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JIA YAO HOLDINGS LIMITED

嘉耀控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01626)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended 30 June 2016 increased by approximately 4.8% or RMB9.8 million to approximately RMB214.9 million as compared with the same period in 2015.
- Gross profit for the six months ended 30 June 2016 increased by approximately 1.1% or RMB0.6 million to approximately RMB48.9 million as compared with the same period in 2015.
- Gross profit margin for the six months ended 30 June 2016 decreased by approximately 0.9% from approximately 23.6% to approximately 22.7% as compared with the same period in 2015.
- Loss attributable to owners of the Company for the six months ended 30 June 2016 was approximately RMB0.3 million as compared to the profit attributable to owners of the Company of approximately RMB3.7 million for the six months ended 30 June 2015.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016 (for the six months ended 30 June 2015: Nil).

The board (the “Board”) of directors (the “Directors”) of Jia Yao Holdings Limited (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 2016 together with the comparative figures for the corresponding period in 2015. The results for the current interim period have been reviewed by our audit committee and our auditor, HLB Hodgson Impey Cheng Limited, 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.

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	NOTES	Six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Revenue	4	214,920	205,148
Cost of sales		(166,027)	(156,805)
Gross profit		48,893	48,343
Other income		1,061	2,781
Other gains and losses		(342)	2,025
Selling and distribution expenses		(13,550)	(9,536)
Administrative and other operating expenses		(26,715)	(28,169)
Finance costs		(6,028)	(6,976)
Profit before tax		3,319	8,468
Income tax expense	5	(2,808)	(3,542)
Profit for the period	6	511	4,926
Other comprehensive income/(expense) for the period, net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		976	(665)
Total comprehensive income for the period		1,487	4,261

	Six months ended 30 June	
	2016	2015
<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
(Loss)/profit for the period attributable to:		
Owners of the Company	(291)	3,724
Non-controlling interests	<u>802</u>	<u>1,202</u>
	<u>511</u>	<u>4,926</u>
Total comprehensive income for the period attributable to:		
Owners of the Company	685	3,059
Non-controlling interests	<u>802</u>	<u>1,202</u>
	<u>1,487</u>	<u>4,261</u>
(Loss)/earnings per share		
— Basic and diluted (RMB)	8	<u>0.012</u>
	<u>(0.001)</u>	

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

		30 June 2016	31 December 2015
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment		178,188	184,008
Prepaid lease payments		20,888	21,179
Deferred tax assets		544	2,071
		<u>199,620</u>	<u>207,258</u>
Current assets			
Inventories		105,187	110,134
Trade and other receivables	9	266,522	262,000
Prepaid lease payments		580	580
Current tax assets		728	329
Pledged bank deposits		84,317	97,000
Bank balances and cash		22,959	55,194
		<u>480,293</u>	<u>525,237</u>
Total assets		<u>679,913</u>	<u>732,495</u>
Current liabilities			
Trade and other payables	10	288,873	359,255
Borrowings		160,000	143,500
		<u>448,873</u>	<u>502,755</u>
Net current assets		<u>31,420</u>	<u>22,482</u>
Total assets less current liabilities		<u>231,040</u>	<u>229,740</u>

	30 June	31 December
	2016	2015
<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Non-current liabilities		
Deferred tax liabilities	<u>3,709</u>	<u>3,896</u>
Net assets	<u>227,331</u>	<u>225,844</u>
Capital and reserves		
Share capital	2,382	2,382
Reserves	<u>187,461</u>	<u>186,776</u>
Equity attributable to owners of the Company	189,843	189,158
Non-controlling interests	<u>37,488</u>	<u>36,686</u>
Total equity	<u>227,331</u>	<u>225,844</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 27 June 2014 (the “Listing Date”). The Company’s parent and ultimate holding company is Spearhead Leader Limited (“Spearhead Leader”), which is incorporated in the British Virgin Islands (the “BVI”). The Company’s ultimate controlling party is Mr. Yang Yoong An (“Mr. Yang”), who is also the Chairman and an executive Director of the Company. 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 People’s Republic of China (the “PRC” or “China”).

The Company acts as an investment holding company while its principal subsidiaries are principally engaged in the design, printing and sales of paper cigarette packages and social product paper packages in China.

