SMOORE INTERNATIONAL HOLDINGS LIMITED
思摩爾國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 6969)

2020
Interim Report

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Zhiping *(Chairman and Chief executive officer)*
Mr. Xiong Shaoming
Mr. Wang Guisheng

Non-executive Directors

Dr. Liu Jincheng

Independent non-executive Directors

Mr. Zhong Shan
Mr. Yim Siu Wing, Simon
Dr. Liu Jie

AUDIT COMMITTEE

Mr. Zhong Shan *(Chairman)*
Mr. Yim Siu Wing, Simon
Dr. Liu Jie

NOMINATION COMMITTEE

Mr. Chen Zhiping *(Chairman)*
Mr. Zhong Shan
Dr. Liu Jie

REMUNERATION COMMITTEE

Mr. Yim Siu Wing, Simon *(Chairman)*
Dr. Liu Jie
Mr. Chen Zhiping

JOINT COMPANY SECRETARIES

Mr. Wang Guisheng *(CICPA, HKICPA, FCCA)*
Ms. Cheng Choi Ha *(ACIS, ACS)*

AUTHORIZED REPRESENTATIVES

Mr. Wang Guisheng
Ms. Cheng Choi Ha

REGISTERED OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Office B, 28/F, EGL Tower
No. 83 Hung To Road
Kowloon
Hong Kong

HEAD OFFICE IN THE PRC

No. 16, Dongcai Industrial Zone
Gushu Community, Xixiang Street
Bao'an District, Shenzhen, Guangdong
China

LEGAL ADVISERS

Reed Smith Richards Butler
DeHeng Law Offices (Shenzhen)
Conyers Dill & Pearman

COMPLIANCE ADVISER

Guotai Junan Capital Limited

AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

THE CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKS

Bank of China Limited
China Construction Bank Corporation
Industrial and Commercial Bank of China Limited
Citibank (China) Company Limited
The Hongkong and Shanghai Banking Corporation Limited
China Merchants Bank Company Limited
Bank of Shanghai Company Limited
Bank of Ningbo Company Limited
DBS Bank (Hong Kong) Limited
CMB Wing Lung Bank Limited

STOCK SHORT NAME

Smoore Intl

STOCK CODE

6969

COMPANY'S WEBSITE

www.smooreholdings.com

INVESTOR RELATIONS CONSULTANTS

Porda Havas International Finance Communications Group

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "**Directors**") (the "**Board**") of Smoore International Holdings Limited (the "**Smoore**" or the "**Company**"), I am pleased to present the unaudited interim result report of the Company and its subsidiaries (together referred to as the "**Group**") for the six months ended 30 June 2020 (the "**review period**").

BUSINESS REVIEW

The Group continued to adhere to the guiding principles of technology and manufacturing leadership, committed to providing safe, healthy and cost-effective products for clients and consumers during the review period. In terms of production and operation, due to the delay in starting works and quarantine of employees and other factors as a result of the challenge of COVID-19 outbreak in the first quarter, our production capacity was reduced by approximately one-third compared to the original plan. After the resumption of work, the Group quickly organized the recruitment of new employees and resumed production and restored its production capacity to a normal level in a relatively short time with no employees infected with COVID-19 which well satisfied customers' order demand and achieved a rapid growth of revenue in the second quarter.

The Group continued to improve production efficiency and automation, and optimized supplier structure. As a result, the production cost, selling expenses and administrative expenses as a percentage of revenue in the review period were lower than that of the comparable period, and further enhanced the profitability of the Group.

In research and development (the "**R&D**"), the Group continued to recruit more high-caliber talents while kept on strengthening the depth and breadth of R&D, laying a solid foundation for the sustainable growth of the Group.

OUTLOOK

Upholding the core development strategy of technology and manufacturing leadership, concentric diversification and technology branding, the Group committed to providing safe, healthy high-quality products for clients. The Group will continue to expand its basic research on vaping and actively explore the application of vaping technology in relevant fields. Meanwhile, the Group will also further enhance the automation and intelligence levels of manufacturing to create value for clients through continuous improvement of production efficiency and further increase the competitiveness and risk resistance capabilities of the Company.

SINCERE APPRECIATION

I, hereby, on behalf of the Board, would like to express my appreciation to all shareholders, partners, employees and clients for their unswerving support and confidence in the Group. We will redouble our efforts to create better returns for shareholders and create more value for society.

Chen Zhiping
Chairman of the Board
Smoore International Holdings Limited

Financial Highlights

	For the six months ended 30 June		
	2020	2019	Changes
	RMB'000	RMB'000	%
	Unaudited	Unaudited	
Revenue	**3,880,518**	3,273,653	18.5
Gross profit	**1,900,512**	1,358,449	39.9
Profit before tax	**305,329**	1,096,606	(72.2)
Gross profit margin	**49.0%**	41.5%	7.5 pp
Profit and total comprehensive income for the period	**76,661**	920,998	(91.7)
*Adjusted profit and total comprehensive income for the period ("**Adjusted net profit**")	**1,307,973**	931,343	40.4
Adjusted net profit margin	**33.7%**	28.4%	5.3 pp

* The adjustment process of adjusted profit and total comprehensive income for the period

	For the six months ended 30 June		
	2020	2019	Changes
	RMB'000	RMB'000	%
	Unaudited	Unaudited	
Profit and total comprehensive income for the period before adjustment	**76,661**	920,998	(91.7)
Less:			
Listing expenses	**(24,666)**	(10,345)	
Share-based payment expenses related to pre-IPO share option scheme	**(149,050)**	—	
Loss on fair value changes of convertible promissory notes	**(38,487)**	—	
Loss on fair value changes of convertible preferred shares	**(1,019,109)**	—	
Total adjustments	**(1,231,312)**	(10,345)	
Adjusted net profit	**1,307,973**	931,343	40.4

Financial Highlights (Continued)

Our management considers that, except for the share-based payment expenses related to pre-IPO share option scheme, the listing expenses, loss on fair value changes of convertible promissory notes, loss on fair value changes of convertible preferred shares will not recur after the listing of shares of the Company on the Main Board of The Stock Exchange of the Hong Kong Limited (the "**Stock Exchange**") on 10 July 2020 (the "**Listing**") since listing expenses are one-off expenses relating to the Listing and pre-IPO process, and the convertible preferred shares, including those converted pursuant to the convertible promissory notes, have been reclassified and re-designated to our ordinary shares prior to the completion of the Capitalization Issue and Global Offering (as defined in the prospectus of the Company dated 29 June 2020). In addition, our management considers the loss on fair value changes of convertible promissory notes and loss on fair value changes of convertible preferred shares to be non-cash items. Due to the non-recurring and non-cash nature of the abovementioned items, our management does not track such items as key operating or financial metric internally when reviewing our performance since these items do not relate to our daily operation. Therefore, by eliminating the impacts of such items in the calculation of adjusted net profit, this measure could better reflect our underlying operating performance and could better facilitate the comparison of operating performance with comparable period.

	30 June 2020 RMB'000 Unaudited	31 December 2019 RMB'000 Audited	Changes %
Total assets	**4,592,715**	3,301,903	39.1
Total equity	**960,384**	734,673	30.7
Cash and cash equivalents	**1,610,245**	731,394	120.2
Asset-liability ratio (%)	**79.1%**	77.8%	1.3 pp
Current ratio (%)	**194.5%**	105.9%	88.6 pp
Trade and bills receivables turnover days	**45.4**	24.3	86.8
Inventory turnover days	**38.4**	40.3	(4.7)
Trade payables turnover days	**43.5**	43.4	0.2

Asset-liability ratio is calculated as total liabilities divided by total assets of the Group.

Management Discussion and Analysis

PRINCIPAL BUSINESS OF THE GROUP

The Group is a global leader in offering vaping technology solutions, including manufacturing vaping devices and vaping components for heat-not-burn (“**HNB**”) products on an original design manufacturer (“**ODM**”) basis, with advanced R&D technology, strong manufacturing capacity, wide-spectrum product portfolio and diverse customer base. During the review period, through our innovative and pioneering vaping technology solutions, we operate two principal business segments: (1) research, design and manufacturing of closed system vaping devices and vaping components for a number of global leading tobacco companies and independent vaping companies, and (2) research, design, manufacturing and sale of self-branded open system vaping devices, or advanced personal vaporizers (“**APV**”), for retail clients.

BUSINESS REVIEW

Evolving Regulatory Landscape

We operate in an industry with evolving regulatory changes. While vaping devices may provide end consumers with enhanced experiences, the health risks associated with such usage remain unclear and have been under scrutiny. In particular, in 2016, the WHO recommended that governments should consider prohibiting the use of e-cigarettes in indoor areas to protect non-users from involuntary exposure to second-hand aerosols, issuing warnings about the potential health risks of e-cigarettes and imposing higher taxes on e-cigarettes. Since then, regulatory authorities have published and/or considered different levels and aspects of regulations to mitigate the potential health risks from the usage of vaping devices.

Summary of Material Laws, Regulations, Executive Orders and Policies

The following table illustrates the material laws, regulations, executive orders and policies in relation to the tobacco products of the e-cigarette and vaping device industry promulgated or proposed by the relevant authorities in our major markets as well as the revenue contribution of the affected products sold in such major markets as a percentage of our total revenue for the period indicated:

Principal Sale Jurisdictions[(1)]	Material Laws, Regulations, Executive Orders and Policies	Relevant Products, Potential Impact and Compliance Status	Revenue Contribution[(2)] (%) six months ended 30 June 2020
U.S.[(3)]	• **Premarket tobacco application ("PMTA") filings requirements for electronic nicotine delivery systems ("ENDS") products, including devices, components, and/or parts that deliver aerosolized e-liquid when inhaled:** 1. **Existing ENDS Products** ENDS products that were first distributed in the U.S. market between 15 February 2007 and 8 August 2016: a PMTA is required for Existing ENDS Products and is required to be submitted to the United States Food and Drug Administration (the "**FDA**") by 9 September 2020, the currently effective deadline. 2. **New ENDS Products** ENDS products that were not distributed or on sale in the U.S. prior to or as of 8 August 2016: a PMTA is required for New ENDS Products before introducing them into the U.S. market.	(i) closed system vaping devices (under our corporate client oriented sales), and (ii) open system vaping devices (our self-branded APV under retail client oriented sales). As the 9 September 2020 deadline has not passed yet, we were in compliance with the PMTA requirements as of 30 June 2020. However, our corporate clients and we are at risk of not being able to submit the PMTAs for some of the products in time by the currently effective deadline, and we and our corporate clients may be prevented from selling some of our products in the U.S. The Group intends to submit PMTAs before the stipulated 9 September 2020 deadline in accordance with the requirements of the FDA for the Group's certain self-branded products. At the same time, the Group will continue to actively cooperate with customers in preparing PMTA applications related to the Group's products. As at the date of this report, the Group has submitted PMTA application for one model of its self-branded product. The application has been accepted by FDA. These self-branded APV are the Existing ENDS Products requiring PMTA filings that we currently intend to continue to sell and market in the U.S. As of 30 June 2020, to the best knowledge of our Directors, two of our top five customers had filed PMTAs for products manufactured by us and those PMTAs were accepted by the FDA. Our other corporate clients in the U.S. are expected to file the PMTAs for products manufactured by us before the 9 September 2020 deadline. The gross profit of the aforementioned products sold to the U.S., including sales forwarded through Hong Kong, accounted for approximately 45.1% of our total gross profit for the 6 months ended 30 June 2020.	16.7%

Principal Sale Jurisdictions(1)	Material Laws, Regulations, Executive Orders and Policies	Relevant Products, Potential Impact and Compliance Status	Revenue Contribution(2) (%) six months ended 30 June 2020
	• **Flavor bans** **1. FDA enforcement policy** Starting on 6 February 2020, the FDA has prioritized for immediate enforcement against: (i) flavored, cartridge-based ENDS products (other than tobacco- or menthol-flavored ENDS products), and (ii) any flavored ENDS products (including tobacco and menthol flavors) that are targeted at minors. **2. State flavor bans** Several states in the U.S. have imposed temporary emergency flavor bans on ENDS products, and a few of these bans have been enjoined by courts while several have become permanent. Flavor bans are not the same as a total ban on e-cigarettes, and none of the states in the U.S. have imposed a total ban on e-cigarettes.	(i) 36.4% of our closed system vaping devices sold to the U.S. market in 2019 are flavored cartridge-based ENDS products, accounting for 9.4% of our total revenue for the same year. These closed system vaping devices were primarily sold to three of our top five customers in 2019. Specifically, sales of closed system vaping devices with the banned flavored cartridges to these three customers in aggregate amounted to approximately 9.3% of our total revenue in 2019. In early 2020, these three customers changed their product mix to comply with the promulgation of flavor bans starting from February 2020. After the change, total sales to these three customers still grew by approximately 149.1% in the four months ended 30 June 2020, as compared to that of the same period in 2019. (ii) Our self-branded APVs are not affected by the flavor bans. The flavor bans are mainly aimed at ENDS products that are sold with pre-filled non-tobacco- flavored or non-menthol-flavored cartridges, and our self-branded APVs do not contain any pre-filled cartridges. To the best knowledge of our Directors, we were not aware of any material non-compliance with the flavor bans as of 30 June 2020. According to Frost & Sullivan, despite the promulgation of flavor bans starting from February 2020, the U.S. e- cigarette market size by revenue is still expected to grow at a CAGR of approximately 25.5% from 2019 to 2024. Furthermore, based on our unaudited management account, our sales of ENDS products in the U.S. market increased by approximately 110.5% in the six months ended 30 June 2020 as compared to the same period in 2019. However, these bans may curb consumer interest in and use of vaping devices, which may adversely affect the vaping industry and our operational and financial performance as a whole.	

