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 2022

FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 December 2022 increased by approximately 40.6% or RMB279.4 million to approximately RMB968.4 million as compared with the same period in 2021.

- Gross profit for the year ended 31 December 2022 increased by approximately 112.0% or RMB72.8 million to approximately RMB137.9 million as compared with the same period in 2021.

- Gross profit margin for the year ended 31 December 2022 increased by approximately 4.8% from approximately 9.4% to approximately 14.2% as compared with the same period in 2021.

- Profit attributable to owners of the Company was approximately RMB5.5 million for the year ended 31 December 2022 as compared to loss attributable to owners of the Company was approximately RMB26.2 million for the year ended 31 December 2021.

- The Board recommended the payment of a final dividend for the year ended 31 December 2022 of HKD0.056 per share (for the year ended 31 December 2021: 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 2022 of the Company and its subsidiaries (collectively, the "Group") together with the comparative figures for the year ended 31 December 2021, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2022

		Year ended 31 December	
		2022	2021
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**968,363**	688,944
Cost of sales	*5*	**(830,502)**	(623,923)
Gross profit		**137,861**	65,021
Distribution costs	*5*	**(41,050)**	(27,828)
Administrative expenses	*5*	**(79,478)**	(60,612)
(Net impairment losses)/reversal of loss allowance on financial assets		**(1,370)**	1,048
Other income		**2,352**	1,069
Other gains/(losses)		**990**	(2,576)
Operating profit/(loss)		**19,305**	(23,878)
Finance income	*4*	**2,252**	1,559
Finance costs	*4*	**(3,292)**	(6,496)
Finance costs — net	*4*	**(1,040)**	(4,937)
Profit/(loss) before income tax		**18,265**	(28,815)
Income tax expense	*6*	**(7,245)**	(809)
Profit/(loss) for the year		**11,020**	(29,624)
Profit/(loss) attributable to:			
— Owners of the Company		**5,496**	(26,223)
— Non-controlling interests		**5,524**	(3,401)
		11,020	(29,624)

		Year ended 31 December	
		2022	2021
	Note	***RMB'000***	*RMB'000*
Other comprehensive income			
Currency translation differences		**670**	489
Total comprehensive income/(loss) for the year		**11,690**	(29,135)
Total comprehensive income/(loss) for the year attributable to:			
— Owners of the Company		**6,166**	(25,734)
— Non-controlling interests		**5,524**	(3,401)
		11,690	(29,135)
Earnings/(loss) per share attributable to owners of the Company			
— Basic earnings/(loss) per share	*7*	**0.01**	(0.07)
— Diluted earnings/(loss) per share	*7*	**0.01**	(0.07)

CONSOLIDATED BALANCE SHEET

As at 31 December 2022

		As at 31 December	
		2022	2021
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**134,713**	117,194
Intangible assets		**4,367**	4,852
Right-of-use assets		**55,079**	48,778
Investment properties		**7,929**	8,421
Deferred income tax assets		**571**	4,148
Prepayment for property, plant and equipment		**221**	12,535
		202,880	195,928
Current assets			
Inventories		**194,766**	222,985
Trade and other receivables	*8*	**214,231**	122,342
Restricted cash		**194,337**	148,884
Cash and cash equivalents		**266,575**	65,844
		869,909	560,055
Total assets		**1,072,789**	755,983
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**5,120**	2,382
Share premium		**183,318**	25,200
Other reserves		**145,721**	144,711
Accumulated losses		**(6,386)**	(11,882)
		327,773	160,411
Non-controlling interests		**54,639**	45,929
Total equity		**382,412**	206,340

		As at 31 December	
		2022	2021
	Note	***RMB'000***	*RMB'000*
LIABILITIES			
Non-current liabilities			
Lease liabilities		**6,064**	1,114
Deferred income tax liabilities		**1,384**	1,213
Deferred income		**19,580**	–
		27,028	2,327
Current liabilities			
Trade and other payables	*9*	**573,185**	434,486
Contract liabilities		**15,460**	8,530
Income tax payable		**4,767**	1,895
Borrowings		**65,000**	101,080
Lease liabilities		**4,937**	1,325
		663,349	547,316
Total liabilities		**690,377**	549,643
Total equity and liabilities		**1,072,789**	755,983

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 cigarettes products in Hubei and Guangdong Province, the People's Republic of China (the "PRC").

