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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 2021

FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 December 2021 increased by approximately 19.6% or RMB112.7 million to approximately RMB688.9 million as compared with the same period in 2020.
- Gross profit for the year ended 31 December 2021 decreased by approximately 11.8% or RMB8.7 million to approximately RMB65.0 million as compared with the same period in 2020.
- Gross profit margin for the year ended 31 December 2021 decreased by approximately 3.4% from approximately 12.8% to approximately 9.4% as compared with the same period in 2020.
- Loss attributable to owners of the Company remained unchanged at approximately RMB26.2 million for the year ended 31 December 2020 and 2021.
- The Board does not recommend the payment of a final dividend for the year ended 31 December 2021 (for the year ended 31 December 2020: 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 2021 of the Company and its subsidiaries (collectively, the “Group”) together with the comparative figures for the year ended 31 December 2020, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

		Year ended 31 December	
		2021	2020
	Note	RMB'000	RMB'000
Revenue	3	688,944	576,244
Cost of sales	5	(623,923)	(502,547)
Gross profit		65,021	73,697
Distribution costs	5	(27,828)	(37,390)
Administrative expenses	5	(60,612)	(59,314)
Net impairment losses on financial assets		1,048	(1,554)
Other income		1,069	3,241
Other losses		(2,576)	(4,491)
Operating loss		(23,878)	(25,811)
Finance income	4	1,559	1,488
Finance costs	4	(6,496)	(5,102)
Finance costs — net	4	(4,937)	(3,614)
Loss before income tax		(28,815)	(29,425)
Income tax expense	6	(809)	(825)
Loss for the year		(29,624)	(30,250)
Loss attributable to:			
— Owners of the Company		(26,223)	(26,205)
— Non-controlling interests		(3,401)	(4,045)
		(29,624)	(30,250)

		Year ended 31 December	
		2021	2020
	<i>Note</i>	RMB'000	RMB'000
Other comprehensive income			
Currency translation differences		<u>489</u>	<u>(100)</u>
Total comprehensive loss for the year		<u><u>(29,135)</u></u>	<u><u>(30,350)</u></u>
Total comprehensive loss for the year attributable to:			
— Owners of the Company		<u>(25,734)</u>	<u>(26,305)</u>
— Non-controlling interests		<u>(3,401)</u>	<u>(4,045)</u>
		<u><u>(29,135)</u></u>	<u><u>(30,350)</u></u>
Loss per share attributable to owners of the Company			
— Basic loss per share	7	<u>(0.09)</u>	<u>(0.09)</u>
— Diluted loss per share	7	<u>(0.09)</u>	<u>(0.09)</u>

CONSOLIDATED BALANCE SHEET

As at 31 December 2021

	As at 31 December	
	2021	2020
Note	RMB'000	RMB'000
ASSETS		
Non-current assets		
Property, plant and equipment	117,194	110,384
Intangible assets	4,852	–
Right-of-use assets	48,778	48,126
Investment properties	8,421	9,097
Deferred income tax assets	4,148	4,813
Prepayment for property, plant and equipment	12,535	231
	<u>195,928</u>	<u>172,651</u>
Current assets		
Inventories	222,985	147,077
Trade and other receivables	122,342	113,973
Restricted cash	148,884	94,000
Cash and cash equivalents	65,844	70,182
	<u>560,055</u>	<u>425,232</u>
Total assets	<u>755,983</u>	<u>597,883</u>
EQUITY		
Equity attributable to the owners of the Company		
Share capital	2,382	2,382
Other reserves	169,911	169,422
(Accumulated losses)/retained profits	(11,882)	14,341
	<u>160,411</u>	<u>186,145</u>
Non-controlling interests	45,929	43,275
Total equity	<u>206,340</u>	<u>229,420</u>

		As at 31 December	
		2021	2020
	<i>Note</i>	RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Lease liabilities, non-current		1,114	114
Deferred income tax liabilities		1,213	–
		<u>2,327</u>	<u>114</u>
Current liabilities			
Trade and other payables	9	434,486	255,706
Contract liabilities		8,530	–
Income tax payable		1,895	1,935
Borrowings		101,080	110,000
Lease liabilities, current		1,325	708
		<u>547,316</u>	<u>368,349</u>
Total liabilities		<u>549,643</u>	<u>368,463</u>
Total equity and liabilities		<u>755,983</u>	<u>597,883</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 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, production and sales of paper cigarette packages, social product paper packages, electronic cigarettes, and other electronic products in Hubei and Guangdong 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

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.

