Jia Yao Holdings Limited
嘉 耀 控 股 有 限 公 司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 01626)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended 30 June 2023 increased by approximately 28.7% or RMB117.5 million to approximately RMB526.6 million as compared with the corresponding period in 2022.
- Gross profit for the six months ended 30 June 2023 increased by approximately 182.4% or RMB77.0 million to approximately RMB119.1 million as compared with the corresponding period in 2022.
- Gross profit margin for the six months ended 30 June 2023 increased by approximately 12.3% from approximately 10.3% to approximately 22.6% as compared with the corresponding period in 2022.
- Profit attributable to owners of the Company increased by approximately RMB20.6 million to approximately RMB21.1 million as compared with the corresponding period in 2022.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2023 (for the six months ended 30 June 2022: nil).

The board (the "**Board**") of directors (the "**Directors**") of Jia Yao Holdings Limited (the "**Company**" or "**Jia Yao**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2023 together with the comparative figures for the corresponding period in 2022.

Unless otherwise stated, the financial information of the Company in this announcement was stated in Renminbi ("**RMB**").

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

		Six Months ended 30 June	
		2023	2022
		Unaudited	Unaudited
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**526,571**	409,084
Cost of sales	*4*	**(407,434)**	(366,897)
Gross profit		**119,137**	42,187
Distribution costs	*4*	**(24,862)**	(13,756)
Administrative expenses	*4*	**(59,293)**	(28,065)
Net impairment losses on financial assets		**(3,509)**	–
Other income		**3,595**	1,755
Other gains/(losses) — net		**213**	(539)
Operating profit		**35,281**	1,582
Finance income		**3,722**	576
Finance costs		**(1,338)**	(1,570)
Finance income/(costs) — net		**2,384**	(994)
Profit before income tax		**37,665**	588
Income tax (expenses)/credit	*5*	**(6,166)**	114
Profit for the period		**31,499**	702

	Note	Six Months ended 30 June **2023** **Unaudited** ***RMB'000***	2022 Unaudited *RMB'000*
Profit attributable to:			
— Owners of the Company		**21,094**	512
— Non-controlling interests		**10,405**	190
Profit for the period		**31,499**	702
Other comprehensive income for the period, net of tax			
Item that may be reclassified to profit or loss			
Currency translation differences		**122**	643
Total comprehensive income for the period		**31,621**	1,345
Total comprehensive income for the period attributable to:			
— Owners of the Company		**21,216**	1,155
— Non-controlling interests		**10,405**	190
		31,621	1,345
Earnings per share for the period attributable to owners of the Company (expressed in RMB per share)			
— Basic earnings per share	*6*	**0.035**	0.001
— Diluted earnings per share	*6*	**0.034**	0.001

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2023

	Note	**As at 30 June 2023 Unaudited** *RMB'000*	As at 31 December 2022 Audited *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**138,895**	134,713
Intangible assets		**4,476**	4,367
Right-of-use assets		**77,386**	55,079
Investment properties		**7,681**	7,929
Deferred income tax assets		**1,055**	571
Prepayment for property, plant and equipment		**8,337**	221
		237,830	202,880
Current assets			
Inventories		**184,936**	194,766
Trade and other receivables	*8*	**269,411**	214,231
Restricted cash		**157,854**	194,337
Cash and cash equivalents		**168,601**	266,575
		780,802	869,909
Total assets		**1,018,632**	1,072,789
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**5,120**	5,120
Share premium		**152,684**	183,318
Other reserves		**147,405**	145,721
Retained earnings/(accumulated losses)		**14,708**	(6,386)
		319,917	327,773
Non-controlling interests		**72,814**	54,639
Total equity		**392,731**	382,412

	Note	As at 30 June 2023 Unaudited *RMB'000*	As at 31 December 2022 Audited *RMB'000*
LIABILITIES			
Non-current liabilities			
Lease liabilities		**22,636**	6,064
Deferred income tax liabilities		**1,303**	1,384
Deferred income		**–**	19,580
		23,939	27,028
Current liabilities			
Trade and other payables	*9*	**501,694**	573,185
Contract liabilities		**10,804**	15,460
Income tax payable		**2,952**	4,767
Borrowings		**74,000**	65,000
Lease liabilities		**12,512**	4,937
		601,962	663,349
Total liabilities		**625,901**	690,377
Total equity and liabilities		**1,018,632**	1,072,789

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2023

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 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.