The Company's registered office is located at Third 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. These consolidated financial statements were approved for issue by the board of directors (the "Board") of the Company on 30 March 2023.

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.

(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 2022:

- HKFRS 3 (Amendments) "Reference to the Conceptual Framework"
- HKAS 16 (Amendments) "Property, Plant and Equipment: Proceeds before Intended Use"
- HKAS 37 (Amendments) "Onerous Contracts — Cost of Fulfilling a Contract"
- Amendments to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41 "Annual improvements to HKFRS standards 2018-2020"
- Revised Accounting Guideline 5 "Merger Accounting for Common Control Combination"

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 2022 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
HKAS 1 (Amendment)	Classification of Liabilities as Current or Non-current	1 January 2024
Hong Kong Interpretation 5	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
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 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 sales of paper cigarette packages

— Electronic cigarettes — technology research and development, production and sales of e-cigarettes, e-cigarettes vaping devices and other electronic products

— Social product paper packages - design, printing and sales of social product paper packages (e.g. packages for alcohol, medicines and food)

(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 2022:

	Year ended 31 December 2022			
	Paper cigarette packages	**Electronic cigarettes**	**Social product paper packages**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**742,324**	**217,007**	**9,032**	**968,363**
Gross profit	**94,637**	**42,453**	**771**	**137,861**
Distribution costs	**(33,936)**	**(6,893)**	**(221)**	**(41,050)**
Segment results	**60,701**	**35,560**	**550**	**96,811**
Administrative expenses				**(79,478)**
Net impairment losses on financial assets				**(1,370)**
Other income				**2,352**
Other gains				**990**
Finance costs — net				**(1,040)**
Profit before income tax				**18,265**

The segment results for the year ended 31 December 2021:

	Year ended 31 December 2021			
	Paper cigarette packages *RMB'000*	Social product paper packages *RMB'000*	Electronic cigarettes *RMB'000*	Total *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 reversal of loss allowance on financial assets				1,048
Other income				1,069
Other losses				(2,576)
Finance costs — net				(4,937)
Loss before income tax				(28,815)

(c) Segment assets by location

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

	2022 *RMB'000*	2021 *RMB'000*
Mainland China	**201,246**	191,780
Hong Kong	**1,063**	–
	202,309	191,780

(d) Information about major customers

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

	2022	2021
	RMB'000	*RMB'000*
Customer A	**152,928**	147,805
Customer B	**122,757**	112,611
Customer C	**102,196**	69,770
Customer D	**92,842**	54,979
Customer E	**71,472**	71,491
	542,195	456,656

(e) Other segment information

Depreciation of property, plant and equipment

	2022	2021
	RMB'000	*RMB'000*
Paper cigarette packages	**12,256**	11,747
Electronic cigarettes	**375**	–
Social product paper packages	**11**	11
	12,642	11,758

Amortisation of intangible assets and right-of-use assets

	2022	2021
	RMB'000	*RMB'000*
Paper cigarette packages	**1,106**	1,044
Electronic cigarettes	**2,372**	–
Social product paper packages	**13**	11
	3,491	1,055

4 FINANCE COSTS — NET

	2022	2021
	RMB'000	*RMB'000*
Interest income on bank deposits	**(2,252)**	(1,559)
Interest on bank and other borrowings	**2,827**	6,297
Others	**465**	199
	1,040	4,937

5 EXPENSES BY NATURE

	2022	2021
	RMB'000	*RMB'000*
Operating profit/(loss) for the year has been arrived at after charging:		
Raw materials and consumables used	**789,272**	638,991
Changes in inventories of finished goods and work in progress	**(44,479)**	(58,731)
Employee benefits expenses	**111,045**	60,911
Transportation cost	**20,637**	20,711
Impairment of property, plant and equipment	**–**	149
Social promotion expense	**19,030**	10,351
Energy and water expense	**16,414**	15,210
Depreciation	**13,451**	11,758
Amortisation	**4,153**	1,718
Real estate tax, stamp duties and other taxes	**4,018**	2,513
Provision of inventories	**3,470**	–
Office expense	**2,780**	1,559
Auditors' remuneration	**1,880**	1,102
Professional service expense	**1,763**	1,355
Operating lease rentals in respect of rented premises	**1,176**	1,321
Other operating expenses	**6,420**	3,445
Total cost of sales, distribution costs and administrative expenses	**951,030**	712,363

6 INCOME TAX EXPENSE

	2022	2021
	RMB'000	*RMB'000*
Current income tax (i)		
— PRC corporate income tax	**3,103**	–
— Hong Kong profits tax	**–**	–
	3,103	–
Deferred income tax		
— PRC corporate income tax	**4,142**	809
	7,245	809

(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% (2021: 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 2022 (2021: 15%).