Principal Sale Jurisdictions[1]	Material Laws, Regulations, Executive Orders and Policies	Relevant Products, Potential Impact and Compliance Status	Revenue Contribution[2] (%) six months ended 30 June 2020
	The above PMTA filings requirements and flavor bans do not apply to non-ENDS products, which do not contain nicotine or e-liquid.	(i) Our vaping components for HNB products are classified as non-ENDS products since they do not contain e-liquid with nicotine and we do not sell these vaping components to the U.S. market. (ii) Our vaping components for vaping devices that can be used for medical or recreational CBD and THC vaping are classified as non-ENDS products.	
China	• **Prohibition on the sale of e-cigarettes through the internet to protect juveniles** On 30 October 2019, the State Administration for Market Regulation and the State Tobacco Monopoly Administration jointly issued the Announcement on Further Protecting Juveniles from E-cigarettes (the "**October 2019 Announcement**"): 1. E-cigarette producers and sellers are urged to shut down their online sales websites or application programs and withdraw online advertisements of e-cigarettes. 2. E-commerce platform operators are urged to close e-cigarette online shops and take e-cigarette products off shelves.	(i) closed system vaping devices (under our corporate client oriented sales), and (ii) open system vaping devices (our self-branded APV under retail client oriented sales). We did not operate any online platforms in China for the sale of our products as of 30 June 2020. Therefore, we were in compliance with the October 2019 Announcement as of 30 June 2020. However, some of our products may have been sold online by our corporate clients prior to the promulgation of the October 2019 Announcement. Based on our unaudited management account, despite the prohibition of online sales, sales of our products to customers in China increased by approximately 20.2% in the six months ended 30 June 2020 as compared to the same period in 2019.	18.9%

Principal Sale Jurisdictions[1]	Material Laws, Regulations, Executive Orders and Policies	Relevant Products, Potential Impact and Compliance Status	Revenue Contribution[2] (%) six months ended 30 June 2020
Hong Kong	• **Smoking (Public Health) (Amendment) Bill 2019** The Hong Kong government introduced the Smoking (Public Health) (Amendment) Bill 2019 (the "**Bill**") in February 2019, proposing to amend the Smoking (Public Health) Ordinance (Cap. 371) to ban the import, manufacture, sale, distribution and advertisement of alternative smoking products, including vaping products and items that are designed for use as a component or accessory. The Bill exempts vaping products that are articles in transit or in air transshipment cargos, provided that the products are not removed from the vessel, aircraft or specified cargo transshipment area. However, the Bill does not exempt vaping products being transported by vehicles on land. On 2 June 2020, the Bills Committee held its last meeting before the end of the current session of the Legislative Council on 15 July 2020. The Bill will not complete the legislative process before the end of the current session of the Legislative Council and will not become law. However, the Hong Kong government may decide to reintroduce and enact the Bill in its current or an amended form in the future.	(i) closed system vaping devices (under our corporate client oriented sales), (ii) open system vaping devices (our self-branded APV under retail client oriented sales), and (iii) vaping components for HNB devices. Revenue generated from Hong Kong is on re-export or transshipment basis and, to our best knowledge, none of our products are distributed or sold in Hong Kong. If the Bill is enacted in its current or an amended form in the future, to ensure our compliance, we will communicate with our customers regarding alternative transshipment options and are confident that there will be alternative ways of having their orders shipped overseas (such as through airports in Shenzhen, Guangzhou and Shanghai) with immaterial disruption to our operations.	38.0%
Japan	• **Tobacco Business Act** Prohibits any individual or company (other than Japan Tobacco) from manufacturing any tobacco products (including HNB devices containing tobacco leaves), and requires sellers or distributors of tobacco products to obtain a license from the Minister of Finance. • **Safety Act** The Safety Act also applies to vaping components for HNB devices.	Vaping components for HNB devices, which comprised over 99% of the products we sold to Japan during the review period. To the best knowledge of our Directors, we were not aware of any material non-compliance with the Tobacco Business Act and the Safety Act during the review period.	3.7%

Principal Sale Jurisdictions[(1)]	Material Laws, Regulations, Executive Orders and Policies	Relevant Products, Potential Impact and Compliance Status	Revenue Contribution[(2)] (%) six months ended 30 June 2020
E.U. and U.K.[(4)]	• **Directive 2014/40/EU** Regulates vaping devices principally on five main aspects, including (i) the information to be provided by the manufacturer and/or distributor, (ii) the advertising and promotion, (iii) safety issues and warnings, (iv) products presentation and (v) provisional measures in case of suspected risk.	(i) closed system vaping devices (under our corporate client oriented sales), and (ii) open system vaping devices (our self-branded APV under retail client oriented sales). To the best knowledge of our Directors, we were not aware of any material non-compliance with Directive 2014/40/EU during the review period	15.6%

Notes:

(1) In addition to our major markets listed above, we also sold our closed system vaping devices, self-branded APV and vaping components to other countries, such as Israel, Korea, Malaysia and Canada, in aggregate accounting for less than 4% of our total revenue in the six months ended 30 June 2020, which we consider are immaterial to our historical and future business and financial performance.

(2) The percentage of revenue contribution demonstrates the portion of our business that was affected by the relevant regulations in the relevant period. The percentage of revenue contribution for the six months ended 30 June 2020 also represents the portion of our business that will be affected by the same regulations in the future, assuming the percentage of revenue contribution remains constant and there is no further change to the legislative regimes in relation to e-cigarettes and vaping devices in the relevant jurisdictions.

(3) Revenue contribution from the U.S. also includes sales forwarded through Hong Kong.

(4) Prior to its withdrawal from the E.U. at the end of January 2020.

Monitoring and Mitigating Risks Arising from the Evolving Regulatory Environment

To monitor the constantly evolving regulatory environment, our legal department is responsible for the monitoring of global regulatory development and changes which are relevant to our business activities. We also have screening procedures for the initiation of business cooperation with new customers and/or other business partners. The purpose of the screening procedure is to review the compliance with local laws and regulations in jurisdictions where these new customers are incorporated or conduct business activities. The legal department also cooperates closely with local law firms in each major jurisdiction where we market our products. The local law firms are mainly responsible for providing legal advices on the compliance matters of local laws and regulations and timely updates on the changes or potential changes of relevant local laws and regulations which may have any impact on our business. We will continue to monitor developments and changes of relevant laws and regulations.

In terms of the PMTA requirements in the U.S., to reduce the risk of our PMTAs being delayed or rejected by the FDA, we have hired relevant consulting firms and a law firm with expertise in the requirements of PMTAs and knowledge of the concerns of the FDA to assist us with and review our PMTAs. In addition, we have established a communication and reporting system to facilitate the exchange of information internally and externally and to help solve any issues that may arise during the process in a timely manner. In terms of internal personnel arrangement, we have established a specific team, which includes members with experience in filing applications with the FDA, to carry out the preparation of PMTAs. This team will also assist the PMTA preparations of our customers to the extent possible.

Moreover, in response to potential future laws and regulations in Hong Kong that may affect our current transshipment arrangements, we have conducted a preliminary survey of other airports through which we can transship more of our products. We will communicate with our customers regarding alternative transshipment options should the need arise and are confident that there will be alternative ways of having their orders shipped overseas (such as through airports in Shenzhen, Guangzhou and Shanghai) with immaterial disruption to our operations.

In addition, we will take the following actions or measures to manage and mitigate the risks arising from changes of laws and regulations:

1. continue to monitor laws and regulations in each major jurisdiction to identify any changes and potential changes of laws and regulations in time as well as to make sure our business activities comply with relevant laws and regulations;

2. continue to diversify our revenue in terms of countries and regions, in particular, those with established laws and regulations which allow us to conduct our business activity on a normal basis;

3. continue to diversify our product portfolio to explore the applications of vaping technology in other industries, e.g. health care and pharmaceutical industry; and

4. continue to reduce our reliance on labor by improving the level of production automation, which will help to mitigate the risk of changes in manufacturing and labor laws and regulations and allow us to more easily move our operations to other locations in the event that local laws and regulations become disadvantageous to us.

We have expended some resources to comply with the regulatory developments described above, particularly the PMTA requirement. Please refer to the sections headed "Regulatory Overview," "Business — Regulatory Environment" and "Business — Licenses, Regulatory Approvals and Compliance Record" in the prospectus published by the Company on 29 June 2020 for details. As of 30 June 2020, certain of the regulatory developments described above had increased our compliance cost or affected our product offering strategy in the relevant markets, but had not resulted in any material adverse impact on our operations, financial performance, cooperation with our major customers and business expansion. We will continue to monitor regulatory developments and adopt measures to ensure compliance with the new regulations.

Regarding the recent developments on the effects of vaping and COVID-19, please refer to the sections headed "Summary — Recent Developments — COVID-19 Outbreak" and "Business — COVID-19 Outbreak" in the prospectus published by the Company dated 29 June 2020 and the section of "Impact of the COVID-19 Outbreak ("**COVID-19**" or "**Outbreak**")" in this report.

Research and Development

During the review period, the Group continued to strengthen its investment in research and development and the corresponding expenses increased by approximately 117.4% over the same period last year. During the review period, the Group continued to increase the research and development of safety and user experience of vaping product and also continued to promote the further improvement of production automation technology, laying a foundation for further improvement of production efficiency. In addition to research and development in existing business areas, the Group is also actively exploring the application of vaping technology platforms in the healthcare sector and has made certain progress during the review period. For example, in April 2020, we entered into a material transfer and research agreement with AIM ImmunoTech, Inc. ("**AIM**") to research the efficacy of using our inhalation delivery device to administer AIM's flagship drug, Ampligen, for COVID-19 treatments. As of 30 June 2020, the total number of employees in research and development function of the Group accounted for approximately 38.5% of total non-production employees (total employees excluding employees in production function).

Production and Operation

The Group was affected by the COVID-19 epidemic in the first quarter of 2020, which caused the operation commencement date to be delayed. After the start of operation, it also faced multiple challenges of epidemic prevention and control, employee recruitment and resumption of work and production. The Group has overcome numerous difficulties and completed the recruitment of employees required for production within one month with no employee infected with COVID-19, and its production and operations basically returned to normal in mid March. Due to the impact of the epidemic, the Group's production capacity in the first quarter was reduced by one-third compared to the original plan, which led to a decline in revenue in the first quarter. The Group quickly resumed normal production and achieved a record high in a single month sales in April and recorded a period on period revenue growth of approximately 38.9% in the second quarter and a revenue growth of approximately 18.5% in the first half of 2020.

During the review period, the Group continued to improve operational efficiency and lowered the proportion of material costs, labor costs and manufacturing expenses as a percentage of revenue to a certain extent by reducing material wastage rate, optimizing cost structure and further exerting the scale effect of procurement, which brought strong momentum to the improvement of the Group's gross profit margin.

Production Capacity and Utilisation Rate

	Designed Production Capacity (equivalent units in millions)	**Adjusted Production Capacity** (equivalent units in millions)	**Production volume during the review period** (equivalent units in millions)	**Utilisation Rate**
Corporate Client Oriented sales	891.3	742.8	373.8	50.3%
Retail Client Oriented sales	12.9	10.8	5.8	53.7%

Notes:

1. Designed Production Capacity was calculated based on the designed production capacity per hour of our production line. In our calculations, we assumed that (i) we operate 300 days per year at all of our production facilities, and (ii) we operate eight hours per day.

