



JIA YAO HOLDINGS LIMITED

嘉耀控股有限公司

(Incorporated in the Cayman Islands with Limited Liability)  
Stock Code : 01626

⊕ INTERIM  
REPORT  
2020 ⊕

# CONTENTS

Financial Highlights	2
Corporate Information	3
Chairman's Statement	4
Management Discussion and Analysis	6
Corporate Governance and Other Information	14
Report on Review of Interim Financial Information	18
Condensed Consolidated Statement of Comprehensive Income	19
Condensed Consolidated Balance Sheet	20
Condensed Consolidated Statement of Changes in Equity	22
Condensed Consolidated Statement of Cash Flows	23
Notes to the Condensed Consolidated Interim Financial Information	24

# FINANCIAL HIGHLIGHTS

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 2020 together with the comparative figures for the corresponding period in 2019.

- Revenue for the six months ended 30 June 2020 increased by approximately 1.8% or RMB4.6 million to approximately RMB259.5 million as compared with the corresponding period in 2019.
- Gross profit for the six months ended 30 June 2020 decreased by approximately 41.3% or RMB22.8 million to approximately RMB32.4 million as compared with the corresponding period in 2019.
- Gross profit margin for the six months ended 30 June 2020 decreased by approximately 9.1% from approximately 21.6% to approximately 12.5% as compared with the corresponding period in 2019.
- Loss attributable to owners of the Company decreased from approximately RMB7.8 million for the six months ended 30 June 2019 to approximately RMB6.6 million for the six months ended 30 June 2020.
- Average trade and note receivables turnover days increased from approximately 83 days for the year ended 31 December 2019 to approximately 102 days for the six months ended 30 June 2020.
- Average trade and note payables turnover days decreased from approximately 269 days for the year ended 31 December 2019 to approximately 209 days for the six months ended 30 June 2020.
- Average inventory turnover days decreased from approximately 122 days for the year ended 31 December 2019 to approximately 120 days for the six months ended 30 June 2020.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (for the six months ended 30 June 2019: nil).

*Notes:*

- (i) Gross profit margin was calculated based on gross profit for the period divided by the revenue 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 of the year end/period end divided by the revenue for the year/period and multiplied by the number of days for the year/period (365 days for the year ended 31 December 2019 and 182 days for the six months ended 30 June 2020).
- (iii) Average trade and note payables turnover days were calculated as the average of the beginning and ending of trade and note payables balance of the year end/period end divided by the cost of sales for the year/period and multiplied by the number of days for the year/period (365 days for the year ended 31 December 2019 and 182 days for the six months ended 30 June 2020).
- (iv) Average inventory turnover days were calculated as the average of the beginning and ending of inventories balance of the year end/period end divided by the cost of sales for the year/period and multiplied by the number of days for the year/period (365 days for the year ended 31 December 2019 and 182 days for the six months ended 30 June 2020).

## Board of Directors

### Executive Director

Mr. Yang Yoong An (*Chairman*)

### Non-executive Directors

Mr. Feng Bin  
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

Second Floor, Century Yard, Cricket Square,  
P.O Box 902  
Grand Cayman, KY1-1103  
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. Gong Jinjun  
Mr. Zeng Shiquan

## Remuneration Committee

Mr. Gong Jinjun (*Chairman*)  
Mr. Yang Fan  
Mr. Wang Ping

## Nomination Committee

Mr. Yang Yoong An  
Mr. Zeng Shiquan  
Mr. Gong Jinjun

## Corporate Website

[www.jiayaoholdings.com](http://www.jiayaoholdings.com)

## Authorised Representatives

Mr. Yang Fan  
Mr. Wu Hung Wai

## Principal Bankers

China Merchants Bank Yichang Branch  
Hubei Bank Corporation Yichang Branch

## Principal Share Registrar and Transfer Office

Tricor Services (Cayman Islands) Limited  
Second Floor, Century Yard, Cricket Square,  
P.O Box 902  
Grand Cayman, KY1-1103  
Cayman Islands

## Hong Kong Branch Share Registrar and Transfer Office

Union Registrars Limited  
Suites 3301-04, 33/F  
Two Chinachem Exchange Square  
338 King's Road  
North Point  
Hong Kong

## Legal Adviser as to Hong Kong Laws

Loong & Yeung Solicitors  
Room 1603, 16th Floor, China Buildings  
29 Queen's Road Central  
Central, Hong Kong

## Auditor

PricewaterhouseCoopers  
*Certified Public Accountants and Registered PIE Auditor*  
22/F., Prince's Building  
Central, Hong Kong



# CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I am pleased to present the interim report of the Company for the six months ended 30 June 2020.

In the first half of 2020, Jia Yao continued to be affected by the rapidly evolving market environment. The spread of Coronavirus Disease 2019 (“COVID-19”) pandemic, which resulted in imposition of lockdown measures across different nations, has hindered global economic growth. The suspension of business activities in China also posed tough challenges to manufacturers in the country, and unavoidably, Jia Yao, during the period under review.

In January, the Chinese government imposed a lockdown in Hubei province, where the Group’s headquarters and production facilities are located. Production of the Group was suspended for nearly two months to protect its staff and mitigate the risk of infection. Intense pressure was further aggravated as the structural reform of tobacco industry led to continued consolidation in the industry amid keen competition.

Boosted by the Group’s concerted efforts in maintaining close ties with its clients, together with its advanced technologies in product development, it managed to witness an improvement in its trading business and achieved a stable growth in total revenue. Nevertheless, such growth was overshadowed by the intense competition within the industry and consistently high operating cost, which exerted mounting pressure on the Group’s gross profit and adversely impacted

During the period under review, the management team spared no efforts in ensuring smooth business operations and continuous development. In view of the COVID-19 pandemic in China being extensively contained, the Group has fully resumed its operations since April upon the lifting of lockdown measures so as to catch up on the progress lagged behind during the suspension period. The Group entered into sales agreements and processing agreements with several cigarette production companies, in relation to the provision of processing services for paper cigarette packages. Setting its sights on seizing new market share, the Group began to supply its products to several key cigarette brands and submitted tenders to new customers during the period under review. The Group also made the most of its slack season by arranging internal staff training to enhance productivity and investing in production line through acquiring new machinery and optimizing efficiencies.

