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 2023

FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 December 2023 increased by approximately 50.3% or RMB487.3 million to approximately RMB1,455.7 million as compared with the same period in 2022.
- Gross profit for the year ended 31 December 2023 increased by approximately 181.0% or RMB249.6 million to approximately RMB387.5 million as compared with the same period in 2022.
- Gross profit margin for the year ended 31 December 2023 increased by approximately 12.4% from approximately 14.2% to approximately 26.6% as compared with the same period in 2022.
- Profit attributable to owners of the Company increased by approximately RMB93.8 million to approximately RMB99.3 million for the year ended 31 December 2023 as compared to for the year ended 31 December 2022.
- The Board does not recommend the payment of a final dividend for the year ended 31 December 2023 (The Board recommended the payment of a final dividend for the year ended 31 December 2022 of HKD0.056 per share).

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 2023 of the Company and its subsidiaries (collectively, the "Group") together with the comparative figures for the year ended 31 December 2022, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

		Year ended 31 December	
		2023	2022
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**1,455,663**	968,363
Cost of sales	*5*	**(1,068,202)**	(830,502)
Gross profit		**387,461**	137,861
Distribution costs	*5*	**(75,583)**	(41,050)
Administrative expenses	*5*	**(146,487)**	(79,478)
Net impairment losses on financial assets		**(8,816)**	(1,370)
Other income		**9,815**	2,352
Other (losses)/gains		**(2,676)**	990
Operating profit		**163,714**	19,305
Finance income	*4*	**6,869**	2,252
Finance costs	*4*	**(3,605)**	(3,292)
Finance income/(costs) — net	*4*	**3,264**	(1,040)
Profit before income tax		**166,978**	18,265
Income tax expense	*6*	**(31,333)**	(7,245)
Profit for the year		**135,645**	11,020
Profit attributable to:			
— Owners of the Company		**99,285**	5,496
— Non-controlling interests		**36,360**	5,524
		135,645	11,020

		Year ended 31 December	
		2023	2022
	Note	***RMB'000***	*RMB'000*
Other comprehensive income			
Currency translation differences		**765**	670
Total comprehensive income for the year		**136,410**	11,690
Total comprehensive income for the year attributable to:			
— Owners of the Company		**100,050**	6,166
— Non-controlling interests		**36,360**	5,524
		136,410	11,690
Earnings per share attributable to owners of the Company			
— Basic earnings per share	*7*	**0.17**	0.01
— Diluted earnings per share	*7*	**0.16**	0.01

CONSOLIDATED BALANCE SHEET

As at 31 December 2023

		As at 31 December	
		2023	2022
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**156,960**	134,713
Right-of-use assets		**78,269**	55,079
Investment properties		**–**	7,929
Intangible assets		**3,939**	4,367
Deferred income tax assets		**2,483**	571
Other receivables	*8*	**3,045**	–
Prepayment for property, plant and equipment		**2,817**	221
		247,513	202,880
Current assets			
Inventories		**239,040**	194,766
Trade and other receivables and prepayments	*8*	**524,463**	214,231
Restricted cash		**143,068**	194,337
Cash and cash equivalents		**311,156**	266,575
		1,217,727	869,909
Total assets		**1,465,240**	1,072,789

		As at 31 December	
		2023	2022
	Note	***RMB'000***	*RMB'000*
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**5,120**	5,120
Share premium		**152,684**	183,318
Other reserves		**162,549**	145,721
Retained earnings/(accumulated losses)		**82,604**	(6,386)
		402,957	327,773
Non-controlling interests		**137,066**	54,639
Total equity		**540,023**	382,412
LIABILITIES			
Non-current liabilities			
Lease liabilities		**20,178**	6,064
Deferred income tax liabilities		**1,684**	1,384
Deferred income		**–**	19,580
		21,862	27,028
Current liabilities			
Trade and other payables	*9*	**785,014**	573,185
Contract liabilities		**22,676**	15,460
Income tax payable		**23,066**	4,767
Borrowings		**61,500**	65,000
Lease liabilities		**11,099**	4,937
		903,355	663,349
Total liabilities		**925,217**	690,377
Total equity and liabilities		**1,465,240**	1,072,789

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 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 cigarettes products in the People's Republic of China (the "PRC"). The electronic cigarettes business in PRC is under the China's E-cigarette Management Measures and the Group's electronic cigarettes products are made for export.

