



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

2023

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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 2023 together with the comparative figures for the corresponding period in 2022.

- Revenue for the six months ended 30 June 2023 increased by approximately 28.7% or RMB117.5 million to approximately RMB526.6 million as compared with the corresponding period in 2022.
- Gross profit for the six months ended 30 June 2023 increased by approximately 182.4% or RMB77.0 million to approximately RMB119.1 million as compared with the corresponding period in 2022.
- Gross profit margin for the six months ended 30 June 2023 increased by approximately 12.3% from approximately 10.3% to approximately 22.6% as compared with the corresponding period in 2022.
- Profit attributable to owners of the Company increased by approximately RMB20.6 million to approximately RMB21.1 million as compared with the corresponding period in 2022.
- Average trade and note receivables turnover days increased from approximately 52 days for the year ended 31 December 2022 to approximately 56 days for the six months ended 30 June 2023.
- Average trade and note payables turnover days increased from approximately 209 days for the year ended 31 December 2022 to approximately 211 days for the six months ended 30 June 2023.
- Average inventory turnover days decreased from approximately 92 days for the year ended 31 December 2022 to approximately 84 days for the six months ended 30 June 2023.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2023 (for the six months ended 30 June 2022: nil).

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 2022 and 181 days for the six months ended 30 June 2023).
- (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 2022 and 181 days for the six months ended 30 June 2023).
- (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 2022 and 181 days for the six months ended 30 June 2023).



CORPORATE INFORMATION

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 (resigned on 16 June 2023)

Mr. Wang Ping

Ms. Guo Wei (appointed on 16 June 2023)

Company Secretary

Mr. Wu Hung Wai (*HKICPA*)

Registered Office

Third 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 (resigned on 16 June 2023)

Ms. Guo Wei (appointed on 16 June 2023)

Remuneration Committee

Mr. Gong Jinjun (*Chairman*)

Mr. Yang Fan

Mr. Wang Ping

Nomination Committee

Mr. Yang Yoong An (*Chairman*)

Mr. Zeng Shiquan (resigned on 16 June 2023)

Mr. Gong Jinjun

Ms. Guo Wei (appointed on 16 June 2023)

Corporate Website

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
Third 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
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 2023.

During the first half of 2023, the global economy showed signs of progress amid persistent challenges. Although restrictive monetary policies triggered by the protracted war in Ukraine and global inflationary pressures continued to cast a shadow on the world economy, supply-chain disruptions have eased back to pre-pandemic levels amid a stronger labor market. China's gross domestic product (GDP) grew at a healthy rate of 5.5% year on year in the first half of 2023, attributable mainly to a rebound in consumer demand and an acceleration in the growth of industrial and manufacturing output, according to the country's National Bureau of Statistics. Amid the gradual resumption of China's economic activity, the tobacco industry also experienced consistent and stable growth in electronic cigarettes and paper cigarettes packaging segments.

Seizing the growing opportunities in the tobacco industry, Jia Yao demonstrated its business agility and remained resilient during the first half of the year. The strategic shift of focus to accelerating the growth of the electronic cigarette business since last year, combined with rigorous control over materials costs, yielded encouraging results, with an improved performance in the electronic cigarette segment and concurrent notable growth in overall revenue. The Group achieved 28.7% revenue growth to reach approximately RMB526.6 million in the first half of 2023, with gross profit amounting to RMB119.1 million, a leap of approximately RMB77.0 million compared to the same period the previous year.

The electronic cigarette business emerged as a key growth driver of the Group's overall performance, contributing approximately 52.2% of its total revenue. Despite a global trend toward stringent regulatory measures, exports of electronic cigarettes from China grew steadily during the first half of 2023. This promising development reinforced the Group's visionary business strategy of prioritizing the electronic cigarette segment as the prominent development focus during the period under review. The Group continued to implement a strategic realignment by strengthening its electronic cigarette and peripheral value-added product manufacturing capabilities and introducing its own branded electronic cigarette products, aimed at boasting exceptional design, advancing its goal of becoming a comprehensive electronic cigarette supplier.

Drawing on its long-standing reputation, extensive experience within the tobacco industry, and its expertise, the Group maintained close ties with its long-term customers in the cigarette packaging business, and the segment remained stable during the period under review. Guided by its vision of "management innovation, system leadership", it continued to enhance the efficiency of its quality management system and upgraded its production lines in a timely manner to cater for customers' needs.

