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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended 30 June 2021 increased by approximately 23.7% or RMB61.5 million to approximately RMB321.0 million as compared with the corresponding period in 2020.
- Gross profit for the six months ended 30 June 2021 increased by approximately 4.1% or RMB1.3 million to approximately RMB33.7 million as compared with the corresponding period in 2020.
- Gross profit margin for the six months ended 30 June 2021 decreased by approximately 2.0% from approximately 12.5% to approximately 10.5% as compared with the corresponding period in 2020.
- Loss attributable to owners of the Company decreased from approximately RMB6.6 million for the six months ended 30 June 2020 to approximately RMB6.5 million for the six months ended 30 June 2021.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2021 (for the six months ended 30 June 2020: nil).

The board (the “**Board**”) of directors (the “**Directors**”) of Jia Yao Holdings Limited (the “**Company**” or “**Jia Yao**”) 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 2021 together with the comparative figures for the corresponding period in 2020.

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 2021

	<i>Note</i>	Six Months ended 30 June	
		2021	2020
		Unaudited	Unaudited
		RMB’000	RMB’000
Revenue	3	320,959	259,479
Cost of sales	4	(287,234)	(227,097)
Gross profit		33,725	32,382
Distribution costs	4	(12,226)	(11,733)
Administrative expenses	4	(24,388)	(26,324)
Net impairment losses on financial assets		–	(600)
Other income		508	1,472
Other losses		(3,245)	(3,738)
Operating loss		(5,626)	(8,541)
Finance income		1,011	835
Finance costs		(4,220)	(1,710)
Finance costs, net		(3,209)	(875)
Loss before income tax		(8,835)	(9,416)
Income tax credit	5	1,632	1,889
Loss for the period		(7,203)	(7,527)

		Six Months ended 30 June	
		2021	2020
		Unaudited	Unaudited
	<i>Note</i>	RMB'000	RMB'000
Loss attributable to:			
— Owners of the Company		(6,499)	(6,621)
— Non-controlling interests		(704)	(906)
		<u> </u>	<u> </u>
Loss for the period		<u>(7,203)</u>	<u>(7,527)</u>
Other comprehensive income			
Currency translation differences		1,031	14
		<u> </u>	<u> </u>
Other comprehensive income, net of tax		<u>1,031</u>	<u>14</u>
		<u> </u>	<u> </u>
Total comprehensive loss for the period		<u>(6,172)</u>	<u>(7,513)</u>
Total comprehensive loss for the period attributable to:			
— Owners of the Company		(5,468)	(6,607)
— Non-controlling interests		(704)	(906)
		<u> </u>	<u> </u>
Total comprehensive loss for the period		<u>(6,172)</u>	<u>(7,513)</u>
Loss per share from operations attributable to owners of the Company			
— Loss per share	6	(0.022)	(0.022)
— Diluted loss per share	6	(0.022)	(0.022)
		<u> </u>	<u> </u>

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2021

		As at 30 June 2021 Unaudited RMB'000	As at 31 December 2020 Audited RMB'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Right-of-use Assets		47,348	48,126
Investment properties		8,667	9,097
Property, plant and equipment		109,292	110,384
Prepayment for property, plant and equipment		13,500	231
Deferred income tax assets		4,812	4,813
		<u>183,619</u>	<u>172,651</u>
Current assets			
Inventories		189,006	147,077
Trade and other receivables	8	145,893	113,973
Restricted cash		93,560	94,000
Cash and cash equivalents		57,782	70,182
		<u>486,241</u>	<u>425,232</u>
Total assets		<u><u>669,860</u></u>	<u><u>597,883</u></u>
EQUITY			
Equity attributable to the owners of the Company			
Share capital		2,382	2,382
Other reserves		170,453	169,422
Retained profits		7,842	14,341
		<u>180,677</u>	186,145
Non-controlling interests		42,571	43,275
Total equity		<u><u>223,248</u></u>	<u><u>229,420</u></u>

		As at 30 June 2021 Unaudited RMB'000	As at 31 December 2020 Audited RMB'000
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Lease liabilities, non-current		–	114
Current liabilities			
Trade and other payables	9	357,142	255,706
Income tax payable		–	1,935
Borrowings		89,000	110,000
Lease liabilities, current		470	708
		<u>446,612</u>	<u>368,349</u>
Total liabilities		<u>446,612</u>	<u>368,463</u>
Total equity and liabilities		<u><u>669,860</u></u>	<u><u>597,883</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2021

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 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.