The Company's ordinary shares were listed on the main board of The Stock Exchange of Hong Kong Limited on 27 June 2014.

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

This condensed consolidated interim financial information has been approved for issue by the Company's board of directors (the "**Board**") on 29 August 2023.

This condensed consolidated interim financial information has not been audited.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

This interim financial information for the six months ended 30 June 2023 has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting". The interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

The accounting policies applied are consistent with those in the preparation of the Group's financial statements for the year ended 31 December 2022, except for adoption of new and amended standards as set out below:

(a) The following new and amended standards are mandatory for adoption for the financial year beginning 1 January 2023 for the Group:

HKFRS 17	Insurance Contract
HKAS 1 and HKFRS Practice Statement 2 (Amendment)	Disclosure of Accounting Policies
HKAS 8 (Amendment)	Definition of Accounting Estimates
HKAS 12 (Amendment)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The standards and amendments did not have a material impact or are not relevant to the Group.

(b) New and amended standards and interpretation not yet adopted by the Group

Certain amendments to existing standards and interpretation have been issued and are not effective for financial year beginning 1 January 2023 and have not been early adopted by the Group. None of these is expected to have a significant effect on the Group.

		Effective for accounting periods beginning on or after
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2024
HKAS 1 (Amendments)	Non-current liabilities with covenants	1 January 2024
HKFRS 16 (Amendments)	Lease liability in sale and leaseback	1 January 2024
HKAS 7 and HKFRS 7 (Amendments)	Supplier Finance Arrangements	1 January 2024
Hong Kong Interpretation 5 (Revised)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

3 SEGMENT INFORMATION

(a) Description of segments and principal activities

The Group manages its businesses by divisions. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management, being the chief operation decision maker, for the purposes of resource allocation and performance assessment, the Group's reportable and operating segments are as follows:

Paper cigarette packages	—	design, printing and sale of paper cigarette packages
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 sale of social product paper packages (including 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 condensed consolidated statement of comprehensive income.

The segment results for the six months ended 30 June 2023:

	Six Months ended 30 June 2023			
	Paper cigarette packages Unaudited *RMB'000*	**Social product paper packages Unaudited** *RMB'000*	**Electronic cigarettes Unaudited** *RMB'000*	**Total Unaudited** *RMB'000*
Revenue	**246,303**	**5,214**	**275,054**	**526,571**
Gross profit	**42,014**	**401**	**76,722**	**119,137**
Distribution costs	**(12,177)**	**(149)**	**(12,536)**	**(24,862)**
Segment results	**29,837**	**252**	**64,186**	**94,275**
Administrative expenses				**(59,293)**
Net impairment losses on financial assets				**(3,509)**
Other income				**3,595**
Other gains				**213**
Finance income, net				**2,384**
Profit before income tax				**37,665**

The segment results for the six months ended 30 June 2022:

	Six Months ended 30 June 2022			
	Paper cigarette packages Unaudited *RMB'000*	Social product paper packages Unaudited *RMB'000*	Electronic cigarettes Unaudited *RMB'000*	Total Unaudited *RMB'000*
Revenue	347,549	3,927	57,608	409,084
Gross profit	33,651	314	8,222	42,187
Distribution costs	(12,235)	(89)	(1,432)	(13,756)
Segment results	21,416	225	6,790	28,431
Administrative expenses				(28,065)
Other income				1,755
Other losses				(539)
Finance costs, net				(994)
Profit before income tax				588

(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:

	As at 30 June 2023 Unaudited *RMB'000*	As at 31 December 2022 Audited *RMB'000*
Mainland China	**236,162**	201,246
Hong Kong	**613**	1,063
	236,775	202,309

4 EXPENSES BY NATURE

	Six Months ended 30 June	
	2023	2022
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Operating profit for the period has been arrived at after charging:		
Raw materials and consumables used	**332,734**	346,516
Changes in inventories of finished goods and work in progress	**(1,069)**	(9,317)
Employee benefits expenses	**103,833**	40,799
Transportation cost	**12,494**	5,765
Social promotion expense	**9,584**	4,200
Energy and water expense	**8,484**	6,358
Depreciation	**8,367**	6,456
Amortisation	**2,819**	597
Real estate tax, stamp duties and other taxes	**3,327**	1,523
Provision of inventories	**2,392**	–
Office expense	**1,890**	728
Professional service expense	**1,257**	358
Short-term and low value lease expenses	**1,040**	1,468
Other operating expenses	**4,437**	3,267
Total cost of sales, distribution costs and administrative expenses	**491,589**	408,718