(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 2021:

- Amendments to HKFRS 9, HKAS 39 and HKFRS 7 “Interest Rate Benchmark Reform — Phase 2”

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*

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

		Effective for annual periods beginning on or after
Hong Kong Accounting Standards (“HKAS”) 16 (Amendment)	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
HKAS 37 (Amendment)	Onerous Contracts – Cost to Fulfilling a Contract	1 January 2022
HKFRS 3 (Amendment)	Reference to the Conceptual Framework	1 January 2022
Annual improvements to HKFRS standards 2018 – 2020	Annual improvements to HKFRS standards 2018 – 2020	1 January 2022
Revised Accounting Guideline 5	Merger Accounting for Common Control Combinations	1 January 2022
HKAS 1 (Amendment)	Classification of Liabilities as Current or Non-current	1 January 2023
Hong Kong Interpretation 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	Applied when an entity applies HKAS 1 (Amendment)
HKFRS 17	Insurance Contract	1 January 2023
HKAS 1 and HKFRS Practice Statement 2 (Amendment)	Disclosure of Accounting Policies	1 January 2023
HKAS 8 (Amendment)	Definition of Accounting Estimates	1 January 2023
HKAS 12 (Amendment)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
HKFRS 4 (Amendment)	Extension of the Temporary Exemption from Applying HKFRS 9	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)
- Electronic cigarettes - technology research and development, production and sales of e-cigarettes, e-cigarettes vaping devices and other electronic products
- 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 2021:

	Year ended 31 December 2021			Total RMB'000
	Paper cigarette packages RMB'000 Note (i)	Social product paper packages RMB'000	Trading goods RMB'000	
Revenue	681,549	7,395	–	688,944
Gross profit	64,471	550	–	65,021
Distribution costs	(27,465)	(363)	–	(27,828)
Segment results	37,006	187	–	37,193
Administrative expenses				(60,612)
Net impairment losses on financial assets				1,048
Other income				1,069
Other losses				(2,576)
Finance costs — net				(4,937)
Loss before income tax				<u>(28,815)</u>

- (i) Over 98% of the revenue for paper cigarette packages is generated from the subsidiaries of China National Tobacco Corporation.

The segment results for the year ended 31 December 2020:

	Year ended 31 December 2020			Total <i>RMB'000</i>
	Paper cigarette packages <i>RMB'000</i>	Social product paper packages <i>RMB'000</i>	Trading goods <i>RMB'000</i>	
Revenue	492,158	5,501	78,585	576,244
Gross profit	71,354	299	2,044	73,697
Distribution costs	<u>(36,796)</u>	<u>(594)</u>	<u>–</u>	<u>(37,390)</u>
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				<u>(3,614)</u>
Loss before income tax				<u><u>(29,425)</u></u>

(c) Segment assets by location

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Mainland China	191,780	167,838
Hong Kong	<u>–</u>	<u>–</u>
	<u>191,780</u>	<u>167,838</u>

(d) Information about major customers

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Customer A	147,805	167,473
Customer B	112,611	50,059
Customer C	73,354	23,547
Customer D	71,491	51,806
Customer E	<u>69,770</u>	<u>33,095</u>
	<u>475,031</u>	<u>325,980</u>

(e) Other segment information

(i) Depreciation of property, plant and equipment

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Paper cigarette packages	11,747	11,918
Social product paper packages	<u>11</u>	<u>145</u>
	<u><u>11,758</u></u>	<u><u>12,063</u></u>