The Group's ceaseless efforts in the development of the electronic cigarette segment and gradually enhance its market presence. Acknowledging the substantial opportunities in international markets, the Group has established a well-developed customer base in various overseas markets, including the United States, New Zealand, and South Africa. Informed by its cautious and practical operational approach, the Group is dedicated to maintaining a heightened level of vigilance in response to the ever-changing regulatory environment. It will continue to devote significant efforts to product development and seek to establish deeper collaboration with well-known enterprises, solidifying its position as a market leader while advocating sustainable growth in the segment.

CHAIRMAN'S STATEMENT (Continued)



Bolstered by its healthy financial position and solid business fundamentals, Jia Yao's management team will continue to nurture both the Group's electronic cigarette and paper cigarette packaging businesses, with an increased emphasis on the electronic cigarette business in the coming years, especially in overseas markets. It will remain alert to market fluctuations and adopt a prudent, pragmatic approach to managing its electronic cigarette operations, growing its income stream in the medium to long term.

I would like to take this opportunity to express my most sincere gratitude for the unwavering support of all of the Group's shareholders, investors, business partners and customers. As always, our management team and all staff members remain committed to bolstering our business foundations, and to creating sustainable and substantial returns for all of our shareholders.

Yang Yoong An

Chairman of the Board and Executive Director

Hong Kong, 29 August 2023



MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

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

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

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

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

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

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

Business Review

Jia Yao is primarily engaged in the design, production and sales of electronic cigarettes and paper cigarette packages. For the electronic cigarettes segment, the Group increased its investment in production and the development of own branded product in order to grasp the opportunity of rapid growth of electronic cigarette market in recent years. In additions to the production and development of own branded product, the Group also focused to develop the business to the OEM and ODM production of e-cigarette related products with comprehensive e-cigarette supply chain for several international e-cigarette brands. It is foreseeable that the electronic cigarettes segment will become the major revenue and profit growth drivers of the Group in the future. For the paper cigarette packages segment, the Group is providing paper cigarette packaging services for key cigarette brands designated by the STMA. The Group's subsidiary, Hubei Golden Three Gorges Printing Industry Co., Ltd.* (湖北金三峽印務有限公司) ("Hubei Golden Three Gorges"), has been operating in China for more than two decades.

Sales and Distribution

Maintaining solid, stable business relationships with customers has always been Jia Yao's mission, as the Group believes that this is the key to excelling and outperforming its peers in the cigarette industry. By adopting advanced technologies, the Group aims to provide high value-added, distinct and differentiated products for its customers, with the ultimate goal of forging committed, long-term business partnerships with them.

In the e-cigarette business, since the concentrate on expansion of business, the Group has aimed to expand its footprint in the e-cigarette peripheral product space and its penetration and development of the segment. The segment generated revenue of RMB275.1 million for the Group during the reporting year, approximately 52.2% of its total revenue.

Despite the fact that short-term Chinese e-cigarette demand may be somewhat affected by a series of restrictive government measures, the Group believes that standardised management is conducive to the orderly development of the industry, given that its penetration rate is still relatively low, indicating room for further development. Moreover, the Group's e-cigarette products are made mainly for export, underlining the fact that the inclusion of e-cigarettes in the scope of consumption tax has no significant impact on its business.

In the paper cigarette packaging segment, the Group serves customers with a presence across China, including major provincial tobacco companies and non-provincial tobacco companies operating under the China Tobacco Industry Development Center* (中國煙草實業發展中心), with operations and production centres in Hubei, Sichuan, Yunnan and other provinces. During the reporting year, the Group secured more orders than during the previous year through competitive tendering and new product development. Alongside its ongoing efforts to strengthen communication and cooperation with customers, and to increase the proportion of its proprietary business, the Group introduced new suppliers, optimising processes and materials, and improving production efficiency to achieve sustainable, long-term comprehensive benefits.

Product Development and Design

The Group had invested approximately RMB25.9 million (six months ended 30 June 2022: approximately RMB12.1 million) on improvement and development of production facilities and product design in order to consistently driven itself to innovate. Capitalising on its technological expertise and development, including its advanced production lines and state-of-the-art production facilities, the Group has aimed to fully utilise its capacity to manufacture mid-range and high-end products, enabling it to maintain its status as a market leader.