The remaining subsidiaries established in the mainland China are subject to the PRC CIT rate of 25% (2021: 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%.

7 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

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

	2022	2021 (After rights issue adjustment)	2021 (Before rights issue adjustment)
Profit/(loss) attributable to the owners of the Company *(RMB'000)*	**5,496**	(26,223)	(26,223)
Number of ordinary shares as at 1 January *('000)*	**300,000**	300,000	300,000
Effect of the rights issue *('000)*	**108,658**	60,000	–
Weighted average number of ordinary shares in issue *('000)*	**408,658**	360,000	300,000
Basic earnings/(loss) per share *(RMB)*	**0.01**	(0.07)	(0.09)

In October 2022, the Company offered rights issue to its existing shareholders at price less than its fair values. There was bonus element for the rights issue and the weighted average number of ordinary shares were adjusted accordingly for both years.

(b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares consist of share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2022	2021 (After rights issue adjustment)	2021 (Before rights issue adjustment)
Profit/(loss) attributable to the owners of the Company *(RMB'000)*	**5,496**	(26,223)	(26,223)
Weighted average number of ordinary shares *('000)*	**408,658**	360,000	300,000
Adjustment for share options (i)	**–**	–	–
Weighted average number of ordinary shares for diluted earnings per share *('000)*	**408,658**	360,000	300,000
Diluted earnings/(loss) per share *(RMB)*	**0.01**	(0.07)	(0.09)

(i) The share options granted and remained unexercised are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 31 December 2022. These options could potentially dilute basic earnings per share in the future.

8 TRADE AND OTHER RECEIVABLES

	2022	2021
	RMB'000	*RMB'000*
Trade receivables	**147,019**	93,253
Less: loss allowance for trade receivables	**(1,603)**	(1,153)
	145,416	92,100
Notes receivable	**22,985**	12,251
Deposits	**32,121**	9,756
Advance to employees	**6,094**	1,747
Others	**4,284**	4,087
Less: loss allowance for other receivables	**(656)**	–
	41,843	15,590
Payments in advance	**3,987**	2,401
	214,231	122,342

(a) Trade receivables by aging

The Group's credit sales to customers are mainly entered into on credit terms of not more than 90 days.

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

	2022	2021
	RMB'000	*RMB'000*
0 to 90 days	**141,784**	90,389
91 to 180 days	**2,004**	2,340
181 to 360 days	**3,035**	1
Over 360 days	**196**	523
	147,019	93,253

(b) Impairment of trade and other receivables

Movements in the provision for impairment of trade and other receivables are as follows:

	2022	2021
	RMB'000	*RMB'000*
At 1 January	**1,153**	796
Provision/(reversal) for loss allowance	**1,370**	(1,048)
Loss allowance recognised on acquisition	**558**	1,405
Receivables written off	**(822)**	–
At 31 December	**2,259**	1,153

9 TRADE AND OTHER PAYABLES

	2022	2021
	RMB'000	*RMB'000*
Trade payables — due to third parties *(Note (a))*	**314,943**	238,875
Notes payable	**223,728**	173,590
Salary payables	**18,289**	10,950
Other tax payables	**2,077**	192
Others	**14,148**	10,879
	573,185	434,486

(a) Trade payables are mainly with maturity period of 30 to 90 days.

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

	2022	2021
	RMB'000	*RMB'000*
Up to 6 months	**305,516**	236,630
6 months to 1 year	**5,970**	1,107
1 year to 2 years	**3,457**	1,138
	314,943	238,875

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

Global economic activity decelerated sharply in 2022, with inflation higher than in several decades. Alongside the cost-of-living crisis, tightening financial conditions in most regions, the uncertainty of geopolitical stability and the lingering Coronavirus Disease 2019 ("COVID-19" or "the pandemic"), the world economy continued to face growing headwinds. Global trade has slowed since the second half of 2022, according to the latest Global Trade Update published by the United Nations Conference on Trade and Development. The ongoing tightening of financial conditions has further increased pressure on highly indebted governments, amplifying vulnerabilities and negatively affecting investment and international trade flows.

