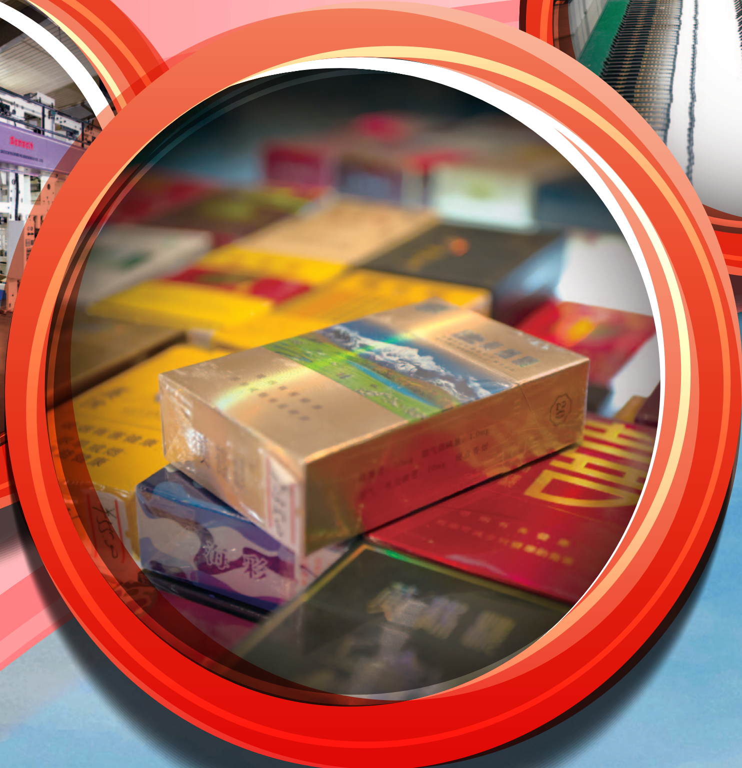
JIAYAO HOLDINGS LIMITED
嘉耀控股有限公司

Incorporated in the Cayman Islands with Limited Liability

Stock Code: 1626



Interim Report 2014

Contents

Financial Highlights	2
Corporate Information	3
Chairman's Statement	4
Management Discussion and Analysis	6
Corporate Governance and Other Information	13
Report on Review of Condensed Consolidated Financial Statements	17
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	18
Condensed Consolidated Statement of Financial Position	19
Condensed Consolidated Statement of Changes in Equity	21
Condensed Consolidated Statement of Cash Flows	23
Notes to the Condensed Consolidated Financial Statements	24

Financial Highlights

The shares of Jia Yao Holdings Limited (the "Company") were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 June 2014.

The board of directors (individually, a "Director", or collectively, the "Board") of the Company 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 2014 together with the comparative figures for the corresponding period in 2013.

- Revenue for the six months ended 30 June 2014 decreased by approximately 14.0% or RMB31.5 million to approximately RMB192.9 million as compared with the same period in 2013.

- Gross profit for the six months ended 30 June 2014 decreased by approximately 20.2% or RMB14.3 million to approximately RMB56.6 million as compared with the same period in 2013.

- Gross profit margin for the six months ended 30 June 2014 decreased by approximately 2.3% from approximately 31.6% to approximately 29.3% as compared with the same period in 2013.

- Loss attributable to owners of the Company for the six months ended 30 June 2014 was approximately RMB5.3 million as compared to the profit attributable to owners of the Company of approximately RMB12.8 million for the six months ended 30 June 2013.

- Average trade and note receivables turnover days increased from approximately 121 days for the year ended 31 December 2013 to approximately 136 days for the six months ended 30 June 2014.

- Average trade and note payables turnover days increased from approximately 204 days for the year ended 31 December 2013 to approximately 207 days for the six months ended 30 June 2014.

- Average inventory turnover days increased from approximately 71 days for the year ended 31 December 2013 to approximately 100 days for the six months ended 30 June 2014.

- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014.

Notes:

(i) Gross profit margin were calculated based on gross profit for the period from continuing operations divided by the revenue of continuing operations for the period.

(ii) Average trade and note receivables turnover days were calculated as the average of the beginning and ending of trade and note receivables balance from continuing operations of the year end/period end divided by the revenue of continuing operations for the year/period and multiplied by the number of days for the year/period (365 days for the year ended 31 December 2013 and 181 days for the six months ended 30 June 2014).

(iii) Average trade and note payables turnover days were calculated as the average of the beginning and ending of trade and note payables balance from continuing operations of the year end/period end divided by the cost of sales of continuing operations for the year/period and multiplied by the number of days for the year/period (365 days for the year ended 31 December 2013 and 181 days for the six months ended 30 June 2014).

(iv) Average inventory turnover days were calculated as the average of the beginning and ending of inventories balance from continuing operations of the year end/period end divided by the cost of sales of continuing operations for the year/period and multiplied by the number of days for the year/period (365 days for the year ended 31 December 2013 and 181 days for the six months ended 30 June 2014).

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Yang Yoong An
Mr. Feng Bin

Non-executive Director

Mr. Yang Fan

Independent non-executive Directors

Mr. Gong Jinjun
Mr. Zeng Shiquan
Mr. Wang Ping

COMPANY SECRETARY

Mr. Wu Hung Wai (HKICPA)

REGISTERED OFFICE

Clifton House
75 Fort Street, PO Box 1350
Grand Cayman, KY1-1108
Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 6 Qingdao Road
Dongshan Economic Developing District
Yichang, Hubei

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3212, 32nd floor, Tower One, Times Square
No. 1 Matheson Street, Causeway Bay
Hong Kong

AUDIT COMMITTEE

Mr. Wang Ping *(Chairman)*
Mr. Yang Fan
Mr. Zeng Shiquan

REMUNERATION COMMITTEE

Mr. Gong Jinjun *(Chairman)*
Mr. Feng Bin
Mr. Wang Ping

NOMINATION COMMITTEE

Mr. Yang Yoong An *(Chairman)*
Mr. Zeng Shiquan
Mr. Gong Jinjun

CORPORATE WEBSITE ADDRESS

www.jiayaoholdings.com

AUTHORISED REPRESENTATIVES

Mr. Feng Bin
Mr. Wu Hung Wai

COMPLIANCE ADVISER

RaffAello Capital Limited
Room 2002, 20/F
Tower Two, Lippo Centre
89 Queensway
Hong Kong

PRINCIPAL BANKERS

China Minsheng Bank Yichang Branch
China Merchants Bank Yichang Branch
Hubei Bank Corporation Yichang Branch

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Trust (Cayman) Ltd.
Clifton House
75 Fort Street, PO Box 1350
Grand Cayman, KY1-1108
Cayman Islands

HONG KONG SHARE REGISTRAR

Union Registrars Limited
18/F
Fook Lee Commercial Centre
Town Place
33 Lockhart Road
Wanchai
Hong Kong

LEGAL ADVISER AS TO HONG KONG LAWS

Loong & Yeung
Suites 2001–2006, 20th Floor
Jardine House, 1 Connaught Place
Central
Hong Kong

AUDITOR

HLB Hodgson Impey Cheng Limited
Certified Public Accountants
31/F
Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors of Jia Yao Holdings Limited, I am pleased to present the first interim report of the Group since its listing on the Main Board of the Hong Kong Stock Exchange on 27 June 2014.

In the first half of 2014, the PRC's economy maintained a steady growth momentum. Sales volume of cigarettes in the country continued to rise as the PRC government encouraged consolidation of the cigarette packaging, thereby benefitting large-scale suppliers and bringing room for further development for the cigarette packaging industry. The Group will seize the opportunities ahead and drive a steady business expansion in a proactive manner.