* For identification purpose only



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

In order to further improve the efficiency of the production lines of electronic cigarette, it is necessary to consider the needs of automated production prior to the product design stage. During the reporting period, the Group reviewed the product development technology, which fully considers the requirements of product manufacturing and importing automation equipment at the stage of product design and improves the manufacturability and automation feasibility of products.

Technology Development and Quality Control

Advocating the concept of “management innovation, system leadership”, the Group has always adhered to a policy of pursuing refinement, specialisation and standardisation to bolster its solid reputation for quality products. During the reporting period, the Group continued to step up efforts in the research and development of core technologies and the improvement of management capability. The Group launched its own branded electronic cigarette to the markets with high safety performance and better user experience, which has been recognized by numerous clients in a fast manner and achieved outstanding sales growth during the reporting period. The Group has also taken a proactive approach to environmental protection. It implements strict environmental protection metrics, controlling inputs of all raw and auxiliary materials, and manufacturing processes to provide customers with high-quality, safe, environment-friendly products.

Cost Control

The Group has always sought to consolidate its core business and maximise efforts to control costs. Taking into account increases in the prices of raw materials, which have been a major factor affecting manufacturing industries, the Group adopted a series of measures during the reporting year to reduce those costs.

It introduced strategies including process and materials optimisation, productivity enhancement, and the introduction of new suppliers and competitive negotiations. The Group also strengthened its control of production processes through measures such as rolling stock preparation, consolidating production orders to increase lot sizes, reducing manufacturing costs and preventing inefficiencies brought about by secondary loading due to insufficient deliveries. These strategies achieved remarkable results, yielding an improvement in gross profit margin on the previous year.

Financial Review

Turnover

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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

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

Gross Profit

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

Distribution Costs

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

Administrative Expenses

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

Other Income

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



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Other Gains/(Losses), net

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

Finance Income/(Costs), net

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

Income Tax (Expenses)/Credit

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

Profit Attributable to Owners of the Company

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

Trade and Other Receivables

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

Trade and Other Payables

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

Liquidity And Financial Resources

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)



Borrowings and Gearing Ratio

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

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

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

Capital Expenditure

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

Treasury Policies

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Pledge of Assets

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

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

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

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

Contingent Liabilities

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

Foreign Exchange Risks

The Group's transactions were mainly conducted in RMB, the functional currency of the Group, and the major receivables and payables are denominated in RMB. The Group's exposure to foreign currency risk related primarily to certain bank balances and cash, trade receivables, contract liabilities and other payables maintained in Hong Kong Dollars and United States Dollars. The Group did not use derivative financial instruments to hedge against the volatility associated with foreign currency transactions and other financial assets and liabilities arising in the ordinary course of business during the six months ended 30 June 2023.

Human Resources And Remuneration

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)



Interim Dividend

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

Rights Issue

References are made to the Company's announcements dated 5 August 2022, 20 September 2022 and 25 October 2022, the circular dated 5 September 2022, and the prospectus dated 3 October 2022. Capitalized terms used in this report shall have the same meanings stated in the above announcements and circular. The Company implemented the Rights Issue on the basis of every one (1) Rights Share for every one (1) ordinary share in issue at the Subscription Price of HK\$0.60 per Rights Share to raise up to HK\$180.0 million (before expenses) by way of issuing 300,000,000 Rights Shares. The Rights Shares are rank pari passu in all respects among themselves and with the Shares in issue on the date of allotment and issue of the Rights Shares. The aggregate nominal value of the Rights Shares is HK\$3,000,000. The reasons for the Rights Issue were it could provide immediate funds to the Company for the relocation and establishment of the new production facilities and the business development of the electronic cigarette segment, which will in return further improve the Group's operational efficiency and provide sustainable development of the Group's business.

The Rights Issue was completed on 26 October 2022, and 300,000,000 fully paid Rights Shares were allotted and issued accordingly. The net proceeds from the Rights Issue (after deducting expenses) are approximately HK\$176.0 million. The net price per Rights Share is approximately HK\$0.59. The closing price per Share on 5 August 2022 (being the date on which the terms of Rights Issue were fixed) is HK\$0.700.