In China, the economy remained mired in uncertainty throughout the year due to the continued instability associated with the pandemic and a series of closure measures under the central government's "zero-COVID" policy. Nevertheless, the country's economy has begun to recover amid a gradual opening since Q3 2022. In addition, the National Health Commission announced 20 new measures in early November 2022 to further optimise COVID-19 control measures, signalling a clear, progressive approach to reopening. According to data released by the National Bureau of Statistics (NBS), China's economy grew 3% to reach a record RMB121 trillion in 2022, with a gradual improvement in growth momentum and amid ongoing overall resilience.

Data released by the NBS showed that from January to October 2022, China's cigarette production reached approximately 2.15 trillion units, up by 1.4% year on year. From March 2020 to October 2022, China's monthly cigarette production totalled 5.24 trillion units. A report on global e-cigarette industry development trends through 2021-22 by data mining and analysis firm iMedia Research has shown that China's domestic market for e-cigarettes grew at an estimated rate of 76.0% in 2022, reaching RMB25.5 billion. The Chinese e-cigarette industry's export market also maintained growth momentum at an estimated rate of 63.4% in 2022, reaching approximately RMB165.9 billion. The report said that amid progressive improvements in domestic e-cigarette regulation, the industry could be a significant contributor to the economy and society.

According to the latest study by Grand View Research, the global e-cigarette and vape market size was valued at USD22.45 billion in 2022 and is expected to grow at a compound annual growth rate (CAGR) of 30.6% from 2023 to 2030, coupled with the growing awareness of public that e-cigarettes is safer than traditional cigarettes, the desire for substantially less hazardous e-cigarettes has grown, which prompted the global uptake of e-cigarettes. In view of the growth in e-cigarettes, an increasing number of mergers and acquisitions between traditional cigarette and e-cigarette manufacturers is trending in the market, to collaborate for product development and improve presence in the market, indicating that the traditional cigarette enterprises are shifting strategies to adapt the emerging market.

In March 2022, the State Tobacco Monopoly Administration (STMA) issued a regulation on licence management for e-cigarette production. The regulation was implemented two months later, and e-cigarettes sales channel management is to be put in place via an e-cigarette trading management platform to standardise sales. The move signifies the determination of China's tobacco industry to promote high-quality sustainable development and ongoing structural optimisation. In addition, the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation issued a notice on the imposition of consumption tax on electronic cigarettes in late October 2022, which included e-cigarettes in the scope of consumption tax at a rate of 36% for production (imports) and 11% for wholesale. The new tax arrangement was implemented on 1 November 2022. The launch of the regulations shows that the e-cigarette industry will officially enter a new era of standardised development, and that the upstream and downstream e-cigarette industry chain may soon see a reconfiguration. Guosheng Securities believes that leading enterprises can rely on multiple advantages, such as scale, automation and strong bargaining power, to smooth the impact of the tax. As small unqualified enterprises exit the market, increased industry concentration is likely. As a result, the implementation of the tax policy is expected to boost e-cigarette enterprises' export business.

Capitalising on its reputable brand image and expertise, Jia Yao's tobacco packaging business remained on track during the year, and its e-cigarette business has made a clear breakthrough in its development and opportunities. In face of rising costs, the Group has taken effective cost control measures through process optimisation, materials optimisation and production efficiency improvements to fulfil customer demand for product preservation.

Business Review

Jia Yao is primarily engaged in the design, production and sales of paper cigarette packages and electronic cigarettes. For the paper cigarette packages segment, the Group is providing paper cigarette packaging services for key cigarette brands designated by the STMA. The Group's subsidiary, 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 operating in China for more than two decades. For the electronic cigarettes segment, the Group increased its investment in production and the development of own branded product in order to grasp the opportunity of rapid growth of electronic cigarette market in recent years. In additions to the production and development of own branded product, the Group also focused to develop the business to the OEM and ODM production of e-cigarette related products with comprehensive e-cigarette supply chain for several international e-cigarette brands. It is foreseeable that the electronic cigarettes segment will become the major revenue and profit growth drivers of the Group in the future.