Currently, the Group supplies paper cigarette packages for 15 of the 30 key cigarette brands designated by the State Tobacco Monopoly Administration of the PRC ("STMA") (中國國家煙草專賣局), including Pride (嬌子), Haomao (好貓), Double Happiness (雙喜) and Red Double Happiness (紅雙喜). The Group manufactures various types of paper cigarette packages for its customers, including hard and soft cigarette packets, cigarette cartons and gift sets. In addition, the Group has also extended its business to social product paper packages for drugs and medicines, liquor and alcoholic beverages, food and other consumer goods.

For the six months ended 30 June 2014, the Group's revenue amounted to approximately RMB192.9 million, representing a decrease of 14.0% year-on-year. Paper cigarette packaging business accounted for 95.0% of the total revenue and the remaining 5.0% was from social paper packaging segment. Gross profit was approximately RMB56.6 million, a decrease of RMB14.3 million or 20.2% from RMB70.9 million for the same period of 2013. Gross profit margin was 29.3% in the first half of 2014, which has decreased from 31.6% as in the same period of the previous year. During the period under review, loss attributable to owners of the Company amounted to approximately RMB5.3 million (profit attributable to owners of the Company for the six months ended 30 June 2013: RMB12.8 million). Basic and diluted loss per share attributable to owners of the Company was approximately RMB2 cents. The loss was mainly due to the recognition of the expenses in relation to the listing of the shares of the Company on the Main Board of the Stock Exchange of Hong Kong Limited, and the decrease in sales in May and June 2014. The Directors do not recommend any payment of an interim dividend.

In order to further enhance product development capability, the Group plans to apply for accreditation of our existing testing laboratory as a national laboratory, thereby strengthening customer confidence in our product quality. Currently, we have already appointed a consultation company to conduct on-site inspection of our existing facilities in preparation for the accreditation application. The Group plans to purchase one double-unit hot foil stamping die-cutting machine and one die-cutting machine with waste-clearing function in the second half of 2014 to improve production efficiency. In addition, the Group intends to apply certain amount of the net proceeds from the listing on the development of phase II of the Yichang production base, which consists of the social product paper packaging production facilities. We aspire to push forward the commencement of operation of the production base for capacity expansion.

With the existing client base, the Group will boost its sales, diversify with new product lines of rigid boxes and explore new markets. Currently, we are still at the preparation stage through building customer relationship, collecting information and identifying opportunities. The Group endeavours to explore different opportunities to enter new markets so as to improve market position. The Group is also dedicated to diversify product portfolio by launching non cigarette-related products.

Chairman's Statement

Looking ahead, the Group will execute the four major development strategies to increase market penetration by enhancing design and development capabilities, strengthening sales and marketing efforts by enhancing relationship with existing customers and developing business with potential customers, enhancing product variety by further developing social product paper packages, and advancing machinery and equipment to improve production quality.

The Group will leverage its competitive advantages and the development potential presented by the successful listing; whilst enhancing its capability of tender bidding and stepping up efforts in product development, so as to further the Group's business development in the future.

I would like to express my gratitude to the continuous support of all the shareholders, investors and customers. The Group's management team and all staff members will persist in striving for better results and bringing returns to the shareholders.

YANG Yoong An
Chairman of the Board and Executive Director

Hong Kong, 29 August 2014

Management Discussion and Analysis

MARKET REVIEW

During the first half of 2014, the PRC's economy development grew steadily. With the stable rise in economy and smoking population of approximately 300 million in China, the market demand on cigarettes increased accordingly. Data released by the State Tobacco Monopoly Administration (中國國家煙草專賣局) (the "STMA") revealed that, China has produced 2.59 million cases of cigarettes in the first half of 2014, increased by 0.2% comparing with the corresponding period of 2013. Among these, there are 28 key cigarette brands (重點卷煙品牌) accounting for approximately 21.6 million cases, which increased by 1.55% as compared with the year before. Moreover, the STMA urged all the cigarette sales departments in the industry to strive to reach the annual target of "Ensure 8 (Hundred Billion), Strive 10 (Hundred Billion), Over 1 Trillion" in tax revenue. It further boosted constant growth in sales. The cigarette market in China still has room for development in the future. Meanwhile, high-end cigarette stepped up at a faster pace. It reflected that people pursue for high-quality cigarettes with higher price and better packaging which, in turn, promoted development of cigarette packaging industry.

At the same time, the PRC government's constant support of the consolidation of cigarette packaging industry as well as its encouragement and strengthening efforts to develop high-class cigarette were beneficial to large-scale cigarette packaging manufacturers. As an approved packaging manufacturer of 15 key cigarette brands appointed by the STMA, the Group will grasp the opportunities to strive to develop high-quality and top-tier cigarette package so as to further enhance our market status and market share.

BUSINESS REVIEW

The Group is principally engaged in design, production and sale of paper cigarette packaging and, to a lesser extent, social product paper packages in China. The major operating subsidiary of the Company, 湖北金三峽印務有限公司 (Hubei Golden Three Gorges Printing Industry Co., Ltd.) ("Hubei Golden Three Gorges"), has been established in China for over 20 years. The Group provides paper cigarette packaging services for 15 cigarette brands among the 30 key cigarette brands appointed by the STMA, including Pride (嬌子), Haomao (好貓), Double Happiness (雙喜), Red Double Happiness (紅雙喜), etc. In addition, the Group extended its business to the paper packaging of medicine, wine, food and other consumer products by utilizing its enriched experience and professional knowledge in the cigarette packaging industry.

The Company was listed on 27 June 2014 (the "Listing Date") under which a total of 75,000,000 shares were issued at an offer price of HK$1.26 per share.

Sales and Distribution

The Group highly emphasizes on product design and technology advancement. With its design and development capabilities, the Group strives to enhance its technological competitiveness. Resources will be continued to be input in order to upgrade product development capability. In view of stricter examination standards in China, the Group plans to apply for the accreditation from China National Accreditation Board for Laboratories for its existing examination laboratory. The Group expects the accreditation can increase customers' confidence in our product quality and hence boost our competitiveness. During the period for the six months ended 30 June 2014, the Group has already appointed a consultancy company to carry out on-site examination for our existing facilities for the preparation of accreditation application.

Furthermore, the Group has signed agreements with several institutions in China to nurture appropriate technical experts in order to enhance our development capability which can in turn improve the Group's operation, especially in the aspects of product development, production efficiency and quality control ability. The Group believes that it can bring more business opportunities from existing and potential customers.

Currently, the Group's clients included 10 major provincial tobacco industrial companies (省級中煙工業公司) and 5 non-provincial tobacco companies under China Tobacco Industry Development Center (中國煙草實業發展中心), which located in Hubei, Sichuan, Yunnan, Shaanxi, Henan and other provinces. To those existing clients, the Group will strive to make use of our current status of approved provider and include other cigarette brands or sub-brands manufactured by those clients currently not designed and/or printed by the Group into our product portfolio. In addition to strengthening relationships with existing clients and expanding our business scale, the Group also plans to invest in the markets that our Group is absent now, e.g. Anhui and Jiangxi Province, in order to further expand our customer base. To adhere to this business strategy, the Group intends to set up sales offices in cities where major clients located and also appears to have significant business growth. More sales and marketing staff will be recruited so as to strengthen existing sales and marketing team. Setting up sales offices at places near major clients will enable the Group to maintain good relationships with its clients and to improve the Group's after-sale services which, in turn, will enhance customer satisfaction.

For the six months ended 30 June 2014, the Group's production bases were mainly located in Yichang factory and Dangyang factory. Apart from production activities, Yichang factory also carried out design and development of paper packages. There were 13 factories and ancillary buildings with an aggregate gross floor area of approximately 32 thousand sq.m.. In addition to the production line in Yichang factory, in order to share the workload and cope with the potential business growth, there are two productions lines in Dangyang factory to enhance the production capability. There were 11 factories and ancillary buildings with an aggregate gross floor area of approximately 12 thousand sq.m.. It is expected to raise the production capacities and utilisation rates of Yichang factory and Dangyang factory. Moreover, part of the net proceed from the Share Offer will be used in the development of phase II of the Yichang production base for social product paper packages. The construction is still in its primary stage. It is expected to engage in production shortly and will enhance the production efficiency of the Group accordingly.