As of 30 June 2023, the intended use and actual use of the net proceeds from the Rights Issue, as well as the unutilized net proceeds therefrom are as follows:

	Intended use of proceeds from the Rights Issue	Actual use of net proceeds as at 30 June 2023	Unutilized net proceeds as at 30 June 2023	Expected timeline for the intended use
	HK\$' million	HK\$' million	HK\$' million	
Business expansion of Hubei Golden Three Gorges	119.34	60.53	58.81	Up to 30 September 2023
Brand development and market expansion of Shenzhen Haohan	29.25	29.25	–	N/A
Business development of e-cigarettes	23.40	23.40	–	N/A
General working capital	4.01	4.01	–	N/A
Total	176.00	117.19	58.81	



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Future Outlook

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

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

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

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

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 2023, 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)	418,724,000	69.79%
Mr. Li Shaoan	Beneficial Owner (Note 2)	3,600,000	0.6%
Mr. Wu Hung Wai	Beneficial Owner (Note 3)	100,000	0.02%

(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 418,724,000 shares of the Company held by Spearhead Leader for the purpose of the SFO. Mr. Yang is the sole director of Spearhead Leader.
2. These 3,600,000 underlying Shares represent the 3,600,000 Shares which may be allotted and issued to Mr. Li Shaoan upon full exercise of the share options granted to him.
3. These 100,000 underlying Shares represent the 100,000 Shares which may be allotted and issued to Mr. Wu Hung Wai upon full exercise of the share options granted to him.
4. Calculated on the basis of 600,000,000 Shares in issue as at 30 June 2023.



CORPORATE GOVERNANCE AND OTHER INFORMATION (Continued)

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

So far as is known to the Directors, as at 30 June 2023, 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	418,724,000	69.79%
Ms. Cai Yaohui (“Ms. Cai”)	Interest of spouse (Note 1)	418,724,000	69.79%

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.
- Calculated on the basis of 600,000,000 Shares in issue as at 30 June 2023.

Save as disclosed above, as at 30 June 2023, 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 as at the date of this interim report, 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION (Continued)

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. An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HKD1. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

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.

On 7 December 2022, the Company granted a total of 30,000,000 share options to a total of 21 selected employees of the Group to subscribe for a total of 30,000,000 ordinary shares of HK\$0.01 each in accordance with the share option scheme adopted on 6 June 2014. For details, please refer to the announcement of the Company dated 7 December 2022.

As at 1 January 2023 and 30 June 2023, there were no share options available for grant under the Share Option Scheme. No service provider sublimit was set under the Share Option Scheme. The total number of shares that may be issued in respect of options granted under all schemes of the Company during the reporting period divided by the weighted average number of shares of the relevant class in issue for the reporting period was 5%.

The following table discloses the movements in the Company's share options during the six months ended 30 June 2023:

Grantees	As at 1 January 2023	Granted	Exercised	Lapsed/cancelled	Outstanding as at 30 June 2023	Date of grant	Exercisable period	Exercise price
		during the six months ended 30 June 2023	during the six months ended 30 June 2023	during the six months ended 30 June 2023				
Mr. Li Shaoan (李少安)	3,600,000	-	-	-	3,600,000	7 December 2022	From the Vesting Date to 6 December 2032	HK\$1.00
Mr. Wu Hung Wai (吳鴻偉)	100,000	-	-	-	100,000	7 December 2022	From the Vesting Date to 6 December 2032	HK\$1.00
Other employees	26,300,000	-	-	-	26,300,000	7 December 2022	From the Vesting Date to 6 December 2032	HK\$1.00
Total	30,000,000	-	-	-	30,000,000			



CORPORATE GOVERNANCE AND OTHER INFORMATION (Continued)

Notes:

1. In the event that the Group's audited revenue and net profit for the year ending 31 December 2025 can achieve one time or more of the Group's audited revenue and net profit for the year ended 31 December 2022 respectively, the options shall be vested to the Grantees after publication of the audited financial results of the Company for the year ending 31 December 2025 (the "Vesting Date"), subject to the Grantee has not committed any material breach of his/her duties prior to the Vesting Date and the Grantee remains an employee of the Group on the Vesting Date. If the vesting conditions as specified above are not fulfilled by the Vesting Date, the Company reserves the right to cancel the options granted to the Grantees.
2. As for the share option granted on 7 December 2022, the closing price of the shares on the Stock Exchange immediately before the date on which the options were granted was HK\$0.90.

