Smoore

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)

2022
INTERIM REPORT


SMOORE

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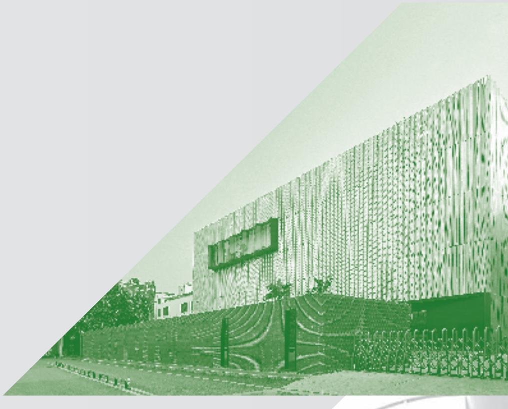

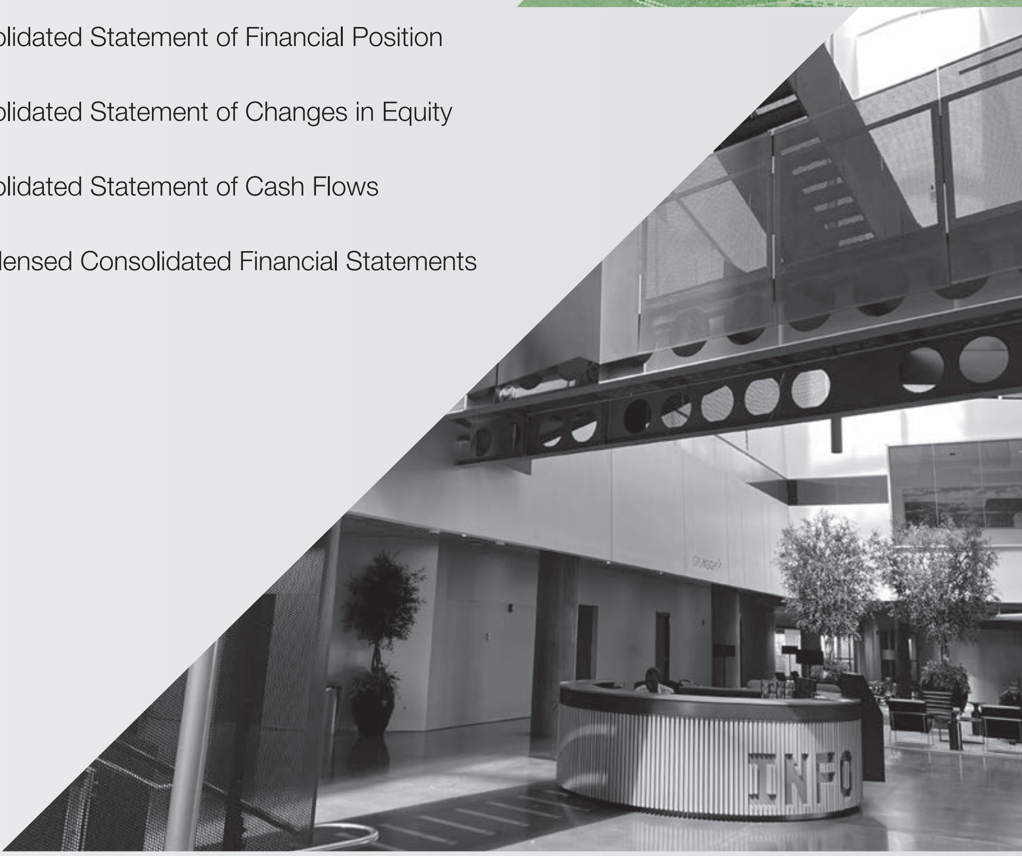

CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Non-Executive Director

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 *(ACG, HKACG, CGP)*

Authorized Representatives

Mr. Wang Guisheng
Ms. Cheng Choi Ha

Registered Office

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. 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 LLP
DeHeng Law Offices (Shenzhen)
Conyers Dill & Pearman

CORPORATE INFORMATION (CONTINUED)

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
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

Principal Banks

Bank of China Limited
China Construction Bank Corporation
Industrial and Commercial Bank of China Limited
Agricultural Bank of China Limited
China Merchants Bank
CMB Wing Lung Bank Limited
Bank of Ningbo Company Limited
China Minsheng Banking Corporation Limited
Bank of Shanghai Company Limited
Citibank (China) Company Limited
DBS Bank (Hong Kong) Limited
China CITIC Bank International Limited
Standard Chartered Bank (Hong Kong) 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 (the "**Board**") of directors (the "**Directors**") of Smoore International Holdings Limited ("**Smoore**" or the "**Company**"), I am pleased to present the unaudited interim report of the Company and its subsidiaries (together referred to as the "**Group**") for the six months ended 30 June 2022 (the "**Review Period**").

Business Review

In the first half of 2022, the external environment faced by the Group was full of changes and challenges. Adhering to long-termism, the Group continued to build up its long-term competitive edge in technology, products, marketing and management and achieved satisfactory results during the Review Period.