This condensed consolidated interim financial information is presented in Renminbi, (“**RMB**”), rounded to the nearest thousand, unless otherwise stated.

This condensed consolidated interim financial information has not been audited.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

This condensed consolidated interim financial information for the six months ended 30 June 2021 has been prepared in accordance with HKAS 34, ‘Interim financial reporting’.

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

The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2020, and any public announcements made by the Group during the interim reporting period.

Except as described below, the Group’s accounting policies applied in preparing the condensed consolidated interim financial information are consistent with those policies applied in preparing the 2020 annual consolidated financial statements.

2.1 Standards, amendments and interpretations effective in 2021

On 1 January 2021, the Group adopted the following new standards, amendments and interpretations. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

HRFRS 16 (Amendment)	Covid-19-related Rent Concessions
HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 (Amendment)	Interest Rate Benchmark Reform — Phase 2

The adoption of new and amended standards and interpretations did not have any material impact on the condensed consolidated interim financial information of the Group.

2.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2021

The following new standards and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2021 and have not been early adopted:

		Effective for annual periods beginning on or after
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 and related amendments to Hong Kong interpretation 5 (2020)	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

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 (including 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 condensed consolidated statement of comprehensive income.

The segment results for the six months ended 30 June 2021:

	Six Months ended 30 June 2021			
	Paper cigarette packages Unaudited RMB'000	Social product paper packages Unaudited RMB'000	Trading goods Unaudited RMB'000	Total Unaudited RMB'000
Revenue	<u>318,144</u>	<u>2,815</u>	—	<u>320,959</u>
Gross profit	33,529	196	—	33,725
Distribution costs	<u>(11,977)</u>	<u>(249)</u>	—	<u>(12,226)</u>
Segment results	21,552	(53)	—	21,499
Administrative expenses				(24,388)
Net impairment losses on financial assets				—
Other income				508
Other losses				(3,245)
Finance costs, net				<u>(3,209)</u>
Loss before income tax				<u><u>(8,835)</u></u>

The segment results for the six months ended 30 June 2020:

	Six Months ended 30 June 2020			
	Paper cigarette packages Unaudited <i>RMB'000</i>	Social product paper packages Unaudited <i>RMB'000</i>	Trading goods Unaudited <i>RMB'000</i>	Total Unaudited <i>RMB'000</i>
Revenue	<u>197,750</u>	<u>1,860</u>	<u>59,869</u>	<u>259,479</u>
Gross profit	30,808	17	1,557	32,382
Distribution costs	<u>(11,369)</u>	<u>(364)</u>	<u>–</u>	<u>(11,733)</u>
Segment results	19,439	(347)	1,557	20,649
Administrative expenses				(26,324)
Net impairment losses on financial assets				(600)
Other income				1,472
Other losses				(3,738)
Finance costs, net				<u>(875)</u>
Loss before income tax				<u><u>(9,416)</u></u>

(c) Segment assets by location

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

	As at 30 June 2021 Unaudited <i>RMB'000</i>	As at 31 December 2020 Audited <i>RMB'000</i>
Mainland China	178,807	167,838
Hong Kong	<u>–</u>	<u>–</u>
	<u>178,807</u>	<u>167,838</u>

4 EXPENSES BY NATURE

	Six Months ended 30 June	
	2021	2020
	Unaudited RMB'000	Unaudited RMB'000
Operating loss for the period has been arrived at after charging:		
Staff costs:		
Wages and salaries (excluding directors' emoluments)	24,199	21,849
Directors' emoluments	725	789
Welfare, medical and other expenses	3,395	1,684
	<u>28,319</u>	<u>24,322</u>
Cost of inventories	265,172	213,090
Depreciation of property, plant and equipment	5,899	6,076
Transportation cost	7,381	6,409
Energy and water expense	6,795	4,324
Social entertainment expense	4,965	3,778
Real estate tax, stamp duties and other taxes	994	964
Professional service expense	289	543
Office expense	466	1,326
Operating lease rentals in respect of rented premises	1,203	835
Auditor's remuneration	500	665
Amortisation of right-of-use assets	778	887
Other operating expenses	1,087	1,935
	<u>295,529</u>	<u>240,832</u>
Total expense and losses	<u>323,848</u>	<u>265,154</u>

5 INCOME TAX CREDIT

	Six Months ended 30 June	
	2021	2020
	Unaudited RMB'000	Unaudited RMB'000
Current income tax		
— PRC corporate income tax (i)	—	—
Deferred income tax		
— Deferred tax assets	1,632	1,889
Income tax credit	<u>1,632</u>	<u>1,889</u>

(i) **PRC corporate income tax (“CIT”)**

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% (2020: 16.5%). Hong Kong profits tax has not been provided as these subsidiaries did not have estimated assessable profit for the period (2020: none).