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.

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 28 March 2024.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES

This note provides a list of the material 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 2023:

- HKAS 1 (Amendments) and HKFRS Practice Statement 2 "Disclosure of Accounting Policies"
- HKAS 8 (Amendments) "Definition of Accounting Estimates"
- HKAS 12 (Amendments) "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"
- HKAS 12 (Amendments) "International Tax Reform — Pillar Two Rules"
- HKFRS 17 "Insurance Contract"

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 2023 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	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 a Sale and Leaseback	1 January 2024
HKAS 7 (Amendments) and HKFRS 7	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
HKAS 21 (Amendments)	Lack of Exchangeability	1 January 2025
HKFRS 10 (Amendments) and HKAS 28	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 and other paper packages — paper cigarette packages: design, printing and sales of paper cigarette packages; other paper packages: design, printing and sales of social product paper packages (e.g. packages for alcohol, medicines and food);

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

(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 2023:

	Year ended 31 December 2023		
	Paper cigarette packages and other paper packages	**Electronic cigarettes**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Revenue	**686,913**	**768,750**	**1,455,663**
Gross profit	**143,172**	**244,289**	**387,461**
Distribution costs	**(36,731)**	**(38,852)**	**(75,583)**
Segment results	**106,441**	**205,437**	**311,878**
Administrative expenses			**(146,487)**
Net impairment losses on financial assets			**(8,816)**
Other income			**9,815**
Other losses			**(2,676)**
Finance income — net			**3,264**
Profit before income tax			**166,978**

The segment results for the year ended 31 December 2022:

	Year ended 31 December 2022		
	Paper cigarette packages and other paper packages *RMB'000*	Electronic cigarettes *RMB'000*	Total *RMB'000*
Revenue	751,356	217,007	968,363
Gross profit	95,408	42,453	137,861
Distribution costs	(34,157)	(6,893)	(41,050)
Segment results	61,251	35,560	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

(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:

	2023 ***RMB'000***	2022 *RMB'000*
Mainland China	**243,907**	201,246
Hong Kong	**1,123**	1,063
	245,030	202,309

(d) Information about major customers

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

	2023	2022
	RMB'000	*RMB'000*
Customer A	**158,697**	152,928
Customer B	**124,779**	122,757
Customer C	**70,010**	102,196
Customer D	**57,066**	92,842
Customer E	**55,557**	71,472
	466,109	542,195

(e) Other segment information

(i) Depreciation of property, plant and equipment

	2023	2022
	RMB'000	*RMB'000*
Paper cigarette packages and other paper packages	**13,252**	12,267
Electronic cigarettes	**864**	375
	14,116	12,642

(ii) Amortisation of intangible assets and right-of-use assets

	2023	2022
	RMB'000	*RMB'000*
Paper cigarette packages and other paper packages	**2,047**	1,119
Electronic cigarettes	**7,086**	2,372
	9,133	3,491

4 FINANCE INCOME/(COSTS) — NET

	2023	2022
	RMB'000	*RMB'000*
Interest income on bank deposits	**6,869**	2,252
Interest on bank and other borrowings	**(2,741)**	(2,827)
Others	**(864)**	(465)
	3,264	(1,040)