Looking ahead, the Group expects the uncertainties on the COVID-19 may darken the outlook of global economic recovery in the near term as markets are still grappling with the resurgence of the pandemic and its economic repercussions. Furthermore, the intense competition and continual structural reform by the central government will continue to reshape the tobacco industry. Amidst difficulties, Jia Yao will take a highly cautious approach towards fortifying its market position and bolstering its relationship with clients. Correspondingly, the Group will hone its product innovation and design capabilities to better meet clients’ expectation of innovation and quality products.

Cost control will remain an integral part of the Group's strategies as the management team will continue to reduce operating expenses, through various measures such as the savings from productivity enhancement, to ensure its resources are best utilized. The Group will also reserve funds to support its turnaround process going forward and invest in new markets, as well as new growth businesses and products. Meanwhile, Jia Yao will continue to invest in production, by acquiring new equipment and increasing automation so as to further raise efficiency and production flexibility.

I would like to express my gratitude for the continued support of all our shareholders, investors, suppliers and customers. As always, our management team and employees will align and leverage all resources available towards maximizing returns for our shareholders.

**Yang Yoong An**

*Chairman of the Board and Executive Director*

Hong Kong, 19 August 2020

# MANAGEMENT DISCUSSION AND ANALYSIS

## Market Review

In the first half of 2020, Coronavirus Disease 2019 (“COVID-19”) pandemic caused an unprecedented decline in business activities, whereby the global economy suffered significant contraction, leading to a demand shock as businesses and households cut back on spending.

In China, the implementation of lockdown measures in early 2020 dealt a heavy blow to the manufacturing sector of the country. According to China’s National Bureau of Statistics, China’s Gross Domestic Product (GDP) shrank by 6.8% year-on-year in the first quarter of 2020 as COVID-19 outbreak crippled economy. Chinese government imposed a complete lockdown in the hardest-hit provinces, including Hubei where the Group’s operations are located, for nearly two months. According to Hubei Provincial Bureau of Statistics, Hubei’s GDP in the first half of 2020 dropped nearly 20% year-on-year. The decline in domestic economy slowed the manufacturing output of tobacco products, thus posting negative impact to the Group’s performance.

Meanwhile, the launch of the “Healthy China 2030” initiative by the Chinese government with structural reform in tobacco industry has caused continual market consolidation and posed challenges for all of its players. The stiff competition arising from the consolidation added pressure to the Group. In response to such tough operating environment, Jia Yao continued to draw on its expertise and reputation in maintaining close ties with its existing clients while seizing business opportunities.

## 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 the PRC. Hubei Golden Three Gorges Printing Industry Co., Ltd\* (湖北金三峡印務有限公司) (“Hubei Golden Three Gorges”), the Group’s primary subsidiary, has been established in China for over 20 years. The Group provides paper cigarette packaging services for key cigarette brands designated by the STMA. The Group has also diversified its business to social product paper packages such as packaging for medicines, wines, food and other consumer goods by leveraging its extensive experience and know-how in the cigarette packaging industry.

The Group strived to seek new business and development opportunities, and launched the international trading operation. The operation established in Xiamen, Fujian Province mainly focused on trading of cell phone accessories in Asia. We believe its promising market potential and long-term return will become a new growth driver for our future profits.

## 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. As at 30 June 2020, the Group’s clients included major provincial tobacco industrial companies and 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 in China. For those existing clients, the Group will strive, by taking advantage of its current status as an approved supplier, to expand to 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 the Group’s business strategy, the Group intends 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 the Group’s major customers will enable the Group to maintain good relationships with them and improve the Group’s after-sales service to enhance customer satisfaction.

\* For identification purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

## 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 its 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 production 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.

## Cost Control

Due to the impact of the current rising prices of raw materials for paper packaging in the industry, in order to keep the fluctuations in the prices of packaging raw materials under effective control, the Group 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, performs evaluation with reference to budget targets, determines standard costs of products based on the actual costs, and formulates applicable procedures and workflows for regulation purposes in order to implement cost control.

## Financial Review

### Turnover

For the six months ended 30 June 2020, the turnover of the Group was approximately RMB259.5 million, representing an increase of approximately 1.8% over the corresponding period in 2019. Revenue from paper cigarette packages segment, social product paper packages segment and trading goods segment accounted for approximately 76.2%, 0.7% and 23.1%, respectively. Due to the pandemic outbreak in China and the factory has been stopped operation at most of the time in the first quarter of the year, the Group's sales from paper cigarette packages segment decreased by approximately 18.5% to RMB197.8 million and social product paper packages segment decreased by approximately 64.6% to RMB1.9 million. The Group kept expending its trading goods segment and the Group's sales from trading goods segment increased by approximately 749.1% to RMB59.9 million.

The following table sets forth the breakdown of the Group's sales for the six months ended 30 June 2020:

	For the six months ended 30 June		
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)	Change (%) (approximate)
Paper cigarette packages segment	197,750	242,527	-18.5%
Social product paper packages segment	1,860	5,254	-64.6%
Trading goods segment	59,869	7,051	+749.1%



# MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

## Gross Profit

The Group's gross profit decreased by approximately 41.3% from approximately RMB55.2 million for the six months ended 30 June 2019 to approximately RMB32.4 million for the six months ended 30 June 2020. The Group's gross profit margin decreased by approximately 9.1% from approximately 21.6% to approximately 12.5% as compared with the corresponding period in 2019. The decrease in gross profit margin was primarily due to the decrease of sales from the most profitable business of paper cigarette packages of the Group by approximately 18.5% during pandemic outbreak in China in the first quarter of the year and decrease in average product price to major customers in Yunan, Henan and Heilongjiang markets during the period under review.

## Distribution Costs

For the six months ended 30 June 2020, distribution costs comprise: (i) delivery expenses for the transportation of the Group's products to customers; (ii) staff costs and benefits relating to the Group's sales and marketing personnel; (iii) expenses incurred in customer hospitality activities during the Group's normal course of business; (iv) travelling expenses of the staff incurred for the sales and distribution activities; (v) administrative expenses; and (vi) other selling and distribution related expenses. The Group's distribution costs decreased by approximately 49.7% from approximately RMB23.3 million for the six months ended 30 June 2019 to approximately RMB11.7 million for the six months ended 30 June 2020. The decrease of distribution costs was mainly due to the decrease of marketing and business travelling expenses during the pandemic outbreak in China in the first quarter of the year.