The below tables set forth the production efficiency and utilization rates of the production bases for the six months ended 30 June 2014 and their comparison with the corresponding period in 2013. Actual production volume and utilisation rate decreased mainly due to the decrease in customers orders in May and June 2014.

Yichang factory:

	For the six months ended 30 June	
	2014	2013
Annual designed production capacity (ten thousand prints)	**10,003**	10,003
Actual production volume (ten thousand prints)	**5,335**	6,223
Utilisation rate	**53.3%**	62.2%

Dangyang factory:

	For the six months ended 30 June	
	2014	2013
Annual designed production capacity (ten thousand prints)	**3,764**	3,764
Actual production volume (ten thousand prints)	**2,071**	2,550
Utilisation rate	**55.0%**	67.8%

Products Development and Design

The Group will continue to invest in machines and equipments to enhance production quality and ensure the productivity is up to the international standards. The management strives to reach the cutting edge of technology in order to reduce production costs when the product quality can be maintained or improved. In addition to improving the machinery in the production lines, by purchasing intaglio printing machine (凹版印刷機), platen hot foil stamping die-cutting machine (平壓平燙金模切機), automatic platen waste cleaning die-cutting machine (自動平壓平清廢模切機) and quality checking machine etc., the Group will also upgrade quality control equipment. In the second half of 2014, one double-unit hot foil stamping die-cutting machine (雙機組燙金模切機) and one die-cutting machine with waste clearing function will be purchased at an estimated price of approximately RMB5.5 million. Compared with the existing machines, the new machines will have more advanced printing technologies, which can enhance the production efficiency.

Moreover, the Group was granted the 10-year patent of "A thermal printing structure becomes apparent two-dimensional code" ("一種熱變顯現二維碼的印刷結構") on 26 March 2014, being our 21st patent. The Group will continue to develop packaging technology to improve product quality with professional technologies.

FINANCIAL REVIEW

Turnover

For the six months ended 30 June 2014, the turnover was approximately RMB192.9 million, representing a decrease of 14.0% as compared with the same period in 2013.

The following table sets forth the breakdown of the Group's sales for the six months ended 30 June 2014:

	For the six months ended 30 June		
	2014 RMB'000	2013 RMB'000	Change %
Paper cigarette packages	**183,287**	214,933	–14.7%
Social product paper packages	**9,587**	9,410	+1.9%

For the six months ended 30 June 2014, sales of paper cigarette packages decreased by 14.7% to approximately RMB183.3 million in comparing with the corresponding period in 2013. It was mainly due to the decrease in sales in May and June 2014 as a result of a decrease in customers' orders. Decrease in customers' orders in May and June 2014 principally due to some major customers such as China Tobacco Hubei Industrial Co., Ltd. (湖北中煙工業有限責任公司) ("Hubei China Tobacco") and Heilongjiang Tobacco Industrial Co., Ltd. (黑龍江煙草工業有限責任公司) ("Heilongjiang Tobacco Industrial") deferred the completion of tendering process which postponed their procurement in the first half year. After completion of the tendering process in May 2014, the customers' orders from Hubei China Tobacco and Heilongjiang Tobacco Industrial were increasing and it is expected that there will be a continuing improvement on the Group's performance in the second half of 2014.

Gross Profit

The Group's gross profit decreased by approximately 20.2% from approximately RMB70.9 million for the six months ended 30 June 2013 to approximately RMB56.6 million for the six months ended 30 June 2014. The decrease in gross profit was due to the decrease in sales. For the six months ended 30 June 2014, the Group's gross profit rate was 29.3%, which decreased from 31.6% as compared with the same period of 2013. It was mainly due to increase in cost of goods sold per unit which was caused by the decrease of production volume.

Management Discussion and Analysis

Other income

For the six months ended 30 June 2014, other income mainly consists of interest income on bank deposits, sundry income from the sale of scrap material and non-recurring government grants. For the six months ended 30 June 2014, the Group's other income decreased by approximately 15.5% to approximately RMB1.8 million. It was mainly due to the decrease of an interest income from entrusted loans made to Maoming Xin Jia Chang Investment Company Limited from RMB0.4 million for the six months ended 30 June 2013 to Nil for the six months ended 30 June 2014.

Other Gains and Losses

For the six months ended 30 June 2014, other gains and losses mainly comprise net losses arising from disposal of property, plant and equipment and foreign exchange gain. For the six months ended 30 June 2014, balance increased to approximately RMB0.4 million mainly due to the increase of foreign exchange gain during the first half of 2014.

Selling and distribution expenses

For the six months ended 30 June 2014, selling and distribution expenses comprise: (i) delivery expenses for the transportation of our products to customers; (ii) staff costs and benefits relating to our Group's sales and marketing personnel; (iii) entertainment expenses incurred in customer hospitality activities during our normal course of business; (iv) travelling expenses of our staff incurred for the sales and distribution activities; (v) administrative expenses; and (vi) other selling and distribution related expenses. The Group's selling and distribution expenses decreased by 19.4% from approximately RMB12.6 million for the six months ended 30 June 2013 to approximately RMB10.1 million for the six months ended 30 June 2014. The decrease was mainly due to the decrease of entertainment expenses incurred in customer hospitality activities during our normal course of business and travelling expenses of our staff incurred for the sales and distribution activities during current period.

Administrative and other operating expenses

For the six months ended 30 June 2014, administrative and other operating expenses consist of (i) staff cost and benefits relating to our Group's administrative personnel; (ii) travelling expenses of administrative staff; (iii) depreciation expenses arising from daily operation; (iv) entertainment expense of administrative staff; (v) research and development expenses; (vi) office expenses; and (vii) other expenses incurred in relation to our administrative operations. The expenses slightly increased by 0.5% from approximately RMB18.3 million for the six months ended 30 June 2013 to approximately RMB18.4 million for the six months ended 30 June 2014.

Listing expenses

During the six months ended 30 June 2014, the Group incurred listing expenses of approximately RMB19.6 million, which were primarily professional fees in connection with the listing (six months ended 30 June 2013: approximately RMB5 million).

Finance Costs

For the six months ended 30 June 2014, finance costs primarily consist of interest payments on interest-bearing obligations, finance costs arising on early redemption of note receivables when the Group sell our note receivables to the banks and other financial institutions at a discount in exchange for immediate cash and bank fees and charges. The finance costs decreased by approximately RMB6.5 million or 50% from RMB13.0 million for the six months ended 30 June 2013 to approximately RMB6.5 million for the six months ended 30 June 2014. The reduction of finance costs was mainly due to decrease of finance costs arising on early redemption of note receivables during the period.

Income tax expense

The Group's income tax expense increased by approximately 83.4% from RMB3.6 million for the six months ended 30 June 2013 to approximately RMB6.7 million for the six months ended 30 June 2014. The increase was mainly due to the increase of deferred tax expenses on undistributed earnings of the PRC subsidiaries of the Company, Hubei Golden Three Gorges and Dangyang Liantong Printing Industry Co., Ltd..

Profit/Loss Attributable to Owners of the Company

For the six months ended 30 June 2014, the Group's loss attributable to owners of the Company was approximately RMB5.3 million (profit attributable to owners of the Company for the six months ended 30 June 2013: approximately RMB12.8 million). Loss was recorded in the first half of 2014 due to decline in recognised sales volume which in turn led to the decrease in gross profit, and increase in the incurred listing expenses to approximately RMB19.6 million for current period (six months ended 30 June 2013: approximately RMB5 million).