2. Adjusted Production Capacity was calculated based on Designed Production Capacity after deducting the impact of COVID-19 in the first quarter of 2020.

3. Utilisation Rate was calculated based on Production Volume during the period divided by Adjusted Production Capacity.

Sales and Marketing

In the first quarter of 2020, limited by production capacity, the Group's sales fell by approximately 8.8% compared with the same period last year. After production returned to normal in the second quarter, the Group promptly realized and quickly responded to customer demand for products through the establishment of dedicated task force and timely coordination among material supply, employee recruitment and training, production planning to meet the rapidly growing order needs of large customers, and the revenue increased by approximately 38.9% in the second quarter over the same period last year.

IMPACT OF THE COVID-19 OUTBREAK ("COVID-19" OR "OUTBREAK")

Impact on our production and operation

Since the outbreak of COVID-19, it has affected China and many other countries globally. The Chinese central government and local governments in Wuhan and other cities in China have introduced various temporary measures to contain the COVID-19 outbreak, such as extension of the Lunar New Year holiday and travel restrictions, which have impacted and may continue to impact national and local economy to different degrees.

Our operations have experienced a short-term impact mainly due to production delays caused by the extension of the Lunar New Year holiday, mandatory quarantines of our employees upon returning to work and difficulties in recruiting new employees. In view of these circumstances, our production capacity in the first quarter of 2020 was one-third lower than our planned production capacity, which has adversely affected our revenue. We gradually resumed production and operation starting from 17 February 2020 and resumed full production and operation in mid-March 2020.

Impact on our supply chain

The Group has gradually resumed production and operations starting from 17 February 2020, the major suppliers of the Group have also gradually resumed operations since February 2020, and our major suppliers have not raised material prices due to the epidemic. Our raw material transportation has not been significantly affected as well. In addition, before the Spring Festival, the Group has reserved raw materials for production after the Spring Festival. Therefore, the supply chain of the Group was not significantly affected by the epidemic during the review period.

Impact on consumer demand and sales channels

Our end consumers' demand for self-branded APV under retail client oriented sales has also been affected by the COVID-19 outbreak. For the six months ended 30 June 2020, our revenue from retail client oriented sales decreased by approximately 38.5% as compared to the same period in 2019. The primary reason for the decrease was the interruption of production in the first quarter due to the impact of the COVID-19 outbreak. The impact on the sales channels of our distributors also led to such decrease, as a number of vaping shops and tobacco shops had reduced business hours or had closed temporarily during the epidemic period and end consumers had to rely more on online stores to purchase our self-branded APV. Further, compared with our closed system vaping device, the average selling price of our self-branded APV is higher, which made them more susceptible to having decreased consumer demand during the COVID-19 outbreak.

The Group's client retail channels under corporate client oriented sales are mainly convenience stores and petrol stations etc. These retail channels usually continue to operate during the Outbreak, so the epidemic has relatively limited impact on these retail channels.

Control Measures Addressing the Outbreak

We have employed various measures to mitigate the impact of the Outbreak, including, for example, establishing a group-level contingency plan, which includes recruitment management measures, and timely communication with our customers and suppliers, etc.

On 27 January 2020, we formally established a COVID-19 prevention unit and have since issued 15 notices to fully deploy the COVID-19 prevention procedures. The COVID-19 prevention unit consists of our vice president, human resource and administrative management center heads and the heads of operation of each production base. We also mandated each of our production bases to establish a COVID-19 prevention team.

After the establishment of the COVID-19 prevention unit and before the resumption of the production bases and offices, we quickly procured the necessary supplies for epidemic prevention, including a sufficient number of masks, disinfection supplies and temperature measurement equipment. We also adopted the strict prevention and control measures.

As of 30 June 2020 and up to the date of this report, no employees of the Group have been found to be infected with COVID-19.

For detailed information about the impact of the Outbreak, please refer to the section of "Business — COVID-19 OUTBREAK" in the prospectus of the Company dated 29 June 2020.

FUTURE PROSPECTS AND STRATEGIES

In terms of product research and development, the Group will adhere to the technology-leading strategy, continue to increase investment in research and development, especially in basic research in relation to product safety, health and consumer experience, and actively promote the application of vaping technology in health, medical and other fields. As for product application research, the Group will stick to work closely with major customers to keep abreast of the changes in product requirements of legislators, regulators and consumers, so as to design more competitive and innovative products in a targeted manner. The Group will submit premarket tobacco applications ("**PMTA**") before the stipulated deadline 9 September 2020 in accordance with the requirements of the United States Food and Drug Administration ("**FDA**") for the Group's certain self-branded products. At the same time, the Group will continue to actively cooperate with customers in preparing PMTA applications related to the Group's products. As at the date of the report, the Group has submitted PMTA application for one model of its self-branded product. The application has been accepted by FDA.

For production and operations, the Group will continue to improve production efficiency and product competitiveness in terms of cost and quality through measures such as increasing the level of production automation, optimizing production processes and optimizing supply chains.

For production capacity, the Group fully recognizes that only by establishing sufficient capacity reserves can it quickly response to customer demand for orders and lay a foundation for taking up new market opportunities. The Group will advance its capacity expansion plan in an orderly manner as scheduled. For details of the capacity expansion plan, please refer to the section headed "Future Plans and Use of Proceeds" in the prospectus published by the Company dated 29 June 2020.

With regard to sales, the Group will strive to strengthen in-depth cooperation with existing large-scale ODM customers, fully understand and respond to customer needs in a timely manner and provide strong guarantees for customers' business growth. In the meantime, the Group will also continue to strengthen the market expansion of its self-branded business and increase its market share by creating high-quality products, improving product distinctions in technology and market coverage. In July 2020, the Group achieved a record high in a single month sales revenue as a result of continuously increase of demand from main customers.

FINANCIAL REVIEW

During the review period, the total revenue of the Group was approximately RMB3,880,518,000, representing an increase of approximately 18.5% from RMB3,273,653,000 in the same period last year. The Group's gross profit margin increased from approximately 41.5% in the same period last year to approximately 49.0% during the review period. The Group's profit and total comprehensive income for the period decreased from approximately RMB920,998,000 in the same period last year to approximately RMB76,661,000, primarily due to loss on fair value changes of financial instruments during the review period. The adjusted net profit was approximately RMB1,307,973,000, representing a period-on-period increase of approximately 40.4%. Due to the impact of the COVID-19 epidemic, the Group achieved revenue of approximately RMB1,275,696,000 in the first quarter of 2020, showing a decrease of approximately 8.8% from the same period last year. In the second quarter of 2020, the Group's production and operations basically returned to normal, achieving revenue of approximately RMB2,604,822,000, showing an increase of approximately 38.9% over the same period last year.

1. Revenue — categorized by business types

	For the six months ended 30 June				
	2020		2019		Changes
	RMB'000	**%**	RMB'000	%	%
Corporate client oriented sales	**3,489,724**	**89.9**	2,637,881	80.6	32.3
Retail client oriented sales	**390,794**	**10.1**	635,772	19.4	(38.5)
Total	**3,880,518**	**100.0**	3,273,653	100.0	18.5

(1) Corporate client oriented sales

During the review period, the revenue of corporate client oriented sales was approximately RMB3,489,724,000 (the same period in 2019: RMB2,637,881,000), indicating an increase of approximately 32.3% from the same period last year, which was primarily attributable to the continuous recognition of vaping devices of our Group by consumers in the market, and that the impact of the COVID-19 outbreak on the sales channel of the Group's customers of vaping devices being relatively small, thus the significant increase of purchase orders from the Company's major customers.

(2) Retail client oriented sales

The Group's products for retail clients are mainly self-branded open system vaping devices and related ancillary products ("**APV products**"). During the review period, the revenue from retail clients was approximately RMB390,794,000 (the same period in 2019: RMB635,772,000), indicating a decrease of 38.5% from the same period last year, mainly due to the restricted sales channels and impact on consumers' purchasing power for open system vaping devices with higher unit prices during the COVID-19 outbreak period. The main sales channels of APV products are vape shops and tobacco shops. During the epidemic period, a number of vape shops and tobacco shops have fewer business hours or have been temporarily closed, so end consumers have to rely more on online shops to purchase APV products. In addition, APV products have higher average selling price compared with our closed system vaping devices and it is more likely for consumers to reduce their demand for APV products during the COVID-19 epidemic period.

Revenue — categorized by customers' places of incorporation

	For the six months ended 30 June				
	2020		2019		Changes
	RMB'000	**%**	RMB'000	%	%
U.S.	**649,089**	**16.7**	999,019	30.5	(35.0)
Mainland China	**732,675**	**18.9**	609,433	18.6	20.2
Hong Kong, China*	**1,476,106**	**38.0**	665,565	20.3	121.8
Japan	**142,890**	**3.7**	406,189	12.4	(64.8)
Europe	**737,955**	**19.0**	420,744	12.9	75.4
Others	**141,803**	**3.7**	172,703	5.3	(17.9)
Total	**3,880,518**	**100.0**	3,273,653	100.0	18.5

* Revenue generated from Hong Kong is on re-export or transshipment basis and, to our knowledge, none of our products are distributed or sold in Hong Kong. Our customers incorporated in Hong Kong are mainly responsible for transshipment or trading companies for our overseas customers. Approximately 96.7% (the same period last year: approximately 90.8%) of the products sold to customers incorporated in Hong Kong during the review period were forwarded to the U.S..

2. Gross Profit and Cost of Sales

During the review period, the gross profit of the Group was RMB1,900,512,000 (the same period in 2019: RMB1,358,449,000), indicating an increase of approximately 39.9% from the same period last year while the gross profit margin rose to approximately 49.0% during the review period from 41.5% in the same period last year. The main reasons for the increase in gross profit margin include: (i) the scale effect out of steady revenue growth; (ii) the improvement in operating efficiency resulted in the decrease in the production cost of those products.

Cost of Sales

	For the six months ended 30 June				
	2020		2019		Changes
	RMB'000	**%**	RMB'000	%	%
Cost of raw materials	**1,414,713**	**71.4**	1,416,662	74.0	(0.1)
Labor cost	**275,413**	**13.9**	263,297	13.7	4.6
Production overhead	**258,820**	**13.1**	205,111	10.7	26.2
Tax and surcharge	**31,060**	**1.6**	30,134	1.6	3.1
Total	**1,980,006**	**100.0**	1,915,204	100.0	3.4

3. Distribution and Selling Expenses

The Group's distribution and selling expenses during the review period increased from approximately RMB64,163,000 in the same period last year to approximately RMB74,029,000 during the review period, representing an increase of approximately 15.4%. Distribution and selling expenses as a percentage of revenue dropped from approximately 2.0% in the same period last year to approximately 1.9% in the review period. The decrease in distribution and selling expenses as a percentage of revenue was mainly due to the scale effect brought by the growth of revenue. Among which:

(1) Employee's salaries and benefits increased by approximately 11.3% from approximately RMB37,276,000 in the same period last year to approximately RMB41,479,000. The proportion of employee's salaries in revenue decreased from approximately 1.14% in the same period last year to approximately 1.07% during the review period. The increase in employee's salaries was mainly due to the increased headcounts related to distribution and selling personnel in line with the increase in business scale.

(2) Marketing expenses increased by approximately 55.8% from approximately RMB11,843,000 in the same period last year to approximately RMB18,452,000. The proportion of marketing expenses to revenue increased from approximately 0.4% in the same period last year to about 0.5% in the review period. The main reason for the increase in marketing expenses was that the Group's market expansion expenses for its self-branded business increased significantly during the review period in order to cope with the impact of the epidemic on sales channels.

4. Administrative Expenses

The administrative expenses of the Group during the review period increased from approximately RMB103,719,000 in the same period last year to approximately RMB281,187,000 during the review period, representing an increase of approximately 171.1%. Administrative expenses as a percentage of revenue increased from approximately 3.2% in the same period last year to approximately 7.2% in the review period. The increase in administrative expenses as a percentage of revenue was mainly due to the increase in share option expenses. Excluding the effect of share option expenses, the Group's administrative expenses during the review period increased by approximately 27.4%, and it as a percentage of revenue increased from approximately 3.2% in the same period last year to approximately 3.4% during the review period. Among which:

(1) Employee's salaries and benefits increased by approximately 283.7% from approximately RMB55,069,000 in the same period last year to approximately RMB211,326,000, and its percentage of revenue increased from approximately 1.7% in the same period last year to approximately 5.4% during the review period. The main reason for the increase in employee's salaries and benefits was the amortization of the Company's pre-IPO share option expenses of RMB149,050,000 during the review period (the same period last year: nil). If excluding the impact of the pre-IPO share option expenses amortization, the remuneration expenditure during the review period was approximately RMB62,276,000, representing an increase of approximately 13.1% over the same period last year.