Sales and Distribution

Maintaining solid, stable business relationships with customers has always been Jia Yao's mission, as the Group believes that this is the key to excelling and outperforming its peers in the cigarette industry. By adopting advanced technologies, the Group aims to provide high value-added, distinct and differentiated products for its customers, with the ultimate goal of forging committed, long-term business partnerships with them.

In the paper cigarette packaging segment, the Group serves customers with a presence across China, including major provincial tobacco companies and non-provincial tobacco companies operating under the China Tobacco Industry Development Center* (中國煙草實業發展中心), with operations and production centres in Hubei, Sichuan, Yunnan and other provinces. During the reporting year, the Group secured more orders than during the previous year through competitive tendering and new product development. Alongside its ongoing efforts to strengthen communication and cooperation with customers, and to increase the proportion of its proprietary business, the Group introduced new suppliers, optimising processes and materials, and improving production efficiency to achieve sustainable, long-term comprehensive benefits.

In the e-cigarette business, since the concentrate on expansion of business in year 2022, the Group has aimed to expand its footprint in the e-cigarette peripheral product space and its penetration and development of the segment. The segment generated revenue of RMB217.0 million for the Group during the reporting year, approximately 22.4% of its total revenue.

* *For identification purposes only*

Despite the fact that short-term Chinese e-cigarette demand may be somewhat affected by a series of restrictive government measures, the Group believes that standardised management is conducive to the orderly development of the industry, given that its penetration rate is still relatively low, indicating room for further development. Moreover, the Group's e-cigarette products are made mainly for export, underlining the fact that the inclusion of e-cigarettes in the scope of consumption tax has no significant impact on its business.

Product Development and Design

Throughout the years, the Group has consistently driven itself to innovate. Capitalising on its technological expertise and development, including its advanced production lines and state-of-the-art production facilities, the Group has aimed to fully utilise its capacity to manufacture mid-range and high-end products, enabling it to maintain its status as a market leader.

In order to further improve the efficiency of the production lines of electronic cigarette, it is necessary to consider the needs of automated production prior to the product design stage. During the reporting year, the Group reviewed the product development technology, which fully considers the requirements of product manufacturing and importing automation equipment at the stage of product design and improves the manufacturability and automation feasibility of products.

Technology Development and Quality Control

Advocating the concept of "management innovation, system leadership", the Group has always adhered to a policy of pursuing refinement, specialisation and standardisation to bolster its solid reputation for quality products. During the reporting year, the Group continued to step up efforts in the research and development of core technologies and the improvement of management capability. The Group launched its own branded electronic cigarette to the markets with high safety performance and better user experience, which has been recognized by numerous clients in a fast manner and achieved outstanding sales growth during the reporting year. The Group has also taken a proactive approach to environmental protection. It implements strict environmental protection metrics, controlling inputs of all raw and auxiliary materials, and manufacturing processes to provide customers with high-quality, safe, environment-friendly products.

Cost Control

The Group has always sought to consolidate its core business and maximise efforts to control costs. Taking into account increases in the prices of raw materials, which have been a major factor affecting manufacturing industries, the Group adopted a series of measures during the reporting year to reduce those costs.

It introduced strategies including process and materials optimisation, productivity enhancement, and the introduction of new suppliers and competitive negotiations. The Group also strengthened its control of production processes through measures such as rolling stock preparation, consolidating production orders to increase lot sizes, reducing manufacturing costs and preventing inefficiencies brought about by secondary loading due to insufficient deliveries. These strategies achieved remarkable results, yielding an improvement in gross profit margin on the previous year.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2022, the revenue of the Group was approximately RMB968.4 million, representing an increase of approximately 40.6% over the same period in 2021, among which revenue from paper cigarette packages segment, social product paper packages segment and electronic cigarettes segment accounted for approximately 76.7%, 0.9% and 22.4%, respectively. The increase in sales was primarily attributable to steady increase in sales order of paper cigarette packages segment and the outstanding contribution to the Group's revenue from the electronic cigarettes segment with rapid growth rate during the year ended 31 December 2022.