(ii) Impairment of property, plant and equipment

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Paper cigarette packages	149	908
Social product paper packages	<u>—</u>	<u>—</u>
	<u><u>149</u></u>	<u><u>908</u></u>

4 FINANCE COSTS — NET

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interest income on bank deposits	(1,559)	(1,488)
Interest on bank and other borrowings	6,297	4,694
Exchange (gain)/loss, net	(34)	50
Others	<u>233</u>	<u>358</u>
	<u><u>4,937</u></u>	<u><u>3,614</u></u>

5 EXPENSES BY NATURE

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Operating loss for the year has been arrived at after charging:		
Raw materials and consumables used	638,991	460,388
Changes in inventories of finished goods and work in progress	(58,731)	10,382
Employee benefits expenses	60,911	52,464
Depreciation	11,758	12,063
Transportation cost	20,711	21,451
Energy and water expense	15,210	12,359
Recognition of impairment losses of property, plant and equipment	149	908
Social promotion expense	10,351	15,633
Real estate tax, stamp duties and other taxes	2,513	2,647
Professional service expense	1,355	1,810
Office expense	1,559	1,718
Operating lease rentals in respect of rented premises	1,321	3,323
Auditors' remuneration	1,102	1,323
Amortisation	1,718	1,061
Other operating expenses	3,445	1,721
	<u>712,363</u>	<u>599,251</u>
Total cost of sales, distribution costs and administrative expenses	<u>712,363</u>	<u>599,251</u>

6 INCOME TAX EXPENSE

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current income tax (<i>Note (i)</i>)		
— PRC corporate income tax and withholding income tax	—	—
— Hong Kong profits tax	—	263
	—	263
Deferred income tax		
— PRC corporate income tax and withholding income tax	809	562
	<u>809</u>	<u>825</u>

(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% (2020: 16.5%).

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 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 2021. Meanwhile, the Group did not recommend the payment of dividend for the year ended 31 December 2021 (2020: none).

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Loss before tax	<u>(28,815)</u>	<u>(29,425)</u>
Tax calculated at applicable tax rates of the group entities	(3,627)	(3,766)
Tax losses for which no deferred income tax asset was recognised	6,987	4,029
Cost and expenses not deductible for taxation purposes	1,547	3,340
Additional deduction for research and development expenditures	<u>(4,098)</u>	<u>(2,778)</u>
	<u><u>809</u></u>	<u><u>825</u></u>

7 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 year.

	2021	2020
Loss attributable to the owners of the Company (<i>RMB'000</i>)	(26,223)	(26,205)
Weighted average number of ordinary shares in issue (<i>'000</i>)	300,000	300,000
Basic loss per share (<i>RMB</i>)	<u>(0.09)</u>	<u>(0.09)</u>

(b) Diluted loss per share

Diluted loss per share for the 31 December 2021 is the same as the basic loss per share.

8 TRADE AND OTHER RECEIVABLES

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	93,253	94,576
Less: allowance for impairment of trade receivables	<u>(1,153)</u>	<u>(796)</u>
	<u>92,100</u>	<u>93,780</u>
Notes receivable	12,251	8,199
Deposits	9,756	9,719
Advance to employees	1,747	1,971
Payments in advance	2,401	174
Others	<u>4,087</u>	<u>130</u>
	<u>30,242</u>	<u>20,193</u>
	<u>122,342</u>	<u>113,973</u>

(a) Trade receivables pledged

As at 31 December 2021, trade receivables amounting to RMB39,905,000 has been pledged as security for bank borrowings of the Group (As at 31 December 2020: RMB46,302,000).

(b) Trade receivables by aging

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
0 to 90 days	90,389	90,833
91 to 180 days	2,340	2,299
181 to 360 days	1	744
Over 360 days	523	700
	<u>93,253</u>	<u>94,576</u>

(c) Trade receivables by segment

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Paper cigarette packages (<i>Note (i)</i>)	86,022	87,573
Social product paper packages	626	1,475
Trading goods	–	5,528
Electronic cigarette	6,605	–
	<u>93,253</u>	<u>94,576</u>

(i) Over 98% of the amounts of paper cigarette packages are due from subsidiaries of China National Tobacco Corporation.