## Administrative Expenses

For the six months ended 30 June 2020, administrative expenses consist of (i) staff costs and benefits relating to the Group's administrative personnel; (ii) travelling expenses of administrative staff; (iii) depreciation expenses; (iv) entertainment expenses of administrative staff; (v) research and development expenses; (vi) office expenses; (vii) regulatory expenses; and (viii) other expenses incurred in relation to the Group's administrative operations. The expenses decreased by approximately 21.6% from approximately RMB33.6 million for the six months ended 30 June 2019 to approximately RMB26.3 million for the six months ended 30 June 2020. The decrease of administrative expenses was mainly due to the decrease of research and development costs and staff costs during the pandemic outbreak in China in the first quarter of the year.

## Other Income

For the six months ended 30 June 2020, other income consists of non-recurring government grant. The Group's other income decreased by approximately RMB1.3 million to approximately RMB1.5 million during the period under review due to the decrease of government grant during the period under review.

## Other Losses

For the six months ended 30 June 2020, other losses mainly consists of losses on disposal of raw materials. The Group's other losses decreased by approximately RMB3.9 million to approximately RMB3.7 million during the period under review. The decrease of other losses mainly due to the recognition of change in fair value of financial liability at fair value through profit or loss for the six months ended 30 June 2019 (30 June 2020: nil).

## Finance Costs, net

For the six months ended 30 June 2020, net finance costs primarily consist of interest income on bank deposits, interest payments on interest-bearing obligations. The net finance costs decreased by approximately 50.1% from approximately RMB1.8 million for the six months ended 30 June 2019 to approximately RMB0.9 million for the six months ended 30 June 2020. The decrease of net finance costs was mainly due to the decrease of interest expenses of bank borrowings during the period under review.

## Income Tax Credit

The Group's income tax credit increased by approximately RMB1.4 million from approximately RMB0.5 million for the six months ended 30 June 2019 to approximately RMB1.9 million for the six months ended 30 June 2020 mainly due to the increase of net loss incurred by a PRC subsidiary during the period under review.

## Loss Attributable to Owners of the Company

As a result of the foregoing, the Group's loss attributable to owners of the Company decreased by approximately 15.5% from approximately RMB7.8 million for the six months ended 30 June 2019 to approximately RMB6.6 million for the six months ended 30 June 2020.

## Trade and Other Receivables

Trade and other receivables increased by approximately 6.2% from approximately RMB153.4 million as at 31 December 2019 to approximately RMB162.8 million as at 30 June 2020. The increase was mainly due to the increase of notes receivables from approximately RMB8.4 million as at 31 December 2019 to approximately RMB17.1 million as at 30 June 2020.

## Trade and Other Payables

Trade and other payables decreased by approximately 29.4% from approximately RMB325.5 million as at 31 December 2019 to approximately RMB229.9 million as at 30 June 2020. The decrease was mainly due to the net effect of: (1) increase of trade payables from approximately RMB137.7 million as at 31 December 2019 to approximately RMB147.3 million as at 30 June 2020; and (2) decrease of notes payables from approximately RMB168.0 million as at 31 December 2019 to approximately RMB69.6 million as at 30 June 2020.

## Liquidity And Financial Resources

The Group recorded net current assets of approximately RMB73.6 million as at 30 June 2020, compared with net current assets of approximately RMB78.1 million as at 31 December 2019. The Group maintained a healthy liquidity position during the six months ended 30 June 2020. The Group's operations were principally financed by internal resources and interest-bearing borrowings during the period under review.

As at 30 June 2020, the Group's cash and cash equivalents, which were held mainly in Renminbi and Hong Kong dollars, were approximately RMB62.5 million, compared with approximately RMB75.9 million as at 31 December 2019.

# MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

## Borrowings and Gearing Ratio

The Group's interest-bearing borrowings were approximately RMB120.0 million as at 30 June 2020 (as at 31 December 2019: approximately RMB55.0 million). The Group's interest-bearing borrowings were mainly denominated in Renminbi as at 30 June 2020 and 31 December 2019. The Group's interest-bearing borrowings was repayable within one year. This ratio is calculated as net debt divided by total capital. The gearing ratios are as follows:

	<b>As at 30 June 2020 RMB'000 (Unaudited)</b>	As at 31 December 2019 RMB'000 (Audited)
Total borrowings	<b>120,000</b>	55,000
Less: cash and cash equivalents	<b>(62,450)</b>	(75,899)
Net debt	<b>57,550</b>	(20,899)
Total equity	<b>252,257</b>	259,770
Total capital	<b>309,807</b>	238,871
Gearing ratio (%)	<b>18.6%</b>	Not applicable

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

## Capital Expenditure

During the six months ended 30 June 2020, the Group's total capital expenditure amounted to approximately RMB2.4 million (for the six months ended 30 June 2019: RMB1.4 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.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### 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):

	<b>As at 30 June 2020 RMB'000 (Unaudited)</b>	As at 31 December 2019 RMB'000 (Audited)
Right-of-use assets	18,972	5,343
Property, plant and equipment	96,379	19,410
Trade receivables	63,814	73,311
Pledged bank deposits	50,108	84,300
	<b>229,273</b>	182,364

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

There are no significant investments, material acquisition and disposal of subsidiaries and associated companies by the Group for the six months ended 30 June 2020.

### Contingent Liabilities

As at 30 June 2020, the Group did not have any significant contingent liabilities (as at 31 December 2019: nil).

### Foreign Exchange Risks

The Group's transactions were mainly conducted in Renminbi, and the major receivables and payables are denominated in Renminbi. Following the launch of international trading operation in 2019, the Group has a relatively small exposure in US dollar.

The Group's exposure to foreign currency risk related primarily to certain bank balances and cash, trade and other receivables and trade and other payables maintained in Hong Kong Dollars and US 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 2020. However, the Directors will continue to monitor foreign exchange risks and will take prudent measure to minimise the same. The Group will consider hedging significant foreign currencies when the need arises.