In preparing for the initial listing of the shares of the Company on the Main Board of the Stock Exchange, the companies now comprising 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. Accordingly, for the purpose of the preparation of the condensed consolidated financial statements of the Group, the Company had been considered as the holding company of the companies now comprising the Group throughout the year ended 31 December 2014.

Items included in the financial statements of each of the Group’s subsidiaries are measured using the currency of the primary economic environment in which the respective entity operates. The functional currency of the Company is Hong Kong dollars (“HK\$”). The condensed consolidated financial statements are presented in RMB, rounded to the nearest thousand, which is different from the functional currency of the Company as the Group’s dominated operations are substantially based in the PRC and the Directors consider that the choice of presentation currency would better reflect the Group’s business transactions.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) 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 (the “Listing Rules”). The condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”).

3. PRINCIPAL ACCOUNTING POLICIES

The accounting policies and the methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs and Hong Kong Accounting Standards ("HKASs") issued by the HKICPA:

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27 (2011)	Equity Method in Separate Financial Statements
Annual Improvements 2012-2014	Cycle Amendments to a number of HKFRSs
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

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

4. REVENUE AND SEGMENT INFORMATION

Revenue

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

An analysis of revenue is as follows:

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Sales of paper cigarette packages	195,256	189,374
Sales of social product paper packages	19,664	15,774
	<u>214,920</u>	<u>205,148</u>

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

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

For the six months ended 30 June 2016:	Paper cigarette packages RMB'000 (Unaudited)	Social product paper packages RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Segment revenue	<u>195,256</u>	<u>19,664</u>	<u>214,920</u>
Segment profit	<u>46,461</u>	<u>2,432</u>	<u>48,893</u>
Other income			1,061
Other gains and losses			(342)
Selling and distribution expenses			(13,550)
Administrative and other operating expenses			(26,715)
Finance costs			<u>(6,028)</u>
Profit before tax			<u>3,319</u>
	Paper cigarette packages RMB'000 (Unaudited)	Social product paper packages RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
For the six months ended 30 June 2015:			
Segment revenue	<u>189,374</u>	<u>15,774</u>	<u>205,148</u>
Segment profit	<u>47,910</u>	<u>433</u>	<u>48,343</u>
Other income			2,781
Other gains and losses			2,025
Selling and distribution expenses			(9,536)
Administrative and other operating expenses			(28,169)
Finance costs			<u>(6,976)</u>
Profit before tax			<u>8,468</u>

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 substantially all of 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	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax ("EIT")		
Current tax	1,468	2,658
Deferred tax	1,340	884
	<u>2,808</u>	<u>3,542</u>

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 in the condensed consolidated financial statements as the Group had no assessable profit arising in or derived from Hong Kong for 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 PRC operating subsidiary namely Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司) ("Hubei Golden Three Gorges"), which is qualified as the High and New Technology Enterprise since 16 September 2009, Hubei Golden Three Gorges was entitled to a preferential income tax rate of 15% for the periods from 16 September 2009 to 20 November 2015 and subsequently extended to 28 October 2018.

Upon the New EIT 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 2016 and 2015, deferred taxation has been provided on undistributed earnings attributable to non-PRC tax resident equity holders of the subsidiaries in the PRC.

6. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging/(crediting):		
Staff costs:		
Directors' emoluments	385	364
Other staff costs		
Salaries and other benefits	23,794	20,452
Contributions to retirement benefits scheme, excluding those of Directors	5,508	4,550
	<u>29,687</u>	<u>25,366</u>
Depreciation of property, plant and equipment	10,420	10,056
Gain on disposal of assets classified as held for sale	—	(3,280)
Loss on disposal of property, plant and equipment	330	1,255
Amortisation of prepaid lease payments	291	291
Operating lease rentals in respect of rented premises	961	790
Reversal of impairment loss on trade receivables	(13)	—
Cost of inventories recognised as an expense	<u>166,027</u>	<u>156,805</u>

7. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016 (2015: nil).

On 3 July 2015, the Board has resolved to declare a special dividend of RMB0.13 per share which was payable on 27 July 2015 to shareholders who were on the register at 22 July 2015. This special dividend, amounting to approximately RMB39,000,000 has not been recognised as liability in these condensed consolidated financial statements. It was recognised in the equity attributable to owners of the Company for the year ended 31 December 2015.