Hubei Golden Three Gorges Printing Industry Co., Ltd.* (湖北金三峽印務有限公司) (“**Hubei Golden Three Gorges**”) 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 2021 (2020: 15%).

The remaining subsidiaries established in the PRC are subject to the PRC CIT rate of 25% (2020: 25%).

(ii) **PRC withholding income tax**

Under relevant tax laws and regulations, dividends distributed from the Company’s subsidiaries established in the PRC (the “**PRC subsidiaries**”) to non-PRC tax resident Group entities shall be subject to the withholding income tax at 10%. The Group plans to use the unremitted earnings of the PRC subsidiaries up to 30 June 2021 and 2020 for reinvestment. No PRC withholding income tax was provided for unremitted earnings of the PRC subsidiaries as at 30 June 2021 and 2020.

6 LOSS PER SHARE

(a) **Basic loss per share**

Basic loss per share is calculated by dividing the 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	
	2021	2020
	Unaudited	Unaudited
Loss attributable to the owners of the Company (<i>RMB'000</i>)	(6,499)	(6,621)
Weighted average number of ordinary shares in issue (<i>'000</i>)	300,000	300,000
Basic loss per share (<i>RMB</i>)	<u>(0.022)</u>	<u>(0.022)</u>

(b) **Diluted loss per share**

Diluted loss per share for the six months end 30 June 2021 is the same as the basic loss per share.

7 DIVIDEND

The Board of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: none).

8 TRADE AND OTHER RECEIVABLES

(a) Trade and other receivables

	As at 30 June 2021 Unaudited RMB'000	As at 31 December 2020 Audited RMB'000
Trade receivables	124,470	94,576
Less: allowance for doubtful debts	<u>(789)</u>	<u>(796)</u>
	<u>123,681</u>	<u>93,780</u>
Notes receivables	5,931	8,199
Deposits paid	5,723	9,719
Advance to employees	7,862	1,971
Payments in advance	980	174
Others	<u>1,716</u>	<u>130</u>
	<u>22,212</u>	<u>20,193</u>
Total of trade and other receivables	<u><u>145,893</u></u>	<u><u>113,973</u></u>

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

	As at 30 June 2021 Unaudited RMB'000	As at 31 December 2020 Audited RMB'000
0 to 90 days	104,563	90,833
91 to 180 days	18,663	2,299
181 to 360 days	124	744
Over 360 days	<u>1,120</u>	<u>700</u>
	<u><u>124,470</u></u>	<u><u>94,576</u></u>

(b) Trade receivables pledged

As at 30 June 2021, the trade receivables amounting to RMB87,673,000 (31 December 2020: RMB46,302,000) have been pledged as securities for the bank borrowings of the Group.

9 TRADE AND OTHER PAYABLES

	As at 30 June 2021 Unaudited RMB'000	As at 31 December 2020 Audited RMB'000
Trade payables – due to third parties	208,823	102,264
Notes payables	136,000	135,000
Salary payables	4,436	7,696
Tax payables	78	2,279
Others	7,805	8,467
	<u>357,142</u>	<u>255,706</u>
Total trade and other payables	<u>357,142</u>	<u>255,706</u>

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

	As at 30 June 2021 Unaudited RMB'000	As at 31 December 2020 Audited RMB'000
Up to 6 months	207,141	100,402
6 months to 1 year	1,172	510
1 year to 2 years	510	1,352
	<u>208,823</u>	<u>102,264</u>

10 CAPITAL COMMITMENT

	As at 30 June 2021 Unaudited RMB'000	As at 31 December 2020 Audited RMB'000
Property, plant and equipment	9,622	168

11 SUBSEQUENT EVENTS

As from 30 June 2021 to the date of this announcement, save as disclosed in this announcement, the Board is not aware of any significant events requiring disclosure that have occurred.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In the first half of 2021, Coronavirus Disease 2019 (“**COVID-19**”) pandemic continued to spread around the world with delta variant cases rapidly emerging in several major Southeast Asian economies. In China, although there was a resurgence of COVID-19 cases in Beijing and certain provinces, the Chinese government successfully prevented a widespread outbreak with zero-tolerance pandemic control measures which effectively kept its casualties low, and propelled a much stronger economic recovery than its peers. China’s economy sustained a steady recovery with production and demand picking up in the first half of 2021. According to the data from the National Bureau of Statistics, the country’s GDP expanded 12.7% year-on-year to RMB53.2 trillion in the said period (first half of 2020: RMB45.66 trillion), with retail sales up 23% year-on-year to RMB21.19 trillion.