## Placing Of Convertible Notes

On 15 September 2017, the Company entered into the placing agreement (the “Placing Agreement”) with First Shanghai Securities Limited (the “Placing Agent”) pursuant to which the Company conditionally agreed to issue, and the Placing Agent conditionally agreed to procure placees (the “Placees” and each a “Placee”), on a best efforts basis, to subscribe for convertible notes with the principal amount of up to HK\$120,000,000 (the “Convertible Notes”) at a consideration equal to the aggregate principal amount of the Convertible Notes, and at the initial conversion price of HK\$2.00 to HK\$2.10 per Share (the “Placing”). The initial conversion price was subsequently agreed by the Company and the Placing Agent to be HK\$2.025 per Share pursuant to the Placing Agreement (the “Conversion Price”).

Completion of the placing of Convertible Notes took place on 18 October 2017 pursuant to which the Convertible Notes in the principal amount of HK\$120,000,000 were issued to not less than six Placees. To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, each Placee and its ultimate beneficial owners is Independent Third Parties. The net proceeds from the Placing, after the deduction of related expenses, were approximately HK\$117.0 million. The net proceeds from the Placing were intended to be used as to approximately not more than 20% for general working capital of the Group, and as to approximately not less than 80% for the Group’s development purposes in order to expand into new areas including asset management and hospitality related businesses. Further details of the placing of the Convertible Notes are as set out in the announcements of the Company dated 17 September 2017, 26 September 2017, 4 October 2017 and 18 October 2017.

As disclosed in the announcement of the Company dated 23 April 2019, the net proceeds from the placing of the Convertible Notes of approximately HK\$17.3 million had been applied by the Group as general working capital of the Group as of 23 April 2019. The remaining proceeds in the amount of approximately HK\$99.7 million remain unutilised (the “Unutilised Proceeds”) as of 23 April 2019. In light of the contemplated expansion into new business area of trading and related investment, the Board has resolved to reallocate the use of the Unutilised Proceeds such that approximately 80% of which would be used for expansion into new business area of trading and related investment while the remaining 20% would continue to be used for general working capital of the Group.

The Convertible Notes matured on 17 October 2019. The Company has redeemed all the Convertible Notes in the total amount of HK\$120,000,000. Immediately prior to the redemption of the Convertible Notes, approximately HK\$3.0 million had been applied for expansion into our trading goods segment and approximately HK\$21.1 million had been applied as general working capital. The remaining balance of approximately HK\$92.9 million had been fully utilized for redemption of the Convertible Notes.

## Human Resources And Remuneration

As at 30 June 2020, the Group employed 525 employees (as compared with 570 employees as at 31 December 2019) with total staff cost of approximately RMB24.3 million incurred for the six months ended 30 June 2020 (as compared with approximately RMB35.5 million for the same period of 2019). The Group’s remuneration packages are generally structured with reference to market terms and individual performance. The Company adopted a share option scheme as incentive to its Directors and eligible employees. In relation to staff training, the Group also provides different types of programs for staff to improve their skills, develop their respective expertise and showcase their potentials.

## Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (for the six months ended 30 June 2019: nil).

## Future Outlook

The COVID-19 outbreak has become a global issue curtailing business activities worldwide. Uncertainties on the pandemic cast doubts on economic recovery. Although the pandemic outbreak in China was largely under control within its borders in the second quarter of the year and manufacturing activities has resumed growth as nationwide lockdowns has been eased by the government, the Group expects the tobacco industry of the country will take a longer time to revive.

Watchful of the volatility ahead, Jia Yao is cautious on the business outlook for the second half of the year and will be extra vigilant. Currently, the Group's top priority is to sustain its competitive strength by continuously monitoring costs and cash level while streamlining work processes in order to maintain its operational and cost efficiency.

Given the increasing commitment from the Chinese government to reducing cigarette consumption, designs of cigarette package has become more important for cigarette brands to attract consumers and increasing sales. The Group will continue to devote tremendous efforts in product development and shift its product mix towards middle to high-end cigarette packages, turning them into a major source of revenue. The Group will also sharpen its competitive edge in new product design and printing, while exploring new markets to fortify its leading position in the cigarette packaging industry.

Despite the immense challenges that the Group is confronted with, the management will spare no effort to seize greater market share through tightening close, long-standing relationship with existing customers and enticing new clients, developing new products to keep up with market trends by leveraging Jia Yao's highly experienced team.

Capitalizing on the Group's proven track record and established reputation in the industry, the Group is also honing its capability to tender more new projects with its strategic bidding approach to ensure steady business growth. The Group will continue to engage effective development strategies, and explore more opportunities from different areas including but not limited to international trading services and innovative cigarette products. In particular, the management has seen the rise in demand for innovative cigarette products recently and foresees a favorable trend in overseas cigarette market in the future.

While the Group's business is on track for a gradual recovery, the management believes the foundation of Jia Yao remain sound. The Group will continue to devise effective business strategies and explore business opportunities ahead. The Group is confident that, with the concerted effort of its management and entire staff, Jia Yao will maintain its market leadership and create long-term value for shareholders.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## 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 2020, 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 its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Cap. 571 of the laws of Hong Kong (the "SFO")) which have been notified to the Company and The Stock Exchange of Hong Kong Limited (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 (the "Model Code") in the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, notified to the Company and the Stock Exchange were as follows:

### (i) Long positions in the shares of the Company (the "Shares")

Name	Capacity/Nature of interest	No. of ordinary shares held	Approximate percentage of shareholding (Note 3)
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 positions in the ordinary shares of associated corporation

Name	Name of associated corporation	Capacity/Nature of interest	No. of ordinary shares held	Approximate percentage of shareholding
Mr. Yang	Spearhead Leader Limited ("Spearhead Leader")	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 of the Company held by Spearhead Leader for the purpose of the SFO. Mr. Yang is the sole director of Spearhead Leader.
2. Mr. Feng beneficially owns the entire issued share capital of Star Glide Limited. Therefore, Mr. Feng is deemed, or taken to be, interested in 15,638,000 Shares held by Star Glide Limited for the purpose of the SFO. Mr. Feng is the sole director of Star Glide Limited.
3. Calculated on the basis of 300,000,000 Shares in issue as at 30 June 2020.

### Interests of Substantial Shareholders in Shares and Underlying Shares of the Company

So far as is known to the Directors, as at 30 June 2020, the following persons (not being a Director or chief executive of the Company) had interests or short positions in shares, underlying shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the SFO) 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	Approximate percentage of shareholding (note 3)
Spearhead Leader	Beneficial owner	209,362,000	69.79%
Star Glide Limited	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:*

- 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.
- Ms. Zhao is the spouse of Mr. Feng. Accordingly Ms. Zhao is deemed, or taken to be, interested in all shares of the Company in which Mr. Feng is interested in for the purpose of the SFO.
- Calculated on the basis of 300,000,000 Shares in issue as at 30 June 2020.