5 INCOME TAX (EXPENSES)/CREDIT

	Six Months ended 30 June	
	2023	2022
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Current income tax		
— PRC corporate income tax *(i)*	**(6,636)**	(6)
— Hong Kong profits tax	**–**	–
	(6,636)	(6)
Deferred income tax		
— Deferred tax assets	**470**	120
Income tax (expenses)/credit	**(6,166)**	114

(i) PRC corporate income tax ("CIT")

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

The subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at the rate of 16.5% (2022: 16.5%). Hong Kong profits tax has not been provided as these subsidiaries did not have estimated assessable profit for the period (2022: none).

Hubei Golden Three Gorges Printing Industry Co., Ltd.* (湖北金三峽印務有限公司) ("**Hubei Golden Three Gorges**") has been qualified as a High New Tech Enterprises according to the Corporate Income Tax Law of the PRC and subject to a reduced corporate income tax ("**CIT**") rate of 15% in 2023 (2022: 15%).

The remaining subsidiaries established in the PRC are subject to the PRC CIT rate of 25% (2022: 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%.

6 EARNINGS PER SHARE

(a) Basic earnings per share

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

	Six Months ended 30 June		
	2023	2022 (After rights issue adjustment)	2022 (Before rights issue adjustment)
	Unaudited	Unaudited	Unaudited
	RMB'000	*RMB'000*	*RMB'000*
Profit attributable to the owners of the Company *(RMB'000)*	**21,094**	512	512
Number of ordinary shares as at 1 January *('000)*	**600,000**	300,000	300,000
Effect of the rights issue	**–**	60,000	–
Weighted average number of ordinary shares in issue *('000)*	**600,000**	360,000	300,000
Basic earnings per share *(RMB)*	**0.035**	0.001	0.002

In October 2022, the Company offered rights issue to its existing shareholders at price less than its fair value. There was bonus element for the rights issue and the weighted average number of ordinary shares were adjusted accordingly for the six months ended 30 June 2022.

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. 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.

	Six Months ended 30 June		
	2023	2022 (After rights issue adjustment)	2022 (Before rights issue adjustment)
	Unaudited	Unaudited	Unaudited
	RMB'000	*RMB'000*	*RMB'000*
Profit attributable to the owners of the Company *(RMB'000)*	**21,094**	512	512
Weighted average number of ordinary shares *('000)*	**600,000**	360,000	300,000
Adjustment for share options	**19,429**	–	–
Weighted average number of ordinary shares for diluted earnings per share *('000)*	**619,429**	360,000	300,000
Diluted earnings per share *(RMB)*	**0.034**	0.001	0.002

7 DIVIDEND

The Board of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: none).

8 TRADE AND OTHER RECEIVABLES

	As at 30 June 2023 Unaudited ***RMB'000***	As at 31 December 2022 Audited *RMB'000*
Trade receivables	**145,144**	147,019
Less: loss allowance for trade receivables	**(2,321)**	(1,603)
	142,823	145,416
Notes receivables	**14,615**	22,985
Deposits paid	**65,947**	32,121
Advance to employees	**8,313**	6,094
Payments in advance	**25,912**	3,987
Others	**14,869**	4,284
Less: loss allowance for other receivables	**(3,068)**	(656)
	111,973	45,830
Total of trade and other receivables	**269,411**	214,231

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:

	As at 30 June 2023 Unaudited ***RMB'000***	As at 31 December 2022 Audited *RMB'000*
0 to 90 days	**139,608**	141,784
91 to 180 days	**4,264**	2,004
181 to 360 days	**920**	3,035
Over 360 days	**352**	196
	145,144	147,019

9 TRADE AND OTHER PAYABLES

	As at 30 June 2023 Unaudited *RMB'000*	As at 31 December 2022 Audited *RMB'000*
Trade payables	**221,194**	314,943
Notes payables	**189,115**	223,728
Dividends payables	**30,634**	–
Salary payables	**17,772**	18,289
Other tax payables	**4,669**	2,077
Government grant to be repayable *(i)*	**19,580**	–
Others	**18,730**	14,148
Total trade and other payables	**501,694**	573,185

(i) During the year ended 31 December 2022, the Group received government grants amounting to RMB19,580,000 which are related to property, plant and equipment and right-of-use assets and recognised as deferred income. During the six months ended 30 June 2023, the Group was under negotiation with local government to form a new government grant solution and the grants received should be repaid to government, and the Group reclassified the deferred income to other payable accordingly.