Volume of China’s tobacco production from January to April 2021 increased by 2.7% to 9,482.2 billion sticks as compared to the corresponding period of 2020, reflecting a positive upward trend in the industry. Meanwhile, market value of China’s e-cigarette industry surged from approximately RMB0.55 billion in 2013 to approximately RMB8.38 billion in 2020, representing a CAGR of 72.5%. However, the Chinese government has imposed tighter regulation towards tobacco and e-cigarettes, with more than twenty cities, namely Beijing, Shanghai and Shenzhen, introducing smoking control regulations, including bans on smoking in public places and government offices. The latest action plan announced in June 2021 further reinforced the supervision of tobacco and e-cigarette market in China, and standardised the production and operation of the e-cigarette industry.

With no sign of U.S. President Joe Biden easing economic restrictions, stricter tobacco and e-cigarette regulations in the country, intensified competition within the cigarette packaging industry and ever-rising material costs, the Group and other industry players were faced with increased pressure and challenges. In response to the tough operating environment, Jia Yao continued to draw on its expertise and reputation in maintaining close ties with its existing clients while seizing business opportunities during the Review Period.

BUSINESS REVIEW

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

Sales and Distribution

The Group places great emphasis on product design and technology development, striving to enhance its technological competitiveness by leveraging its design and development capabilities. As at 30 June 2021, the Group's clients included major provincial tobacco industrial companies and non-provincial tobacco companies under China Tobacco Industry Development Center* (中國煙草實業發展中心), which are located in Hubei, Sichuan, Yunnan, Shaanxi, Henan and other provinces in China. For those existing clients, the Group will strive, by taking advantage of its current status as an approved supplier, to expand to other cigarette brands or sub-brands manufactured by those clients currently not designed and/or printed by the Group into the Group's product portfolio.

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

Product Development and Design

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

Technology Development and Quality Control

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

Cost Control

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

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

FINANCIAL REVIEW

Turnover

For the six months ended 30 June 2021, the turnover of the Group was approximately RMB321.0 million, representing an increase of approximately 23.7% over the corresponding period in 2020. Revenue from paper cigarette packages segment and social product paper packages segment accounted for approximately 99.1% and 0.9%, respectively. The Group's operation in China was gradually resuming back on track in first half of 2021 and revenue from Paper cigarette packages segment and social product paper packages segment was increased significantly to RMB318.1 million and RMB2.8 million, respectively. Due to the fierce competition on trading goods segment with decreasing profit margin, the management decided to concentrate all resources on paper cigarette packages segment with higher profit margin.

The following table sets forth the breakdown of the Group's sales for the six months ended 30 June 2021:

	For the six months ended		
	30 June		
	2021	2020	Change (%)
	<i>RMB'000</i>	<i>RMB'000</i>	(approximate)
	(Unaudited)	(Unaudited)	
Paper cigarette packages segment	318,144	197,750	+60.9%
Social product paper packages segment	2,815	1,860	+51.3%
Trading goods segment	–	59,869	–100.0%

Gross Profit

The Group's gross profit increased by approximately 4.1% from approximately RMB32.4 million for the six months ended 30 June 2020 to approximately RMB33.7 million for the six months ended 30 June 2021. The Group's gross profit margin decreased by approximately 2.0% from approximately 12.5% to approximately 10.5% as compared with the corresponding period in 2020. The decrease in gross profit margin was primarily due to the decrease in average product price to certain major customers in Hunan and Shaanxi markets during the six months ended 30 June 2021.