5 EXPENSES BY NATURE

	2023	2022
	RMB'000	*RMB'000*
Operating profit for the year has been arrived at after charging:		
Raw materials and consumables used	**877,154**	789,272
Write-down of inventories, net	**2,186**	3,470
Changes in inventories of finished goods and work in progress	**38,142**	(44,479)
Employee benefits expenses	**232,883**	111,045
Depreciation	**17,754**	13,451
Transportation cost	**31,378**	20,637
Energy and water expense	**19,554**	16,414
Social promotion expense	**30,991**	19,030
Real estate tax, stamp duties and other taxes	**7,688**	4,018
Professional service expense	**4,201**	1,763
Office expense	**4,489**	2,780
Operating lease rentals in respect of rented premises	**3,426**	1,176
Auditor's remuneration	**2,750**	1,880
Amortisation	**9,635**	4,153
Other operating expenses	**8,041**	6,420
Total cost of sales, distribution costs and administrative expenses	**1,290,272**	951,030

6 INCOME TAX EXPENSE

	2023	2022
	RMB'000	*RMB'000*
Current income tax (i)		
— PRC corporate income tax	**31,972**	3,103
— Hong Kong profits tax	**666**	–
	32,638	3,103
Deferred income tax		
— PRC corporate income tax	**(1,305)**	4,142
	31,333	7,245

(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% (2022: 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 2023 (2022: 15%).

Shenzhen Haohan Yangtian Technology Co., Ltd. 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: 25%).

The remaining subsidiaries established in the mainland China 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%.

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

	2023	2022
	RMB'000	*RMB'000*
Profit before tax	**166,978**	18,265
Tax calculated at applicable tax rates of the group entities	**35,022**	5,038
Utilisation of previously unrecognised tax losses	**(4,229)**	–
The effect of changes in tax rates	**64**	–
Tax losses and temporary differences for which no deferred income tax asset was recognised	**3,173**	4,632
Cost and expenses not deductible for taxation purposes	**1,909**	1,931
Additional deduction for research and development expenditures	**(4,606)**	(4,356)
	31,333	7,245

7 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 year.

	2023	2022
Profit attributable to the owners of the Company *(RMB'000)*	**99,285**	5,496
Number of ordinary shares as at 1 January *('000)*	**600,000**	300,000
Effect of the rights issue	**–**	108,658
Weighted average number of ordinary shares in issue *('000)*	**600,000**	408,658
Basic earnings per share *(RMB)*	**0.17**	0.01

(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.

	2023	2022
Profit attributable to the owners of the Company *(RMB'000)*	**99,285**	5,496
Weighted average number of ordinary shares *('000)*	**600,000**	408,658
Adjustment for share options *(i)*	**21,895**	–
Weighted average number of ordinary shares for diluted earnings per share *('000)*	**621,895**	408,658
Diluted earnings per share *(RMB)*	**0.16**	0.01

(i) The share options granted and remained unexercised are included in the calculation of diluted earnings per share because they are dilutive for the year ended 31 December 2023.

8 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2023	2022
	RMB'000	*RMB'000*
Trade receivables	**351,617**	147,019
Less: loss allowance for trade receivables	**(10,000)**	(1,603)
	341,617	145,416
Notes receivable	**21,988**	22,985
Deposits	**73,379**	32,121
Advance to employees	**3,342**	6,094
Other receivables due from non-controlling interests	**26,127**	–
Other receivables arising from disposal of subsidiaries	**17,599**	–
Other receivables related to Value-Added Tax	**13,563**	–
Interests receivable	**6,286**	–
Others	**1,787**	4,284
Less: loss allowance for other receivables	**(3,629)**	(656)
	138,454	41,843
Prepayments	**22,404**	3,987
Total current portion	**524,463**	214,231
Add: non-current portion of other receivables	**3,045**	–
Total	**527,508**	214,231

(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:

	2023	2022
	RMB'000	*RMB'000*
0 to 90 days	**336,377**	141,784
91 to 180 days	**10,157**	2,004
181 to 360 days	**4,679**	3,035
Over 360 days	**404**	196
	351,617	147,019

(b) Impairment of trade and other receivables

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

	2023	2022
	RMB'000	*RMB'000*
At 1 January	**2,259**	1,153
Provision for loss allowance	**8,816**	1,370
Loss allowance recognised on acquisition	**2,554**	558
Receivables written off	**–**	(822)
At 31 December	**13,629**	2,259