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	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(Loss)/earnings:		
(Loss)/earnings for the purpose of basic and diluted		
(loss)/earnings per share (loss)/profit for the period attributable to owners of the Company	<u>(291)</u>	<u>3,724</u>
	Number of shares	Number of shares
	(Unaudited)	(Unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u>300,000,000</u>	<u>300,000,000</u>

For the six months ended 30 June 2016 and 2015, the calculation of the basic (loss)/earnings per share attributable to owners of the Company was based on (i) the (loss)/profit attributable to owners of the Company and (ii) the weighted average number of ordinary shares.

The numerator and denominator used are the same as those detailed above for the computation of both basic and diluted (loss)/earnings per share for both periods as there were no potential ordinary shares outstanding during each of the six months ended 30 June 2016 and 2015 respectively.

9. TRADE AND OTHER RECEIVABLES

	As at 30 June 2016 <i>RMB'000</i> (Unaudited)	As at 31 December 2015 <i>RMB'000</i> (Audited)
Trade receivables	217,310	216,867
Less: allowance for doubtful debts	<u>(33)</u>	<u>(46)</u>
	217,277	216,821
Note receivables	9,790	—
Other receivables	11,177	9,991
Payments in advance	5,107	13,072
Advance to employees	13,313	11,020
Deposit paid for machinery and equipment	3,700	2,907
Prepayments and deposits paid	<u>6,158</u>	<u>8,189</u>
Total trade and other receivables	<u>266,522</u>	<u>262,000</u>

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 150 days from the date of the invoice.

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

	As at 30 June 2016 <i>RMB'000</i> (Unaudited)	As at 31 December 2015 <i>RMB'000</i> (Audited)
0 to 90 days	93,381	171,915
91 to 180 days	86,133	36,334
181 to 360 days	36,285	7,847
Over 360 days	<u>1,478</u>	<u>725</u>
	<u>217,277</u>	<u>216,821</u>

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

	As at 30 June 2016 RMB'000 (Unaudited)	As at 31 December 2015 RMB'000 (Audited)
91 to 180 days	<u>9,790</u>	<u>—</u>

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.

10. TRADE AND OTHER PAYABLES

	As at 30 June 2016 RMB'000 (Unaudited)	As at 31 December 2015 RMB'000 (Audited)
Trade payables	134,004	128,222
Note payables	144,415	205,150
Other payables and accruals	<u>10,454</u>	<u>25,883</u>
Total trade and other payables	<u>288,873</u>	<u>359,255</u>

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

	As at 30 June 2016 <i>RMB'000</i> (Unaudited)	As at 31 December 2015 <i>RMB'000</i> (Audited)
0 to 90 days	58,939	102,548
91 to 180 days	48,171	20,139
181 to 360 days	24,278	4,605
Over 360 days	2,616	930
	<u>134,004</u>	<u>128,222</u>

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

	As at 30 June 2016 <i>RMB'000</i> (Unaudited)	As at 31 December 2015 <i>RMB'000</i> (Audited)
0 to 90 days	113,600	152,100
91 to 180 days	30,815	53,050
	<u>144,415</u>	<u>205,150</u>

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.

Note payables represented bank acceptance notes issued by the Group with maturity of six months, and were secured by a charge over certain pledged assets of the Group.

11. COMMITMENTS

(a) Operating leases — the Group as lessee

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

	As at 30 June 2016 <i>RMB'000</i> (Unaudited)	As at 31 December 2015 <i>RMB'000</i> (Audited)
Within one year	577	89
In the second to fifth years inclusive	<u>384</u>	<u>—</u>
	<u>961</u>	<u>89</u>

Operating lease payments related to office with average lease terms of two years (31 December 2015: average lease term of one year) and the Group does not have an option to purchase the lease assets at the expiry of the lease term.

(b) Capital commitment

	As at 30 June 2016 <i>RMB'000</i> (Unaudited)	As at 31 December 2015 <i>RMB'000</i> (Audited)
Contracted but not provided for:		
— Purchase of property, plant and equipment	<u>5,190</u>	<u>4,814</u>

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

China's GDP grew 6.7% in the first half of 2016, whereas the Chinese National People's Congress approved a full-year growth target of 6.5% to 7.0% for 2016, reflecting steady growth of China's economy. Due to shifts in the market dynamics and policy, tobacco firms generally showed high inventories and low capacity utilization. Meanwhile, the State Tobacco Monopoly Administration (STMA) enforced bigger warnings on cigarette package and industry-wide label reconfiguration which require higher standards of printing and packaging. Considering the above factors, the Company believes that the cigarette packaging industry is undergoing a consolidation process in which strong players such as the Group will benefit from it in the long term.