Distribution Costs

For the six months ended 30 June 2021, distribution costs comprise: (i) delivery expenses for the transportation of the Group's products to customers; (ii) staff costs and benefits relating to the Group's sales and marketing personnel; (iii) expenses incurred in customer hospitality activities during the Group's normal course of business; (iv) travelling expenses of the staff incurred for the sales and distribution activities; (v) administrative expenses; and (vi) other selling and distribution related expenses. The Group's distribution costs increased by approximately 4.2% from approximately RMB11.7 million for the six months ended 30 June 2020 to approximately RMB12.2 million for the six months ended 30 June 2021. The increase of distribution costs was mainly due to the increase of transportation cost during the six months ended 30 June 2021.

Administrative Expenses

For the six months ended 30 June 2021, 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 decreased by approximately 7.4% from approximately RMB26.3 million for the six months ended 30 June 2020 to approximately RMB24.4 million for the six months ended 30 June 2021. The decrease of administrative expenses was mainly due to the decrease of research and development expenses during the six months ended 30 June 2021.

Other Income

For the six months ended 30 June 2021, other income consists of non-recurring government grant. The Group's other income decreased by approximately RMB1.0 million to approximately RMB0.5 million for the six months ended 30 June 2021 due to the decrease of government grant during the six months ended 30 June 2021.

Other Losses

For the six months ended 30 June 2021, other losses mainly consists of losses on disposal of property, plant and equipment and raw materials. The Group's other losses decreased by approximately RMB0.5 million to approximately RMB3.2 million during the six months ended 30 June 2021.

Finance Costs, net

For the six months ended 30 June 2021, 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 RMB2.3 million from approximately RMB0.9 million for the six months ended 30 June 2020 to approximately RMB3.2 million for the six months ended 30 June 2021. The increase of net finance costs was mainly due to the increase of interest expenses on bank borrowings and bank charge on issuance of letter of credit during the six months ended 30 June 2021.

Income Tax Credit

The income tax credit was approximately RMB1.6 million for the six months ended 30 June 2021 as compared to the income tax credit of approximately RMB1.9 million for the six months ended 30 June 2020.

Loss Attributable to Owners of the Company

As a result of the foregoing, the Group's loss attributable to owners of the Company decreased by approximately 1.8% from approximately RMB6.6 million for the six months ended 30 June 2020 to approximately RMB6.5 million for the six months ended 30 June 2021.

Trade and Other Receivables

Trade and other receivables increased by approximately 28.0% from approximately RMB114.0 million as at 31 December 2020 to approximately RMB145.9 million as at 30 June 2021. The increase was mainly due to the increase of trade receivables from approximately RMB93.8 million as at 31 December 2020 to approximately RMB123.7 million as at 30 June 2021.

Trade and Other Payables

Trade and other payables increased by approximately 39.7% from approximately RMB255.7 million as at 31 December 2020 to approximately RMB357.1 million as at 30 June 2021. The increase was mainly due to the increase of trade payables from approximately RMB102.3 million as at 31 December 2020 to approximately RMB208.8 million as at 30 June 2021.

LIQUIDITY AND FINANCIAL RESOURCES

The Group recorded net current assets of approximately RMB39.6 million as at 30 June 2021, compared with net current assets of approximately RMB56.9 million as at 31 December 2020. The Group maintained a healthy liquidity position during the six months ended 30 June 2021. The Group's operations were principally financed by internal resources and interest-bearing borrowings during the period under review.

As at 30 June 2021, the Group's cash and cash equivalents, which were held mainly in Renminbi and Hong Kong dollars, were approximately RMB57.8 million, compared with approximately RMB70.2 million as at 31 December 2020.

Borrowings and Gearing Ratio

The Group's interest-bearing borrowings were approximately RMB89.0 million as at 30 June 2021 (as at 31 December 2020: approximately RMB110.0 million). The Group's interest-bearing borrowings were mainly denominated in Renminbi as at 30 June 2021 and 31 December 2020. The Group's interest-bearing borrowings was repayable within one year. This ratio is calculated as net debt divided by total capital. The gearing ratios are as follows:

	As at 30 June 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Total borrowings	89,000	110,000
Less: cash and cash equivalents	(57,782)	(70,182)
Net debt	31,218	39,818
Total equity	223,248	229,420
Total capital	254,466	269,238
Gearing ratio (%)	12%	15%

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 2021, the Group's total capital expenditure amounted to approximately RMB13.8 million (for the six months ended 30 June 2020: RMB2.4 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 2021 RMB'000 (Unaudited)	As at 31 December 2020 RMB'000 (Audited)
Right-of-use assets	45,823	18,856
Property, plant and equipment	45,050	61,078
Trade receivables	87,673	46,302
Pledged bank deposits	93,560	94,000
	272,106	220,236

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

There are no significant investments, material acquisition and disposal of subsidiaries and associated companies by the Group for the six months ended 30 June 2021.