The following table sets forth the breakdown of the Group's revenue for the year ended 31 December 2022:

	For the year ended 31 December		
	2022	2021	Change (%)
	RMB'000	*RMB'000*	(approximate)
Paper cigarette packages segment	**742,324**	681,549	+8.9%
Social product paper packages segment	**9,032**	7,395	+22.1%
Electronic cigarettes segment	**217,007**	–	N/A

Gross Profit

The Group's gross profit increased by approximately 112.0% from approximately RMB65.0 million for the year ended 31 December 2021 to approximately RMB137.9 million for the year ended 31 December 2022. The Group's gross profit margin increased by approximately 4.8% from approximately 9.4% to approximately 14.2% as compared with the same period in 2021. The increase in gross profit was mainly attributed from the prominent contribution from the electronic cigarettes segment with higher profit margin during the year ended 31 December 2022.

Distribution Costs

For the year ended 31 December 2022, 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 increased by approximately 47.5% from approximately RMB27.8 million for the year ended 31 December 2021 to approximately RMB41.1 million for the year ended 31 December 2022. The increase was mainly due to the increase in staff costs and promotion expense on the own developed product of electronic cigarettes during the year ended 31 December 2022.

Administrative Expenses

For the year ended 31 December 2022, 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 31.1% from approximately RMB60.6 million for the year ended 31 December 2021 to approximately RMB79.5 million for the year ended 31 December 2022. The increase was mainly due to the increase in staff costs and research and development costs during the year ended 31 December 2022.

Other Income

Other income mainly consists non-recurring government grant. The Group's other income increased by approximately RMB1.4 million to approximately RMB2.4 million during the year. The increase was mainly due to the increase of government grants during the year ended 31 December 2022.

Other Gains/(Losses)

For the year ended 31 December 2022, other gains/(losses) was mainly consist of gains on written-off the payables, gains from bargin purchase, loss on disposal of raw materials and loss on disposal of property, plant and equipment. The Group recorded other gains of approximately RMB1.0 million for the year ended 31 December 2022 as compared to other losses of approximately RMB2.6 million for the year ended 31 December 2021. The change was mainly due to the decrease of loss on disposal of raw materials and property, plant and equipment during the year ended 31 December 2022.

Finance Costs — net

For the year ended 31 December 2022, net finance costs primarily consist of interest income on bank deposits, interest payments on interest-bearing obligations and bank charges. The net finance costs decreased by approximately 78.9% from approximately RMB4.9 million for the year ended 31 December 2021 to approximately RMB1.0 million for the year ended 31 December 2022. Decrease of the net finance costs was mainly due to decrease of interest on bank borrowings because of the decrease of bank borrowings during the year ended 31 December 2022.

Income Tax Expense

The Group's income tax expense increased by approximately RMB6.4 million from approximately RMB0.8 million for the year ended 31 December 2021 to approximately RMB7.2 million for the year ended 31 December 2022. Increase of income tax expense was mainly due to the increase of net profit generated by the subsidiaries in China during the year ended 31 December 2022.

Profit/(loss) Attributable to Owners of the Company

As a result of the foregoing, the group's profit attributable to owners of the Company was approximately RMB5.5 million for the year ended 31 December 2022 as compared to the group's loss attributable to owners of the Company was approximately RMB26.2 million for the year ended 31 December 2021.

Trade and Other Receivables

Trade and other receivables increased by approximately 75.1% from approximately RMB122.3 million as at 31 December 2021 to approximately RMB214.2 million as at 31 December 2022. The increase was mainly attributable to (i) the increase of trade receivables from approximately RMB92.1 million as at 31 December 2021 to approximately RMB145.4 million as at 31 December 2022; and (ii) increase of deposits from approximately RMB9.8 million as at 31 December 2021 to approximately RMB32.1 million as at 31 December 2022.

Trade and Other Payables

Trade and other payables increased by approximately 31.9% from approximately RMB434.5 million as at 31 December 2021 to approximately RMB573.2 million as at 31 December 2022. The increase was mainly attributable to the increase of trade payables from approximately RMB238.9 million as at 31 December 2021 to approximately RMB314.9 million as at 31 December 2022 and increase of notes payable from approximately RMB173.6 million as at 31 December 2021 to approximately RMB223.7 million as at 31 December 2022.

LIQUIDITY AND FINANCIAL RESOURCES

The Group recorded net current assets of approximately RMB206.6 million as at 31 December 2022, compared with net current assets of approximately RMB12.7 million as at 31 December 2021. The Group maintained a healthy liquidity position during the year ended 31 December 2022. The Group's operations were principally financed by internal resources and interest-bearing borrowings during the year.