(2) Professional fees increased by approximately 67.5% from approximately RMB10,742,000 in the same period last year to approximately RMB17,991,000 during the review period. Such fees as a percentage of revenue increased from approximately 0.3% in the same period last year to approximately 0.5% during the review period. The main reason for the increase in such fees was the increase in demand for hiring external professional agencies to provide consultation services in line with the expansion of the Company's business scale.

(3) Depreciation and amortization expenses increased by approximately 33.5% from approximately RMB6,539,000 in the same period last year to approximately RMB8,732,000 during the review period, accounting for approximately 0.2% of revenue (the same period last year: approximately 0.2%). The increase in such expense was mainly due to the expansion of the Company's business scale and the corresponding increase investment in equipment and decoration expenses.

5. Research and Development Expenses

The Group's research and development expenses during the review period increased from approximately RMB96,095,000 in the same period last year to approximately RMB208,935,000 during the review period, representing an increase of approximately 117.4%. Research and development expenses as a percentage of revenue increased from approximately 2.9% in the same period last year to approximately 5.4% in the review period. The increase in research and development expenses as a percentage of revenue was mainly due to the fact that the Group has always regarded technological leadership as the core driving force of the Group's development, continued to increase basic research, and incurred a relatively large amount of research and testing expenses related to the FDA's PMTA product certification during the review period, including:

(1) Employee's salaries and benefits increased by approximately 79.8% from approximately RMB57,548,000 in the same period last year to approximately RMB103,472,000 during the review period. The proportion of employee salaries and benefits in revenue increased from approximately 1.8% in the same period last year to approximately 2.7% during the review period.

(2) The development costs increased by approximately 193.4% from approximately RMB29,902,000 in the same period last year to approximately RMB87,740,000, and the proportion of such costs in revenue increased from approximately 0.9% in the same period last year to approximately 2.3% during the review period.

6. Other Income

During the review period, the total other income of the Group was approximately RMB44,465,000, representing an increase of approximately 61.3% from approximately RMB27,559,000 in the same period last year, of which:

Items	For the six months ended 30 June 2020 RMB'000	 2019 RMB'000	Changes %
Interest income from bank deposits	**4,418**	1,782	147.9
Interest income from rental deposits	**560**	402	39.3
Government grants	**29,105**	7,956	265.8
Compensation income from customers	**6,915**	16,390	(57.8)
Income from technical consultation services	**1,093**	—	100.0
Others	**2,374**	1,029	130.7
Total	**44,465**	27,559	61.3

7. Other Gains and Losses

During the review period, the total other gains of the Group were approximately RMB22,022,000, compared with other losses of approximately RMB6,483,000 in the same period last year, of which:

Items	For the six months ended 30 June 2020 RMB'000	 2019 RMB' 000	Changes %
Net foreign exchange gain (loss)	**6,936**	(4,419)	(257.0)
Net gain arising on financial assets at fair value through profit or loss	**4,175**	4,344	(3.9)
Gain on early termination of lease	**1,599**	—	100.0
Loss on disposal/write off of property, plant and equipment	**(725)**	(7,385)	(90.2)
Others	**10,037**	977	927.3
	22,022	(6,483)	

8. Listing Expenses

The Group's listing expenses incurred during the review period and recognised in condensed consolidated statement of profit or loss and other comprehensive income amounted to approximately RMB24,666,000 (the same period last year: RMB10,345,000), which was mainly attributable to the expenses payable to relevant intermediaries incurred by the Group in preparation for the initial public offering during the review period.

9. Finance Costs

During the review period, the finance costs of the Group were approximately RMB8,295,000, representing an increase of approximately 10.5% from approximately RMB7,505,000 in the same period last year. The increase in the Group's finance costs was primarily due to the increase in average lease liabilities during the review period.

10. Income Tax Expense

During the review period, the Group's income tax expense was approximately RMB228,668,000 representing an increase of approximately 30.2% from approximately RMB175,608,000 in the same period last year. Income tax expenses accounted for approximately 17.5% (approximately 18.9% in the same period last year) of adjusted profits before tax. The main reason for the increase in income tax was the increase in taxable profit.

11. Profit and Total Comprehensive Income for the Period

The Group's profit and total comprehensive income for the period during the review period was approximately RMB76,661,000, representing a decrease of approximately 91.7% from approximately RMB920,998,000 in the same period last year. The adjusted net profit was approximately RMB1,307,973,000, representing an increase of approximately 40.4% from approximately RMB931,343,000 in the same period last year.

12. Liquidity and Financial Resources

As at 30 June 2020, the net current assets of the Group were approximately RMB1,659,975,000 (31 December 2019: RMB120,497,000). As at 30 June 2020, the Group's bank balance and cash were approximately RMB1,610,245,000 (31 December 2019: RMB731,394,000), of which approximately RMB1,281,607,000 were denominated in RMB, approximately RMB327,363,000 were denominated in USD, approximately RMB687,000 were denominated in HKD, approximately RMB588,000 were denominated in GBP. (31 December 2019: of which approximately RMB574,188,000 were denominated in RMB, approximately RMB156,826,000 were denominated in USD, approximately RMB34,000 were denominated in HKD, approximately RMB346,000 were denominated in GBP). As at 30 June 2020, the current ratio of the Group was approximately 194.5% (31 December 2019: 105.9%). The increase in net current assets during the review period was primarily due to the increase in bank balance and cash.

Treasury management policy

The treasury management policy of the Group is to utilise surplus cash reserves to invest in low-risk wealth management products or time deposit and generate income without interfering with the Group's business operations or capital expenditures. With the aim of controlling risks to the Group, the Group generally invests in low-risk, short-term (with maturity periods not more than one year) and principal-protected wealth management products or time deposit.

Borrowings

As at 30 June 2020, the Group did not have any bank borrowings (31 December 2019: Nil). As of 30 June 2020, the banking facilities secured by the Company were RMB250.0 million, of which RMB36.8 million and RMB28.3 million respectively had been used for the issuance of letter of credit and guarantee for customs authorities.

Asset-liability ratio

The asset-liability ratio (total liabilities divided by total assets) was approximately 79.1% (31 December 2019: 77.8%).

13. Pledge of Assets

As at 30 June 2020, except for the deposit of approximately USD582,000 placed by the Group for the issuance of letters of credit for the raw materials purchase from overseas suppliers, the Group did not have any pledges on its assets (31 December 2019: Nil).

14. Exposure to Foreign Exchange Risk

During the six months ended 30 June 2020, the Group recorded a net foreign exchange gain of approximately RMB6,936,000 (the same period last year: a net foreign exchange loss of RMB4,419,000).

The functional currency of the Group is RMB and the sales of the Group are mainly settled in U.S. dollars and RMB. During the review period, approximately 60% of the Group's revenue was settled in U.S. dollars and approximately 40% was settled in RMB. Meanwhile, most of the material, labor and various expenditures paid by the Group were settled in Renminbi. The foreign exchange risk of the Group mainly refers to the risks of foreign exchange gains or loss arisen from the net amount of monetary funds denominated in U.S. dollars, trade and bills receivables denominated in U.S. dollars deducted by trade payables denominated in U.S. dollars ("**U.S. dollars exposure**") as a result of changes in the exchange rate between U.S. dollars and Renminbi.

Sensitivity Analysis

For the above-mentioned U.S. dollars exposure, the Group controls relevant foreign exchange risks through timely settlement of foreign currencies or entering into forward foreign exchange contracts with commercial banks. The Board believes that the relevant foreign exchange risks are acceptable to the Group and such risks will be monitored closely.

Based on the amount of assets and liabilities of the Group denominated in USD as of 30 June 2020, if the exchange rate of USD against RMB rises by 10%, the Group's profit after tax will decrease by approximately RMB92,320,000 (31 December 2019: profit after tax would decrease by approximately RMB21,291,000). Otherwise, if the exchange rate of USD against RMB drops by 10%, the Group's profit after tax will increase by approximately RMB92,320,000 (31 December 2019: profit after tax would increase by approximately RMB21,291,000).

15. Employment, Training and Development

As at 30 June 2020, the Group has 15,156 and 5 employees in mainland China and Hong Kong respectively. The Group provides comprehensive and attractive remunerations, retirement plan, share option schemes and benefits for its employees and also awards discretionary bonuses to its employees based on their work performance. The Group is required to contribute to the China Social Security Schemes. Both the Group and its employees in China are required to make contributions to pension insurance and unemployment insurance according to the rate set out in relevant laws and regulations of China. The Group has adopted the provident fund scheme for employees in Hong Kong in accordance with Mandatory Provident Fund Scheme Ordinance. During the review period, the total staff costs (including management and administration staff) account for approximately 18.9% of the revenue of the Group (the same period last year: 15.2%). The increase in total staff costs as a percentage of revenue was mainly due to the amortisation amount of share options which was included in the review period. If such effect is excluded, the total staff costs account for approximately 15.1% of the revenue in the review period.

16. Capital Expenditures

During the six months ended 30 June 2020, the total investment in property, plant and equipment and intangible assets of the Group was approximately RMB188,612,000 (approximately RMB92,946,000 in the same period last year), which was mainly used for purchasing property, plant and equipment to support the expansion of production scale and increase in R&D activities of the Group.

17. Capital Commitments

As at 30 June 2020, the Group had contracted capital commitment of RMB99,350,000 (31 December 2019: RMB61,596,000) for procurement of land use right, property, plant and equipment, which will be financed with net proceeds from the Listing.

18. Material Acquisitions and Disposal

During the six months ended 30 June 2020, the Group did not carry out any material acquisitions or disposals of any subsidiaries, associates or joint ventures.

19. Significant Investments

For the six months ended 30 June 2020, the Group did not have any significant investments (six months ended 30 June 2019: nil).

20. Contingent Liabilities

As at 30 June 2020, the Group did not have any material contingent liabilities.

21. Future Plans for Material Investments or Capital Expenditures

Save as disclosed under the section "Future Plans and Use of Proceeds" in the prospectus of the Company dated 29 June 2020, our Company has no other plans for material investments or capital expenditures.

Other Information

MAJOR CUSTOMERS AND SUPPLIERS

During the six months ended 30 June 2020, the Group's sales to its top five customers accounted for approximately 72.9% of its total sales (during the six months ended 30 June 2019: approximately 54.8%). The Group's purchases from its top five suppliers accounted for approximately 32.8% of its total purchases (during the six months ended 30 June 2019: approximately 27.4%). The Group aims to maintain long-term cooperative relationship with reputable customers and suppliers for the expansion of its business.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the six months ended 30 June 2020, none of the directors had any interest in any business competing with the Company or any of its subsidiaries.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

The shares of the Company (the "**Shares**") were listed on the Stock Exchange on 10 July 2020 (the "**Listing Date**"), which was after 30 June 2020 (end of the review period). Accordingly, Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "**SFO**") and Section 352 of the SFO were not applicable to the Company/the Directors or chief executives of the Company as at 30 June 2020.

As at the date of this interim report, the interests and short positions of our Directors or chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Directors or Chief executives	Notes	**Nature of Interest**	**Ordinary shares held**	**Approximate percentage of the total number of issued shares** (Note 1)
Chen Zhiping	(2)	Interest in controlled corporation	1,989,705,600	34.13%
	(3)	Interest of concert party	302,202,400	5.18%
	(4)	Beneficial owner	76,073,000	1.30%
Xiong Shaoming	(5)	Interest in controlled corporation	302,202,400	5.18%
	(6)	Interest of concert party	1,989,705,600	34.13%
Liu Jincheng	(7)	Interest in controlled corporation	1,950,240,000	33.45%
Wang Guisheng	(8)	Beneficial owner	12,000,000	0.21%

Notes:

(1) The percentage is calculated based on the total number of shares of the Company in issue as at the date of this report, which was 5,829,664,720 Shares.

(2) Mr. Chen Zhiping holds all the issued shares of SMR & Alon Limited, which in turn directly holds 1,989,705,600 shares of the Company. Accordingly, Mr. Chen is deemed to be interested in the 1,989,705,600 shares of the Company held by SMR & Alon Limited.

