 December 2020 decreased by approximately 0.9% or RMB5.0 million to approximately RMB576.2 million as compared with the same period in 2019.
- Gross profit for the year ended 31 December 2020 decreased by approximately 41.5% or RMB52.3 million to approximately RMB73.7 million as compared with the same period in 2019.
- Gross profit margin for the year ended 31 December 2020 decreased by approximately 8.9% from approximately 21.7% to approximately 12.8% as compared with the same period in 2019.
- Loss attributable to owners of the Company was approximately RMB26.2 million for the year ended 31 December 2020 as compared to the profit attributable to owners of the Company of approximately RMB4.2 million for the year ended 31 December 2019.
- The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (for the year ended 31 December 2019: nil).

The board (the “Board”) of directors (the “Directors”) of Jia Yao Holdings Limited (the “Company”) is pleased to announce the consolidated results for the year ended 31 December 2020 of the Company and its subsidiaries (collectively, the “Group”) together with the comparative figures for the year ended 31 December 2019, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

		Year ended 31 December	
		2020	2019
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3	576,244	581,257
Cost of sales	5	(502,547)	(455,253)
Gross profit		73,697	126,004
Distribution costs	5	(37,390)	(41,324)
Administrative expenses	5	(59,314)	(65,845)
Net impairment losses on financial assets		(1,554)	(174)
Other income		3,241	3,137
Other losses		(4,491)	(9,761)
Operating (loss)/profit		(25,811)	12,037
Finance income	4	1,488	1,722
Finance costs	4	(5,102)	(3,928)
Finance costs (net)	4	(3,614)	(2,206)
(Loss)/profit before income tax		(29,425)	9,831
Income tax expense	6	(825)	(2,381)
(Loss)/profit for the year		(30,250)	7,450
(Loss)/profit attributable to:			
— Owners of the Company		(26,205)	4,222
— Non-controlling interests		(4,045)	3,228
		(30,250)	7,450

		Year ended 31 December	
		2020	2019
<i>Note</i>		<i>RMB'000</i>	<i>RMB'000</i>
Other comprehensive income			
	Currency translation differences	<u>(100)</u>	<u>(1,154)</u>
	Total comprehensive (loss)/income for the year	<u>(30,350)</u>	<u>6,296</u>
Total comprehensive (loss)/income for the year attributable to:			
	— Owners of the Company	(26,305)	3,068
	— Non-controlling interests	<u>(4,045)</u>	<u>3,228</u>
		<u>(30,350)</u>	<u>6,296</u>
(Loss)/earnings per share attributable to owners of the Company			
	— Basic (loss)/earnings per share	7 (0.09)	0.01
	— Diluted (loss)/earnings per share	7 <u>(0.09)</u>	<u>0.01</u>

CONSOLIDATED BALANCE SHEET

As at 31 December 2020

		As at 31 December	
		2020	2019
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		110,384	114,988
Right-of-use assets		48,126	49,904
Investment properties		9,097	9,959
Deferred income tax assets		4,813	5,375
Prepayment for property, plant and equipment		231	2,246
		<u>172,651</u>	<u>182,472</u>
Current assets			
Inventories		147,077	148,275
Trade and other receivables	8	113,973	153,377
Restricted cash		94,000	84,300
Cash and cash equivalents		70,182	75,899
		<u>425,232</u>	<u>461,851</u>
Total assets		<u><u>597,883</u></u>	<u><u>644,323</u></u>
EQUITY			
Equity attributable to the owners of the Company			
Share capital		2,382	2,382
Other reserves		169,422	169,522
Retained profits		14,341	40,546
		<u>186,145</u>	<u>212,450</u>
Non-controlling interests		43,275	47,320
Total equity		<u><u>229,420</u></u>	<u><u>259,770</u></u>

		As at 31 December	
		2020	2019
<i>Note</i>		<i>RMB'000</i>	<i>RMB'000</i>
LIABILITIES			
Non-current liabilities			
Lease liabilities, non-current		<u>114</u>	<u>832</u>
Current liabilities			
Trade and other payables	9	255,706	325,450
Income tax payable		1,935	2,518
Borrowings		110,000	55,000
Lease liabilities, current		<u>708</u>	<u>753</u>
		<u>368,349</u>	<u>383,721</u>
Total liabilities		<u>368,463</u>	<u>384,553</u>
Total equity and liabilities		<u><u>597,883</u></u>	<u><u>644,323</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1 GENERAL INFORMATION

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 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”) and trading goods including mainboard of cell phones.