(d) Impaired trade receivables

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
At 1 January	796	264
Provision for impairment recognised during the year	572	710
Impaired receivables collected	(215)	(178)
	<u>1,153</u>	<u>796</u>

9 TRADE AND OTHER PAYABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade payables — due to third parties (<i>Note(a)</i>)	238,875	102,264
Notes payable	173,590	135,000
Salary payables	10,950	7,696
Tax payables	192	2,279
Others	10,879	8,467
	<u>434,486</u>	<u>255,706</u>

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Up to 6 months	236,630	100,402
6 months to 1 year	1,107	510
1 year to 2 years	1,138	1,352
	<u>238,875</u>	<u>102,264</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

During the reporting year, China's economy saw a strong rebound in the first half, but the momentum was eased in the second half of the year amid the continued impact from the Coronavirus Disease 2019 ("COVID-19" or the "pandemic") and emergence of variant cases. While consumers tended to be more cautious in domestic spending, export trade was also hit as approaching to end of the year. Despite an easing pace of economic growth in the fourth quarter, China managed to achieve a better-than-expected GDP growth of 8.1% in 2021, according to the National Bureau of Statistics of China. Retail sales surged 12.5% in 2021, despite a significant slowdown in the final month of 2021. With Chinese government's implementation of several macroeconomic control, fiscal and monetary policy, as well as its zero-tolerance pandemic control measures, China is on the right track for economic recovery with domestic demand supporting the trend.

Driven by domestic demand, the cigarette market in China experienced a steady growth in 2021. Domestic cigarette production rose by 1.3% year-on-year in 2021 to 2,418.2 billion. The e-cigarette market, on the other hand, outperformed with domestic market size expecting to jump 76% year-on-year to RMB25.5 billion in 2022, according to iiMedia Research. The export market size of e-cigarette is forecasted to surge by 63.4% year-on-year to RMB165.9 billion in 2022. Despite the rising demand for both traditional cigarettes and e-cigarettes, the operating environment is still full of challenges drawing from regulatory risks, difficulty in recruiting workers, rising labor cost as well as material costs. The Chinese authority further stepped up the regulation of the fast-growing vaping industry in November 2021 by including the sector in its tobacco monopoly law, which has put the market under the government's full control. In response to the tough operating environment, the Group continued to ride on its expertise and reputation to fine-tune its business strategy, actively explore opportunities, broaden its customer base, while taking timely measures to control its cost expenditure.

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) ("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.

* 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 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), 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

The Group has 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 2021, the revenue of the Group was approximately RMB688.9 million, representing an increase of approximately 19.6% over the same period in 2020, among which revenue from paper cigarette packages segment and social product paper packages segment accounted for approximately 98.9% and 1.1%, respectively. The Group's operation in China was gradually resuming back on track in year 2021 and revenue from Paper Cigarette packages segment and social product paper packages segment was increased significantly to approximately RMB681.5 million and RMB7.4 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 revenue for the year ended 31 December 2021:

	For the year ended		
	31 December		
	2021	2020	Change (%)
	RMB'000	RMB'000	(approximate)
Paper cigarette packages segment	681,549	492,158	+38.5%
Social product paper packages segment	7,395	5,501	+34.4%
Trading goods segment	–	78,585	-100%

Gross Profit

The Group's gross profit decreased by approximately 11.8% from approximately RMB73.7 million for the year ended 31 December 2020 to approximately RMB65.0 million for the year ended 31 December 2021. The Group's gross profit margin decreased by approximately 3.4% from approximately 12.8% to approximately 9.4% as compared with the same 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 year ended 31 December 2021.

Distribution Costs

For the year ended 31 December 2021, 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 25.6% from approximately RMB37.4 million for the year ended 31 December 2020 to approximately RMB27.8 million for the year ended 31 December 2021. The decrease of distribution costs was mainly due to the decrease in social promotion expense on our business during the year ended 31 December 2021.