Save as disclosed above, as at 30 June 2020, 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 and the Stock Exchange 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 Scheme

The Company adopted a share option scheme (the "Share Option Scheme") pursuant to a shareholders' resolution passed on 6 June 2014. The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or services providers of the Group and to promote the success of the business of the Group. The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 30,000,000 shares, being 10% of the shares of the Company in issue on the listing date of the Company (ie. 27 June 2014), 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 shareholder, 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 subscription price of share in respect of options granted under the Share Option Scheme shall be solely determined by the Board, 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 a share of the Company.

The Share Option Scheme will remain in force for a period of ten years commencing on the adoption date (i.e. 6 June 2014) and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof unless terminated earlier by the Shareholders in general meeting.

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

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company throughout the six months ended 30 June 2020.

## Corporate Governance

The Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. The Company has adopted the Corporate Governance Code contained in Appendix 14 the Listing Rules (the “Corporate Governance Code”) as its own code on corporate governance and had complied with the Corporate Governance Code for the six months ended 30 June 2020.

## Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors’ securities transactions. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the code of conduct and the required standard set out in the Model Code regarding directors’ securities transactions for the six months ended 30 June 2020.

## Audit Committee and Review of Interim Results

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

The interim financial results of the Group for the six months ended 30 June 2020 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 the auditor of the Company, PricewaterhouseCoopers, 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.

## Changes of Information of Directors

There is no change in Directors’ information that is required to be disclosed in accordance with Rule 13.51B(1) of the Listing Rules since the publication of the annual report for the year ended 31 December 2019 of the Company and up to the date of this report.

# REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

**To the Board of Directors of Jia Yao Holdings Limited**  
*(incorporated in the Cayman Islands with limited liability)*

## Introduction

We have reviewed the interim financial information set out on pages 19 to 38, which comprises the interim condensed consolidated balance sheet of Jia Yao Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2020 and the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other 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” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information 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 interim financial information 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 interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 19 August 2020

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Note	Six Months ended 30 June	
		2020 Unaudited RMB'000	2019 Unaudited RMB'000
Revenue	5	259,479	254,832
Cost of sales	8	(227,097)	(199,677)
<b>Gross profit</b>		<b>32,382</b>	55,155
Distribution costs	8	(11,733)	(23,313)
Administrative expenses	8	(26,324)	(33,572)
Net impairment losses on financial assets		(600)	(223)
Other income	6	1,472	2,817
Other losses	7	(3,738)	(7,603)
<b>Operating loss</b>		<b>(8,541)</b>	(6,739)
Finance income		835	810
Finance costs		(1,710)	(2,562)
Finance costs, net		(875)	(1,752)
<b>Loss before income tax</b>		<b>(9,416)</b>	(8,491)
Income tax credit	9	1,889	480
<b>Loss for the period</b>		<b>(7,527)</b>	(8,011)
<b>Loss attributable to:</b>			
— Owners of the Company		(6,621)	(7,836)
— Non-controlling interests		(906)	(175)
<b>Loss for the period</b>		<b>(7,527)</b>	(8,011)
<b>Other comprehensive income</b>			
Currency translation differences		14	(339)
<b>Other comprehensive income, net of tax</b>		<b>14</b>	(339)
<b>Total comprehensive loss for the period</b>		<b>(7,513)</b>	(8,350)
<b>Total comprehensive loss for the period attributable to:</b>			
— Owners of the Company		(6,607)	(8,175)
— Non-controlling interests		(906)	(175)
<b>Total comprehensive loss for the period</b>		<b>(7,513)</b>	(8,350)
<b>Loss per share from operations attributable to owners of the Company</b>			
— Loss per share	10	(0.022)	(0.026)
— Diluted loss per share	10	(0.022)	(0.026)

The notes on pages 24 to 38 are an integral part of these condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2020

	<i>Note</i>	<b>As at 30 June 2020 Unaudited RMB'000</b>	As at 31 December 2019 Audited RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Right-of-use Assets	12	49,017	49,904
Investment properties	12	9,535	9,959
Property, plant and equipment	12	110,392	114,988
Prepayment for property, plant and equipment	13	2,975	2,246
Deferred income tax assets		7,264	5,375
		<b>179,183</b>	182,472
<b>Current assets</b>			
Inventories	15	150,727	148,275
Trade and other receivables	14	162,827	153,377
Restricted cash	16	50,108	84,300
Cash and cash equivalents	16	62,450	75,899
		<b>426,112</b>	461,851
<b>Total assets</b>		<b>605,295</b>	644,323
<b>EQUITY</b>			
<b>Equity attributable to the owners of the Company</b>			
Share capital	17	2,382	2,382
Other reserves		169,536	169,522
Retained profits		33,925	40,546
		<b>205,843</b>	212,450
Non-controlling interests		46,414	47,320
<b>Total equity</b>		<b>252,257</b>	259,770

# CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

As at 30 June 2020

	<i>Note</i>	<b>As at 30 June 2020 Unaudited RMB'000</b>	As at 31 December 2019 Audited RMB'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Lease liabilities, non-current		491	832
		<b>491</b>	832
<b>Current liabilities</b>			
Trade and other payables	19	229,929	325,450
Income tax payable		1,850	2,518
Borrowings	18	120,000	55,000
Lease liabilities, current		768	753
		<b>352,547</b>	383,721
<b>Total liabilities</b>		<b>353,038</b>	384,553
<b>Total equity and liabilities</b>		<b>605,295</b>	644,323

The notes on pages 24 to 38 are an integral part of these condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Unaudited					
	Attributable to the owners of the Company				Non-controlling interests	Total equity
	Share capital	Other reserves	Retained profits	Total		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>Six months ended 30 June 2020</b>						
Balance at 1 January 2020	2,382	169,522	40,546	212,450	47,320	259,770
Loss for the period	-	-	(6,621)	(6,621)	(906)	(7,527)
Other comprehensive loss	-	14	-	14	-	14
<b>Balance at 30 June 2020</b>	<b>2,382</b>	<b>169,536</b>	<b>33,925</b>	<b>205,843</b>	<b>46,414</b>	<b>252,257</b>
<b>Six months ended 30 June 2019</b>						
Balance at 1 January 2019	2,382	168,950	38,050	209,382	44,092	253,474
Loss for the period	-	-	(7,836)	(7,836)	(175)	(8,011)
Other comprehensive loss	-	(339)	-	(339)	-	(339)
<b>Balance at 30 June 2019</b>	<b>2,382</b>	<b>168,611</b>	<b>30,214</b>	<b>201,207</b>	<b>43,917</b>	<b>245,124</b>