The new PRC Advertising Law imposed on the sale of tobacco came into effect in the second half of 2015, and a higher tax rate on tobacco sales started in May 2015. However, given the unique characteristics of the consumer group, advertising restrictions pose limited but not substantial impacts on the sales of cigarette. Furthermore, cigarettes are both daily consumer products and gifts, hence advertising restrictions does not lead to significant threats to the sales of cigarette packages.

BUSINESS REVIEW

The Group is principally engaged in the design, printing and distribution of paper cigarette packages in China and, to a lesser extent, social product paper packages in China. Hubei Golden Three Gorges, the Group's primary operating subsidiary, has been established in China for over 20 years. The Group provides paper cigarette packaging services for 15 out of the 30 key cigarette brands designated by the State Tobacco Monopoly Administration (STMA), including, among others, Pride (嬌子), Haomao (好貓) and Double Happiness (雙喜). The Group has also diversified its business to social product paper packages such as medicines, wines, food and other consumer goods by leveraging its extensive experience and know-how in the cigarette packaging industry.

Sales and Distribution

The Group places great emphasis on product design and technology development, striving to enhance its technological competitiveness by leveraging its design and development capabilities. To date, the Group's clients included 10 provincial tobacco industrial companies and 7 non-provincial tobacco companies under China Tobacco Industry Development Center* (中國煙草實業發展中心), which are located in Hubei, Sichuan, Yunnan, Shaanxi, Henan and other provinces. For those existing clients, the Group will strive, by taking advantage of its current status as an approved supplier, to include other cigarette brands or sub-brands manufactured by those clients currently not designed and/or printed by the Group into the Group's product portfolio.

To promote our business strategy, we intend to set up sales offices in cities where these major customers are located if there appears to be significant business potential. Setting up sales offices near our major customers will enable us to maintain a good relationships with them and improve our after-sales service to enhance customer satisfaction.

Product Development and Design

The Group will continue to invest in machinery and equipment to upgrade its production plants and ensure the productivity is up to international standards. The management strives to pursue cutting-edge technology in order to reduce production costs while maintaining or even improving product quality.

Technology Development and Quality Control

The Group attaches high importance on product design and technology development, striving to enhance its technological competitiveness by leveraging its design and development capabilities, and continuing to commit resources to the upgrading of product research and development capabilities. During the period under review, the Group carried out regulated operation in strict compliance with the ISO9000 quality system standards. Equipped with state-of-the-art and comprehensive inspection equipment and devices, the Group has formulated a complete institutional system that covers every single process for its products in terms of the flow, standards, record and appraisal for the quality management of imported materials, processes as well as inspection of finished products and product delivery, which in turn assures the continuous enhancement of product quality.

* *For identification purpose only*

Cost Control

Due to the impact of the current rising prices of paper packaging raw materials in the industry and the Group, in order to keep the fluctuations in the prices of packaging raw materials under effective control, further improved the bidding process by selecting the top-ranking suppliers with strength in the industry during the period under review for carrying out strategic cooperation with the Group to hedge against price fluctuations together.

The Group prepares the budget at the beginning of each year based on the sales forecast, perform evaluation with reference to budget targets, determines standard cost of products based on the actual cost, and formulate applicable procedures and workflows for regulation purposes in order to implement cost control.

FINANCIAL REVIEW

Turnover

For the six months ended 30 June 2016, the turnover of the Group was approximately RMB214.9 million, representing an increase of approximately 4.8% over the same period in 2015, among which sales of paper cigarette packages and social product paper packages increased by approximately 3.1% and 24.7%, respectively. The Group recorded an increase of sales in both paper cigarette packages and social product paper packages during the period. The increase in sales was primarily attributable to the Group's active expansion of market to outer districts of China such as Heilongjiang, Yunnan and Inner Mongolia.