(3) By virtue of the acting-in-concert agreement entered into between Mr. Chen Zhiping and Mr. Xiong Shaoming on 24 March 2017 and as amended and restated on 11 December 2019 (the "**Concert Party Agreement**"), Mr. Chen and Mr. Xiong are deemed to be interested in each other's interest in the shares of the Company.

(4) These represent the shares of the Company to be issued upon the exercise of pre-IPO share options of the Company granted to Mr. Chen Zhiping. In addition, subject to the pre-IPO share Option scheme of the Company and pursuant to an undertaking dated 1 May 2020, Mr. Chen irrevocably and unconditionally undertakes to our Company that he will only exercise the pre-IPO share options of the Company granted to and vested with him when the market capitalization of our Company reaches or exceeds HK$110 billion.

(5) Mr. Xiong Shaoming holds all the issued shares of Andy Xiong Holding Limited, which in turn directly holds 302,202,400 shares of the Company. Accordingly, Mr. Xiong is deemed to be interested in the 302,202,400 shares of the Company held by Andy Xiong Holding Limited.

(6) By virtue of the Concert Party Agreement, Mr. Chen Zhiping and Mr. Xiong Shaoming are deemed to be interested in each other's interest in the shares of the Company.

(7) Dr. Liu Jincheng holds all the issued shares of Golden Energy Global Investment Ltd., which in turn directly holds 48,720,000 shares of the Company. In addition, Dr. Liu through EVE Energy Co., Ltd. and EVE Asia Co., Limited ultimately controls EVE BATTERY INVESTMENT LTD., which in turn directly holds 1,901,520,000 shares of the Company. Accordingly, Dr. Liu is deemed to be interested in an aggregate of 1,950,240,000 shares of the Company held by Golden Energy Global Investment Ltd. and EVE BATTERY INVESTMENT LTD.

(8) These represent the shares of the Company to be issued upon the exercise of pre-IPO share options of the Company granted to Mr. Wang Guisheng.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As stated above, the Shares were not listed on the Stock Exchange as at 30 June 2020. Accordingly, Divisions 2 and 3 of Part XV of the SFO and Section 336 of the SFO were not applicable to the Company as at 30 June 2020. As at the date of this report, so far as the Directors are aware, the following parties (other than our Directors or chief executives of the Company) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 366 of the SFO:

Long Positions in the Shares and Underlying Shares of the Company

Name of Substantial shareholders	Notes	Nature of Interest	Ordinary shares held	Approximate percentage of the total number of issued shares (Note 1)
SMR & Alon Limited	(2)	Beneficial owner	1,989,705,600	34.13%
Zhao Zihan	(3)	Interest of spouse	2,367,981,000	40.62%
Andy Xiong Holding Limited	(4)	Beneficial owner	302,202,400	5.18%
Han Xiao	(5)	Interest of spouse	2,291,908,000	39.31%
EVE BATTERY INVESTMENT LTD.	(6)	Beneficial owner	1,901,520,000	32.62%
EVE Asia Co., Limited	(6)	Interest in controlled corporation	1,901,520,000	32.62%
EVE Energy Co., Ltd.	(6)	Interest in controlled corporation	1,901,520,000	32.62%
Luo Jinhong	(7)	Interest of spouse	1,950,240,000	33.45%

Notes:

(1) The percentage is calculated based on the total number of shares of the Company in issue as at the date of this report, which was 5,829,664,720 Shares.

(2) SMR & Alon Limited is beneficially and wholly owned by Mr. Chen Zhiping. Mr. Chen is therefore deemed to be interested in the Shares held by SMR & Alon Limited under the SFO.

(3) Ms. Zhao Zihan is the spouse of Mr. Chen Zhiping. Under the SFO, Ms. Zhao Zihan is deemed to be interested in the same number of Shares in which Mr. Chen is interested.

(4) Andy Xiong Holding Limited is beneficially and wholly owned by Mr. Xiong Shaoming. Mr. Xiong is therefore deemed to be interested in the Shares held by Andy Xiong Holding Limited under the SFO.

(5) Ms. Han Xiao is the spouse of Mr. Xiong Shaoming. Under the SFO, Ms. Han Xiao is deemed to be interested in the same number of Shares in which Mr. Xiong is interested.

(6) EVE BATTERY INVESTMENT LTD. is an investment holding company wholly owned by EVE Asia Co., Limited which is a wholly-owned subsidiary of EVE Energy Co., Ltd. EVE Energy Co., Ltd. was ultimately controlled by Dr. Liu Jincheng and Ms. Luo Jinhong (spouse of Dr. Liu).

(7) Ms. Luo Jinhong is the spouse of Dr. Liu Jincheng. Under the SFO, Ms. Luo Jinhong is deemed to be interested in the same number of Shares in which Dr. Liu is interested.

INTERIM DIVIDEND

The Board did not recommend a payment of interim dividends for the six months ended 30 June 2020 to the shareholders of the Company (the "**Shareholders**").

CORPORATE GOVERNANCE

Compliance with the Code Provisions of the Corporate Governance Code

The Board of Directors and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. The corporate governance principles of the Company emphasize a quality Board, sound internal controls, and transparency and accountability to all shareholders.

From the date of Listing on 10 July 2020 ("**Listing Date**") to the date of this interim report, the Company had applied the principles and complied with all code provisions (except as stated below) and, where applicable, the recommended best practices of the Corporate Governance Code ("**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**"). In respect of code provision A.2.1 of the CG Code, the positions of the chairman of the Board and the chief executive officer are held by the same individual, namely, Mr. Chen Zhiping. The Board of Directors is of the view that this is the most appropriate arrangement in the interest of the shareholders as a whole at present, and will not impair the balance of power between the Board of Directors and the Company's management, which is mainly in view of the following considerations:

(1) The decision of the Board of Directors requires the approval of a majority of Directors. The Board of the Company consists of seven Directors, comprising three independent non- executive Directors and one non-executive Director, in which the number of independent non-executive Directors is more than the Listing Rules requirement of one-third, and the number of executive Directors is less than half of the Board of Directors. Therefore, the Board believes that there is sufficient checks and balances within the Board;

(2) Mr. Chen and the other Directors have already undertaken to fulfill their fiduciary duties as Directors, which requires them to act for the benefits and in the best interests of the Company;

(3) The balance of power guarantees the functioning of the Board of Directors. The Board of Directors of the Company consists of experienced talents in different fields. These members meet regularly to discuss significant issues relating to the business strategies and operations of the Group;

(4) The Group's development strategy and other major operating decisions are jointly made by the management team, the Board of Directors, and special committees under the Board of Directors after regular discussions.

The Group will continue to review the effectiveness of the corporate governance structure of the Group in order to assess whether separation of the roles of chairman of the Board and chief executive officer is necessary.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Company has an internal audit function in place to provide an independent assessment of the Group's risk management and internal control systems and review of their effectiveness in accordance with the CG Code. The Internal Audit Department prepares its audit plan using a risk based methodology in consultation with, but independent of, the management for review by the Audit Committee of the Company ("**Audit Committee**"). The audit work focuses on the identification and analysis of the risks in relation to the Group's finance, operation and compliance monitoring and business activities. An integral part of the internal audit function is to monitor and ensure effective implementation of the risk management and internal control systems.

The Board, through the Audit Committee, has conducted a review of the effectiveness of the risk management and internal control systems of the Group for the six months ended 30 June 2020.

TERMS OF REFERENCE OF BOARD COMMITTEES

The terms of reference for each Board committee and the list of Directors and their roles and functions have been published on the websites of the Company and the Stock Exchange, respectively.

CONTINUOUS PROFESSIONAL DEVELOPMENT FOR DIRECTORS

All Directors should participate in continuous professional training to acquire and refresh their knowledge and skills pursuant to the code provision A.6.5 set out in the CG Code. The Company has arranged for continuous professional training on the updates of the Listing Rules and the related legal and regulatory requirements for the Directors.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company establishes different communication channels with shareholders and investors, including (i) printed copies of corporate communications (including but not limited to annual reports, interim reports, notices of meetings, circulars and proxy forms) required under the Listing Rules, and shareholders can choose to receive such documents using electronic means through the Company's website; (ii) the annual general meeting provides a forum for shareholders to raise comments and exchange views with the Board; (iii) updated and key information of the Group is available on the website of the Company; (iv) the Company's website offers a communication channel between the Company and its shareholders; (v) press conferences and briefing meetings with analysts are arranged from time to time to update on the performance of the Group; (vi) the Company's Hong Kong Branch Share Registrar deals with shareholders for all share registration and related matters; and (vii) the dedicated team of the Company handles enquiries from shareholders and investors generally.

The shareholders' communication policy and procedures for shareholders to propose a person for election as a Director have been adopted by the Company on 15 June 2020.

MODEL CODE FOR SECURITIES TRANSACTIONS OF DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Appendix 10 of the Listing Rules as the Company's code of conduct regarding Directors' securities transactions (the "**Securities Trading Code**"). As the shares of the Company were not yet listed on the Stock Exchange as of 30 June 2020, the Securities Trading Code was not applicable to the Company during the review period. Upon specific enquires on this matter, all Directors have confirmed that they have strictly complied with the relevant provisions of the Securities Trading Code throughout the period from the Listing Date to the date of this interim report.

CHANGES OF DIRECTORS' INFORMATION

From the date of the prospectus of the Company published on 29 June 2020 to the date of this report, there were no changes to the information of Directors which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

AUDIT COMMITTEE

The Company established the Audit Committee in compliance with Rules 3.21 to 3.23 of the Listing Rules on 10 July 2020. As at the date of this interim report, the Audit Committee consists of three independent non-executive Directors, namely Mr. Zhong Shan, Mr. Yim Siu Wing, Simon and Dr. Liu Jie. Mr. Zhong Shan is the Chairman of the Audit Committee. His expertise in accounting, auditing and finance enables him to lead the Audit Committee.

The principal responsibilities of the Audit Committee are to conduct critical and objective reviews of the Group's financial and accounting practices, risk management and internal controls. These include determining the nature and scope of statutory audit, reviewing the Group's interim and annual accounts and assessing the completeness and effectiveness of the Group's accounting and financial controls.

The terms of reference of the Audit Committee are consistent with the recommendations as set out in A Guide for Effective Audit Committee published by the HKICPA and the provisions of the CG Code, and are updated and amended according to the relevant requirements from time to time.

The Audit Committee of the Board has reviewed, with management and the independent auditor of the Company, the Group's unaudited condensed consolidated interim financial information for the six months ended 30 June 2020, the interim report, the accounting principles and practices adopted by the Group and has discussed risk management, internal controls, and financial reporting matters.

REVIEW OF ACCOUNTS

Deloitte Touche Tohmatsu, certified public accountants, the independent auditor of the Company has reviewed the unaudited condensed consolidated interim financial information for the six months ended 30 June 2020 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.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee in compliance with the CG Code on 10 July 2020. As at the date of this report, the Remuneration Committee consists of Mr. Chen Zhiping, an executive Director, Mr. Yim Siu Wing, Simon and Dr. Liu Jie, two independent non-executive Directors. Mr. Yim Siu Wing, Simon is the Chairman of the Remuneration Committee.

The principal responsibilities of the Remuneration Committee are to make recommendations to the Board on the overall remuneration policy and structure for the Directors and senior management and on the establishment of a formal and transparent process for approving such remuneration policy. The Remuneration Committee makes recommendations to the Board on the remuneration packages of individual executive directors and senior management. No Director will take part in any discussion on his or her own remuneration.

The Company's objective for its remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration and fees paid to members of the Board, market rates and factors such as each Director's workload, responsibility, and job complexity are taken into account.

NOMINATION COMMITTEE

The Company established the Nomination Committee on 10 July 2020. As of the date of this report, the Nomination Committee consists of Mr. Chen Zhiping, an executive Director, Mr. Zhong Shan and Dr. Liu Jie, two independent non-executive Directors. Mr. Chen Zhiping is the Chairman of the Nomination Committee.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

From the Listing Date to the date of this report, neither the Company nor its subsidiaries purchased, redeemed or sold any of the listed securities of the Company.

SHARE OPTION SCHEME

Pre-IPO Share Option Scheme

The Pre-IPO share option scheme was approved for adoption by all shareholders of the Company on 30 September 2019. The purpose of the Pre-IPO Share Option Scheme is to incentivize and reward eligible persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company.

As at the date of 30 September 2019 and 1 May 2020, the Company has granted share options for the purchase of a total of 319,032,000 shares to eligible participants under the Pre-IPO share option scheme.