As at 31 December 2022, the Group's cash and cash equivalents, which were held mainly in Renminbi and Hong Kong dollars, were approximately RMB266.6 million, compared with approximately RMB65.8 million as at 31 December 2021.

Borrowings and Gearing Ratio

The Group's interest-bearing borrowings was approximately RMB65.0 million as at 31 December 2022 (as at 31 December 2021: approximately RMB101.1 million). The decrease was mainly due to the decrease of bank borrowings in order to reduce the interest expense. 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	
	2022	2021
	RMB'000	*RMB'000*
Total borrowings	**65,000**	101,080
Less: cash and cash equivalents	**(266,575)**	(65,844)
Net (cash)/debt	**(201,575)**	35,236
Total equity	**382,412**	206,340
Total capital	**N/A**	241,576
Gearing ratio (%)	**N/A**	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 2022, the Group's total capital expenditure amounted to approximately RMB15.0 million (2021: approximately RMB30.7 million), which was mainly used in purchase of machineries and buildings.

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:

	2022	2021
	RMB'000	*RMB'000*
Land use rights	**11,027**	12,131
Investment property	**7,509**	6,933
Property, plant and equipment	**32,301**	22,599
Trade receivables	**53,864**	39,905
Restricted cash	**193,648**	148,717
	298,349	230,285

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 2022 (2021: nil).

Contingent Liabilities

As at 31 December 2022, the Group did not have any significant contingent liabilities (as at 31 December 2021: 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 2022.

HUMAN RESOURCES AND REMUNERATION

As at 31 December 2022, the Group employed 1,275 employees (as compared with 750 employees as at 31 December 2021) with total staff cost of approximately RMB111.0 million incurred for the year ended 31 December 2022 (as compared with approximately RMB60.9 million for the year ended 31 December 2021). The Group's remuneration packages are generally structured with reference to market terms and individual merits.

RIGHTS ISSUE

References are made to the Company's announcements dated 5 August 2022, 20 September 2022 and 25 October 2022, the circular dated 5 September 2022, and the prospectus dated 3 October 2022. Capitalized terms used in this announcement shall have the same meanings stated in the above announcements and circular. The Company implemented the Rights Issue on the basis of every one (1) Rights Share for every one (1) ordinary share in issue at the Subscription Price of HK$0.60 per Rights Share to raise up to HK$180.0 million (before expenses) by way of issuing 300,000,000 Rights Shares. The Rights Shares are rank pari passu in all respects among themselves and with the Shares in issue on the date of allotment and issue of the Rights Shares. The aggregate nominal value of the Rights Shares is HK$3,000,000. The reasons for the Rights Issue were it could provide immediate funds to the Company for the relocation and establishment of the new production facilities and the business development of the electronic cigarette segment, which will in return further improve the Group's operational efficiency and provide sustainable development of the Group's business.

The Rights Issue was completed on 26 October 2022, and 300,000,000 fully paid Rights Shares were allotted and issued accordingly. The net proceeds from the Rights Issue (after deducting expenses) are approximately HK$176.0 million. The net price per Rights Share is approximately HK$0.59. The closing price per Share on 5 August 2022 (being the date on which the terms of Rights Issue were fixed) is HK$0.700.

As of 31 December 2022, the intended use and actual use of the net proceeds from the Rights Issue, as well as the unutilized net proceeds therefrom are as follows:

	Intended use of proceeds from the Rights Issue *HK$' million*	**Actual use of net proceeds as at 31 December 2022** *HK$' million*	**Unutilized net proceeds as at 31 December 2022** *HK$' million*	**Expected timeline for the intended use**
Business expansion of Hubei Golden Three Gorges	119.34	59.67	59.67	Up to 30 September 2023
Brand development and market expansion of Shenzhen Haohan	29.25	27.49	1.76	Up to 30 November 2023
Business development of e-cigarettes	23.40	23.40	–	N/A
General working capital	4.01	2.12	1.89	Up to 31 October 2023
Total	176.00	112.68	63.32	

ADEQUACY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this announcement, the Group maintained adequate public float throughout the year ended 31 December 2022.

FUTURE OUTLOOK

The reopening of China's economy after Beijing abandoned its strict COVID-19 restrictions, coupled with more resilient global demand in the United States and Europe and slowing inflation, has seen the International Monetary Fund (IMF) forecast global economic growth of 2.9% in 2023 and 3.1% in 2024. Think tank The Conference Board expects global real GDP to grow 2.2% in 2023, with an outsized contribution from China that it predicts will be driven mainly by a rebound in domestic economic activity.