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

	As at 30 June 2023 Unaudited *RMB'000*	As at 31 December 2022 Audited *RMB'000*
Up to 6 months	**209,447**	305,516
6 months to 1 year	**9,064**	5,970
1 year to 2 years	**2,683**	3,457
	221,194	314,943

10 SUBSEQUENT EVENTS

As from 30 June 2023 to the date of this announcement, save as disclosed in this announcement, the Board is not aware of any significant events requiring disclosure that have occurred.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

The global economy grew 2.8% during the first half of 2023, due mainly to tight monetary policies and the protracted war in Ukraine being counterbalanced by diminishing supply shocks associated with the Coronavirus Disease 2019 ("**COVID-19**" or "**the pandemic**"). Persistently high inflation in both developed and developing countries has prompted the most aggressive interest rate increase cycle in decades, causing financial conditions to tighten and exacerbating debt vulnerabilities.

In China, the economy has enjoyed an overall positive recovery since the reopening of the country's borders and the end of its zero-COVID policy in the first half of the year. This has been demonstrated in a gradual revival of market demand, continuous growth in production and supply, a stabilization of employment and prices, and steady growth in residents' incomes. Nevertheless, the momentum of the country's post-pandemic recovery has slowed in recent months, even though the economy grew 6.3% year on year in the second quarter, according to official data released by the National Bureau of Statistics (NBS).

The global electronic cigarette and vape market size was worth approximately USD22.5 billion in 2022, and it is forecast to expand at a compound annual growth rate (CAGR) of 30.6% from 2023 to 2030. Major international health bodies such as the World Health Organization (WHO), Public Health England, and the US Centers for Disease Control and Prevention have been conducting evaluations of electronic cigarettes in recent years, and the consensus reached thus far is that electronic cigarettes are considerably less harmful than their paper equivalents, which has led to strong demand among smokers attempting cessation and the increasing popularity of electronic cigarettes, paving the way for more market growth.

In the tobacco industry, NBS data showed that the cumulative production of paper cigarettes in China from January to March 2023 was approximately 816.4 billion units, representing a cumulative increase of 2%. In the first quarter of 2023, China's cigarette production had risen on a year-on-year basis for six consecutive years, reaching a peak in 2023. China, as the world's largest electronic cigarette exporter, has recorded fared figures. Data released by the General Administration of Customs of the People's Republic of China showed that exports of electronic cigarette products reached a record high in April 2023, with a value of approximately RMB7.1 billion, a surge of 36.1% compared to the same period last year, indicating that the industry is growing amid strong export demand.

The Legislative Council of the Hong Kong Special Administrative Region (HKSAR) in June 2023 approved the third reading of the Import and Export (Amendment) Bill 2023 to include exemptions for alternative smoking products such as electronic cigarettes, heated tobacco products, and herbal cigarettes in transshipment by air, sea, and land through Hong Kong. Given its status as an international city and a major import and export hub, Hong Kong's passage of this legislation is expected to facilitate the future growth and development of the electronic cigarette industry, significantly boosting export volumes of electronic cigarettes.

Leveraging its esteemed reputation and industry expertise, Jia Yao continued to operate and develop its core business especially on the electronic cigarette business in a proactive manner during the period under review. At the same time, the Group implemented lean production strategies and stringent cost- control measures to enhance operational efficiency. It also maintained close connections with its existing customers, enabling them to seize advantageous business prospects.

BUSINESS REVIEW

Jia Yao is primarily engaged in the design, production and sales of electronic cigarettes and paper cigarette packages. 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. 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.

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 e-cigarette business, since the concentrate on expansion of business, 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 RMB275.1 million for the Group during the reporting year, approximately 52.2% of its total revenue.

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.

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.

Product Development and Design

The Group had invested approximately RMB25.9 million (six months ended 30 June 2022: approximately RMB12.1 million) on improvement and development of production facilities and product design in order to 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 period, 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 period, 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 period. 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

Turnover

For the six months ended 30 June 2023, the turnover of the Group was approximately RMB526.6 million, representing an increase of approximately 28.7% over the corresponding period in 2022. Revenue from paper cigarette packages segment, social product paper packages segment and electronic cigarettes segment accounted for approximately 46.8%, 1.0% and 52.2%, respectively. The increase in sales was primarily attributable to the outstanding contribution to the Group's revenue from the electronic cigarettes segment with rapid growth rate during the six months ended 30 June 2023.