The Company’s registered office is located at Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman KY1-1103, 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 were 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

(i) *Compliance with HKFRS and HKCO*

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

The consolidated financial statements of the Group have been prepared in accordance with HKFRSs and the disclosure requirements of the Cap. 622.

(ii) *Historical cost convention*

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

(iii) Amended standards adopted by the Group

The Group has applied the following amendments for the first time for their annual reporting period commencing 1 January 2020:

- Amendments to HKAS 1 and HKAS 8 “Definition of material”
- Amendments to HKFRS 3 “Definition of a business”
- Revised Conceptual Framework for Financial Reporting
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7 “Interest Rate Benchmark Reform”

The amendments listed above did not have material impact on the consolidated financial statements of the Group.

(iv) New standards and amendments to standards relevant to the Group have been issued but are not effective

The following new standards and amendments to standards have been published that are not mandatory for 31 December 2020 reporting period and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 (Amendment)	Interest Rate Benchmark Reform – Phase 2	1 January 2021
HKFRS 3 (Amendment)	Reference to the Conceptual Framework	1 January 2022
HKAS 16 (Amendment)	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
HKAS 37 (Amendment)	Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to HKFRSs 2018–2020	Improvements to HKFRSs	1 January 2022
Accounting Guideline 5 (Amendment)	Revised Accounting Guideline 5 Merger	1 January 2022
HKFRS 3, HKAS 16 and HKAS 37 (Amendment)	Narrow-scope amendments	1 January 2022
HKAS 1 (Amendment)	Classification of Liabilities as Current or Non-current	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
HKFRS 17(Amendment)	Amendments to HKFRS 17	1 January 2023
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

These standards are not expected to have material impact on 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)
- 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 consolidated statement of comprehensive income.

The segment results for the year ended 31 December 2020:

	Year ended 31 December 2020			
	Paper cigarette packages RMB'000	Social product paper packages RMB'000	Trading goods RMB'000	Total RMB'000
Revenue	492,158	5,501	78,585	576,244
Gross profit	71,354	299	2,044	73,697
Distribution costs	(36,796)	(594)	—	(37,390)
Segment results	34,558	(295)	2,044	36,307
Administrative expenses				(59,314)
Net impairment losses on financial assets				(1,554)
Other income				3,241
Other losses				(4,491)
Finance costs (net)				(3,614)
Loss before income tax				(29,425)

The segment results for the year ended 31 December 2019:

	Year ended 31 December 2019			
	Paper cigarette packages RMB'000	Social product paper packages RMB'000	Trading goods RMB'000	Total RMB'000
Revenue	548,847	13,180	19,230	581,257
Gross profit/(loss)	128,672	(3,162)	494	126,004
Distribution costs	<u>(40,100)</u>	<u>(1,224)</u>	<u>—</u>	<u>(41,324)</u>
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)				<u>(2,206)</u>
Profit before income tax				<u><u>9,831</u></u>

(c) Segment assets by location

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

	2020 RMB'000	2019 RMB'000
Mainland China	167,838	177,097
Hong Kong	<u>—</u>	<u>—</u>
	<u><u>167,838</u></u>	<u><u>177,097</u></u>

(d) Information about major customers

Revenues from the top four customers of the Group are as follows:

(i) Revenues from sales of paper cigarette packages:

	2020 RMB'000	2019 RMB'000
Customer A	167,473	139,991
Customer B	51,806	31,292
Customer C	<u>50,059</u>	<u>61,943</u>
	<u><u>269,338</u></u>	<u><u>233,226</u></u>