9 TRADE AND OTHER PAYABLES

	2023	2022
	RMB'000	*RMB'000*
Trade payables — due to third parties *(Note (a))*	**425,748**	314,943
Notes payable	**216,344**	223,728
Salary payables	**26,439**	18,289
Other tax payables	**16,244**	2,077
Other payables related to government grants	**74,580**	–
Others	**25,659**	14,148
	785,014	573,185

As at 31 December 2023 and 2022, the carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

(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:

	2023	2022
	RMB'000	*RMB'000*
Up to 6 months	**424,445**	305,516
6 months to 1 year	**927**	5,970
1 year to 2 years	**376**	3,457
	425,748	314,943

The Group's trade payables as at 31 December 2023 and 2022 is denominated in RMB, USD and others:

	2023	2022
	RMB'000	*RMB'000*
RMB	**407,835**	314,943
USD	**16,548**	–
Others	**1,365**	–
	425,748	314,943

MARKET REVIEW

In 2023, the global economy faced numerous challenges, driven by factors such as high inflation, geopolitical conflict, finance sector turbulence and the lingering effects of the COVID-19 pandemic. The Organisation for Economic Co-operation and Development (OECD) predicted full-year global growth of 2.9%, highlighting the ongoing challenges of inflation and low growth prospects.

In China, despite 5.2% growth in gross domestic product (GDP) in 2023, which surpassed the target of approximately 5% set at the beginning of the year, the economy faced its share of challenges. The National Bureau of Statistics of China (NBS) reported that a recovery in consumption remained relatively weak due to a sluggish labour market and overall fragility. The property sector experienced a slump, consumer spending constraints were observed, the trade surplus decreased, and local government finances were strained. As a result, employment, economic activity and investment were significantly impacted. Nevertheless, with a modest increase of 0.2% in the Consumer Price Index (CPI) compared to the previous year, it is anticipated that more supportive fiscal and monetary policies will help restore the country's growth potential.

The electronic cigarette market in China enjoyed notable growth. Despite domestic flavour bans and new taxes on electronic cigarette manufacturers and distributors, exports of electronic cigarettes and related products increased significantly. China, where more than 90% of the world's vaping devices are manufactured, saw a surge of 29.9% in the value of electronic cigarette exports, to USD5.48 billion in the first half of 2023, compared to the same period the previous year. This growth was driven primarily by stable foreign trade policies and increasing demand in international markets. According to data released by the General Administration of Customs of the People's Republic of China (GACC), the total export value of electronic cigarettes and related products from China between January and November 2023 amounted to approximately RMB71.3 billion. The Chinese government's support for vape manufacturers targeting overseas markets, including relaxed export inspections and the presence of Chinese vaping enterprises at Shenzhen's airport, contributed to this growth.

The global electronic cigarette market grew overall. It had a market value of approximately USD18.3 billion in 2022 and is expected to expand to approximately USD47 billion by 2030, with a compound annual growth rate (CAGR) of approximately 12.5% between 2023 and 2030. Market research conducted by iMarc has highlighted that consumers are increasingly favouring electronic cigarettes over traditional cigarettes due to their lower levels of harmful substances. This emerging trend, coupled with growing awareness of the benefits of smokeless and ashless tobacco, serves as a significant driver of market growth.

In the tobacco industry, data released by the NBS indicated that cigarette production in China from January to October 2023 reached approximately 2.18 trillion units, representing cumulative growth of 1.6%. A consistent upward trend in cigarette production over the past six years peaked in 2023. Additionally, according to the GACC, China's exports of cigarettes from January to November 2023 increased significantly, reaching approximately 71.9 million units with a total value of some USD223.3 million. This represents a substantial cumulative increase of 31.5% in export volume compared to the same period the previous year.