For more information on the Pre-IPO Share Option Scheme, please refer to "Other Information — Share Option Scheme-Pre-IPO Share Option Scheme" in the prospectus of the Company dated 29 June 2020.

Details of the movement of the Pre-IPO share option scheme during the review period are as follows:

Grantee	Date of grant	Number of options	Vesting period	Exercisable period	Exercise price (RMB)	Number of options at 2020/01/01	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Number of options at 2020/06/30
Chen Zhiping	2020/05/01	16,000,000	2020/05/01–2020/10/09	2020/10/10–2030/04/30	0.38	—	16,000,000	—	—	16,000,000
		16,000,000	2020/05/01–2021/07/09	2021/07/10–2030/04/30	0.38	—	16,000,000	—	—	16,000,000
		16,000,000	2020/05/01–2022/07/09	2022/07/10–2030/04/30	0.38	—	16,000,000	—	—	16,000,000
		16,000,000	2020/05/01–2023/07/09	2023/07/10–2030/04/30	0.38	—	16,000,000	—	—	16,000,000
		12,073,000	2020/05/01–2024/07/09	2024/07/10–2030/04/30	0.38	—	12,073,000	—	—	12,073,000
Wang Guisheng	2019/09/30	6,000,000	2019/09/30–2020/10/09	2020/10/10–2029/09/29	0.38	6,000,000	—	—	—	6,000,000
		1,800,000	2019/09/30–2021/07/09	2021/07/10–2029/09/29	0.38	1,800,000	—	—	—	1,800,000
		1,800,000	2019/09/30–2022/07/09	2022/07/10–2029/09/29	0.38	1,800,000	—	—	—	1,800,000
		2,400,000	2019/09/30–2023/07/09	2023/07/10–2029/09/29	0.38	2,400,000	—	—	—	2,400,000
Li Xiaoping	2019/09/30	1,192,000	2019/09/30–2020/10/09	2020/10/10–2029/09/29	0.38	1,192,000	—	—	—	1,192,000
		358,000	2019/09/30–2021/07/09	2021/07/10–2029/09/29	0.38	358,000	—	—	—	358,000
		358,000	2019/09/30–2022/07/09	2022/07/10–2029/09/29	0.38	358,000	—	—	—	358,000
		476,000	2019/09/30–2023/07/09	2023/07/10–2029/09/29	0.38	476,000	—	—	—	476,000
	2020/05/01	10,000	2020/05/01–2021/07/09	2021/07/10–2030/04/30	0.38	—	10,000	—	—	10,000
		40,000	2020/05/01–2022/07/09	2022/07/10–2030/04/30	0.38	—	40,000	—	—	40,000
		25,000	2020/05/01–2023/07/09	2023/07/10–2030/04/30	0.38	—	25,000	—	—	25,000
		25,000	2020/05/01–2024/07/09	2024/07/10–2030/04/30	0.38	—	25,000	—	—	25,000

Grantee	Date of grant	Number of options	Vesting period	Exercisable period	Exercise price (RMB)	Number of options at 2020/01/01	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Number of options at 2020/06/30
Yuan Xiang	2019/09/30	52,000	2019/09/30– 2020/10/09	2020/10/10– 2029/09/29	0.38	52,000	—	—	—	52,000
		31,000	2019/09/30– 2021/07/09	2021/07/10– 2029/09/29	0.38	31,000	—	—	—	31,000
		31,000	2019/09/30– 2022/07/09	2022/07/10– 2029/09/29	0.38	31,000	—	—	—	31,000
		31,000	2019/09/30– 2023/07/09	2023/07/10– 2029/09/29	0.38	31,000	—	—	—	31,000
		32,000	2019/09/30– 2024/07/09	2024/07/10– 2029/09/29	0.38	32,000	—	—	—	32,000
Xiong Fei	2019/09/30	81,000	2019/09/30– 2020/10/09	2020/10/10– 2029/09/29	0.38	81,000	—	—	—	81,000
		24,000	2019/09/30– 2021/07/09	2021/07/10– 2029/09/29	0.38	24,000	—	—	—	24,000
		24,000	2019/09/30– 2022/07/09	2022/07/10– 2029/09/29	0.38	24,000	—	—	—	24,000
		33,000	2019/09/30– 2023/07/09	2023/07/10– 2029/09/29	0.38	33,000	—	—	—	33,000
Other employees	2019/09/30	75,481,000	2019/09/30– 2020/10/09	2020/10/10– 2029/09/29	0.38	75,481,000	—	—	221,000	75,260,000
		33,626,000	2019/09/30– 2021/07/09	2021/07/10– 2029/09/29	0.38	33,626,000	—	—	352,000	33,274,000
		36,364,000	2019/09/30– 2022/07/09	2022/07/10– 2029/09/29	0.38	36,364,000	—	—	467,000	35,897,000
		31,990,000	2019/09/30– 2023/07/09	2023/07/10– 2029/09/29	0.38	31,990,000	—	—	410,000	31,580,000
		10,735,000	2019/09/30– 2024/07/09	2024/07/10– 2029/09/29	0.38	10,735,000	—	—	402,000	10,333,000
	2020/05/01	37,000	2020/05/01– 2020/10/09	2020/10/10– 2030/04/30	0.38	—	37,000	—	—	37,000
		7,407,500	2020/05/01– 2021/07/09	2021/07/10– 2030/04/30	0.38	—	7,407,500	—	293,000	7,114,500
		13,672,500	2020/05/01– 2022/07/09	2022/07/10– 2030/04/30	0.38	—	13,672,500	—	748,000	12,924,500
		9,565,500	2020/05/01– 2023/07/09	2023/07/10– 2030/04/30	0.38	—	9,565,500	—	498,500	9,067,000
		9,257,500	2020/05/01– 2024/07/09	2024/07/10– 2030/04/30	0.38	—	9,257,500	—	496,000	8,761,500

Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme was conditionally approved and adopted by our Shareholders on 15 June 2020. The terms of Post-IPO employee share option scheme are subject to Chapter 17 of the Listing Rules. The purpose of the Post-IPO Share Option Scheme is to incentivize and reward eligible persons for their contribution to our Group and to align their interests with that of our Company so as to encourage them to work towards enhancing the value of our Company. Participants of the Post-IPO Share Option Scheme included employees (whether full time or parttime) or directors of a Member of the Group or associated companies of our Company, and the number of share subscription could be determined by the Board.

As of the date of this report, no option had been granted, agreed to be granted, exercised, cancelled or lapsed since the Post-IPO Share Option Scheme was adopted.

For further information of the Post-IPO Share Option Scheme, please refer to "Appendix IV — Statutory and General Information — Post-IPO Share Option Scheme" in the prospectus of the Company dated 29 June 2020.

APPENDIX 16 TO THE LISTING RULES

According to paragraph 40 of Appendix 16 to the Listing Rules headed "Disclosure of Financial Information", save as disclosed herein, the Company confirms that the Company's current information in relation to those matters set out in paragraph 32 of Appendix 16 has not been changed significantly from the information disclosed in the Company's prospectus dated 29 June 2020.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

NET PROCEEDS FROM THE GLOBAL OFFERING

As set forth in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 29 June 2020, net proceeds from the Global Offering will be used for the following purposes:

- Approximately 50%, will be used to expand our production capacity, including the establishment of industrial parks in Jiangmen and Shenzhen, Guangdong province.

- Approximately 25%, will be used to (i) implement automated production and assembly lines at our new production bases, (ii) upgrade our group-level ERP system, and (iii) upgrade our existing factories.

- Approximately 20%, will be used to invest in research and development, including building a group-level research center in Shenzhen, developing new heating technology and paying for product certification expenses.

- Approximately 5%, will be used to provide funding for our working capital and other general corporate purposes.

The shares of the Company were listed and commenced trading on the Main Board of the Stock Exchange on 10 July 2020. The gross proceeds and net proceeds raised by the Company from the IPO amounted to approximately HK$7,122.0 million and approximately HK$6,875.8 million, respectively, and the additional gross proceeds and net proceeds of approximately HK$1,068.3 million and approximately HK$1,046.8 million, respectively, were received from the allotment and issuance of the over-allotment shares as a result of the fully exercise of the over-allotment option. The Company intended to utilise all of such proceeds in the manner disclosed in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 29 June 2020. As at the date of this report, the Group has yet to utilise the net proceeds. The unutilised net proceeds have been deposited in licensed banks in Hong Kong or mainland China as short-term deposits.

EVENTS AFTER THE REVIEW PERIOD

On 10 July 2020, the Company completed its IPO by issuing 574,352,000 shares at a price of HK$12.4 per share, and its shares were listed on the Main Board of the Stock Exchange on the same day. The Company exercised the over-allotment option on 31 July 2020, and issued 86,152,000 shares at a price of HK$12.4 per share on 5 August 2020. Net proceeds from Listing, including proceeds from issue of shares pursuant to the over-allotment option and net of underwriting fees and relevant expenses ("**Net proceeds from Listing**"), was approximately HK$7,922.6 million.

According to the notice of Hang Seng Indexes Company Limited dated 22 July 2020, the Company complied with the requirements under the Fast Entry Rule of Hang Seng Composite Index, and was included as a constituent stock of the following Hang Seng Index series, effective on 27 July 2020.

(1) Hang Seng Composite Index:

- — Hang Seng Composite Industry Index — Consumer Discretionary;
- — Hang Seng Composite Large Cap Index;
- — Hang Seng Composite LargeCap & MidCap Index;

(2) Hang Seng Consumer Goods & Services Index;

(3) Hang Seng SCHK New Economy Index.

As at the date of this report, apart from the above events, there is no other major event after 30 June 2020 that is required to be disclosed by the Company.

Report on Review of Condensed Consolidated Financial Statements

TO THE BOARD OF DIRECTORS OF
SMOORE INTERNATIONAL HOLDINGS LIMITED
思摩爾國際控股有限公司
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Smoore International Holdings Limited (the "Company") and its subsidiaries set out on pages 40 to 62, which comprise the condensed consolidated statement of financial position as of 30 June 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

OTHER MATTER

The comparative condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period ended 30 June 2019 and the relevant explanatory notes included in these condensed consolidated financial statements have not been reviewed in accordance with HKSRE 2410.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24 August 2020

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

	NOTES	For the six months ended 30 June 2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Revenue	4	**3,880,518**	3,273,653
Cost of sales		**(1,980,006)**	(1,915,204)
Gross profit		**1,900,512**	1,358,449
Other income		**44,465**	27,559
Distribution and selling expenses		**(74,029)**	(64,163)
Administrative expenses		**(281,187)**	(103,719)
Research and development expenses		**(208,935)**	(96,095)
Finance costs		**(8,295)**	(7,505)
Other gains and losses	5	**22,022**	(6,483)
Impairment loss recognised on trade receivables, net		**(6,962)**	(1,092)
Loss on fair value changes of convertible promissory notes	13	**(38,487)**	—
Loss on fair value changes of convertible preferred shares	14	**(1,019,109)**	—
Listing expenses		**(24,666)**	(10,345)
Profit before tax		**305,329**	1,096,606
Income tax expense	6	**(228,668)**	(175,608)
Profit and total comprehensive income for the period	7	**76,661**	920,998
Earnings per share	9		
Basic (RMB cents)		**1.53**	18.19
Diluted (RMB cents)		**1.47**	N/A

Condensed Consolidated Statement of Financial Position

	NOTES	At 30 June 2020 RMB'000 (unaudited)	At 31 December 2019 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	10	947,565	886,953
Intangible assets		56,246	58,796
Deposits paid for acquisition of property, plant and equipment		136,997	148,464
Rental deposits		22,088	24,146
Deferred tax assets		13,561	13,804
		1,176,457	1,132,163
Current assets			
Inventories		296,373	548,012
Trade and bills receivables	11	1,298,070	659,006
Other receivables, deposits and prepayments		211,570	231,328
Bank balances and cash		1,610,245	731,394
		3,416,258	2,169,740
Current liabilities			
Trade payables	12	514,712	441,747
Other payables and accrued expenses		596,354	572,557
Tax payables		203,096	94,288
Contract liabilities		341,289	386,003
Lease liabilities		99,648	106,566
Convertible promissory notes	13	—	367,838
Deferred income		1,184	708
Advances drawn on bills receivables discounted with recourse		—	79,536
		1,756,283	2,049,243
Net current assets		1,659,975	120,497
Total assets less current liabilities		2,836,432	1,252,660
Non-current liabilities			
Lease liabilities		215,876	282,903
Convertible preferred shares	14	1,657,866	232,432
Deferred income		2,306	2,652
		1,876,048	517,987
Net assets		960,384	734,673