The following table sets forth the breakdown of the Group's sales for the six months ended 30 June 2016:

	For the six months ended 30		
	June		
	2016	2015	Change (%)
	<i>RMB'000</i>	<i>RMB'000</i>	(approximate)
	(Unaudited)	(Unaudited)	
Paper cigarette packages	195,256	189,374	+3.1%
Social product paper packages	19,664	15,774	+24.7%

Gross Profit

The Group's gross profit increased by approximately 1.1% from approximately RMB48.3 million for the six months ended 30 June 2015 to approximately RMB48.9 million for the six months ended 30 June 2016. The Group's gross profit margin decreased by approximately 0.9% from approximately 23.6% to approximately 22.7% as compared with the same period in 2015. The decrease in gross profit margin was due to increase in average labour costs during the period.

Other Income

For the six months ended 30 June 2016, other income mainly consists of interest income on bank deposits and non-recurring government grants. For the six months ended 30 June 2016, the Group's other income decreased by approximately 61.8% to approximately RMB1.1 million. During the six months ended 30 June 2015, the Group recorded a receipt of government grant for the Company's successful listing on the Main Board of the Stock Exchange in year 2014. There were no such income recorded during the six months ended 30 June 2016.

Other Gains and Losses

For the six months ended 30 June 2016, other gains and losses mainly comprise net losses arising from disposal of property, plant and equipment. For the six months ended 30 June 2016, the Group recorded a net losses of approximately RMB0.3 million (for the six months ended 30 June 2015: a net gains of approximately RMB2.0 million). During the six months ended 30 June 2015, the Group recorded a gain on disposal of land of approximately RMB3.3 million (for the six months ended 30 June 2016: Nil).

Selling and Distribution Expenses

For the six months ended 30 June 2016, 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) 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 increased by approximately 42.1% from approximately RMB9.5 million for the six months ended 30 June 2015 to approximately RMB13.6 million for the six months ended 30 June 2016. The increase was mainly due to the increase in transportation costs for delivery of goods to customer because of expansion of market to outer districts of China such as Heilongjiang, Yunnan and Inner Mongolia and increase in volume of goods delivering to remote customers during the six months ended 30 June 2016.

Administrative and Other Operating Expenses

For the six months ended 30 June 2016, administrative and other operating expenses consist of (i) staff costs and benefits relating to our Group's administrative personnel; (ii) travelling expenses of administrative staff; (iii) depreciation expenses; (iv) entertainment expense 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 decreased by approximately 5.2% from approximately RMB28.2 million for the six months ended 30 June 2015 to approximately RMB26.7 million for the six months ended 30 June 2016. The decrease was mainly due to the decrease in research and development expenses, staff benefits and depreciation during the period.

Finance Costs

For the six months ended 30 June 2016, finance costs primarily consist of interest payments on interest-bearing obligations, finance costs arising on early redemption of note receivables when the Group sells 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 13.6% from approximately RMB7.0 million for the six months ended 30 June 2015 to approximately RMB6.0 million for the six months ended 30 June 2016. Such decrease in finance costs was mainly due to the decrease of finance costs arising from early redemption of note receivables during the period.

Income Tax Expense

The Group's income tax expense decreased by approximately 20.7% from approximately RMB3.5 million for the six months ended 30 June 2015 to approximately RMB2.8 million for the six months ended 30 June 2016. The decrease was mainly due to the decrease of PRC Enterprise Income Tax ("EIT") of the PRC subsidiaries of the Company.

Profit/Loss Attributable to Owners of the Company

As a result of the foregoing, the Group recorded a loss attributable to owners of the Company for the six months ended 30 June 2016 of approximately RMB0.3 million as compared to the profit attributable to owners of the Company of approximately RMB3.7 million for the six months ended 30 June 2015.

Trade and Other Receivables

Trade and other receivables increased by approximately 1.7% from approximately RMB262.0 million as at 31 December 2015 to approximately RMB266.5 million as at 30 June 2016.

Trade and Other Payables

Trade and other payables decreased by approximately 19.6% from approximately RMB359.3 million as at 31 December 2015 to approximately RMB288.9 million as at 30 June 2016. The decrease was mainly due to decrease of note payables from approximately RMB205.2 million as at 31 December 2015 to approximately RMB144.4 million as at 30 June 2016.