The following table sets forth the breakdown of the Group's sales for the six months ended 30 June 2023:

	For the six months ended 30 June		
	2023	2022	**Change (%)**
	RMB'000	*RMB'000*	**(approximate)**
	(Unaudited)	(Unaudited)	
Paper cigarette packages segment	**246,303**	347,549	**–29.1%**
Social product paper packages segment	**5,214**	3,927	**+32.8%**
Electronic cigarettes segment	**275,054**	57,608	**+377.5%**

Gross Profit

The Group's gross profit increased by approximately 182.4% from approximately RMB42.2 million for the six months ended 30 June 2022 to approximately RMB119.1 million for the six months ended 30 June 2023. The Group's gross profit margin increased by approximately 12.3% from approximately 10.3% to approximately 22.6% as compared with the corresponding period in 2022. The increase in gross profit was mainly attributed from the prominent contribution from the electronic cigarettes segment with higher profit margin during the six months ended 30 June 2023.

Distribution Costs

For the six months ended 30 June 2023, distribution costs comprise: (i) delivery expenses for the transportation of the Group's products to customers; (ii) staff costs and benefits relating to the Group's sales and marketing personnel; (iii) expenses incurred in customer hospitality activities during the Group's normal course of business; (iv) travelling expenses of the staff incurred for the sales and distribution activities; (v) administrative expenses; and (vi) other selling and distribution related expenses. The Group's distribution costs increased by approximately 80.7% from approximately RMB13.8 million for the six months ended 30 June 2022 to approximately RMB24.9 million for the six months ended 30 June 2023. The increase was mainly due to the increase in staff costs and promotion expense on the own developed product of electronic cigarettes during the six months ended 30 June 2023.

Administrative Expenses

For the six months ended 30 June 2023, administrative expenses consist of (i) staff costs and benefits relating to the Group's administrative personnel; (ii) travelling expenses of administrative staff; (iii) depreciation expenses; (iv) entertainment expenses of administrative staff; (v) research and development expenses; (vi) office expenses; (vii) regulatory expenses; and (viii) other expenses incurred in relation to the Group's administrative operations. The expenses increased by approximately 111.3% from approximately RMB28.1 million for the six months ended 30 June 2022 to approximately RMB59.3 million for the six months ended 30 June 2023. The increase was mainly due to the increase in staff costs and research and development costs on the own developed product of electronic cigarettes during the six months ended 30 June 2023.

Other Income

For the six months ended 30 June 2023, other income mainly consists of non-recurring government grant and it increased by approximately RMB1.8 million to approximately RMB3.6 million for the six months ended 30 June 2023.

Other Gains/(Losses), net

For the six months ended 30 June 2023, net other gains consists of losses on disposal of property, plant and equipment and gains from bargain purchase. The Group recorded net other gains of approximately RMB0.2 million for the six months ended 30 June 2023 as compared with the net other losses of approximately RMB0.5 million for the six months ended 30 June 2022.

Finance Income/(Costs), net

For the six months ended 30 June 2023, net finance income was primarily consist of interest income on bank deposits and interest payment on bank and other borrowings. The Group recorded net finance income of approximately RMB2.4 million for the six months ended 30 June 2023 as compared with the net finance costs of approximately RMB1.0 million for the six months ended 30 June 2022.

Income Tax (Expenses)/Credit

The income tax expenses was approximately RMB6.2 million for the six months ended 30 June 2023 as compared to the income tax credit of approximately RMB0.1 million for the six months ended 30 June 2022. Increase of income tax expenses was mainly due to the increase of net profit generated by the subsidiaries in China during the six months ended 30 June 2023.

Profit Attributable to Owners of the Company

As a result of the foregoing, the Group's profit attributable to owners of the Company increased by approximately RMB20.6 million to approximately RMB21.1 million as compared with the corresponding period in 2022.