Trade and other receivables

Trade and other receivables increased by 21.9% from approximately RMB183.9 million as at 31 December 2013 to approximately RMB224.1 million as at 30 June 2014. The increase was mainly attributed to the net effect of: (i) decrease of net trade receivables by approximately RMB21.5 million from approximately RMB148.1 million as at 31 December 2013 to approximately RMB126.6 million as at 30 June 2014; and (ii) listing proceed receivable of approximately RMB52.5 million as at 30 June 2014 (as at 31 December 2013: Nil).

Trade and other payables

Trade and other payables decreased by 32.0% from approximately RMB220.6 million as at 31 December 2013 to approximately RMB149.9 million as at 30 June 2014. The decrease was mainly due to: (i) decrease of trade payables by approximately RMB12.7 million from approximately RMB74.2 million as at 31 December 2013 to approximately RMB61.5 million as approximately at 30 June 2014; (ii) decrease of note payables by approximately RMB42.5 million from approximately RMB109.1 million as at 31 December 2013 to approximately RMB66.6 million as at 30 June 2014; and (iii) dividends payable to the non-controlling interest shareholder of Hubei Golden Three Gorges, Hubei Three Gorges Tobacco Co., Ltd. of approximately RMB13.9 million as at 31 December 2013 and the dividends has been settled before 30 June 2014 (as at 30 June 2014: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

The Group recorded net current assets of approximately RMB52.3 million as at 30 June 2014, compared with net current liabilities of approximately RMB78.2 million as at 31 December 2013. The Group maintained a greatly improved and healthy liquidity position during the six months ended 30 June 2014. The Group's operations were principally financed by internal resources and bank borrowings during the six months ended 30 June 2014.

As at 30 June 2014, the cash and cash equivalents of the Group amounted to approximately RMB65.8 million, which was mainly denominated in Renminbi and Hong Kong Dollar, compared with approximately RMB89.3 million as at 31 December 2013. Such decrease was mainly due to increase in payment of listing expenses during the period.

For the six months ended 30 June 2014, the Group's net cash used in operating activities, net cash from investment activities and net cash from financing activities amounted to approximately RMB55.1 million, RMB37.2 million and RMB20.0 million respectively. For the six months ended 30 June 2013, the Group's net cash from operating activities, net cash used in investment activities and net cash used in financing activities amounted to approximately RMB158.3 million, RMB102.9 million and RMB83.8 million respectively.

Borrowings and Gearing Ratio

The Group's interest-bearing borrowings was approximately RMB167.0 million as at 30 June 2014 (31 December 2013: approximately RMB154.5 million). The gearing ratio decreased from approximately 443.7% as at 31 December 2013 to approximately 67.9% as at 30 June 2014. The decrease in gearing ratio was due to the increase in total equity of the Group (Gearing ratios as at 31 December 2013 and 30 June 2014 were calculated based on the total debt from continuing operations as at the respective date divided by total equity from continuing operations as at the respective date and multiplied by 100%).

Capital Expenditure

During the six months ended 30 June 2014, the Group's total capital expenditure amounted to approximately RMB4.3 million, which was mainly used in the construction of the phase II of the Yichang production base and purchase of plant and machineries.

Treasury Policies

The Group adopts a prudent approach with respect to treasury and funding policies, with a focus on risk management and transactions that are directly related to the underlying business of the Group.

Charge on 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 2014 (Unaudited) RMB'000	As at 31 December 2013 (Audited) RMB'000
Prepaid lease payments	**18,329**	18,572
Property, plant and equipment	**127,367**	145,394
Trade receivables	**101,274**	117,310
Pledged bank deposits	**33,710**	59,293
	280,680	340,569

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

The Company underwent Reorganisation due to the preparation of listing. Details are set out under the section of "History, Reorganisation and Group structure" in the prospectus of the Company dated 17 June 2014.

Save as disclosed herein, there are no significant investments, material acquisition and disposal of subsidiaries and associated companies by the Group for the six months ended 30 June 2014.

Contingent Liabilities

As at 30 June 2014, the Group did not have any significant contingent liabilities (31 December 2013: Nil).

Management Discussion and Analysis

Foreign Exchange Risk

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, other receivables and other payables maintained in Hong Kong 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 2014.

Human Resources and Remuneration

As at 30 June 2014, the Group employed 949 employees (as compared with 930 employees as at 30 June 2013) with total staff cost of approximately RMB24.5 million incurred for the six months ended 30 June 2014 (as compared with approximately RMB22.4 million for the same period of 2013). The Group's remuneration packages are generally structure with reference to market terms and individual merits.

Interim Dividend

The Board proposed not to declare any interim dividend for the six months ended 30 June 2014.

FUTURE OUTLOOK

Looking forward, our growth momentum will mainly come from the steady improved performance of the overall industry and the PRC's economy. Moreover, as the domestic cigarette market focuses on high-end products and has been undergoing industry consolidation, the Group is set to benefit from such prevailing market trend.

In order to reinforce our relationship with existing customers and develop businesses with potential customers, the Group will step up efforts in sales and marketing. In addition to the strengthened marketing to existing customers, further development and expansion to rigid box business to enlarge market share, the Group will invest more in promotion of the new markets, so as to exploit other markets based on the established promotion campaign. Currently, we are in preparation for the development of new markets, including establishing customer relationship, collecting information and exploiting opportunities. The Group intends to enter new markets through open tenders, development of new products, setting up associates for processing business and other initiatives. As regards personnel deployment, we have already assigned specialised salespersons to follow up; whilst we have adopted control by projects in relations to business development. We will also set up representative offices once entering into business partnerships.

In addition, to reduce dependence on single business and achieve stable financial results, the Group attaches high importance to product diversification. The Group will develop new social paper packages products to expand product lines. Currently, the Group has developed certain new non-cigarette packages products, such as tea packages in Hunan and liquor packages in Shandong.

The successful listing has provided the Group with a better and wider platform for business growth as we will reinforce our capability of tender bidding and invest in new products, with a view to increase the sales volume in the second half of 2014.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF THE ASSOCIATED CORPORATIONS

As at 30 June 2014, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests which they are taken or deemed to have under such provisions of the SFO) or which, pursuant to section 352 of the SFO, have been entered in the register referred to therein, or have been, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), notified to the Company and the Stock Exchange were as follows:

(i) Long positions in the shares of the Company

Name	Capacity/Nature of interest	No. of ordinary shares held	Percentage of interest
Mr. Yang Yoong An ("Mr. Yang")	Interest of a controlled corporation *(Note 1)*	209,362,000	69.79%
Mr. Feng Bin ("Mr. Feng")	Interest of a controlled corporation *(Note 2)*	15,638,000	5.21%

(ii) Long position in the ordinary shares of associated corporation

Name	Name of associated corporation	Capacity/Nature of interest	No. of ordinary shares held	Percentage of interest
Mr. Yang [(1)]	Spearhead Leader Limited ("Spearhead Leader")	Beneficial owner	1	100%
Mr. Feng [(2)]	Star Glide Limited ("Star Glide")	Beneficial owner	1	100%

Notes:

1. Mr. Yang beneficially owns the entire issued share capital of Spearhead Leader. Therefore, Mr. Yang is deemed, or taken to be, interested in 209,362,000 Shares held by Spearhead Leader for the purpose of the SFO. Mr. Yang is the director of Spearhead Leader.

2. Mr. Feng beneficially owns the entire issued share capital of Star Glide. Therefore, Mr. Feng is deemed, or taken to be, interested in 15,638,000 Shares held by Star Glide for the purpose of the SFO. Mr. Feng is the director of Star Glide.