(ii) *Revenue from trading of goods including mainboard of cell phones:*

	2020 RMB'000	2019 RMB'000
Customer D	<u>51,724</u>	<u>–</u>

(e) **Other segment information**

(i) *Depreciation of property, plant and equipment*

	2020 RMB'000	2019 RMB'000
Paper cigarette packages	11,918	13,262
Social product paper packages	<u>145</u>	<u>696</u>
	<u>12,063</u>	<u>13,958</u>

(ii) *Impairment of property, plant and equipment*

	2020 RMB'000	2019 RMB'000
Paper cigarette packages	908	3,130
Social product paper packages	<u>–</u>	<u>1,863</u>
	<u>908</u>	<u>4,993</u>

4 FINANCE COSTS (NET)

	2020 RMB'000	2019 RMB'000
Interest income on bank deposits	(1,488)	(1,722)
Interest on bank borrowings	4,694	3,534
Exchange loss/(gain), net	50	(3)
Other bank charges	<u>358</u>	<u>397</u>
	<u>3,614</u>	<u>2,206</u>

5 EXPENSES BY NATURE

	2020 RMB'000	2019 RMB'000
Operating loss for the year has been arrived at after charging:		
Raw materials and consumables used	460,388	395,073
Changes in inventories of finished goods and work in progress	10,382	9,160
Employee benefits expenses	52,464	69,569
Depreciation	12,063	13,958
Transportation cost	21,451	19,167
Energy and water expense	12,359	12,872
Recognition of impairment losses of property, plant and equipment	908	4,993
Social promotion expense	15,633	20,350
Real estate tax, stamp duties and other taxes	2,647	3,802
Professional service expense	1,810	2,282
Office expense	1,718	3,680
Operating lease rentals in respect of rented premises	3,323	2,696
Auditors' remuneration	1,323	1,400
Amortisation	1,061	1,145
Other operating expenses	1,721	2,275
	<hr/>	<hr/>
Total cost of sales, distribution costs and administrative expenses	599,251	562,422

6 INCOME TAX EXPENSE

	2020 RMB'000	2019 RMB'000
Current income tax (i)		
— PRC corporate income tax and withholding income tax	—	2,163
— Hong Kong profits tax	263	—
	<hr/>	<hr/>
	263	2,163
	<hr/>	<hr/>
Deferred income tax		
— PRC corporate income tax and withholding income tax	562	218
	<hr/>	<hr/>
	825	2,381

(i) Current income tax

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

The subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at the rate of 16.5% (2019: 16.5%).

Hubei Golden Three Gorges Printing Industry Co., Ltd.* (湖北金三峡印務有限公司) has been 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 2020 (2019: 15%).

The remaining subsidiaries established in the PRC are subject to the PRC CIT rate of 25% (2019: 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%. No PRC withholding income tax was provided for unremitted earnings of the PRC subsidiaries as at 31 December 2020. Meanwhile, the Group did not recommend the payment of dividend for the year ended 31 December 2020 (2019: none).

(iii) The tax charge for the year can be reconciled to the (loss)/profit before tax per consolidated statement of comprehensive income as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
(Loss)/profit before tax	<u>(29,425)</u>	<u>9,831</u>
Tax calculated at applicable tax rates of the group entities	(3,766)	2,622
Tax losses for which no deferred income tax asset was recognised	4,029	473
Cost and expenses not deductible for taxation purposes	3,340	2,576
Additional deduction for research and development expenditures	<u>(2,778)</u>	<u>(3,290)</u>
	<u><u>825</u></u>	<u><u>2,381</u></u>

7 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

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

	2020	2019
(Loss)/profit attributable to the owners of the Company (RMB'000)	(26,205)	4,222
Weighted average number of ordinary shares in issue ('000)	300,000	300,000
Basic (loss)/earnings per share (RMB)	<u><u>(0.09)</u></u>	<u><u>0.01</u></u>

(b) Diluted loss per share

Diluted loss per share for the 31 December 2020 is the same as the basic loss per share.

8 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade receivables	94,576	133,481
Less: allowance for doubtful debts	(796)	(264)
	93,780	133,217
Notes receivable	8,199	8,377
Deposits	9,719	6,517
Advance to employees	1,971	3,028
Payments in advance	174	2,194
Others	130	44
	20,193	20,160
	113,973	153,377

(a) Trade receivables pledged

As at 31 December 2020, the trade receivables amounting to RMB46,302,000 has been pledged as security for bank borrowings of the Group (As at 31 December 2019: RMB73,311,000).