In the sphere of regulation and industry development, the Chinese government announced a number of policies aimed at promoting the orderly development of the tobacco industry. The Ministry of Industry and Information Technology revised the Administrative Penalty Procedures for Tobacco Monopoly on 16 May 2023, and the State Tobacco Monopoly Administration (STMA) and the Ministry of Finance jointly issued the Management Measures for Confiscated Tobacco Products on 15 September 2023, respectively aiming to standardise the implementation of administrative penalties for tobacco monopolies, strengthen the management of confiscated tobacco products, and protect the rights and interests of citizens and organisations. The tobacco industry made remarkable progress in digital infrastructure development, with an integrated national tobacco production and management platform project achieving its basic completion milestone by the end of 2023. The establishment of the intelligent decision-making command centre and full implementation of the integrated platform project has laid solid foundations for the industry's digital transformation.

Jia Yao is dedicated to diligently pursuing the operation and development of its core businesses, particularly in the realm of electronic cigarettes. The Group continues to improve efficiency, implement lean production strategies, and adopt prudent cost reduction measures while maintaining strong and collaborative relationships with its existing clients. These efforts enable it to capitalise on favourable business opportunities.

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.

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 in year 2023, 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 RMB768.8 million for the Group during the reporting year, approximately 52.8% 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

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.

* *For identification purposes only*

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 2023, the revenue of the Group was approximately RMB1,455.7 million, representing an increase of approximately 50.3% over the same period in 2022, among which revenue from paper cigarette packages and other paper packages segment and electronic cigarettes segment accounted for approximately 47.2% and 52.8%, 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 year ended 31 December 2023.

The following table sets forth the breakdown of the Group's revenue for the year ended 31 December 2023:

	For the year ended 31 December		
	2023	2022	Change *(%)*
	RMB'000	*RMB'000*	*(approximate)*
Paper cigarette packages and other paper packages segment	**686,913**	751,356	-8.6%
Electronic cigarettes segment	**768,750**	217,007	+254.3%

Gross Profit

The Group's gross profit increased by approximately 181.0% from approximately RMB137.9 million for the year ended 31 December 2022 to approximately RMB387.5 million for the year ended 31 December 2023. The Group's gross profit margin increased by approximately 12.4% from approximately 14.2% to approximately 26.6% as compared with the same 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 year ended 31 December 2023.

Distribution Costs

For the year ended 31 December 2023, 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 83.9% from approximately RMB41.1 million for the year ended 31 December 2022 to approximately RMB75.6 million for the year ended 31 December 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 year ended 31 December 2023.

Administrative Expenses

For the year ended 31 December 2023, 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 84.3% from approximately RMB79.5 million for the year ended 31 December 2022 to approximately RMB146.5 million for the year ended 31 December 2023. The increase was mainly due to the increase in staff costs and research and development costs during the year ended 31 December 2023.

Other Income

Other income mainly consists non-recurring government grant. The Group's other income increased by approximately RMB7.5 million to approximately RMB9.8 million during the year. The increase was mainly due to the increase of government grants during the year ended 31 December 2023.

Finance Income/(Costs) — net

For the year ended 31 December 2023, net finance income/(costs) primarily consist of interest income on bank deposits, interest payments on interest-bearing obligations and bank charges. The Group recorded net finance income of approximately RMB3.3 million for the year ended 31 December 2023 as compared to net finance costs of approximately RMB1.0 million for the year ended 31 December 2022. The change was mainly due to the increase of interest income on bank deposits during the year ended 31 December 2023.

Income Tax Expense

The Group's income tax expense increased by approximately RMB24.1 million from approximately RMB7.2 million for the year ended 31 December 2022 to approximately RMB31.3 million for the year ended 31 December 2023. 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 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 RMB93.8 million to approximately RMB99.3 million for the year ended 31 December 2023 as compared with the corresponding period in 2022.

Trade and Other Receivables

Trade and other receivables increased by approximately 146.3% from approximately RMB214.2 million as at 31 December 2022 to approximately RMB527.5 million as at 31 December 2023. The increase was mainly attributable to (i) the increase of trade receivables from approximately RMB145.4 million as at 31 December 2022 to approximately RMB341.6 million as at 31 December 2023; and (ii) increase of deposits from approximately RMB32.1 million as at 31 December 2022 to approximately RMB73.4 million as at 31 December 2023.