Other members of our Group

Name of subsidiary	Name of shareholder	Percentage of shareholding
Hubei Golden Three Gorges Printing Industry Co. Ltd.	Hubei Three Gorges Tabacco Co., Ltd.	17.14%

INTERESTS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as is known to the Directors, as at 30 June 2014, the following persons (not being a Director or chief executive of the Company) had interests or short positions in shares or underlying shares of the Company which fell to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in the shares of the Company

Name of shareholders	Capacity/Nature of interest	No. of ordinary shares held/ interested	Percentage of shareholding
Spearhead Leader	Beneficial owner	209,362,000	69.79%
Star Glide	Beneficial owner	15,638,000	5.21%
Ms. Cai Yaohui ("Ms. Cai")	Interest of spouse *(Note 1)*	209,362,000	69.79%
Ms. Zhao Yi ("Ms. Zhao")	Interest of spouse *(Note 2)*	15,638,000	5.21%

Notes:

1. Ms. Cai is the spouse of Mr. Yang. Accordingly Ms. Cai is deemed, or taken to be, interested in all Shares and underlying Shares in which Mr. Yang is interested in for the purpose of the SFO.

2. Ms. Zhao is the spouse of Mr. Feng. Accordingly Ms. Zhao is deemed, or taken to be, interested in all Shares and underlying Shares in which Mr. Feng is interested in for the purpose of the SFO.

Save as disclosed above, as at 30 June 2014, the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which fell to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

SHARE OPTION SCHEMES

The Company adopted a share option scheme (the "Share Option Scheme") on 6 June 2014. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue on the Listing Date, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders, independent non-executive Directors, or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial shareholders, independent non-executive Directors, or any of their respective associates) in any 12-month period in excess of 0.1% of the Company's issued share capital in aggregate or with an aggregate value in excess of HK$5,000,000 must be also approved by the Company's shareholders.

The exercise price of the share options is determinable by the Directors, but may not be less than the higher of (i) the Stock Exchange's closing price of the Company's shares on the date of the grant of the share options which must be a business day; (ii) the average Stock Exchange's closing price of the Company's shares for the five business days immediately preceding the date of the grant; and (iii) the nominal value of the Company's shares.

No options were granted, exercised, cancelled or lapsed and there were no outstanding options under the Share Option Scheme from the date of its adoption to the date of this report. A summary of the principal terms and conditions of the Share Option Scheme is set out in Appendix V to the prospectus of the Company dated 17 June 2014.

COMPETING BUSINESS AND CONFLICTS OF INTERESTS

None of the Directors, management shareholders or substantial shareholders of the Company or any of their respective associates (as defined under the Listing Rules) 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 has purchased, sold or redeemed any of the Company's listed securities after the Listing Date and up to six months ended 30 June 2014.

USE OF PROCEEDS FROM THE PUBLIC OFFER AND PLACING

The following table sets forth a breakdown of the use of net proceeds applied by the Group from the Listing Date up to 30 June 2014:

Use of net proceeds	Planned amount as stated in the Prospectus RMB'000	Actual amount utilised from the Listing Date up to 30 June 2014 RMB'000	Balance as at 30 June 2014 RMB'000
Technical advance, renewal and upgrade of existing equipment	14,000	–	14,000
Procurement and installation of new equipment and machinery for expanding our product variety and enhancing our production capability	9,600	–	9,600
Development of phase II of our Yichang production base for social product paper packages	9,100	–	9,100
Enhancement of the design and development capabilities of the Group	3,500	–	3,500
Expansion of the sales and marketing network of our Group in order to enhance our Group's relationship with the existing customers and explore business opportunities with potential customers	2,300	–	2,300
General working capital purposes, including the repayment of shareholders' loan incurred by the Hong Kong subsidiaries as operating expenses	3,800	2,650	1,150
	42,300	2,650	39,650

The actual amount utilised up to the six months ended 30 June 2014 for the repayment of shareholders' loan which incurred by the Hong Kong subsidiaries as operating expenses was approximately RMB2,650,000.

The unused net proceeds have been placed as interest bearing deposits with licensed bank in Hong Kong. As at the date of this report, the Directors do not anticipate any change to the plan as to use of proceeds.

Corporate Governance and Other Information

CORPORATE GOVERNANCE

Our Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. We have complied with the Code of Corporate Governance Practices set out in Appendix 14 to the Listing Rules from the Listing Date up to the six months ended 30 June 2014.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the code of conduct and the required standard set out in the Model Code regarding directors' securities transactions from the Listing Date up to the six months ended 30 June 2014.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The Company has an audit committee (the "Audit Committee") with terms of reference aligned with the provision of the Code as set out in Appendix 14 to the Listing Rules for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The Audit Committee consists of two independent non-executive Directors and one non-executive Director, namely Mr. Wang Ping (as Chairman), Mr. Zeng Shiquan and Mr. Yang Fan.

The interim financial results of the Group for the six months ended 30 June 2014 is unaudited but have been reviewed by the 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 report.

The results for the current interim period have been reviewed by our auditor, HLB Hodgson Impey Cheng Limited in Hong Kong, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

Report on Review of Condensed Consolidated Financial Statements

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE BOARD OF DIRECTORS OF JIA YAO HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Jia Yao Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 18 to 38, which comprise the condensed consolidated statement of financial position as of 30 June 2014 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Jonathan T.S. Lai
Practising Certificate Number: P04165

Hong Kong, 29 August 2014

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2014

	NOTES	Six months ended 30 June 2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Continuing operations			
Revenue	4	**192,874**	224,343
Cost of sales		**(136,279)**	(153,422)
Gross profit		**56,595**	70,921
Other income		**1,766**	2,090
Other gains and losses		**408**	(43)
Selling and distribution expenses		**(10,148)**	(12,591)
Administrative and other operating expenses		**(18,436)**	(18,349)
Listing expenses		**(19,582)**	(5,035)
Finance costs		**(6,466)**	(12,967)
Profit before tax		**4,137**	24,026
Income tax expense	5	**(6,659)**	(3,630)
(Loss)/profit for the period from continuing operations	6	**(2,522)**	20,396
Discontinued operation			
Loss for the period from discontinued operation		**–**	(3,816)
(Loss)/profit for the period		**(2,522)**	16,580
Other comprehensive income for the period, net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of balance		**95**	–
Total comprehensive (expense)/income for the period		**(2,427)**	16,580
(Loss)/profit for the period attributable to:			
Owners of the Company		**(5,390)**	12,758
Non-controlling interests		**2,868**	3,822
		(2,522)	16,580
Total comprehensive (expense)/income for the period attributable to:			
Owners of the Company		**(5,295)**	12,758
Non-controlling interests		**2,868**	3,822
		(2,427)	16,580
(Loss)/earnings per share			
— Basic and diluted (RMB)	8	**(0.02)**	0.06

Condensed Consolidated Statement of Financial Position

As at 30 June 2014

	NOTES	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	9	**172,662**	178,325
Prepaid lease payments		**22,048**	22,339
Deferred tax assets		**1,264**	2,453
		195,974	203,117
Current assets			
Inventories		**79,909**	70,539
Trade and other receivables	10	**224,138**	183,927
Prepaid lease payments		**580**	580
Amounts due from former equity holders of a subsidiary		**–**	17,258
Amount due from a non-controlling equity holder of a subsidiary		**–**	164
Pledged bank deposits		**33,710**	59,293
Bank balances and cash		**32,109**	29,963
		370,446	361,724
Assets classified as held for sale		**3,909**	3,909
		374,355	365,633
Total assets		**570,329**	568,750
Current liabilities			
Trade and other payables	12	**149,924**	220,583
Borrowings	13	**167,000**	94,550
Amounts due to former equity holders of a subsidiary		**–**	93,026
Amounts due to Controlling Shareholder and Mr. Feng		**–**	31,987
Current tax liabilities		**5,116**	3,733
		322,040	443,879
Net current assets/(liabilities)		**52,315**	(78,246)
Total assets less current liabilities		**248,289**	124,871