Trade and Other Receivables

Trade and other receivables increased by approximately 25.8% from approximately RMB214.2 million as at 31 December 2022 to approximately RMB269.4 million as at 30 June 2023. The increase was mainly due to the net effect of: (i) decrease of notes receivables from approximately RMB23.0 million as at 31 December 2022 to approximately RMB14.6 million as at 30 June 2023; (ii) increase of deposits paid from approximately RMB32.1 million as at 31 December 2022 to approximately RMB65.9 million as at 30 June 2023; and (iii) increase of payments in advance from approximately RMB4.0 million as at 31 December 2022 to approximately RMB25.9 million as at 30 June 2023.

Trade and Other Payables

Trade and other payables decreased by approximately 12.5% from approximately RMB573.2 million as at 31 December 2022 to approximately RMB501.7 million as at 30 June 2023. The decrease was mainly due to (i) the decrease of trade payables from approximately RMB314.9 million as at 31 December 2022 to approximately RMB221.2 million as at 30 June 2023; and (ii) the decrease of notes payables from approximately RMB223.7 million as at 31 December 2022 to approximately RMB189.1 million as at 30 June 2023.

LIQUIDITY AND FINANCIAL RESOURCES

The Group recorded net current assets of approximately RMB178.8 million as at 30 June 2023, compared with net current assets of approximately RMB206.6 million as at 31 December 2022. The Group maintained a healthy liquidity position during the six months ended 30 June 2023. The Group's operations were principally financed by internal resources and interest- bearing borrowings during the period under review.

As at 30 June 2023, the Group's cash and cash equivalents, which were held mainly in Renminbi and Hong Kong dollars, were approximately RMB168.6 million, compared with approximately RMB266.6 million as at 31 December 2022.

Borrowings and Gearing Ratio

The Group's interest-bearing borrowings were RMB74.0 million as at 30 June 2023 (as at 31 December 2022: approximately RMB65.0 million). The Group's interest-bearing borrowings were mainly denominated in Renminbi as at 30 June 2023 and 31 December 2022. The Group's interest-bearing borrowings was repayable within one year. This ratio is calculated as net debt divided by total capital. The gearing ratios are as follows:

	As at 30 June 2023	As at 31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Total borrowings	**74,000**	65,000
Less: cash and cash equivalents	**168,601**	266,575
Net cash	**(94,601)**	(201,575)
Total equity	**392,731**	382,412
Total capital	**N/A**	N/A
Gearing ratio (%)	**N/A**	N/A

It is the policy of the Group to adopt a consistently prudent financial management strategy, hence sufficient liquidity is maintained with appropriate levels of borrowings to meet the funding requirements of the Group's investments and operations.

Capital Expenditure

During the six months ended 30 June 2023, the Group's total capital expenditure amounted to approximately RMB9.6 million (for the six months ended 30 June 2022: RMB4.8 million), which was mainly used in purchase of plant and machineries.

Treasury Policies

The Group adopted a prudent strategy towards the treasury and funding policies, and attached high importance to the risk control and transactions directly related to the Group's principal business. Funds, primarily denominated in Renminbi and Hong Kong dollars, are normally placed with banks in short or medium term deposits for working capital of the Group.

Pledge of Assets

The Group's assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group (including note payables and borrowings of the Group):

	As at 30 June 2023 *RMB'000* **(Unaudited)**	As at 31 December 2022 *RMB'000* (Audited)
Land use rights	**10,870**	11,027
Investment properties	**7,299**	7,509
Property, plant and equipment	**24,654**	32,301
Trade receivables	**39,904**	53,864
Restricted cash	**157,841**	193,648
	240,568	298,349

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

There are no significant investments, material acquisition and disposal of subsidiaries and associated companies by the Group for the six months ended 30 June 2023.

Contingent Liabilities

As at 30 June 2023, the Group did not have any significant contingent liabilities (as at 31 December 2022: 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 six months ended 30 June 2023.

HUMAN RESOURCES AND REMUNERATION

As at 30 June 2023, the Group employed 1,699 employees (as compared with 1,275 employees as at 31 December 2022) with total staff cost of approximately RMB103.8 million incurred for the six months ended 30 June 2023 (as compared with approximately RMB40.8 million for the same period of 2022). The Group's remuneration packages are generally structured with reference to market terms and individual performance. The Company adopted a share option scheme as incentive to its Directors and eligible employees. In relation to staff training, the Group also provides different types of programs for staff to improve their skills, develop their respective expertise and showcase their potentials.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2023 (for the six months ended 30 June 2022: nil).