Condensed Consolidated Statement of Financial Position (Continued)

	NOTES	At 30 June 2020 RMB'000 (unaudited)	At 31 December 2019 RMB'000 (audited)
Capital and reserves			
Share capital	15	**4**	4
Reserves		**960,380**	734,669
Total equity		**960,384**	734,673

Condensed Consolidated Statement of Changes in Equity

	Share capital RMB'000 (Note i)	Share premium RMB'000 (Note i)	Share-based payments reserve RMB'000	Statutory reserve RMB'000 (Note ii)	Other reserve RMB'000 (Note iii)	Retained profits RMB'000	Total RMB'000
CONDENSED COMBINED STATEMENT OF CHANGES IN EQUITY							
At 1 January 2019 (audited)	63,300	70,050	—	31,650	—	803,958	968,958
Profit and total comprehensive income for the period	—	—	—	—	—	920,998	920,998
Dividend recognised as distribution (Note 8)	—	—	—	—	—	(1,141,964)	(1,141,964)
At 30 June 2019 (unaudited)	63,300	70,050	—	31,650	—	582,992	747,992
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY							
At 1 January 2020 (audited)	**4**	**—**	**61,268**	**33,709**	**(1,194,032)**	**1,833,724**	**734,673**
Profit and total comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**76,661**	**76,661**
Recognition of equity-settled share-based payments	**—**	**—**	**149,050**	**—**	**—**	**—**	**149,050**
At 30 June 2020 (unaudited)	**4**	**—**	**210,318**	**33,709**	**(1,194,032)**	**1,910,385**	**960,384**

Notes:

(i) Share capital and share premium as at 1 January 2019 and 30 June 2019 represents the share capital and share premium of Shenzhen Smoore Technology Co., Ltd.# (深圳麥克韋爾科技有限公司) ("Smoore Shenzhen") prior to the Reorganisation as defined in Note 2.

(ii) Pursuant to the relevant laws in the People's Republic of China (the "PRC"), each of the subsidiaries established in the PRC is required to transfer at least 10% of its profit after taxation to the statutory reserve until the reserve reaches 50% of their registered capital. Transfer to this reserve must be made before distributing dividends to equity holders. The statutory reserve can be used to make up for previous years' losses, expand the existing operations or convert into additional capital of the subsidiaries.

(iii) Other reserve represents i) the difference between the share capital and share premium of Smoore Shenzhen, a subsidiary of the Company, of RMB66,632,000 and RMB124,368,000, respectively, and cash considerations of RMB1,095,350,000 and RMB57,650,000 for the acquisition of 95% and 5% interest in Smoore Shenzhen by Smoore (Hong Kong) Limited ("Smoore Hong Kong") and Smile Baby Investment Limited ("Smile Baby") respectively; and ii) the difference between the par value and fair value of convertible preferred shares of the Company as detailed in Note 14. Smoore Hong Kong and Smile Baby are wholly-owned subsidiaries of the Company.

English name is for identification purpose only

Condensed Consolidated Statement of Cash Flows

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
NET CASH FROM OPERATING ACTIVITIES	**1,101,836**	1,014,911
INVESTING ACTIVITIES		
Payment for acquisition of property, plant and equipment	**(172,948)**	(166,695)
Purchase of intangible assets	**(4,997)**	(1,695)
Placement of financial assets at fair value through profit or loss ("FVTPL")	**(1,082,200)**	(1,830,000)
Withdrawal of financial assets at FVTPL	**1,086,375**	1,834,344
Payments for rental deposits	**(165)**	(8,923)
Interest received	**4,418**	1,782
Government grants received	**1,142**	3,898
Proceeds from disposal of property, plant and equipment	**218**	4,085
Development costs paid	**—**	(14,277)
Withdrawal of restricted bank deposits	**—**	500
Advances from a related party	**—**	8
NET CASH USED IN INVESTING ACTIVITIES	**(168,157)**	(176,973)
FINANCING ACTIVITIES		
Repayment of lease liabilities	**(48,274)**	(31,133)
Interest paid	**(8,295)**	(7,505)
Payment of issue costs	**(2,322)**	(1,429)
Dividends paid	**—**	(1,141,964)
NET CASH USED IN FINANCING ACTIVITIES	**(58,891)**	(1,182,031)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**874,788**	(344,093)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**731,394**	941,964
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**4,063**	(4,560)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	**1,610,245**	593,311

Notes to the Condensed Consolidated Financial Statements

1. GENERAL INFORMATION

Smoore International Holdings Limited ("the **Company**") was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law, Cap. 22 on 22 July 2019. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 10 July 2020 ("**Listing**"). The addresses of the Company's registered office and principal place of business are Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and Office B, 28/F, EGL Tower, No. 83 Hung To Road, Kowloon, Hong Kong respectively.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the "**Group**") are (1) the research, design and manufacture of vaping devices and components, other than self-branded advanced personal vaporizers ("**APV**") and (2) the research, design, manufacture and sale of APV.

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

2. GROUP REORGANISATION AND BASIS OF PREPARATION

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

Historically and during the six months ended 30 June 2019, the Group's operations were conducted by an existing group of entities headed by Smoore Shenzhen which has always been the holding company of all operating and non-operating subsidiaries.

In preparation for the listing of the Company's shares on the Stock Exchange, the entities now comprising the Group underwent a group reorganisation (the "**Reorganisation**") as more fully explained in the section headed "Our History and Development" in the prospectus of the Company dated 29 June 2020 (the "**Prospectus**").

Pursuant to the Reorganisation, which was completed by interspersing the Company and some intermediate companies between the existing shareholders of Smoore Shenzhen ("**Existing Shareholders**") and Smoore Shenzhen, the Company has become the holding company of the companies now comprising the Group on 30 October 2019. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity, accordingly, the condensed consolidated financial statements have been prepared as if the Company had always been the holding company of the Group.

Upon completion of the Reorganisation, Smoore Shenzhen became a wholly-owned subsidiary of the Company and was converted from a sino-foreign joint venture to a wholly-foreign owned enterprise.

2. GROUP REORGANISATION AND BASIS OF PREPARATION (Continued)

The condensed combined statement of profit or loss and other comprehensive income, condensed combined statement of changes in equity and condensed combined statement of cash flows for the six months ended 30 June 2019 included the results and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the six months ended 30 June 2019 or since the date of incorporation, where this is a shorter period.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group's financial statements for the year ended 31 December 2019 underlying the preparation of historical financial information included in the Accountants' Report presented in the Prospectus.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in the HKFRS Standards and amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable from the sale of APV and vaping devices and components other than APV, net of discounts and sales related taxes.

Revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Following the delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 0 to 60 days upon delivery.

4. REVENUE AND SEGMENT INFORMATION (Continued)

The Group has one operating segment based on information reported to the chief operating decision maker of the Group, being Mr. Chen Zhiping ("**Mr. Chen**") (the "**CODM**"), for the purpose of resource allocation and performance assessment, which is the consolidated results of the Group. Upon Listing, the CODM has changed from Mr. Chen to the executive directors of the Company. As a result, there is only one reporting segment of the Group. No analysis of segment assets or segment liabilities is presented as such information is not regularly provided to the CODM.

An analysis of the Group's revenue for the period is as follows:

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Vaping devices and components, other than APV	**3,489,724**	2,637,881
APV	**390,794**	635,772
Total revenue that recognised at a point in time	**3,880,518**	3,273,653

The following is an analysis of the Group's revenue and results and reconciliation of the Group's segment result to the Group's profit before tax:

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Segment revenue	**3,880,518**	3,273,653
Segment profit	**1,388,916**	1,106,951
Unallocated expenses	**(1,325)**	—
Listing expenses	**(24,666)**	(10,345)
Loss on fair value changes of convertible promissory notes	**(38,487)**	—
Loss on fair value changes of convertible preferred shares	**(1,019,109)**	—
Profit before tax	**305,329**	1,096,606

4. REVENUE AND SEGMENT INFORMATION (Continued)

Geographical information

The following table sets out information about the Group's revenue from external customers by the location of customers:

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Hong Kong (note)	**1,476,106**	665,565
The PRC (excluding Hong Kong)	**732,675**	609,433
United States of America	**649,089**	999,019
United Kingdom	**352,010**	92,245
Switzerland	**131,186**	200,333
Japan	**142,890**	406,189
France	**213,979**	72,419
Others	**182,583**	228,450
	3,880,518	3,273,653

Note: Revenue generated from Hong Kong are on re-export or transhipment basis and, as represented by the management of the Group, none of the Group's products are distributed or sold in Hong Kong.

The Group's non-current assets are substantially located in the PRC by location of assets and no geographical information is presented.

5. OTHER GAINS AND LOSSES

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net foreign exchange gain (loss)	**6,936**	(4,419)
Net gain arising on financial assets at FVTPL	**4,175**	4,344
Gain on early termination of lease	**1,599**	—
Loss on disposal/write off of property, plant and equipment	**(725)**	(7,385)
Others	**10,037**	977
	22,022	(6,483)

6. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
— PRC Enterprise Income Tax ("**EIT**")	**195,439**	177,164
— Hong Kong Profits Tax	**29,040**	—
	224,479	177,164
Underprovision in prior years		
— PRC EIT	**3,946**	132
	228,425	177,296
Deferred tax	**243**	(1,688)
	228,668	175,608

6. INCOME TAX EXPENSE (Continued)

Hong Kong

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both periods.

PRC

Under the Law of the People's Republic of China on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% except that Smoore Shenzhen, a major operating subsidiary in the PRC, was qualified as High Technology and New Enterprise in November 2015 which was subsequently renewed in November 2018, and therefore Smoore Shenzhen is entitled to a preferential income tax rate of 15% for both periods. The qualification as a High and New Technology Enterprise is subject to review by the relevant tax authority in the PRC for every three years.

The Company is tax exempt under the laws of the Cayman Islands.

7. PROFIT FOR THE PERIOD

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging (crediting):		
Directors' remuneration	**34,708**	1,742
Other staff costs:		
Salaries, bonus and other benefits	**568,938**	501,578
Share-based payment expense	**116,130**	—
Retirement benefit scheme contributions	**13,785**	55,997
	698,853	557,575
Less: amounts capitalised as cost of inventories manufactured	**(377,284)**	(379,633)
Amounts capitalised in intangible assets	**—**	(9,567)
	321,569	168,375
Depreciation of right-of-use assets for buildings and land use rights	**53,258**	40,483
Depreciation of property, plant and equipment	**45,247**	25,334
Amortisation of intangible assets	**7,547**	3,129
	106,052	68,946
Less: amounts capitalised as cost of inventories manufactured	**(84,965)**	(55,823)
	21,087	13,123
Government grants	**29,105**	7,956

8. DIVIDENDS

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Dividends recognised as distribution during the period	**—**	1,141,964

The rate of dividend and number of shares ranking for dividend are not presented as such information is not meaningful.

No dividend was paid or declared by the Company since its incorporation. Subsequent to the end of the current interim period, the directors of the Company have determined that no interim dividend will be paid in respect of the interim period.

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings:		
Earnings for the purpose of basic and diluted earnings per share	**76,661**	920,998
Number of shares:	**'000**	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**4,996,962**	5,064,000
Effect of dilutive potential ordinary shares:		
Share options	**208,161**	N/A
Weighted average number of ordinary shares for the purpose of dilutive earnings per share	**5,205,123**	N/A

9. EARNINGS PER SHARE (Continued)

The computation of diluted earnings per share does not assume the conversion of the Company's convertible promissory notes and convertible preferred shares since their exercise would result in an increase in earnings per share for the period ended 30 June 2020.

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Reorganisation and the Capitalisation Issue as referred in Note 20 had been effected since 1 January 2019.

10. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired property, plant and equipment of RMB190,018,000 (six months ended 30 June 2019: RMB91,251,000). Furthermore, during the current interim period, the Group entered into several new lease agreements with lease terms ranged from 2 years to 3 years. On lease commencement, the Group recognised right-of-use assets of RMB5,603,000 (six months ended 30 June 2019: RMB138,957,000) and lease liabilities of RMB5,558,000 (six months ended 30 June 2019: RMB137,487,000).

11. TRADE AND BILLS RECEIVABLES

The Group allows a credit period of 0 to 60 days to its trade customers.