The notes on pages 24 to 38 are an integral part of these condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Note	Six Months ended 30 June	
		2020 Unaudited RMB'000	2019 Unaudited RMB'000
<b>Cash flows from operating activities</b>			
Cash used in from operations		(108,504)	(78,929)
Interest received		836	810
Interest paid		(1,630)	(2,408)
Income tax paid		(668)	(2,571)
Net cash used in operating activities		(109,966)	(83,098)
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(2,388)	(1,363)
Proceeds from disposal of property, plant and equipment		1	1
Net cash used in investing activities		(2,387)	(1,362)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		120,000	87,000
Repayments of borrowings		(55,000)	(97,000)
Repayments of lease liabilities		(345)	(230)
Changes in restricted cash pledged for notes payable		34,192	3,605
Net cash generated from/(used in) financing activities		98,847	(6,625)
<b>Net decrease in cash and cash equivalents</b>			
Effect of foreign exchange rate changes		57	2,454
Cash and cash equivalents at beginning of the period		75,899	212,527
<b>Cash and cash equivalents at end of the period</b>	16	<b>62,450</b>	123,896

The notes on pages 24 to 38 are an integral part of these condensed consolidated interim financial information.



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2020

## 1 General information

Jia Yao Holdings Limited (the “Company”) was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 5 August 2013.

The Company and its subsidiaries (together, the “Group”) are engaged in the design, printing and sales of paper cigarette packages and social product paper packages in Hubei Province, the People’s Republic of China (the “PRC”) and trading goods including mainboard of cell phones.

The Company’s registered office is located at Second Floor, Century Yard, Cricket Square, P.O Box 902, Grand Cayman, KY1-1103, Cayman Islands, and the address of the principal place of business is No. 6 Qingdao Road, Dongshan Economic Developing District, Yichang, Hubei Province, the PRC.

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

This condensed consolidated interim financial information is presented in Renminbi, (“RMB”), rounded to the nearest thousand, unless otherwise stated. This condensed consolidated interim financial information set out on pages 19 to 38 has been approved for issue by the Company’s board of directors (the “Board”) on 19 August 2020.

This condensed consolidated interim financial information has not been audited.

## 2 Basis of preparation and Significant accounting policies

This condensed consolidated interim financial information for the six months ended 30 June 2020 has been prepared in accordance with HKAS 34, ‘Interim financial reporting’.

This condensed consolidated interim financial information have been prepared on an accrual basis and under the historical cost convention except for certain financial instrument that have been measured at fair value.

The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2019, and any public announcements made by the Group during the interim reporting period.

Except as described below, the Group’s accounting policies applied in preparing the condensed consolidated interim financial information are consistent with those policies applied in preparing the 2019 annual consolidated financial statements.

## 2 Basis of preparation and Significant accounting policies (Continued)

### 2.1 Standards, amendments and interpretations effective in 2020

On 1 January 2020, the Group adopted the following new standards, amendments and interpretations. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

HKAS 1 and HKAS 8 (Amendments)	Definition of Material
HKFRS 3 (Amendments)	Definition of a Business
Revised Conceptual Framework for Financial Reporting	Conceptual Framework for Financial Reporting
HKFRS 9, HKAS 39 and HKFRS 7 (Amendments)	Interest Rate Benchmark Reform

The adoption of new and amended standards and interpretations did not have any material impact on the condensed consolidated interim financial information of the Group.

### 2.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2020

The following new standards and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2020 and have not been early adopted:

Standards	Key requirements	Effective for annual periods beginning on or after
HKFRS 17	Insurance Contracts	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The above new standards, amendments to existing standards and interpretations are effective for annual periods beginning on or after 1 January 2023 and have not been applied in preparing this condensed consolidated interim financial information. The impact of new standards and amendments to standards and interpretations above is still under assessment by the Group.

## 3 Estimates

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended 31 December 2019.

## 4 Financial risk management and financial instruments

### 4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2019.

There have been no changes in the risk management policies since year end.

### 4.2 Liquidity risk

Compared to 2019 year end, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

## 5 Segment information

### (a) Description of segments and principal activities

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

Paper cigarette packages	—	design, printing and sale of paper cigarette packages
Social product paper packages	—	design, printing and sale of social product paper packages (including packages for alcohol, medicines and food)
Trading goods	—	trade sales of goods including mainboards of cell phones

### (b) Segment revenue

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties is measured in the same way as in the condensed consolidated statement of comprehensive income.

**5 Segment information** (Continued)**(b) Segment revenue** (Continued)

The segment results for the six months ended 30 June 2020:

	Six Months ended 30 June 2020			
	Paper cigarette packages Unaudited RMB'000	Social product paper packages Unaudited RMB'000	Trading goods Unaudited RMB'000	Total Unaudited RMB'000
Revenue	197,750	1,860	59,869	259,479
Gross profit	30,808	17	1,557	32,382
Distribution costs	(11,369)	(364)	-	(11,733)
Segment results	19,439	(347)	1,557	20,649
Administrative expenses				(26,324)
Net impairment losses on financial assets				(600)
Other income				1,472
Other losses				(3,738)
Finance costs, net				(875)
Loss before income tax				(9,416)

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

## 5 Segment information (Continued)

### (b) Segment revenue (Continued)

The segment results for the six months ended 30 June 2019:

	Six Months ended 30 June 2019			Total Unaudited RMB'000
	Paper cigarette packages Unaudited RMB'000	Social product paper packages Unaudited RMB'000	Trading goods Unaudited RMB'000	
Revenue	242,527	5,254	7,051	254,832
Gross profit/(loss)	56,105	(1,129)	179	55,155
Distribution costs	(22,562)	(751)	-	(23,313)
Segment results	33,543	(1,880)	179	31,842
Administrative expenses				(33,572)
Net impairment losses on financial assets				(223)
Other income				2,817
Other losses				(7,603)
Finance costs, net				(1,752)
Loss before income tax				(8,491)