FUTURE OUTLOOK

With the COVID-19 pandemic subsiding and supply chain disruptions easing, the global economy is gradually recovering. The IMF forecasts global growth in both 2023 and 2024 of 3.0%, slightly lower than an estimated 3.5% in 2022, although the forecast for 2023 is modestly higher than previously predicted in the IMF's April 2023 World Economic Outlook. The World Bank has forecast that China's GDP growth will increase to 5.6% in 2023, driven mainly by a rebound in consumer demand, suggesting that capital spending in China's infrastructure and manufacturing sectors are expected to remain resilient.

Data from Statista indicates that revenues in the electronic cigarette segment in China will reach USD1.1 billion in 2023, and that the market is expected to grow at a CAGR of 4.2% between 2023 and 2027. In recent years, demand for electronic cigarettes has been on an upward trajectory. Electronic cigarettes offer a multitude of options in terms of operational safety, taste, diversity, and sustainability. With the presence of competent regulators and the availability of customizable electronic cigarettes, technological advances have played a crucial role in expanding consumer choice and boosting the overall market size. The introduction of various advanced technologies is expected to propel the electronic cigarette industry to new levels of success.

The global electronic cigarette market is currently undergoing a phase of regulatory transformation, as countries worldwide are implementing and adjusting related policies. In light of this, Jia Yao aims to adapt to the evolving global regulatory landscape and expand internationally. The Group has every confidence in the development of its electronic cigarette business, and it is committed to exploring more opportunities through honing its product development capabilities and expanding its product range, increasing penetration in new markets.

A report released by CNINFO China predicted that China's cigarette market will grow from a value of RMB3.7 trillion to RMB4.9 trillion between 2020 and 2025, a CAGR of 32.4%. The Chinese government has been providing strong support to the cigarette industry, aiming to enhance technological innovation. Such support includes a series of policies to encourage investment in scientific research, promote technological advances in cigarette manufacturing, and strengthen brand building and marketing strategies to enhance the industry's image.

The Group will proactively put more resources to develop its core business and is steadfast in its determination to expand the electronic cigarette business. In view of the tremendous opportunities presented by overseas markets, the Group will continue to allocate increased resources to the electronic cigarette business, especially to the research and development of its own branded products. Jia Yao will remain vigilant to market changes and adopt a prudent approach to managing the electronic cigarette segment, aiming to become a leading, one-stop manufacturer and supplier of electronic cigarettes. It expects that revenues in the electronic cigarette segment will continue to grow in the medium to long term and that it will become a major business for the Group.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Competing Business and Conflicts of Interests

None of the Directors is engaged in any business which competes or is likely to compete with the business of the Group, and none of them has any other conflicts of interests with the Group.

Purchase, Sales or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company throughout the six months ended 30 June 2023.

Corporate Governance

The Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. The Company has adopted the Corporate Governance Code contained in Appendix 14 the Listing Rules (the "**Corporate Governance Code**") as its own code on corporate governance and had complied with the Corporate Governance Code for the six months ended 30 June 2023.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the code of conduct and the required standard set out in the Model Code regarding directors' securities transactions for the six months ended 30 June 2023.

Audit Committee and Review of Interim Results

The Company has established an audit committee (the "**Audit Committee**") with terms of reference aligned with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules for the primary duties of reviewing and providing supervision on the financial reporting process, internal controls and risk management systems of the Company. The Audit Committee consists of three independent non-executive Directors, namely Mr. Wang Ping (as Chairman), Ms. Guo Wei and Mr. Gong Jinjun.

The interim financial results of the Group for the six months ended 30 June 2023 have not been reviewed by the Company's auditor, but have been reviewed by the Company's audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements as well as the Listing Rules and that adequate disclosures have been made. The Audit Committee has also reviewed this announcement.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.jiayaoholdings.com). The Company's interim report for the six months ended 30 June 2023 will be despatched to the shareholders of the Company and published at the aforementioned websites in due course.

By Order of the Board
Jia Yao Holdings Limited
Yang Yoong An
Chairman of the Board and Executive Director

Hong Kong, 29 August 2023

As at the date of this announcement, the Board comprises Mr. Yang Yoong An as executive Director (Chairman), Mr. Feng Bin and Mr. Yang Fan as non-executive Directors and Mr. Gong Jinjun, Ms. Guo Wei and Mr. Wang Ping as independent non-executive Directors.

If there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail.

* *For identification purposes only*