(b) Trade receivables by aging

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
0 to 90 days	90,833	132,241
91 to 180 days	2,299	953
181 to 360 days	744	153
Over 360 days	700	134
	94,576	133,481

(c) Trade receivables by segment

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Paper cigarette packages	87,573	128,222
Social product paper packages	1,475	1,777
Trading goods	5,528	3,482
	94,576	133,481

(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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	264	90
Provision for impairment recognised during the year	710	174
Impaired receivables collected	(178)	–
At 31 December	796	264

(e) Past due but not impaired

As at 31 December 2020, trade receivables of RMB15,562,000 (31 December 2019: RMB34,677,000) were past due but not impaired. These related to a number of independent customers for whom there was no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 3 months	11,031	34,180
3 to 6 months	4,048	363
6 months to 1 year	483	–
Over 1 year	–	134
	15,562	34,677

9 TRADE AND OTHER PAYABLES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade payables — due to third parties (<i>Note(a)</i>)	102,264	137,730
Notes payable	135,000	168,000
Salary payables	7,696	9,053
Tax payables	2,279	2,787
Others	8,467	7,880
	<u>255,706</u>	<u>325,450</u>

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Up to 6 months	100,402	136,024
6 months to 1 year	510	234
1 year to 2 years	1,352	1,472
	<u>102,264</u>	<u>137,730</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

During the reporting year, the outbreak of Coronavirus Disease 2019 (“Covid-19” or the “pandemic”) brought upon unprecedented challenges and triggered downturn in economic development across the globe. The International Monetary Fund (IMF) predicted a global contraction of 3.5% in 2020, the biggest peacetime decline since the Great Depression. In China, despite industrial production accelerated in the second half of the year, the economy of the country grew only at 2.3% annually, the slowest pace in more than four decades.

The pandemic outbreak in the first quarter of 2020 brought China’s industrial activities to a halt. With strict lockdown and public health measures imposed by the Chinese government, tobacco production was suspended during this period, leading to a year-on-year decrease of 10.9% in the total output value of tobacco. Although the industry picked up as the pandemic spread was largely contained within China since the second half of the year, the structural reform and “Healthy China 2030” initiative promulgated by the Chinese government continued to hinder the growth of the industry. Figures from the National Bureau of Statistics showed that the volume of China’s tobacco production from January to November 2020 increased slightly by 1.5% to 2,262.13 billion sticks as compared to the corresponding period of 2019. As the intensified competition of cigarette packaging project tenders and ongoing market consolidation within the industry posed challenges to all industry players, as well as negative impact to the Group’s performance.

To navigate this challenging time, Jia Yao continued to draw on its expertise and experience to concentrate its resources on seizing business opportunities and doubled its efforts in cost control.

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.* (湖北金三峡印務有限公司), 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.

* For identification purposes only

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 2020, 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.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2020, the revenue of the Group was approximately RMB576.2 million, representing a decrease of approximately 0.9% over the same period in 2019, among which revenue from paper cigarette packages segment, social product paper packages segment and trading goods segment accounted for approximately 85.4%, 1.0% and 13.6, respectively. Due to the pandemic outbreak in China and the factory has been stopped operation at most of the time in the first quarter of the year, the Group's sales from paper cigarette packages segment decreased by approximately 10.3% to RMB492.2 million and social product paper packages segment decreased by approximately 58.3% to RMB5.5 million. The Group kept expanding its trading goods segment and the Group's sales from trading goods segment increased by approximately 308.7% to RMB78.6 million.