Trade and Other Payables

Trade and other payables increased by approximately 37.0% from approximately RMB573.2 million as at 31 December 2022 to approximately RMB785.0 million as at 31 December 2023. The increase was mainly attributable to the increase of trade payables from approximately RMB314.9 million as at 31 December 2022 to approximately RMB425.7 million as at 31 December 2023 and other payable due to revision of government grant of approximately RMB74.6 million (as at 31 December 2022: nil).

LIQUIDITY AND FINANCIAL RESOURCES

The Group recorded net current assets of approximately RMB314.4 million as at 31 December 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 year ended 31 December 2023. The Group's operations were principally financed by internal resources and interest-bearing borrowings during the year.

As at 31 December 2023, the Group's cash and cash equivalents, which were held mainly in Renminbi and Hong Kong dollars, were approximately RMB311.2 million, compared with approximately RMB266.6 million as at 31 December 2022.

Borrowings and Gearing Ratio

The Group's interest-bearing borrowings was approximately RMB61.5 million as at 31 December 2023 (as at 31 December 2022: approximately RMB65.0 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	
	2023	2022
	RMB'000	*RMB'000*
Total borrowings	**61,500**	65,000
Less: cash and cash equivalents	**(311,156)**	(266,575)
Net cash	**(249,656)**	(201,575)
Total equity	**540,023**	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. 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 2023, the Group's total capital expenditure amounted to approximately RMB44.7 million (2022: approximately RMB15.0 million), which was mainly used in purchase of machineries.

Treasury Policies

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

Assets pledged as security

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

	2023	2022
	RMB'000	*RMB'000*
Land use rights	**11,027**	11,027
Investment property	**–**	7,509
Property, plant and equipment	**54,850**	32,301
Trade receivables	**–**	53,864
Restricted cash	**143,068**	193,648
	208,945	298,349

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

On 22 December 2023, the Company entered into a sale and purchase agreement with Master Bliss Holdings Limited, Mr. Zhu Chunlin, and Hubei Golden Three Gorges, pursuant to which the Company agreed to sell 30% of the issued share capital of Giant Harmony Limited (the "Target Company") at a consideration of HK$47,465,971. On 30 December 2023, the Company disposed 30% equity interests of the Target Company to Master Bliss Holdings Limited (an independent third party), and the Company shall continue to be the legal and beneficial owner of 70% of the entire issued share capital of the Target Company. For more details, please refer to the announcements of the Company dated 22 December 2023 and 10 January 2024.

Save as disclosed above, there are no significant investments, material acquisition and disposal of subsidiaries, associates and joint ventures by the Group for the year ended 31 December 2023 (2022: nil).

Contingent Liabilities

As at 31 December 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 year ended 31 December 2023.

HUMAN RESOURCES AND REMUNERATION

As at 31 December 2023, the Group employed 1,656 employees (as compared with 1,275 employees as at 31 December 2022) with total staff cost of approximately RMB232.9 million incurred for the year ended 31 December 2023 (as compared with approximately RMB111.0 million for the year ended 31 December 2022). 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 2023, the net proceeds from the Rights Issue of HK$176.0 million has been fully utilized during the year.

	Intended use of proceeds from the Rights Issue *HK$' million*	**Actual use of net proceeds as at 31 December 2023** *HK$' million*
Business expansion of Hubei Golden Three Gorges	119.34	**119.34**
Brand development and market expansion of Shenzhen Haohan	29.25	**29.25**
Business development of e-cigarettes	23.40	**23.40**
General working capital	4.01	**4.01**
Total	176.00	**176.00**

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 2023.