Competing Business and Conflicts of Interests

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

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

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

Corporate Governance

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

Model Code for Securities Transactions by Directors of Listed Issuers

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

Audit Committee and Review of Interim Results

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

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

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 2022 of the Company and up to the date of this report.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Note	Six Months ended 30 June	
		2023 Unaudited RMB'000	2022 Unaudited RMB'000
Revenue	5	526,571	409,084
Cost of sales	9	(407,434)	(366,897)
Gross profit		119,137	42,187
Distribution costs	9	(24,862)	(13,756)
Administrative expenses	9	(59,293)	(28,065)
Net impairment losses on financial assets		(3,509)	–
Other income	6	3,595	1,755
Other gains/(losses) – net	7	213	(539)
Operating profit		35,281	1,582
Finance income	8	3,722	576
Finance costs	8	(1,338)	(1,570)
Finance income/(costs) – net	8	2,384	(994)
Profit before income tax		37,665	588
Income tax (expenses)/credit	11	(6,166)	114
Profit for the period		31,499	702
Profit attributable to:			
– Owners of the Company		21,094	512
– Non-controlling interests		10,405	190
Profit for the period		31,499	702
Other comprehensive income for the period, net of tax			
Item that may be reclassified to profit or loss			
Currency translation differences		122	643
Total comprehensive income for the period		31,621	1,345
Total comprehensive income for the period attributable to:			
– Owners of the Company		21,216	1,155
– Non-controlling interests		10,405	190
		31,621	1,345
Earnings per share for the period attributable to owners of the Company (expressed in RMB per share)			
– Basic earnings per share	12	0.035	0.001
– Diluted earnings per share	12	0.034	0.001

The notes on pages 24 to 44 are an integral part of these condensed consolidated interim financial information.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2023

	Note	As at 30 June 2023 Unaudited RMB'000	As at 31 December 2022 Audited RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	138,895	134,713
Intangible assets	16	4,476	4,367
Right-of-use assets	14	77,386	55,079
Investment properties	14	7,681	7,929
Deferred income tax assets		1,055	571
Prepayment for property, plant and equipment	15	8,337	221
		237,830	202,880
Current assets			
Inventories	18	184,936	194,766
Trade and other receivables	17	269,411	214,231
Restricted cash	19	157,854	194,337
Cash and cash equivalents	19	168,601	266,575
		780,802	869,909
Total assets		1,018,632	1,072,789
EQUITY			
Equity attributable to the owners of the Company			
Share capital		5,120	5,120
Share premium		152,684	183,318
Other reserves		147,405	145,721
Retained earnings/(accumulated losses)		14,708	(6,386)
		319,917	327,773
Non-controlling interests		72,814	54,639
Total equity		392,731	382,412

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

As at 30 June 2023

	<i>Note</i>	As at 30 June 2023 Unaudited RMB'000	As at 31 December 2022 Audited RMB'000
LIABILITIES			
Non-current liabilities			
Lease liabilities		22,636	6,064
Deferred income tax liabilities		1,303	1,384
Deferred income	22(i)	-	19,580
		23,939	27,028
Current liabilities			
Trade and other payables	22	501,694	573,185
Contract liabilities		10,804	15,460
Income tax payable		2,952	4,767
Borrowings	20	74,000	65,000
Lease liabilities		12,512	4,937
		601,962	663,349
Total liabilities		625,901	690,377
Total equity and liabilities		1,018,632	1,072,789

The notes on pages 24 to 44 are an integral part of these condensed consolidated interim financial information.

Director

Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	Unaudited						
	Attributable to the owners of the Company						
	Share capital	Share premium	Other reserves	(Accumulated losses)/ retained profits	Subtotal	Non-controlling interests	Total equity
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Six months ended 30 June 2023							
Balance at 1 January 2023	5,120	183,318	145,721	(6,386)	327,773	54,639	382,412
Profit for the period	-	-	-	21,094	21,094	10,405	31,499
Other comprehensive income	-	-	122	-	122	-	122
Total comprehensive income	-	-	122	21,094	21,216	10,405	31,621
Employee share schemes (note 21)	-	-	1,562	-	1,562	-	1,562
Acquisition of subsidiaries	-	-	-	-	-	7,770	7,770
Dividend to shareholders of the Company (note 13)	-	(30,634)	-	-	(30,634)	-	(30,634)
Balance at 30 June 2023	5,120	152,684	147,405	14,708	319,917	72,814	392,731
Six months ended 30 June 2022							
Balance at 1 January 2022	2,382	25,200	144,711	(11,882)	160,411	45,929	206,340
Profit for the period	-	-	-	512	512	190	702
Other comprehensive income	-	-	643	-	643	-	643
Total comprehensive income	-	-	643	512	1,155	190	1,345
Balance at 30 June 2022	2,382	25,200	145,354	(11,370)	161,566	46,119	207,685