Condensed Consolidated Statement of Financial Position

As at 30 June 2014

	NOTES	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Non-current liabilities			
Borrowings	13	–	60,000
Deferred tax liabilities		2,472	1,866
		2,472	61,866
Net assets		245,817	63,005
Capital and reserves			
Paid-in capital/share capital	14	2,382	62
Reserves		211,012	33,388
Equity attributable to owners of the Company		213,394	33,450
Non-controlling interests		32,423	29,555
Total equity		245,817	63,005

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

	Attributable to owners of the Company								
	Paid-in capital/share capital RMB'000 *(Note 14)*	Share premium RMB'000	Special reserve RMB'000 *(Note a)*	PRC statutory reserves RMB'000 *(Note b)*	Retained profits/ (accumulated losses) RMB'000	Translation reserve RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance as at 1 January 2014	62	–	(27,271)	41,188	19,471	–	33,450	29,555	63,005
Profit/(loss) and total comprehensive income/(expense) for the period	–	–	–	–	(5,390)	95	(5,295)	2,868	(2,427)
Transfer upon Reorganisation	(62)	–	62	–	–	–	–	–	–
Issue of new shares	595	74,453	–	–	–	–	75,048	–	75,048
Issue of shares by capitalisation of share premium account	1,787	(1,787)	–	–	–	–	–	–	–
Deemed contribution from Controlling Shareholder and Mr. Feng	–	–	118,657	–	–	–	118,657	–	118,657
Transaction costs attributable to issue of new shares	–	(8,466)	–	–	–	–	(8,466)	–	(8,466)
Balance as at 30 June 2014 (unaudited)	2,382	64,200	91,448	41,188	14,081	95	213,394	32,423	245,817
Balance as at 1 January 2013	75,279	–	16,107	41,188	51,327	–	183,901	44,565	228,466
Profit and total comprehensive income for the period	–	–	–	–	12,758	–	12,758	3,822	16,580
Dividends recognised as distribution *(Note 7)*	–	–	–	–	(67,283)	–	(67,283)	(13,914)	(81,197)
Disposal of a subsidiary	–	–	–	–	–	–	–	(9,413)	(9,413)
Balance as at 30 June 2013 (unaudited)	75,279	–	16,107	41,188	(3,198)	–	129,376	25,060	154,436

(a) Special reserve comprise of:

(i) An amount of approximately RMB8,798,000, being the difference between the paid-in capital of a subsidiary, Hubei Golden Three Gorges, and the aggregate amount of the cash capital contribution and the fair value of the property, plant and equipment invested into Hubei Golden Three Gorges by its former equity holders;

(ii) An amount of approximately RMB2,009,000, being the difference between the carrying amount of the share of net assets acquired and the consideration of approximately RMB5,300,000 in respect of the acquisition of additional 17% equity interests in Dangyang Liantong Printing Industry Co., Ltd ("Dangyang Liantong") by Medicon Pharmaceutical Industries Limited ("Medicon") on 29 June 2012. The consideration of approximately RMB5,300,000 was treated as deemed contribution from the Controlling Shareholder;

(iii) An amount of approximately RMB43,378,000 represented the difference between (i) the aggregate consideration payable by a subsidiary, Easy Creator Limited, to former equity holders of a subsidiary for the acquisition of their respective equity interests in Hubei Golden Three Gorges and Dangyang Liantong pursuant to the Reorganisation (note 1) and (ii) the aggregate amount of paid-in capital of Hubei Golden Three Gorges and Dangyang Liantong attributable to the former equity holders of these entities;

(iv) An amount of approximately RMB62,000 represented the paid-in capital of Giant Harmony Limited ("Giant Harmony") which has been transferred to special reserve during the six months ended 30 June 2014 as part of the Reorganisation set out in note 1; and

(v) The amount due to Mr. Yang (the "Controlling Shareholder") of approximately RMB110,505,000 and amount due to Mr. Feng of approximately RMB8,152,000 were capitalised and accounted for as deemed contribution from the Controlling Shareholder and Mr. Feng during the six months ended 30 June 2014.

(b) PRC statutory reserve

In accordance with the Company Law of the People's Republic of China (the "PRC") and the relevant Articles of Association, the PRC subsidiaries of the Company are required to appropriate amount equal to 10% of their profit after taxation as determined in accordance with the PRC accounting standards to the PRC statutory surplus reserve. Additional appropriation to the reserve are decided by their board of directors annually.

Statutory surplus reserve is part of shareholders' equity and when its balance reaches an amount equal to 50% of the registered capital, further appropriation is not required. According to the Company Law of the PRC, statutory surplus reserve may be used to make up past losses, to increase production and business operations or to increase capital by means of conversion.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
NET CASH (USED IN)/FROM OPERATING ACTIVITIES	**(55,172)**	158,273
NET CASH FROM INVESTING ACTIVITIES		
Decrease in the amounts due from former equity holders of a subsidiary	**17,258**	47,086
Advance from Controlling Shareholder and Mr. Feng	**–**	783
Decrease/(increase) in pledged bank deposits	**25,583**	(140,069)
Net cash outflows arising from disposal of a subsidiary	**–**	(9,401)
Proceeds from disposals of available-for-sale investments	**–**	1,313
Purchase of property, plant and equipment and related deposit paid	**(5,813)**	(3,615)
Proceeds from disposals of property, plant and equipment	**159**	979
	37,187	(102,924)
NET CASH FROM FINANCING ACTIVITIES		
Proceeds from issue of new shares	**22,518**	–
Transaction costs attributable to issue of new shares	**(8,466)**	–
Proceeds from borrowings	**75,000**	64,116
Repayment of borrowings	**(62,550)**	(134,851)
Interest paid	**(6,028)**	(8,216)
Other finance costs paid	**(438)**	(4,887)
	20,036	(83,838)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**2,051**	(28,489)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**29,963**	41,838
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**95**	–
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD REPRESENTING BANK BALANCES AND CASH	**32,109**	13,349

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

1. GENERAL

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 registered office of the Company is located at Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands, and the address of the principal place of business is No. 6 Qingdao Road, Dongshan Economic Developing District, Yichang, Hubei Province, the PRC. The Company is an investment holding company. The principal activities of its subsidiaries are the design, printing and sales of paper cigarette packages and social product paper packages in the PRC.

In preparing for the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the companies now comprising the Company and its subsidiaries (hereinafter collectively referred to as the "Group") underwent the corporate reorganisation (the "Reorganisation") to rationalise the group structure. As a result of the Reorganisation, the Company became the holding company of the Group on 30 April 2014. Details of the Reorganisation are more fully explained in the section headed "History, Corporate Reorganisation and Group Structure" of the prospectus of the Company dated 17 June 2014. The Group resulting from the Reorganisation is regarded as a continuing entity. The condensed consolidated statement of financial position as of 31 December 2013, and the related condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the Group for the six months ended 30 June 2013 and 2014 have been prepared on the basis as if the current group structure has been in existence as of that date or throughout the period.

The shares of the Company were listed on the Stock Exchange on 27 June 2014. The Group was under the control of a director of the Company, Mr. Yang.

The condensed consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company and its subsidiaries.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies and the methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's financial information for the year ended 31 December 2013 included in the Accountants' Report in Appendix I of the prospectus of the Company dated 17 June 2014.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and new Interpretations ("HK(IFRIC)-INT") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC)-INT21	Levies

The application of the above new or revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

Revenue

Revenue from continuing operations represents revenue arising on sales of paper cigarette packages and social product paper packages for the period.