Contingent Liabilities

As at 30 June 2021, the Group did not have any significant contingent liabilities (as at 31 December 2020: nil).

Foreign Exchange Risks

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

The Group's exposure to foreign currency risk related primarily to certain bank balances and cash, trade and other receivables and trade and other payables maintained in Hong Kong Dollars and US dollars. The Group did not use derivative financial instruments to hedge against the volatility associated with foreign currency transactions and other financial assets and liabilities arising in the ordinary course of business during the six months ended 30 June 2021. However, the Directors will continue to monitor foreign exchange risks and will take prudent measure to minimise the same. The Group will consider hedging significant foreign currencies when the need arises.

HUMAN RESOURCES AND REMUNERATION

As at 30 June 2021, the Group employed 513 employees (as compared with 550 employees as at 31 December 2020) with total staff cost of approximately RMB28.3 million incurred for the six months ended 30 June 2021 (as compared with approximately RMB24.3 million for the same period of 2020). The Group's remuneration packages are generally structured with reference to market terms and individual performance. The Company adopted a share option scheme as incentive to its Directors and eligible employees. In relation to staff training, the Group also provides different types of programs for staff to improve their skills, develop their respective expertise and showcase their potentials.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2021 (for the six months ended 30 June 2020: nil).

FUTURE OUTLOOK

The COVID-19 pandemic is unlikely to dwindle until 2022. Countries are urging citizen to take vaccination with a view to achieving herd immunity. China has administered at least 14.7 billion doses of COVID-19 vaccines as of mid-July, with about 52.5% of the country's population vaccinated. The Chinese government has set national targets of inoculating 64% of its people and an annual economic growth at above 6% in 2021. It is expected that the country's economic activities will perform better than before the pandemic.

With the world's economy still overshadowed by the COVID-19 pandemic, Jia Yao will keep close contact with local governments, stay vigilant to the pandemic situation, and take immediate measures when necessary. While the economy is getting back on the right track, the Group remains optimistic towards the economy of China and the development of the tobacco industry. Previous figures projected the total profit of the Chinese tobacco market to reach RMB117 billion and the cigarette label printing market to reach approximately RMB50 billion in 2023. With approximately 300 million tobacco users in China — nearly one-third of the world's total, the e-cigarette market shows a seemingly low market penetration. The retail sales of China's e-cigarette market is expected to reach USD11.3 billion in 2023, manifesting the rapid growth of the industry. Leveraging the rising demand, the Group expects a booming industry in the years to come. With output trade gradually resuming, the Group expects that volume of tobacco will witness a year-on-year growth in the second half of 2021. To prepare for the post-COVID-19 era, the Group prioritises measures to sustain its competitive strength, including continuously monitoring costs and cash level, as well as streamlining work processes to maintain its operational and cost efficiency. The Group will continue to carry out various cost control initiatives and expects that new machinery and equipment to effectively improve the production condition, logistics arrangements and inventory levels, and thereby further enhancing the production efficiency and the Group's performance.

Given the tighter control from the Chinese government to reducing cigarette consumption and regulating the e-cigarette industry, designs of cigarette package have become more important for cigarette brands to attract consumers and increase sales. The Group will continue to devote tremendous efforts in product development and focus its product mix on middle to high-end cigarette packages, turning them into a major source of revenue. The Group is dedicated to strengthening its market leadership and exploring business growth through strategic bidding approach, riding on its stronger competitive advantage in terms of new product design and production capabilities. It will continue to tap the Guangdong and Anhui markets in the foreseeable future to expand its market share.

Leveraging years of experience in the cigarette packaging industry, the Group will strive to seize greater market share and maintain a close and long-standing relationship with existing customers while doing its utmost to attract new clients by offering innovative products and quality excellence. The Group's business is on track for a gradual recovery, supported by the solid foundation of Jia Yao. The Group is confident that, with the concerted effort of its management and all staff members, Jia Yao will maintain its market leadership and create long-term value for its shareholders.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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, 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 2021.

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 2021.

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 2021.

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 2021 have not been reviewed by the Company’s auditor, but have been reviewed by the Company’s 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.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the respective websites 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 2021 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
Yang Yoong An
Chairman of the Board and Executive Director

Hong Kong, 27 August 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.

* *For identification purposes only*