Liquidity and Financial Resources

The Group recorded net current assets of approximately RMB31.4 million as at 30 June 2016, compared with net current assets of approximately RMB22.5 million as at 31 December 2015. The Group maintained a stable and healthy liquidity position during the six months ended 30 June 2016. The Group's operations were principally financed by internal resources and bank borrowings during the period.

As at 30 June 2016, the Group's cash and cash equivalents, which were held mainly in Renminbi and Hong Kong dollars, were approximately RMB23.0 million, compared with RMB55.2 million as at 31 December 2015.

Borrowings and Gearing Ratio

The Group's interest-bearing borrowings was approximately RMB160.0 million as at 30 June 2016 (as at 31 December 2015: approximately RMB143.5 million). The gearing ratio (defined as total debt divided by total equity) increased from approximately 63.5% as at 31 December 2015 to approximately 70.4% as at 30 June 2016. The increase in gearing ratio was mainly due to the increase of interest-bearing borrowings as at 30 June 2016. The Group's interest-bearing borrowings were mainly denominated in Renminbi as at 30 June 2016 and 31 December 2015.

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 six months ended 30 June 2016, the Group's total capital expenditure amounted to approximately RMB5.0 million (for the six months ended 30 June 2015: RMB23.2 million), which was mainly used in purchase of plant and machineries.

Treasury Policies

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

Charge of Assets

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

	As at 30 June 2016 RMB'000 (Unaudited)	As at 31 December 2015 RMB'000 (Audited)
Prepaid lease payments	21,468	21,759
Property, plant and equipment	139,455	145,830
Trade receivables	135,893	111,087
Pledged bank deposits	84,317	97,000
	<u>381,133</u>	<u>375,676</u>

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

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 2016.

Contingent Liabilities

As at 30 June 2016, the Group did not have any significant contingent liabilities (as at 31 December 2015: Nil).

Foreign Exchange Risks

The Group's transactions were mainly conducted in Renminbi, the functional currency of the Group, and the major receivables and payables are denominated in Renminbi. 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 2016.

Human Resources and Remuneration

As at 30 June 2016, the Group's employed 1,060 employees (as compared with 1,081 employees as at 31 December 2015) with total staff cost of approximately RMB29.7 million incurred for the six months ended 30 June 2016 (as compared with approximately RMB25.4 million for the same period of 2015). The Group's remuneration packages are generally structured with reference to market terms and individual performance.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016 (for the six months ended 30 June 2015: Nil).

Future Outlook

In the future, the Group envisages three growth drivers. Firstly, the sales growth of Yunnan customers for classic cigarette brands such as Yuxi, Hongtashan and Yunyan will drive product supply growth. Secondly, new design such as Yunnan Yuxi (雲南玉溪) and Guizhou Guiyan (貴州貴烟) will bring along substantial contribution to sales growth. Furthermore, the boost in the Group's handmade gift box production capacity and comprehensive capabilities will lead to continuous growth of gift boxes supply.

The Group will pay close attention to industry development trend, foster comprehensive strengths and participate in more open and fair tender processes, with a view to expanding the market. At the same time, given the further consolidation of brands in the tobacco industry and the acceleration of product upgrade, the company will seek to improve its research and development capacity on new products, develop a wide range of new products and expand the market.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Competing Business and Conflicts of Interests

None of the Directors, management, controlling 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 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 six months ended 30 June 2016.

Corporate Governance

Our Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. The Company has complied with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules for the six months ended 30 June 2016.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors’ securities transactions. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the code of conduct and the required standard set out in the Model Code regarding directors’ securities transactions for the six months ended 30 June 2016.

Audit Committee and Review of Interim Results

The Company has an audit committee (the “Audit Committee”) with terms of reference aligned with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules for the 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, namely Mr. Wang Ping (as Chairman), Mr. Zeng Shiquan and one non-executive Director, Mr. Yang Fan.

The interim financial results of the Group for the six months ended 30 June 2016 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 announcement.

The results for the current interim period have been reviewed by our auditors, 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 HKICPA.

By Order of the Board
Jia Yao Holdings Limited
YANG Yoong An
Chairman

Hong Kong, 26 August 2016

As at the date of this announcement, the Board comprises six Directors, namely: Mr. Yang Yoong An and Mr. Feng Bin as executive Directors; Mr. Yang Fan as non-executive Director; Mr. Gong Jinjun, Mr. Zeng Shiquan and Mr. Wang Ping as independent non-executive Directors.

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