The notes on pages 24 to 44 are an integral part of these condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	Note	Six Months ended 30 June	
		2023 Unaudited RMB'000	2022 Unaudited RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations		(53,677)	70,376
Interest received		2,517	576
Interest paid		(1,221)	(1,353)
Income tax paid		(8,531)	-
Net cash (used in)/generated from operating activities		(60,912)	69,599
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,300)	(4,837)
Prepayments of property, plant and equipment		(8,337)	-
Proceeds from disposal of property, plant and equipment		40	243
Acquisition of subsidiaries, net of cash acquired		(205)	-
Prepayment for deposit of acquisitions		(35,500)	-
Net cash used in investing activities		(45,302)	(4,594)
Cash flows from financing activities			
Proceeds from borrowings		65,000	-
Repayments of borrowings		(56,000)	(51,080)
Repayments of lease liabilities		(1,352)	(403)
Dividends paid to non-controlling interests in subsidiaries		-	(21)
Net cash generated from/(used in) financing activities		7,648	(51,504)
Net (decrease)/increase in cash and cash equivalents			
Effect of foreign exchange rate changes		592	601
Cash and cash equivalents at beginning of the period		266,575	65,844
Cash and cash equivalents at end of the period	19	168,601	79,946

The notes on pages 24 to 44 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 2023

1 General information

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

The Company and its subsidiaries (together, the “Group”) are engaged in the design, production and sales of paper cigarette packages, social product paper packages, electronic cigarettes, and other electronic products in the People’s Republic of China (the “PRC”).

The Company’s registered office is located at Third Floor, Century Yard, Cricket Square, P.O Box 902, Grand Cayman, KY1-1103, Cayman Islands.

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

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

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

This condensed consolidated interim financial information has not been audited.

2 Basis of preparation and accounting policies

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2023

2 Basis of preparation and accounting policies (Continued)

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

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

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

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

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

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



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2023

3 Critical accounting estimates and judgements

The preparation of 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 expense. Actual results may differ from these estimates.

In preparing this 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 consolidated financial statements for the year ended 31 December 2022.

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 foreign currency risk, fair value 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 2022.

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

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
Electronic cigarettes	—	technology research and development, production and sales of e-cigarettes, e-cigarettes vaping devices and other electronic products
Social product paper packages	—	design, printing and sale of social product paper packages (including packages for alcohol, medicines and food)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2023

5 Segment information (Continued)

(b) Segment revenue

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2023

5 Segment information (Continued)

(b) Segment revenue (Continued)

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

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

(c) Segment assets by location

The total of non-current assets other than deferred income tax assets, a breakdown by location of the assets, is shown as follows:

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

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

For the six months ended 30 June 2023

6 Other income

Other income mainly represented unconditional government grants related to income received.

7 Other gains/(losses)

	Six Months ended 30 June	
	2023 Unaudited RMB'000	2022 Unaudited RMB'000
Loss on disposal of property, plant and equipment	(97)	(539)
Gains from bargain purchase <i>(Note 24)</i>	102	-
Others	208	-
	213	(539)

8 Finance income/(costs) — net

	Six Months ended 30 June	
	2023 Unaudited RMB'000	2022 Unaudited RMB'000
Interest income on bank deposits	3,722	576
Interest on bank and other borrowings	(1,338)	(1,570)
	2,384	(994)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2023

9 Expenses by nature

	Six Months ended 30 June	
	2023	2022
	Unaudited	Unaudited
	RMB'000	RMB'000
Operating profit for the period has been arrived at after charging:		
Raw materials and consumables used	332,734	346,516
Changes in inventories of finished goods and work in progress	(1,069)	(9,317)
Employee benefits expenses (note 10)	103,833	40,799
Transportation cost	12,494	5,765
Social promotion expense	9,584	4,200
Energy and water expense	8,484	6,358
Depreciation (note 14)	8,367	6,456
Amortisation	2,819	597
Real estate tax, stamp duties and other taxes	3,327	1,523
Provision of inventories	2,392	-
Office expense	1,890	728
Professional service expense	1,257	358
Short-term and low value lease expenses	1,040	1,468
Other operating expenses	4,437	3,267
Total cost of sales, distribution costs and administrative expenses	491,589	408,718