## 5 Segment information (Continued)

### (c) Segment assets by location

The total of non-current assets other than financial instruments and deferred tax assets, broken down by location of the assets, is shown as follows:

	<b>As at 30 June 2020 Unaudited RMB'000</b>	As at 31 December 2019 Audited RMB'000
Mainland China	171,919	177,097
Hong Kong	-	-
	<b>171,919</b>	177,097

## 6 Other income

	<b>Six Months ended 30 June 2020 Unaudited RMB'000</b>	2019 Unaudited RMB'000
Government grants	1,472	2,817

## 7 Other losses

	<b>Six Months ended 30 June 2020 Unaudited RMB'000</b>	2019 Unaudited RMB'000
Loss on disposal of property, plant and equipment	173	323
Loss on disposal of raw materials	3,131	4,147
Change in fair value of financial liability at fair value through profit or loss	-	3,133
Others	434	-
	<b>3,738</b>	7,603

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

## 8 Expenses by nature

	Six Months ended 30 June	
	2020 Unaudited RMB'000	2019 Unaudited RMB'000
Operating loss for the period has been arrived at after charging:		
Staff costs:		
Wages and salaries (excluding directors' emoluments)	21,849	32,152
Directors' emoluments	789	510
Welfare, medical and other expenses	1,684	2,803
	24,322	35,465
Cost of inventories	213,090	178,622
Depreciation of property, plant and equipment	6,076	7,058
Transportation cost	6,409	8,841
Energy and water expense	4,324	4,890
Social entertainment expense	3,778	11,418
Real estate tax, stamp duties and other taxes	964	2,232
Professional service expense	543	1,614
Office expense	1,326	1,807
Operating lease rentals in respect of rented premises	835	903
Auditor's remuneration	665	765
Amortisation of right-of-use assets	887	869
Other operating expenses	1,935	2,078
	240,832	221,097
Total expense and losses	265,154	256,562

## 9 Income tax credit

	Six Months ended 30 June	
	2020 Unaudited RMB'000	2019 Unaudited RMB'000
Current income tax		
— PRC corporate income tax (i)	—	—
Deferred income tax		
— Deferred tax assets	1,889	480
Income tax credit	1,889	480

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

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

The subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at the rate of 16.5% (2019: 16.5%). Hong Kong profits tax has not been provided as these subsidiaries did not have estimated assessable profit for the year (2019: none).

Hubei Golden Three Gorges Printing Industry Co., Ltd.\* (湖北金三峡印務有限公司) ("Hubei Golden Three Gorges") has been qualified as a High New Tech Enterprises according to the Corporate Income Tax Law of the PRC and subject to a reduced corporate income tax ("CIT") rate of 15% in 2020 (2019: 15%).

The remaining subsidiaries established in the PRC are subject to the PRC CIT rate of 25% (2019: 25%).

### (ii) PRC withholding income tax

Under relevant tax laws and regulations, dividends distributed from the Company's subsidiaries established in the PRC (the "PRC subsidiaries") to non-PRC tax resident Group entities shall be subject to the withholding income tax at 10%. The Group plans to use the unremitted earnings of the PRC subsidiaries up to 30 June 2020 and 2019 for reinvestment. No PRC withholding income tax was provided for unremitted earnings of the PRC subsidiaries as at 30 June 2020 and 2019.

## 10 Loss per share

### (a) Basic loss per share

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

	Six Months ended 30 June	
	2020 Unaudited	2019 Unaudited
Loss attributable to the owners of the Company (RMB'000)	(6,621)	(7,836)
Weighted average number of ordinary shares in issue ('000)	300,000	300,000
Basic loss per share (RMB)	(0.022)	(0.026)

\* for identification purpose only



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

## 10 Loss per share (Continued)

### (b) Diluted loss per share

Diluted loss per share for the six months end 30 June 2020 is the same as the basic loss per share.

## 11 Dividend

The Board of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: none).

## 12 Property, plant and equipment, right-of-use assets and investment properties

	Property, plant and equipment RMB'000	Right-of-use assets RMB'000	Investment properties RMB'000
<b>Six months ended 30 June 2020 (unaudited)</b>			
<b>Net book value</b>	<b>114,988</b>	<b>49,904</b>	<b>9,959</b>
<b>Opening net book amount as at 1 January 2020</b>			
Additions	1,659	-	-
Disposals	(179)	-	-
Depreciation and amortisation	(6,076)	(887)	(424)
<b>Closing net book amount as at 30 June 2020</b>	<b>110,392</b>	<b>49,017</b>	<b>9,535</b>
<b>Six months ended 30 June 2019 (unaudited)</b>			
<b>Net book value</b>			
<b>Opening net book amount as at 1 January 2019</b>	130,358	20,883	-
Additions	3,564	38,465	-
Disposals	(2,759)	-	-
Depreciation and amortisation	(7,058)	(869)	-
<b>Closing net book amount as at 30 June 2019</b>	<b>124,105</b>	<b>58,479</b>	<b>-</b>

As at 30 June 2020, right-of-use assets and plant and equipment with net book value of RMB115,351,000 (31 December 2019: RMB24,753,000) (Note 20) have been pledged as securities for the Group's bank borrowings of RMB120,000,000 (31 December 2019: RMB55,000,000) (Note 18).

## 13 Prepayment for property, plant and equipment

Prepayment for property, plant and equipment represents the prepayments for production equipment.

## 14 Trade and other receivables

### (a) Trade and other receivables

	<b>As at 30 June 2020 Unaudited RMB'000</b>	As at 31 December 2019 Audited RMB'000
Trade receivables	133,896	133,481
Less: allowance for doubtful debts	(864)	(264)
	<b>133,032</b>	133,217
Notes receivables	17,070	8,377
Deposits paid	6,034	6,517
Advance to employees	2,962	3,028
Payments in advance	3,666	2,194
Others	63	44
	<b>29,795</b>	20,160
Total of trade and other receivables	<b>162,827</b>	153,377

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

	<b>As at 30 June 2020 Unaudited RMB'000</b>	As at 31 December 2019 Audited RMB'000
0 to 90 days	94,751	132,241
91 to 180 days	38,199	953
181 to 360 days	790	153
Over 360 days	156	134
	<b>133,896</b>	133,481

### (b) Trade receivables pledged

As at 30 June 2020, trade receivables amounting to RMB63,814,000 (31 December 2019: RMB73,311,000) (Note 20) have been pledged as securities for the Group's bank borrowings of RMB120,000,000 (31 December 2019: RMB55,000,000) (Note 18).