FUTURE OUTLOOK

The global economy is in a significantly better position than it was a year ago, and the Group has reasons to be optimistic about the future. The latest update to the International Monetary Fund's (IMF's) World Economic Outlook includes an upward revision of its global growth forecast, to a projected growth rate of 3.1% in 2024 and 3.2% in 2025. This represents a 0.2 percentage point increase from the October 2023 forecast. The revision is attributed to the resilient performance of the United States and several emerging market economies, alongside fiscal support in China. The IMF also upgraded China's 2024 growth projection to 4.6%, an upward revision of 0.4 points. Although China faces challenges such as strains in the property sector and an ageing workforce, the recent decision by the People's Bank of China (PBOC) to reduce the deposit reserve ratio for financial institutions offers opportunities for economic improvement. This move is expected to stimulate the market and lead to a decline in financial expenses, boosting China's economic performance in 2024.

The global electronic cigarette market is also poised for growth. Statista forecasts that it will generate revenue of USD26 billion in 2024, with a CAGR of 3.06% between 2024 and 2028. The expansion of the global electronic cigarette industry is being propelled by factors such as increased awareness of health hazards, advances in electronic device technology, and the appeal of smoke-free and residue-free vaping. The market's expansion is also supported by escalating demand for electronic cigarettes as a smoking cessation aid and the rising costs associated with traditional cigarettes. Recognising the immense potential of the international market, the Group is dedicated to refining its product development capabilities, broadening its product assortment, and enhancing its presence in new markets.

In China, the electronic cigarette market is expected to generate revenue of US$1.2 billion in 2024, with a projected CAGR of 3.61% between 2024 and 2028, according to Statista. Regulatory progress in China aims to establish uniformity and supervision in the electronic cigarette industry, positioning it as a significant player in the global market. With steady expansion, advances and growing exports, China's electronic cigarette sector shows remarkable growth potential. The outlook is further enhanced by stable foreign trade policies and increasing demand in overseas markets.

In China's cigarette market, positive growth is anticipated. Revenue in the market is forecast to reach approximately USD282.9 billion in 2024, with a CAGR of 1.6% between 2024 and 2028, according to Statista. At the 2024 National Tobacco Work Conference, the STMA articulated its commitment to enhancing systematic planning and comprehensive reforms in the industry. STMA aims to optimise the industry's operational and management mechanisms, focus on deepening market-oriented reform of cigarette marketing, and manage diversified investments. These proactive measures will contribute to the continued development and enhancement of the tobacco industry in China. Despite the competitive state of the market, the Group will maintain a prudent approach in its paper cigarette packaging business.

In light of these promising prospects, the Group is committed to expanding its presence in the electronic cigarette business while continuing to develop its paper cigarette packaging business. Jia Yao will increase investment in the electronic cigarette industry, with a particular focus on enhancing research and development of proprietary products. It is crucial to consistently innovate and create products that align with market trends and consumer preferences to thrive in such a competitive environment. As it strives to become a prominent one-stop manufacturer and supplier of electronic cigarettes, Jia Yao will closely monitor market dynamics and maintain a prudent approach to the business. The Group anticipates sustained revenue growth in the electronic cigarette segment for the foreseeable future, making it a significant business venture.

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 2023.

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 C1 to the Listing Rules for the year ended 31 December 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 C3 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 2023.

REVIEW OF ANNUAL RESULTS

The Group's annual results for the year ended 31 December 2023 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, Ms. Guo Wei and Mr. Gong Jinjun.

FINAL DIVIDEND

After observing and analyzing the market, the directors of the Company believe that funds should be reserved to continue investing in the development of the e-cigarette business, including expanding market share, entering new markets and launching new products. The company attaches great importance to long-term development and continues to invest in the e-cigarette business to seize market opportunities in order to pursue higher profits and returns, thereby increasing the long-term value of shareholders.

In view of the above, the Board does not recommend the payment of a final dividend for the year ended 31 December 2023 (The Board recommended the payment of a final dividend for the year ended 31 December 2022 of HKD0.056 per share).

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting is scheduled to be held on Friday, 7 June 2024.

For the purpose of determining shareholders who are entitled to attend and vote at the annual general meeting, the register of members of the Company will be closed from Tuesday, 4 June 2024 to Friday, 7 June 2024, 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, 3 June 2024.

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 2023 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, 28 March 2024

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, 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.