Economists participating in a Bloomberg survey have predicted that China is likely to achieve growth of more than 5% in 2023 as the effects of COVID-19 wane and the real estate sector recovers amid increased positive market sentiment and a rebound in consumption.

The Tobacco Industry Outlook Report forecasts that the aggregate profit of major industrial enterprises in China's tobacco sector is expected to reach RMB117 billion in 2023 and that the cigarette label market is expected to be worth around RMB34 billion. The tobacco packaging market is expected to maintain steady growth as demand for tobacco packaging products, especially paper products, is likely to increase thanks to booming retail sales, higher levels of online sales and a rise in the number of smokers. The Group will nevertheless maintain a prudent approach to the paper cigarette packaging segment due to fierce market competition.

Since the implementation of China's E-cigarette Management Measures in May 2022, the STMA has established a nationwide unified management platform for e-cigarette commerce, meaning that e-cigarette products that have not passed technical reviews will not be listed for sale. Data mining and analysis firm iMedia Research believes that with clearer policies and regulations, the e-cigarette industry will gain greater scope for development, and that the Chinese e-cigarette market will be worth RMB295.27 billion in 2023. The official release of national standards for e-cigarettes by China's government marks an important milestone in the development of the industry in the country, not only contributing to its orderly development, but also ushering in thresholds for market access and national mandatory quality rules.

According to the latest study by Grand View Research, the global e-cigarette and vape market size was valued at USD22.45 billion in 2022 and is expected to grow at a compound annual growth rate (CAGR) of 30.6% from 2023 to 2030, coupled with the growing awareness of public that e-cigarettes is safer than traditional cigarettes, the desire for substantially less hazardous e-cigarettes has grown, which prompted the global uptake of e-cigarettes. In view of the growth in e-cigarettes, an increasing number of mergers and acquisitions between traditional cigarette and e-cigarette manufacturers is trending in the market, to collaborate for product development and improve presence in the market, indicating that the traditional cigarette enterprises are shifting strategies to adapt the emerging market.

Jia Yao is confident about the development of its e-cigarette business, and dedicated to exploring further opportunities to expand its range of products as it seeks to increase market penetration. The Group will continue to nurture both its cigarette packaging and e-cigarette businesses, with an increased focus on the e-cigarette business in the coming years amid growing opportunities, particularly those presented by overseas markets. The Group will continue to allocate more resources on the e-cigarette business especially on research and development of own branded product. It will remain alert to changes in the market and manage e-cigarette operations prudently and pragmatically, with the aim of becoming a leading one-stop manufacturer and supplier of e-cigarettes. The Group expects the segment to grow its income stream and become core business in the medium to long term.

In terms of business development, Jia Yao will continue to upgrade and innovate with its products, while maintaining strict compliance with national regulations. To bolster the quality, innovation and productivity of its operations, the Group will increase capital investment to upgrade its equipment and machinery, and continue to employ a holistic approach to delivering a wider range of products and innovations to cater for customer requirements. With its proven track record, reputable brand image and extensive experience in the cigarette packaging industry, the Group is confident in its prospects for maintaining close ties with its clients and reinforcing its leading market position to expand the development of the e-cigarette business, with the ultimate goal of delivering sustainable, long-term value for its 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 2022.

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 2022.

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 2022.

REVIEW OF ANNUAL RESULTS

The Group's annual results for the year ended 31 December 2022 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.

FINAL DIVIDEND

The Board recommended the payment of a final dividend for the year ended 31 December 2022 of HKD0.056 per share (2021: nil). The final dividend is intended to be paid out of the share premium account.

The register of members will be closed from 26 June 2023 to 28 June 2023, both days included. The final dividend will be paid in Hong Kong dollars on or about Thursday, 6 July 2023 to the Shareholders whose name appear on the register of members of the Company on Wednesday, 28 June 2023, subject to the Shareholders' approval at the forthcoming annual general meeting. In order to be qualified for the proposed final dividend, shareholders shall deliver share certificates together with transfer documents to 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 Friday, 23 June 2023.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting is scheduled to be held on Friday, 16 June 2023.

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, 13 June 2023 to Friday, 16 June 2023, 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, 12 June 2023.

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 2022 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, 30 March 2023

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.