The following is an analysis of trade receivables net of allowance for credit losses, presented based on the date of revenue recognised at the end of each reporting periods:

	At 30 June 2020 RMB'000 (unaudited)	At 31 December 2019 RMB'000 (audited)
Trade receivables		
Within 30 days	**616,463**	220,001
31 to 60 days	**355,211**	213,284
61 to 90 days	**153,409**	2,668
Over 90 days	**460**	2,153
	1,125,543	438,106

As at 30 June 2020, bills receivables of RMB172,527,000 (31 December 2019: RMB220,900,000) are with a maturity period of less than three months.

12. TRADE PAYABLES

The following is an analysis of trade payables by age, presented based on the earlier of the date of goods/services received and invoice date at the end of each reporting periods:

	At 30 June 2020 RMB'000 (unaudited)	At 31 December 2019 RMB'000 (audited)
Within 30 days	440,899	347,068
31 to 60 days	72,965	78,952
61 to 90 days	247	14,843
Over 90 days	601	884
	514,712	441,747

13. CONVERTIBLE PROMISSORY NOTES

The movement of the convertible promissory notes is set out as below:

	RMB'000
At 31 December 2019 (audited)	367,838
Loss arising on changes of fair value (Note i)	38,487
Conversion into convertible preferred shares on 30 April 2020 (Note ii)	(406,325)
At 30 June 2020 (unaudited)	—

Notes:

(i) Changes of fair value presented in RMB include offset of exchange on translation from USD balances.

(ii) On 30 April 2020, all the principal amount of the convertible promissory notes were converted into 1,314.509 Series A-2 Preferred Shares of US$0.01 each at the conversion price of US$39,254 per share before the Capitalisation Issue.

13. CONVERTIBLE PROMISSORY NOTES (Continued)

The convertible promissory notes are denominated in US$, non-redeemable, unsecured and bear interest of 8% per annum on the principal outstanding amount. The Group has designated the convertible promissory notes as financial liabilities at FVTPL with changes in fair value recognised in profit or loss.

The convertible promissory notes were valued by the directors with reference to valuation report carried out by an independent qualified professional valuer. The valuer is not connected to the Group and has appropriate qualifications and experiences in valuation of similar instruments.

The Company used the discounted cash flow model to determine the underlying equity value of the Company and used the binomial pricing model to arrive the fair value of the convertible promissory notes as of 31 December 2019 and as at 30 April 2020 (date of conversion).

In addition to the underlying equity value of the Company determined by discounted cash flow method, other key valuation assumptions used in the binomial pricing model to determine the fair value are as follows:

	At 30 April 2020 (unaudited)	At 31 December 2019 (audited)
Risk-free rate	**0.11%**	1.56%
Expected volatility	**50%**	40%
Expected dividend yield	**1.50%**	1.50%
Possibilities under Qualified IPO within 180 days from the issuance of convertible promissory notes	**0%**	20%
Possibilities under no-qualifying IPO within 180 days from the issuance of convertible promissory notes	**100%**	80%

Qualified IPO means the sale of the ordinary shares of the Company on a major securities exchange outside of the PRC (including the Stock Exchange, NASDAQ, New York Stock Exchange, or other stock exchanges approved by the holders of Series A-2 Preferred Shares).

The directors of the Company estimated the risk-free rate based on the yield of the United States Treasury Bonds with a maturity life close to period from the respective valuation dates to the expected liquidation dates. Expected volatility was estimated on each valuation date based on average of historical volatilities of the comparable companies in the same industry for a period from the respective valuation dates to expected liquidation dates.

13. CONVERTIBLE PROMISSORY NOTES (Continued)

The fair value of the convertible promissory notes as at 30 April 2020 and 31 December 2019 was measured using a valuation technique with significant unobservable inputs and hence was classified as Level 3 of the fair value hierarchy.

14. CONVERTIBLE PREFERRED SHARES

As part of the Reorganisation, the Company issued 837.969 Series A-1 Preferred Shares of US$0.01 each to five Pre-IPO investors. Furthermore, the Company issued 1,314.509 Series A-2 Preferred Shares of US$0.01 each to three Pre-IPO investors upon conversion of convertible promissory notes as detailed in Note 13.

The Series A-1 Preferred Shares and Series A-2 Preferred Shares (collectively, the Preferred Shares) are non-redeemable and non-interest bearing. The conversion ratio shall be subject to adjustments and the initial conversion ratio for Preferred Shares to ordinary shares is 1:1.

The movement of the convertible preferred shares is set out as below:

	Series A-1 Preferred Shares	**Series A-2 Preferred Shares**	**Total**
	RMB'000	RMB'000	RMB'000
At 31 December 2019 (audited)	232,432	—	232,432
Conversion of convertible promissory notes (Note 13)	—	406,325	406,325
Loss arising on changes of fair value (Note)	412,982	606,127	1,019,109
At 30 June 2020 (unaudited)	645,414	1,012,452	1,657,866

Note: Changes of fair value presented in RMB included offset of exchange on translation from USD balances.

14. CONVERTIBLE PREFERRED SHARES (Continued)

The convertible preferred shares are financial liabilities measured at FVTPL. The change in fair value of the convertible preferred shares was charged to profit or loss. Management considered that there is no credit risk of the financial liability that drives the change of the fair value of the financial liability.

The convertible preferred shares were valued by the directors of the Company with reference to valuation reports carried out by an independent qualified professional valuer, Ravia Global Appraisal Advisory Limited.

The Company used the discounted cash flow model to determine the underlying equity value of the Company and performed an equity allocation based on Black-Scholes model to arrive the fair value of the convertible preferred shares as at 31 December 2019.

Key valuation assumptions used to determine the fair value of convertible preferred shares as at 31 December 2019 include risk-free rate of 1.58%, expected volatility of 40%, expected dividend yield of 1.50%, possibilities under liquidation scenario of 10% and possibilities under IPO scenario of 90%.

On 29 June 2020, the Company issued the Prospectus with share offer at a price not more than HK$12.40 per share. The directors of the Company took reference to the offer price of HK$12.40 and discount for lack of marketability of 15% to determine the fair value of the convertible preferred shares as at 30 June 2020.

The fair value of the convertible preferred shares as at 30 June 2020 and 31 December 2019 was measured using a valuation technique with significant unobservable inputs and hence was classified as Level 3 of the fair value hierarchy.

On 4 July 2020, all Preferred Shares met the conversion condition to convert into ordinary shares of the Company and the conversion completed on 10 July 2020.

15. SHARE CAPITAL

	Number of shares	Share Capital
		US$'000
Ordinary shares		
Ordinary shares of US$0.01 each		
Authorised:		
At 22 July 2019 (date of incorporation)	10,000,000,000	100,000
Reclassification and re-designation as Series A-1 Preferred Shares (Note i)	(100,000,000)	(1,000)
Reclassification and re-designation as Series A-2 Preferred Shares (Note i)	(200,000,000)	(2,000)
At 31 December 2019 (audited) and 30 June 2020 (unaudited)	9,700,000,000	97,000
Preferred shares		
Preferred shares of US$0.01 each		
Authorised:		
At 22 July 2019 (date of incorporation)	—	—
Reclassification and re-designation from ordinary shares (Note i)	300,000,000	3,000
At 31 December 2019 (audited) and 30 June 2020 (unaudited)	300,000,000	3,000

	Number of shares	Share Capital	
		US$'000	RMB'000
Issued and fully paid			
At 22 July 2019 (date of incorporation)	1.000	—*	—*
Issuance of ordinary shares (Note ii)	62,461.031	—*	4
At 31 December 2019 and 30 June 2020	62,462.031	—*	4

* Less than US$1,000/RMB1,000

15. SHARE CAPITAL (Continued)

Notes:

(i) On 25 October 2019, the Company redesignated and reclassified 100,000,000 shares and 200,000,000 shares in its authorised capital into Series A-1 Preferred Shares and Series A-2 Preferred Shares, respectively.

(ii) On 22 July 2019, the Company issued 1 ordinary share to the initial subscriber, which was subsequently transferred to an entity ("**BVI 1**") wholly owned by the Mr. Chen and issued additional 99 ordinary shares to BVI 1. On 25 October 2019, the Company issued an aggregate of 61,831.65 ordinary shares to the Existing Shareholders and rights to subscribe 530.381 ordinary shares to one of the Existing Shareholders. The rights were subsequently exercised and all ordinary shares were fully paid up at cash consideration of approximately US$624 on 29 November 2019.

16. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "**Pre-IPO share option scheme**") was adopted pursuant to a resolution passed on 30 September 2019 for the purpose of incentivising and retaining directors, senior management and other employees for their contribution to the Group. Under the Pre-IPO share option scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The table below discloses movement of the Pre-IPO share option scheme:

	Number of share options		
	Directors	**Employees**	**Total**
Outstanding as at 1 January 2020	12,000,000	190,919,000	202,919,000
Granted during the period	76,073,000	40,040,000	116,113,000
Forfeited during the period	—	(3,887,500)	(3,887,500)
Outstanding as at 30 June 2020	88,073,000	227,071,500	315,144,500
Exercisable at 31 December 2019 and 30 June 2020			—
Exercise price			RMB0.38

On 1 May 2020, the Company granted 116,113,000 share options to eligible directors, management and employees under the Pre-IPO share option scheme, on the assumption that the Capitalisation Issue (as defined in Note 20) as described in the section "Share Capital" of the Prospectus had been effective as of the date of acceptance.

16. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The number of shares in respect of which options had been granted and the exercise price are presented based on the assumption that the Capitalisation Issue had been effective on the grant date.

The total expenses recognised in the condensed consolidated statement of profit or loss and other comprehensive income for share options granted to directors of the Company and employees are RMB149,050,000 (six months ended 30 June 2019: nil) for the six months ended 30 June 2020.

The fair value of the options granted on 1 May 2020 is determined at the date of grant using the Binomial Option Pricing model was RMB242,200,000. The key inputs into the model were as follows:

Weighted average share price	RMB2.89
Exercise price	RMB0.38
Risk-free rate	2.54%
Expected volatility	40%
Expected dividend yield	1.50%

The directors of the Company estimated the risk-free rate based on the yield of the China government bonds with a maturity life close to the option life of the share option. Expected volatility was estimated at grant date based on the average of historical volatilities of the comparable companies with length commensurable to the time of maturity of the share options. Expected dividend yield is based on management estimation at the grant date.

17. RELATED PARTY TRANSACTIONS

(a) The Group entered into the following transactions with the related party:

Name of related party	Name of transactions	For the six months ended 30 June **2020** **RMB'000** **(unaudited)**	 2019 RMB'000 (unaudited)
EVE Energy Co., Ltd., the substantial shareholder of the Company that controlled by an non-executive director of the Company	Purchase of raw material	**72,421**	107,885
	Rental income	**—**	41

17. RELATED PARTY TRANSACTIONS (Continued)

(b) Compensation of key management personnel

The remuneration of key management personnel, including the executive directors and other senior management were as follows:

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Salaries and other benefits	**2,737**	2,487
Retirement benefit schemes contributions	**104**	142
Share-based payment expense	**54,335**	—
	57,176	2,629

The remuneration of directors and key executives is determined with regard to the performance of individuals and market trends.

18. COMMITMENTS

	At 30 June 2020	At 31 December 2019
	RMB'000	RMB'000
	(unaudited)	(audited)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**99,350**	61,596

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The fair value measurement of the financial liabilities that are measured at fair value on a recurring basis is disclosed in Notes 13 and 14, respectively.

The directors of the Company consider the carrying amounts of financial assets and liabilities recorded at amortised costs approximate their fair values.

20. SUBSEQUENT EVENTS

Save as disclosed in the condensed consolidated financial statements, subsequent events of the Group are detailed as below.

(i) Pursuant to the resolutions of the Company's shareholders passed on 15 June 2020, on 10 July 2020, the Company allotted and issued a total of 5,169,096,105.491 shares by way of capitalisation of the sum of approximately US$51,690,961.06 standing to the credit of the share premium account of the Company (the "**Capitalisation Issue**"), credited as fully paid at par to the shareholders as appearing on the register of members of the Company. Upon the conversion of Preferred Shares as detailed in Note 14 and the completion of Capitalisation Issue on 10 July 2020, the Company has an aggregate of 5,169,160,720 ordinary shares.

(ii) On 10 July 2020, the Company issued 574,352,000 ordinary shares of US$0.01 each pursuant to the global offering of the shares of the Company at the price of HK$12.40 per share and the Company's shares were listed on the Stock Exchange on the same date.

(iii) On 31 July 2020, the over-allotment option was fully exercised and the Company issued additional 86,152,000 ordinary shares at the price of HK$12.40 per share on 5 August 2020.