10 Employee benefit expense

	Six Months ended 30 June	
	2023	2022
	Unaudited	Unaudited
	RMB'000	RMB'000
Wages and salaries	95,601	36,765
Welfare, medical and other expenses	6,670	4,034
Share-based payment expense	1,562	-
Total employee benefit expense	103,833	40,799

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2023

11 Income tax (expenses)/credit

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

(i) PRC corporate income tax (“CIT”)

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

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

Hubei Golden Three Gorges Printing Industry Co., Ltd.* (湖北金三峡印務有限公司) (“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 2023 (2022: 15%).

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

(ii) PRC withholding income tax

Under relevant tax laws and regulations, dividends distributed from the PRC subsidiaries to non-PRC tax resident Group entities shall be subject to the withholding income tax at 10%.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2023

12 Earnings per share

(a) Basic earnings per share

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

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

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

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

For the six months ended 30 June 2023

12 Earnings per share *(Continued)*

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares consist of share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2023

13 Dividend

	Six Months ended 30 June	
	2023	2022
	Unaudited	Unaudited
	RMB'000	RMB'000
Dividends provided for	30,634	-

- (a) A final dividend of HKD0.056 per ordinary share for the year ended 31 December 2022, totalling approximately RMB30,634,000 has been approved in the Company's Annual General Meeting on 16 June 2023. The dividend was distributed out of the Company's share premium in July 2023.

14 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
Six months ended 30 June 2023 (unaudited)			
Opening net book amount	134,713	55,079	7,929
Additions	10,020	21,553	-
Acquisition of subsidiaries	2,660	3,329	-
Disposals	(131)	-	(2)
Depreciation and amortisation	(8,367)	(2,575)	(246)
Closing net book amount	138,895	77,386	7,681
Six months ended 30 June 2022 (unaudited)			
Opening net book amount	117,194	48,778	8,421
Additions	7,735	1,194	-
Disposals	(1,145)	-	-
Depreciation and amortisation	(6,456)	(597)	(246)
Closing net book amount	117,328	49,375	8,175

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2023

15 Prepayment for property, plant and equipment

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

16 Intangible assets

	Patent RMB'000	Goodwill RMB'000	Total RMB'000
Six months ended 30 June 2023 (unaudited)			
Opening net book amount	4,367	-	4,367
Acquisition of subsidiaries	3	350	353
Amortisation	(244)	-	(244)
Closing net book amount	4,126	350	4,476
Six months ended 30 June 2022 (unaudited)			
Opening net book amount	4,852	-	4,852
Amortisation	(242)	-	(242)
Closing net book amount	4,610	-	4,610

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2023

17 Trade and other receivables

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

The Group's credit sales to customers are mainly entered into on credit terms of not more than 90 days.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2023

17 Trade and other receivables (Continued)

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

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

18 Inventories

	As at 30 June 2023 Unaudited RMB'000	As at 31 December 2022 Audited RMB'000
Raw materials and packaging materials	70,475	79,236
Finished goods	92,343	95,955
Work in progress	22,118	19,575
	184,936	194,766

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2023

19 Cash and cash equivalents and restricted cash

	As at 30 June 2023 Unaudited RMB'000	As at 31 December 2022 Audited RMB'000
Cash at bank and on hand	326,455	460,912
Less: restricted cash	(157,854)	(194,337)
Cash and cash equivalents	168,601	266,575

20 Borrowings

	As at 30 June 2023 Unaudited RMB'000	As at 31 December 2022 Audited RMB'000
Short-term bank borrowings secured	74,000	65,000

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

	As at 30 June 2023 Unaudited	As at 31 December 2022 Audited
Fixed-rate borrowings	4.48%	4.67%

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2023

21 Employee share option scheme

On 7 December 2022, the Company has conditionally offered to grant options to subscribe for a total of 30,000,000 ordinary shares to a total of 21 selected employees of the Group, subject to acceptance of the Grantees and the payment of HKD1.00 by the Grantees upon acceptance of the Options, under the share option scheme of the Company adopted on 6 June 2014.