An analysis of revenue from continuing operations is as follows:

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sales of paper cigarette packages	**183,287**	214,933
Sales of social product paper packages	**9,587**	9,410
	192,874	224,343

Segment information

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 for the purposes of resource allocation and performance assessment, the Group's reportable and operating segments are as follows:

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

4. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

For the period ended 30 June 2014:	**Paper cigarette packages (Unaudited) RMB'000**	**Social product paper packages (Unaudited) RMB'000**	**Total (Unaudited) RMB'000**
Continuing operations			
Segment revenue	**183,287**	**9,587**	**192,874**
Segment profit/(loss)	**57,485**	**(890)**	**56,595**
Other income			**1,766**
Other gains and losses			**408**
Selling and distribution expenses			**(10,148)**
Administrative and other operating expenses			**(18,436)**
Listing expenses			**(19,582)**
Finance costs			**(6,466)**
Profit before tax from continuing operations			**4,137**

For the period ended 30 June 2013:	Paper cigarette packages (Unaudited) RMB'000	Social product paper packages (Unaudited) RMB'000	Total (Unaudited) RMB'000
Continuing operations			
Segment revenue	214,933	9,410	224,343
Segment profit	70,017	904	70,921
Other income			2,090
Other gains and losses			(43)
Selling and distribution expenses			(12,591)
Administrative and other operating expenses			(18,349)
Listing expenses			(5,035)
Finance costs			(12,967)
Profit before tax from continuing operations			24,026

4. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

Segment assets and liabilities are not disclosed in condensed consolidated financial statements as they are not regularly provided to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Geographical information

As all the Group's revenue is derived from customers located in the PRC and all the Group's identifiable non-current assets are principally located in the PRC, no geographical segment information is presented.

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
PRC Enterprise Income Tax ("EIT")		
Current tax	**4,864**	5,708
Deferred tax	**1,795**	(2,078)
	6,659	3,630

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the period. No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit subject to Hong Kong Profits Tax for the both periods.

On 16 March 2007, the National People's Congress promulgated the Law of the PRC on Enterprise Income Tax (the "New EIT Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New EIT Law. Under the New EIT Law and Implementation Regulation, the statutory EIT rates of the Group's subsidiaries in the PRC have been reduced to 25% from 1 January 2008 onwards. Except for a major operating subsidiary in the PRC, Hubei Golden Three Gorges, which is qualified as the High and New Technology Enterprise since 16 September 2009, Hubei Golden Three Gorges is entitled to a preferential income tax rate of 15% for the periods from 16 September 2009 to 15 September 2012 and then extended from 20 November 2012 to 19 November 2015.

Upon the New Tax Law and Implementation Regulations, PRC withholding income tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries to non-PRC tax resident group entities shall be subject to the withholding income tax at 10% or lower tax rate, as applicable. Under the relevant tax treaty, withholding tax rate on distribution to Hong Kong resident companies is 5%. During the six months ended 30 June 2013 and 2014, deferred taxation has been provided on undistributed earnings attributable to non-PRC tax resident equity holders of the subsidiaries in the PRC.

6. (LOSS)/PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS

	Six months ended 30 June	
	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
(Loss)/profit for the period from continuing operations has been arrived at after charging/(crediting):		
Staff costs:		
Directors' emoluments	**34**	–
Other staff costs		
Salaries and other benefits	**21,090**	20,163
Contributions to retirement benefits scheme, excluding those of directors	**3,365**	2,276
	24,489	22,439
Depreciation of property, plant and equipment	**10,105**	9,652
Impairment losses on property, plant and equipment	**–**	169
Loss on disposal of property, plant and equipment	**192**	332
Amortisation of prepaid lease payments	**291**	387
Operating lease rentals in respect of rented premises	**457**	–
Reversal of impairment loss on trade receivables	**(6)**	–
Cost of inventories recognised as an expense	**136,279**	153,422

7. DIVIDENDS

No dividend has been paid or declared by the Company since its date of incorporation. Prior to the Reorganisation, Hubei Golden Three Gorges had declared dividends to its then equity owners as follows:

	Six months ended 30 June	
	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Medicon	**–**	29,835
Maoming Xin Jia Chang Investment Company Limited ("Maoming Company")	**–**	19,957
Shenzhen Yi Heng Yuan Investment Company Limited ("Shenzhen Company")	**–**	17,491
Non-controlling interests	**–**	13,914
	–	81,197

No dividends were paid, declared or proposed by the Company during the six months ended 30 June 2014. The directors do not recommend the payment of an interim dividend.

8. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
(Loss)/earnings:		
(Loss)/profit for the period attributable to the owners of the Company for the purpose of basic (loss)/earnings per share	**(5,390)**	12,758

The weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share for the six months ended 30 June 2014 and 2013 has been retrospectively adjusted to reflect 1 share issued upon the incorporation of the Company on 5 August 2013, 9,999 shares issued pursuant to the Reorganisation on 30 April 2014 and 224,990,000 shares issued upon the capitalisation issue on 6 June 2014.

	Number of shares Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	**227,072**	225,000

The dilutive (loss)/earnings per share is equal to the basic earnings per share as there were no potential dilutive shares in issue during both periods.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2014, the Group purchased certain plant and machinery with an aggregate amount of approximately RMB3,478,000.

In addition, during the six months ended 30 June 2014, the Group paid approximately RMB828,000 for construction costs for a new manufacturing plant in the PRC in order to upgrade its manufacturing capabilities.

10. TRADE AND OTHER RECEIVABLES

	As at 30 June 2014 (Unaudited) RMB'000	As at 31 December 2013 (Audited) RMB'000
Trade receivables	126,745	148,334
Less: allowance for doubtful debts	(179)	(185)
	126,566	148,149
Note receivables	14,450	1,250
Other receivables	13,694	13,823
Payments in advance	4,519	9,972
Advance to employees	6,819	7,070
Deposit paid for machinery and equipment	2,382	1,162
Prepaid listing expenses	–	897
Listing proceed receivable	52,530	–
Prepayments and deposits paid	3,178	1,604
Total trade and other receivables	224,138	183,927

The above trade and other receivables are denominated in the functional currencies of the relevant group entities.

The average credit period on sales of goods is ranging from 30 to 120 days from the date of the invoice.

The following is an analysis of trade receivables (net of allowance for doubtful debts) by age, presented based on the date of delivery of goods, which approximates the respective revenue recognition dates:

	As at 30 June 2014 (Unaudited) RMB'000	As at 31 December 2013 (Audited) RMB'000
0 to 90 days	123,450	125,095
91 to 180 days	1,099	18,507
181 to 360 days	307	3,407
Over 360 days	1,710	1,140
	126,566	148,149

10. TRADE AND OTHER RECEIVABLES *(Continued)*

The following is an analysis of note receivables by age, presented based on the date of issuance of notes:

	As at 30 June 2014 (Unaudited) RMB'000	As at 31 December 2013 (Audited) RMB'000
0 to 90 days	–	1,100
91 to 180 days	14,450	150
	14,450	1,250

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by each customer. Limits attributed to customers are reviewed once a year.

The trade receivables that are neither past due nor impaired are mainly due from those customers which have long-term relationship with the Group and the repayment history of these customers were good.

11. DISCONTINUED OPERATION

On 12 November 2012, the Group entered into an equity transfer agreement with Zhuhai Heng Qin Xinqu Jia Chuang Investment Co., Ltd ("Zhuhai Company"), pursuant to which its subsidiary, Hubei Golden Three Gorges, agreed to dispose of its 70% equity interests in a subsidiary, Hubei Mengke Paper Co., Ltd ("Hubei Mengke"), to Zhuhai Company, at a cash consideration of approximately RMB22,000,000. Hubei Mengke is engaged in the production, processing and sale of high-grade paper, paper board and plastic business and carried out all of the Group's paper processing business in the PRC. The disposal was completed on 1 February 2013, on which date control over Hubei Mengke was passed to Zhuhai Company.