Administrative Expenses

For the year ended 31 December 2021, 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 increased by approximately 2.2% from approximately RMB59.3 million for the year ended 31 December 2020 to approximately RMB60.6 million for the year ended 31 December 2021.

Other Income

Other income mainly consists non-recurring government grant. The Group's other income decreased by approximately RMB2.2 million to approximately RMB1.1 million during the year. The decrease in other income was mainly due to the decrease of government grants in China during the year ended 31 December 2021.

Other Losses

For the year ended 31 December 2021, other losses was mainly consist of loss on disposal of raw materials and loss on disposal of property, plant and equipment. The Group's other losses decreased by approximately RMB1.9 million to approximately RMB2.6 million during the year. The decrease in other losses was primarily due to the decrease of loss on disposal of raw materials during the year ended 31 December 2021.

Finance Costs — net

For the year ended 31 December 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 36.6% from approximately RMB3.6 million for the year ended 31 December 2020 to approximately RMB4.9 million for the year ended 31 December 2021. The increase of net finance costs was mainly due to the increase of interest expenses on bank and other borrowings during the year ended 31 December 2021.

Income Tax Expense

The Group's income tax expense decreased by approximately 1.9% from approximately RMB0.83 million for the year ended 31 December 2020 to approximately RMB0.81 million for the year ended 31 December 2021.

Loss Attributable to Owners of the Company

As a result of the foregoing, the Group's loss attributable to owners of the Company remained unchanged at approximately RMB26.2 million for the year ended 31 December 2020 and 2021.

Trade and Other Receivables

Trade and other receivables increased by approximately 7.3% from approximately RMB114.0 million as at 31 December 2020 to approximately RMB122.3 million as at 31 December 2021. The increase was mainly attributable to (i) the increase of notes receivable from approximately RMB8.2 million as at 31 December 2020 to approximately RMB12.3 million as at 31 December 2021; (ii) increase of payments in advance from approximately RMB0.2 million as at 31 December 2020 to approximately RMB2.4 million as at 31 December 2021; and (iii) increase of other receivables from approximately RMB0.1 million as at 31 December 2020 to approximately RMB4.1 million as at 31 December 2021.

Trade and Other Payables

Trade and other payables increased by approximately 69.9% from approximately RMB255.7 million as at 31 December 2020 to approximately RMB434.5 million as at 31 December 2021. The increase was mainly attributable to the increase of trade payables from approximately RMB102.3 million as at 31 December 2020 to approximately RMB238.9 million as at 31 December 2021 and increase of notes payable from approximately RMB135.0 million as at 31 December 2020 to approximately RMB173.6 million as at 31 December 2021. Increase of trade payables and notes payable were mainly due to the increasing purchase of raw materials for production in order to cope with the early arrival of peak season of Lunar New Year and expected increase of sale order in early year 2022.

LIQUIDITY AND FINANCIAL RESOURCES

The Group recorded net current assets of approximately RMB12.7 million as at 31 December 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 year ended 31 December 2021. The Group's operations were principally financed by internal resources and interest-bearing borrowings during the year.

As at 31 December 2021, the Group's cash and cash equivalents, which were held mainly in Renminbi and Hong Kong dollars, were approximately RMB65.8 million, compared with approximately RMB70.2 million as at 31 December 2020.

Borrowings and Gearing Ratio

The Group's interest-bearing borrowings was approximately RMB101.1 million as at 31 December 2021 (as at 31 December 2020: approximately RMB110.0 million). The increase was mainly due to the new bank borrowings in order to improve the liquidity of the Group after the pandemic. 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	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Total borrowings	101,080	110,000
Less: cash and cash equivalents	(65,844)	(70,182)
Net debt	35,236	39,818
Total equity	206,340	229,420
Total capital	241,576	269,238
Gearing ratio (%)	15%	15%

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 2021, the Group's total capital expenditure amounted to approximately RMB30.7 million (2020: approximately RMB7.2 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.