Each option shall entitle the holder of the option to subscribe for one share upon exercise of such option at an exercise price of HKD1.00 per Share. Subject to the vesting conditions include revenue and profit target, the options shall be vested to the grantees after publication of the audited financial results of the Company for the year ending 31 December 2025. The validity period of the options is ten years from the date of grant, i.e. from 7 December 2022 to 6 December 2032.

Set out below are summaries of options granted under the scheme:

	Six months ended 30 June 2023	
	Average exercise price per share option	Number of options
As at 1 January 2023	HKD1.00	30,000,000
Granted during the period	-	-
As at 30 June 2023	HKD1.00	30,000,000
Vested and exercisable at 30 June 2023	HKD1.00	30,000,000

No options expired during the period covered by the above tables.

The fair value of options granted on 7 December 2022 determined using the Binomial option-pricing model was approximately RMB13,600,000.

The total expenses recognised in the consolidated statement of comprehensive income for share options granted to employees is RMB1,562,000 for the six months ended 30 June 2023.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2023

22 Trade and other payables

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2023

23 Assets pledged as security

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

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

As at 30 June 2023, restricted cash, trade receivables, property, plant and equipment, land use rights and investment properties have been pledged as security for bank borrowings of the Group amounting to RMB74,000,000 (31 December 2022: RMB65,000,000) (Note 20) and for notes payable of the Group amounting to RMB189,115,000 (31 December 2022: RMB223,728,000) (Note 22), respectively.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2023

24 Business combination

(a) Acquisition of Shenzhen South Intelligent Control Technology Co., Ltd. ("SICT")

During the period ended 30 June 2023, the Group acquired 60% equity interests of SICT which is engaged in production and sales of e-cigarettes, e-cigarettes vaping devices and other electronic products, and the details of the consideration and the net assets acquired are as follows:

	As at acquisition date
	RMB'000
Purchase consideration	
— Cash paid	6,000
Recognized amounts of identifiable assets acquired and liabilities assumed	RMB'000
Right-of-use assets	2,539
Property, plant and equipment	2,597
Inventories	4,056
Trade and other receivables	8,415
Other assets	1,177
Cash and cash equivalents	5,982
Trade and other payables	(11,826)
Lease liabilities	(2,689)
Other liabilities	(81)
Total identifiable net assets	10,170
Less: non-controlling interests	(4,068)
Identifiable net assets acquired	6,102
Gains from bargain purchase (Note 7)	102

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2023

24 Business combination (Continued)

(a) Acquisition of Shenzhen South Intelligent Control Technology Co., Ltd. ("SICT") (Continued)

(i) Net cash inflow arising from the acquisition:

	RMB'000
Cash consideration paid	6,000
Cash and cash equivalents acquired	(5,982)
Net cash outflow on acquisition date	18

(ii) Revenue and profit contribution

The acquired businesses of SICT contributed revenue of RMB9,483,000 and net loss of RMB574,000 to the Group for the period from the acquisition date to 30 June 2023.

Had SICT been consolidated from 1 January 2023, the Group's condensed consolidated statement of comprehensive income for the period ended 30 June 2023 would show pro-forma revenue of RMB533,275,000 and net profit of RMB30,284,000.

No contingent liability has been recognized for the business combination.

(b) Other business combinations

During six months ended 30 June 2023, the Group also acquired certain insignificant subsidiaries. The aggregate considerations for these acquisitions were approximately RMB7,000,000, the fair value of net assets acquired (including identifiable intangible assets), non-controlling interests and goodwill recognised were approximately RMB10,352,000, RMB3,702,000 and RMB350,000, respectively.

The revenue and the results contributed by these acquired subsidiaries for six months ended 30 June 2023 were insignificant to the Group.

The related transaction costs of these business combinations recognised in the Group's condensed consolidated statement of comprehensive income were not material.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

For the six months ended 30 June 2023

25 Related-party transactions

As at 30 June 2023, 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.

(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	
	2023	2022
	Unaudited	Unaudited
	RMB'000	RMB'000
Key management compensation	769	720

(ii) Balance due to the immediate holding company

	As at 30 June	As at 31 December
	2023	2022
	Unaudited	Audited
	RMB'000	RMB'000
Spearhead Leader Limited	2,950	4,645

Balance with related parties was unsecured, interest free and repayable in accordance with agreed terms with related parties.

26 Subsequent events

As from 30 June 2023 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.