12. TRADE AND OTHER PAYABLES

	As at 30 June 2014 (Unaudited) RMB'000	As at 31 December 2013 (Audited) RMB'000
Trade payables	61,471	74,159
Note payables	66,600	109,130
Dividends payable	–	13,914
Other payables and accruals	21,853	23,380
Total trade and other payables	149,924	220,583

12. TRADE AND OTHER PAYABLES *(Continued)*

The following is an analysis of trade payables by age, presented based on the date of invoice:

	As at 30 June 2014 (Unaudited) RMB'000	As at 31 December 2013 (Audited) RMB'000
0 to 90 days	**57,571**	67,628
91 to 180 days	**3,086**	4,776
181 to 360 days	**123**	569
Over 360 days	**691**	1,186
	61,471	74,159

The following is an analysis of note payables by age, presented based on the date of issuance of notes:

	As at 30 June 2014 (Unaudited) RMB'000	As at 31 December 2013 (Audited) RMB'000
0 to 90 days	**30,600**	57,000
91 to 180 days	**36,000**	52,130
	66,600	109,130

The average credit period on purchases of goods is ranging from 30 to 90 days from the date of the invoice. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

As at 31 December 2013 and 30 June 2014, note payables represented bank acceptance notes issued by the Group with maturity within six months, and were secured by a charge over certain Group's pledged assets.

13. BORROWINGS

	As at 30 June 2014 (Unaudited) RMB'000	As at 31 December 2013 (Audited) RMB'000
Secured bank loans	167,000	127,000
Unsecured bank loans	–	27,550
	167,000	154,550
Denominated in:		
RMB	167,000	154,550
Carrying amount repayable:		
On demand or within one year	167,000	94,550
More than one year, but not more than two years	–	60,000
	167,000	154,550
Less: Amounts due within one year shown under current liabilities	(167,000)	(94,550)
Amounts due after one year shown under non-current liabilities	–	60,000

Breakdown of bank borrowings

	As at 30 June 2014 (Unaudited)	As at 31 December 2013 (Audited)
Fixed-rate borrowings	37,000	34,550
Floating-rate borrowings	130,000	120,000
	167,000	154,550

13. BORROWINGS *(Continued)*

The effective interest rates on the Group's borrowings were as follows:

	As at 30 June 2014 (Unaudited) %	As at 31 December 2013 (Audited) %
Fixed-rate borrowings	5.23	5.88
Floating-rate borrowings	5.65	5.98

Details of assets pledged for the bank borrowings are set out in Note 17.

14. PAID-IN CAPITAL/SHARE CAPITAL

The share capital as at 31 December 2013 represented the combined issued and fully paid share capital of the Company and Giant Harmony.

Details of movements of share capital of the Company is as follow:

	Number of shares	Share capital HK$'000
Authorised:		
Ordinary shares of HK$0.01 each		
As at 5 August 2013 (date of incorporation) and as at 31 December 2013	38,000,000	380
Additions on 6 June 2014 *(note (b))*	1,962,000,000	19,620
	2,000,000,000	20,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
As at 5 August 2013 (date of incorporation) and as at 31 December 2013	1	–
Issue of shares pursuant to the Reorganisation *(note (c))*	9,999	–
Issue of shares pursuant to the capitalisation issue *(note (d))*	224,990,000	2,250
Issue of shares by way of placing and public offer *(note (e))*	75,000,000	750
As at 30 June 2014	300,000,000	3,000

	As at 30 June 2014 RMB'000	As at 31 December 2013 RMB'000
Shown on the condensed consolidated statement of financial position	2,382	62

14. PAID-IN CAPITAL/SHARE CAPITAL *(Continued)*

Notes:

(a) As at the date of incorporation of the Company, the authorised share capital was HK$380,000 divided into 38,000,000 shares of HK$0.01 each. One share was allotted and issued nil paid to the subscriber on 5 August 2013, which was subsequently transferred to Spearhead Leader on the same date.

(b) On 6 June 2014, the sole shareholder resolved to increase the authorised share capital of the Company from HK$380,000 to HK$20,000,000 by the creation of an additional of 1,962,000,000 shares, each ranking pari passu with the shares then in issue in all respects.

(c) Pursuant to the Reorganisation and as consideration for the acquisition by the Company of the entire issued share capital of Giant Harmony Limited from Spearhead Leader and Star Glide, on 30 April 2014, (i) the one nil-paid share then held by Spearhead Leader was credited as fully paid at par, and (ii) 9,304 shares and 695 shares, all credited as fully paid at par, were allotted and issued to Spearhead Leader and Star Glide, respectively.

(d) On 6 June 2014, the Company allotted and issued 224,990,000 ordinary shares of HK$0.01 each credited as fully paid to the shareholders by the capitalisation of an amount of HK$2,249,900 in the share premium account of the Company at par.

(e) On 26 June 2014, the Company issued a total of 75,000,000 ordinary shares of HK$0.01 each at the HK$1.26 by way of placing and public offer.

15. SHARE OPTION SCHEME

Equity-settled share option scheme of the Company

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 6 June 2014 for the primary purpose of attracting and retaining the best available personnel, providing additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers ("Eligible Participants") of the Group and promoting the success of the business of the Group and will remain in force for a period of ten years commencing on the adoption date and shall expire at 5 June 2024. The board of directors of the Company may grant options to Eligible Participants to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. However, the total maximum number of the shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option scheme of the Company must not exceed 30% of the issued share capital of the Company from time to time. Options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange at the date of the grant) in excess of HK$5 million, within any 12-month period up to and including the date of grant, are subject to shareholders' approval in advance in a general meeting.

Options granted must be taken up within 7 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. Options may be exercised at any time for a period determined by its directors which shall not be later than the day immediately preceding the tenth anniversary of the date of grant. The exercise price of the share options must be at least the highest of (i) the nominal value of an ordinary share on the date of grant; (ii) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the share options; and (iii) the average closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of the offer.

For the six months ended 30 June 2014, no share options had been granted and the Company had no share options outstanding at 30 June 2014.

16. RELATED PARTY TRANSACTIONS

(a) Transactions with related party

	Notes	Six months ended 30 June 2014 (Unaudited) RMB'000	2013 (unaudited) RMB'000
Sales of goods to Company controlled by a former director of a subsidiary	(i) and (ii)	–	410

Notes:

(i) The Company is controlled by a former director of a subsidiary and he resigned as a director of the subsidiary on 15 May 2013.

(ii) The Group had entered into the above transactions with the related party based on the terms mutually agreed by the parties.

(b) Compensation of key management personnel

The emoluments of the Company's directors, who are also identified as members of key management of the Group, are set out in Note 6.

17. PLEDGE OF ASSETS AND CORPORATE GUARANTEES

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 2014 (Unaudited) RMB'000	As at 31 December 2013 (Audited) RMB'000
Prepaid lease payments	18,329	18,572
Property, plant and equipment	127,367	145,394
Trade receivables	101,274	117,310
Pledged bank deposits	33,710	59,293
	280,680	340,569

18. COMMITMENTS

(a) Operating leases — the Group as lessee

	Six months ended 30 June 2014 (Unaudited) RMB'000	2013 (unaudited) RMB'000
Minimum lease payments paid under operating leases		
— Staff quarter	**328**	–
— Office	**129**	–

The Group had commitments for future minimum lease payments under non-cancelable operating leases which fall due as follows:

	As at 30 June 2014 (Unaudited) RMB'000	As at 31 December 2013 (Audited) RMB'000
Within one year	**843**	655
In the second to fifth years inclusive	**343**	–
Over five years	**–**	–
	1,186	655

Operating lease payments related to staff quarter with average lease term of one year and the rentals were fixed over the respective leases. Operating lease payments related to office with lease term of two years and the rental was fixed over the lease.

18. COMMITMENTS *(Continued)*

(b) Capital commitment

	As at 30 June 2014 (Unaudited) RMB'000	As at 31 December 2013 (Audited) RMB'000
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**1,199**	151