The following table sets forth the breakdown of the Group's revenue for the year ended 31 December 2020:

	For the year ended		
	31 December		
	2020	2019	Change (%)
	<i>RMB'000</i>	<i>RMB'000</i>	(approximate)
Paper cigarette packages segment	492,158	548,847	-10.3%
Social product paper packages segment	5,501	13,180	-58.3%
Trading goods segment	78,585	19,230	+308.7%

Gross Profit

The Group's gross profit decreased by approximately 41.5% from approximately RMB126.0 million for the year ended 31 December 2019 to approximately RMB73.7 million for the year ended 31 December 2020. The Group's gross profit margin decreased by approximately 8.9% from approximately 21.7% to approximately 12.8% as compared with the same period in 2019. The decrease in gross profit margin was primarily due to the decrease of sales from the most profitable business of paper cigarette packages of the Group by approximately 10.3% during pandemic outbreak in China in the first quarter of the year and decrease in average product price to major customers in Yunan, Henan and Heilongjiang markets during the period under review.

Distribution Costs

For the year ended 31 December 2020, 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 decreased by approximately 9.5% from approximately RMB41.3 million for the year ended 31 December 2019 to approximately RMB37.4 million for the year ended 31 December 2020. The decrease of distribution costs was mainly due to the decrease of marketing and business travelling expenses during the pandemic outbreak in China in the first quarter of the year.

Administrative Expenses

For the year ended 31 December 2020, 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 9.9% from approximately RMB65.8 million for the year ended 31 December 2019 to approximately RMB59.3 million for the year ended 31 December 2020. The decrease of administrative expenses was mainly due to the decrease of research and development costs and staff costs during the pandemic outbreak in China in the first quarter of the year.

Other Income

Other income mainly consists non-recurring government grant. The Group's other income increased by approximately RMB0.1 million to approximately RMB3.2 million during the year.

Other Losses

For the year ended 31 December 2020, other losses was mainly consist of loss on disposal of raw materials. The Group's other losses decreased by approximately RMB5.3 million to approximately RMB4.5 million during the year. The decrease of other losses mainly due to the recognition of change in fair value of financial liability at fair value through profit or loss for the year ended 31 December 2019 (31 December 2020: nil).

Finance Costs (net)

For the year ended 31 December 2020, net finance costs primarily consist of interest income on bank deposits, interest payments on interest-bearing obligations and bank charges. The net finance costs increased by approximately 63.8% from approximately RMB2.2 million for the year ended 31 December 2019 to approximately RMB3.6 million for the year ended 31 December 2020. The increase of net finance costs was mainly due to the increase of interest expenses of bank borrowings during the period under review.

Income Tax Expense

The Group's income tax expense decreased by approximately 65.4% from approximately RMB2.4 million for the year ended 31 December 2019 to approximately RMB0.8 million for the year ended 31 December 2020. The decrease was mainly due to the loss incurred by a PRC subsidiary during the period under review.

Loss Attributable to Owners of the Company

As a result of the foregoing, the Group's loss attributable to owners of the Company approximately RMB26.2 million for the year ended 31 December 2020 as compared to the profit attributable to owners of the Company of approximately RMB4.2 million for the year ended 31 December 2019.

Trade and Other Receivables

Trade and other receivables decreased by approximately 25.7% from approximately RMB153.4 million as at 31 December 2019 to approximately RMB114.0 million as at 31 December 2020. The decrease was mainly attributable to the decrease of trade receivables from approximately RMB133.2 million as at 31 December 2019 to approximately RMB93.8 million as at 31 December 2020.

Trade and Other Payables

Trade and other payables decreased by approximately 21.4% from approximately RMB325.5 million as at 31 December 2019 to approximately RMB255.7 million as at 31 December 2020. The decrease was mainly attributable to the decrease of trade payables from approximately RMB137.7 million as at 31 December 2019 to approximately RMB102.3 million as at 31 December 2020 and decrease of notes payable from approximately RMB168.0 million as at 31 December 2019 to approximately RMB135.0 million as at 31 December 2020.

LIQUIDITY AND FINANCIAL RESOURCES

The Group recorded net current assets of approximately RMB56.9 million as at 31 December 2020, compared with net current assets of approximately RMB78.1 million as at 31 December 2019. The Group maintained a healthy liquidity position during the year ended 31 December 2020. The Group's operations were principally financed by internal resources and interest-bearing borrowings during the year.