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

## 15 Inventories

	<b>As at 30 June 2020 Unaudited RMB'000</b>	As at 31 December 2019 Audited RMB'000
Raw materials and packaging materials	40,476	47,757
Finished goods	104,248	91,613
Work in progress	6,003	9,675
Provision for Inventories	-	(770)
	<b>150,727</b>	148,275

## 16 Cash and cash equivalents and restricted cash

	<b>As at 30 June 2020 Unaudited RMB'000</b>	As at 31 December 2019 Audited RMB'000
Cash at bank and on hand	112,558	160,199
Less: restricted cash	(50,108)	(84,300)
Cash and cash equivalents	<b>62,450</b>	75,899

As at 30 June 2020, Hubei Golden Three Corges, a subsidiary of the Group, pledged deposits of RMB50,108,000 (31 December 2019: RMB84,300,000) at bank as collateral for issuance of notes payable (Note 20).

## 17 Share capital

Ordinary shares, issued and fully paid:

	<b>Number of shares</b>	<b>Share capital</b>	
		<b>HKD'000</b>	<b>RMB'000</b>
<b>Authorised:</b>			
Ordinary shares of HK\$0.01 each			
As at 31 December 2019 and 30 June 2020	2,000,000,000	20,000	15,880
<b>Issued and fully paid:</b>			
Ordinary shares of HK\$0.01 each			
As at 31 December 2019 and 30 June 2020	300,000,000	3,000	2,382

## 18 Borrowings

	<b>As at 30 June 2020 Unaudited RMB'000</b>	As at 31 December 2019 Audited RMB'000
Short-term bank borrowings secured	<b>120,000</b>	55,000

As at 30 June 2020, short-term bank borrowings of RMB120,000,000 (as at 31 December 2019: RMB55,000,000) of the Group were secured by pledging trade receivables (Note 14), right-of-use assets and property, plant and equipment (Note 12) of the Group.

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

	<b>As at 30 June 2020 Unaudited</b>	As at 31 December 2019 Audited
Fixed-rate borrowings	<b>4.94%</b>	5.66%

## 19 Trade and other payables

	<b>As at 30 June 2020 Unaudited RMB'000</b>	As at 31 December 2019 Audited RMB'000
Trade payables – due to third parties	<b>147,270</b>	137,730
Notes payables	<b>69,580</b>	168,000
Salary payables	<b>5,294</b>	9,053
Taxes payable	<b>1,440</b>	2,787
Other payables – due to related party (Note 22)	<b>1,370</b>	–
Others	<b>4,975</b>	7,880
	<b>82,659</b>	187,720
Total trade and other payables	<b>229,929</b>	325,450

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

## 19 Trade and other payables (Continued)

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

	<b>As at 30 June 2020 Unaudited RMB'000</b>	As at 31 December 2019 Audited RMB'000
Up to 6 months	134,737	136,024
6 months to 1 year	11,046	234
1 year to 2 years	1,487	1,472
	<b>147,270</b>	137,730

## 20 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):

	<i>Note</i>	<b>As at 30 June 2020 Unaudited RMB'000</b>	As at 31 December 2019 Audited RMB'000
Property, plant and equipment	12	96,379	19,410
Pledged bank deposits	16	50,108	84,300
Trade receivables	14	63,814	73,311
Right-of-use assets	12	18,972	5,343
		<b>229,273</b>	182,364

## 21 Capital Commitment

	<b>As at 30 June 2020 Unaudited RMB'000</b>	As at 31 December 2019 Audited RMB'000
Property, plant and equipment	1,687	4,490

## 22 Related-party transactions

As at 30 June 2020, the Company's immediate holding company is Spearhead Leader Limited, which held 69.79% shares of the Company in issue and is wholly owned by Mr. Yang Yoong An.

The non-controlling interests of the Group is Hubei China Tobacco Industry Co, Ltd., which holds 17.14% share of Hubei Golden Three Gorges, a subsidiary of the Company.

In addition to the related party information and transactions disclosed elsewhere in the consolidated financial statements, the following is a summary of significant related party transactions entered into the ordinary course of business between the Group and its related parties.

Name of related party	Relationship
Spearhead Leader Limited	The Company's immediate holding company

### (a) Transactions with related parties

The following transactions are carried out by the Group with related parties:

#### (i) Key management compensation

	Six Months ended 30 June	
	2020 Unaudited RMB'000	2019 Unaudited RMB'000
Key management compensation	830	546

#### (ii) Borrowings from immediate holding company

	Six Months ended 30 June	
	2020 Unaudited RMB'000	2019 Audited RMB'000
Spearhead Leader Limited	1,370	-

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2020

## 22 Related-party transactions (Continued)

### (b) Balances with immediate holding company

The Group has the following balances with its related parties as at 30 June 2020 and 31 December 2019:

*Payables to immediate holding company (Note 19)*

	<b>As at 30 June 2020 Unaudited RMB'000</b>	As at 31 December 2019 Audited RMB'000
Spearhead Leader Limited	<b>1,370</b>	-

The payables bear no interest and are repayable on demand.

## 23 The impact from 2019 Novel Coronavirus (“COVID-19”)

The outbreak of the 2019 Novel Coronavirus (COVID-19) had brought unprecedented challenges and added uncertainties to the economy. COVID-19 may affect the financial performance and position of tobacco industry including the sales from paper cigarette packages and so on. During the six months ended 30 June 2020, revenue and operation result of the Group’s paper cigarette packages segment was inevitably impacted due to the factory had been stopped operation at most of the time in the first quarter of 2020. As of the date that the condensed consolidated interim financial information is authorised for issue, the Group has resumed its operations as nationwide lockdowns has been eased by the government. The Group will keep continuous attention on the situation of the COVID-19 and assess its impact on the financial position and operating results of the Group.

## 24 Subsequent events

As from 30 June 2020 to the date of this report, save as disclosed in this report, the Board is not aware of any significant events requiring disclosure that have occurred.