Assets pledged as security

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

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Land use rights	12,131	18,856
Investment property	6,933	–
Property, plant and equipment	22,599	61,078
Trade receivables	39,905	46,302
Restricted cash	148,717	94,000
	<u>230,285</u>	<u>220,236</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 2021 (2020: nil).

Contingent Liabilities

As at 31 December 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 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, trade receivables, contract liabilities and other payables maintained in Hong Kong Dollars and United States 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 2021.

HUMAN RESOURCES AND REMUNERATION

As at 31 December 2021, the Group employed 750 employees (as compared with 550 employees as at 31 December 2020) with total staff cost of approximately RMB60.9 million incurred for the year ended 31 December 2021 (as compared with approximately RMB52.5 million for the year ended 31 December 2020). The Group's remuneration packages are generally structured with reference to market terms and individual merits.

FUTURE OUTLOOK

With COVID-19 still evolving and continue to affect the global market, the economic recovery is set to decelerate with growth forecasted to slow down to 4.1% in 2022 amid continued COVID-19 flare-ups, diminished policy support, and lingering supply bottlenecks, according to the World Bank data.

Despite that China's economy saw strong pick-up last year, a winter surge in COVID-19 cases driven by the Omicron variant has dampened the market sentiment and brought uncertainties to the ongoing economic recovery and business operating environment. However, with various stimulus measures implemented by the Chinese Government and relatively strong domestic demand for tobacco market, the Group remains cautiously optimistic about the development of China's economy and the tobacco industry. The Center for Forecasting Science of Chinese Academy of Sciences expects China's economy to grow 5.5% in 2022, while consumption and net exports will drive GDP growth by 3.9 and 0.7 percentage points respectively, demonstrating a steady upside trend of the economic activities.

With solid position in the tobacco package industry, the Group remains active in expanding its footprint to other cities and capture the arising opportunity. The Group plans to open an office in Jilin in 2022 to deeply explore and develop its business in the city. The Jilin office will also be served as a base for further business expansion in the northern market.

In view of Chinese government's tightening controls to reduce cigarette consumption and regulate the e-cigarette industry, the Group regards this as a good opportunity to stand out its quality cigarette printing product and service in the market. In fact, the market for both traditional tobacco and e-cigarette is growing, with revenue in the tobacco products market amounting to US\$244,428 million in 2022. The market is expected to grow annually by 2.36% (CAGR 2022-2025). The market size of Chinese e-cigarettes and auxiliary products amounted to RMB5.52 billion, and it is predicted to grow more than double to RMB11.28 billion by 2022. The trend presented enormous market opportunities that the Group will not be missed.

To further strengthen the business development of e-cigarette, the Group has invested in Shenzhen Haohan Yangtian Technology Co., Ltd. ("Shenzhen Haohan"), which is engaged in product research and development of electronic cigarettes. Leveraging on Shenzhen Haohan's technological expertise and the Group's client network, the Group will be able to accelerate the expansion of its e-cigarette segment and eventually diversify its tobacco related business.

To cater for the escalating demand, the Group will actively deepen its business scope by focusing on its key cigarette printing business segment and exploring the upstream and downstream industry chains, and at the same time broadening its business breadth to serve other industries with printing needs. The Group will continue to devote tremendous efforts in product development and focus its product mix on middle to high-end cigarette packages, striving to offer new products and turning them into a major source of revenue. The Group also adopts strategic bidding approach to optimise product structure and achieve scale increment, so as to offer new product and drive the existing product sale and ultimately realise profit growth.

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 2021.

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 (version up to 31 December 2021) as set out in Appendix 14 to the Listing Rules for the year ended 31 December 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 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 2021.

REVIEW OF ANNUAL RESULTS

The Group’s annual results for the year ended 31 December 2021 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, 24 June 2022.

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, 21 June 2022 to Friday, 24 June 2022, 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, 20 June 2022.

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 2021 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, 29 March 2022

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.