As at 31 December 2020, the Group's cash and cash equivalents, which were held mainly in Renminbi and Hong Kong dollars, were approximately RMB70.2 million, compared with approximately RMB75.9 million as at 31 December 2019.

Borrowings and Gearing Ratio

The Group's interest-bearing borrowings was approximately RMB110.0 million as at 31 December 2020 (as at 31 December 2019: approximately RMB55.0 million). The increase was mainly due to the new bank borrowings during the year. The Group's interest-bearing borrowings were mainly denominated in Renminbi. 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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Total borrowings	110,000	55,000
Less: cash and cash equivalents	(70,182)	(75,899)
Net debt	39,818	(20,899)
Total equity	229,420	259,770
Total capital	269,238	238,871
Gearing ratio (%)	15%	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 2020, the Group's total capital expenditure amounted to approximately RMB7.2 million (2019: approximately RMB9.0 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.

Assets pledged as security

The carrying amounts of assets pledged as security for notes payable and borrowings are as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Land use rights	18,856	5,343
Property, plant and equipment	61,078	19,410
Trade receivables	46,302	73,311
Restricted cash	94,000	84,300
	<u>220,236</u>	<u>182,364</u>

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 2020 (2019: nil).

Contingent Liabilities

As at 31 December 2020, the Group did not have any significant contingent liabilities (as at 31 December 2019: 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 2020.

HUMAN RESOURCES AND REMUNERATION

As at 31 December 2020, the Group employed 550 employees (as compared with 570 employees as at 31 December 2019) with total staff cost of approximately RMB52.5 million incurred for the year ended 31 December 2020 (as compared with approximately RMB69.6 million for the year ended 31 December 2019). The Group's remuneration packages are generally structured with reference to market terms and individual merits.

FUTURE OUTLOOK

Although the economic fallout of COVID-19 outbreak dragged on the growth of China in 2020, IMF projected that China's economy would expand by 7.9% in 2021. China is expected to witness a continued pick up thanks to the accelerated production and scaled-up financial relief and fiscal support by central authorities.

Following the approval of the first domestically developed COVID-19 vaccine by the Chinese government as well as their strong containment efforts in mitigating the impact of the pandemic, the Group is cautiously optimistic in the prospects of the nation's economy and the tobacco industry. The Group expects that the tobacco industry will embrace a sustainable growth in the years to come, provided that there will be no major rebound in COVID-19 cases.

Subsequent to the lifting of lockdown measures in Hubei Province since April 2020, the Group has fully resumed its operation and its productivity has climbed back to pre-COVID-19 levels now. As part of its continued endeavors to boost operational efficiency, the Group will divert more resources to replenish advanced machineries and implement new automation solutions which enable it to catch up on delayed orders and better cater for new orders from successful tendering.

Meanwhile, designs of cigarette package have become crucial for cigarette brands to attract consumers and boost sales, especially given the Chinese government's efforts in reducing cigarette consumption in the country. Targeting the middle to high-end cigarette packaging market, which is believed to become a major source of revenue for the Group in the long run, the Group has stepped up its efforts in shifting its product mix. As the Group aspires to seize market share, it will continue to engage effective development strategies and explore new market opportunities within the cigarette packaging industry. The Group will also expand the market reach of its international trading services by tapping markets with high potential, particularly Guangxi market where the Group aims at becoming an approved paper cigarette package supplier.

Vigilant of the potential volatility, the Group will remain cautious and keep abreast of the latest pandemic development. The Group will spare no efforts in controlling costs and maintaining cash level, while streamlining work processes in order to increase its operational efficiency. Riding on its proven track record, technology know-how, expertise as well as its close tie with clients, the management team believes that the Group will continue to build on its competitive strengths and create long-term returns for shareholders.

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 2020.

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 2020.

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 2020.

REVIEW OF ANNUAL RESULTS

The Group's annual results for the year ended 31 December 2020 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, 11 June 2021.

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, 8 June 2021 to Friday, 11 June 2021, 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, 7 June 2021.

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 2020 as set out in this announcement have been agreed with 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
Jia Yao Holdings Limited
Yang Yoong An
Chairman and Executive Director

Hong Kong, 25 March 2021

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.