In respect of research and development, the Group firmly believes that science and technology is a decisive force to create value for customers. We will always consider technology leadership as the core grip to achieve "customer first". In the first half of 2022, we stepped up efforts to bring in high-end talents. Many important scientists, hundreds of masters and doctors who graduated from prestigious universities and numerous senior management personnel from all over the world have joined the Company. In the short term, the bringing in of these talents may increase the expenses of the Company, but the introduction of high-end talents may improve the technological level of Smoore in the future, laying a foundation for its long-term development. During the Review Period, we continued to increase investment in research and development as scheduled, especially in the fields of basic research, new material research, and atomization in medical applications, etc. For the development of new products, during the Review Period, the Group launched a new generation of ceramic coil atomization technology platform designed for disposable vaping devices, and also made available on the market disposable vaping products with better safety performance and user experience, which has been recognized by numerous clients and achieved a breakthrough sales growth.

In respect of marketing, the Group intensified promotion in overseas markets during the Review Period. With the building up of a digital marketing platform and a localized marketing team, we are able to have a better understanding of the needs of users and respond to the market more quickly. Correspondingly, our self-branded business achieved good sales growth amid various challenges in the market and further improved our market share.

During the Review Period, the Group has actively applied for the tobacco monopoly production licenses in strict compliance with the requirements of the regulatory authorities in China. As at the disclosure date of this interim report, the application work is progressing smoothly, and our three subsidiaries have received production licenses. We believe that with the gradual implementation of China's regulatory policies, the domestic market will gradually enter a standardized, orderly and healthy development track, which is beneficial to the long-term and stable development of the industry. In the U.S. market, the Group has actively assisted major clients to apply for PMTA approval in respect of their vaping Electronic Nicotine Delivery System ("**ENDS**") products. With our leading technological and manufacturing advantages, to our knowledge, currently we are the manufacturer with the largest number of PMTA approved vaping ENDS product models.

Outlook

We firmly believe that atomization makes life better. The road of Smoore to build the world-leading atomization technology platforms may be bumpy. Despite various challenges ahead in the short term, we will continue to adhere to long-termism, believe in the bright future of atomization undertaking, and trust the power of invention and innovation.

In addition to maintaining and improving our advantages of existing products recently, we also make full use of our long-term technological and manufacturing advantage to develop the disposable vaping product market in a bid to redefine disposable vaping products and provide with better choices to users. Besides, the research and development of atomization products in medical field progressed smoothly, laying a solid foundation to open up a new track in the future.

On the journey to the future, we still have a lot of basic works to do. The introduction of high-level talents, the expansion of organizational scale, the establishment of more R&D bases, the launch of multiple business models, and the development of overseas markets require us to be well prepared in advance to establish information systems, organization, processes and marketing systems, even though this will be an increase in administrative and selling expenses in the short term.

We believe that increasing investment in the future amid challenges and enhancing confidence toward the future in adversity are reflection of "entrepreneurial spirit", showing our courageous adherence to long-termism. Science and technology are the core driving forces for corporate development. Only by insisting on innovation can we build up long-term competitive edge and create long-term value for shareholders, employees and the society.

Sincere Appreciation

On behalf of the board of directors, I would like to express my gratitude to the government, clients, employees, shareholders and the society.

Smoore believes that government supervision over the industry is extremely necessary for the purpose of establishing standards, squeezing bubbles and raising the threshold. "You can enter God's Kingdom only through the narrow gate."

Smoore is very lucky to serve so many visionary and moderate clients. Smoore feels grateful to them.

Smoore is grateful to its employees for their high-quality research and development, manufacturing and services. "Caring dream chasers" is the most valuable corporate culture of Smoore.

Smoore is also grateful to the shareholders for their recognition of Smoore's future strategy, their support for Smoore's contribution to atomization technology, and their patience and support to Smoore.

Smoore's gratitude also goes to the society. Smoore recently received five awards, including Best ESG, from Institutional Investor, a prominent financial magazine worldwide. Profitability is by no means the only thing that Smoore pursues, more importantly, we hope to create value for the society through the atomization technology platform.

As Mencius says, "there is a spring of water; how it gushes out! It rests not day nor night. It fills up every hole, and then advances, flowing onto the four seas." The fountain of strength of an enterprise is gained by every experience that the enterprise overcomes one challenge after another, fights one battle after another and works out one thing after another, and finally, it will flow to the ocean in the distance and possess the spirit and strength as broad as the ocean.

Chen Zhiping
Chairman of the Board
Smoore International Holdings Limited

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June 2022 RMB'000 Unaudited	2021 RMB'000 Unaudited	Changes %
Revenue	**5,653,321**	6,953,406	(18.7)
Gross profit	**2,705,607**	3,818,784	(29.2)
Profit before tax	**1,675,965**	3,396,859	(50.7)
Gross profit margin	**47.9%**	54.9%	(7.0 pp)
Profit for the period	**1,384,690**	2,878,816	(51.9)
Total comprehensive income for the period	**1,384,101**	2,878,816	(51.9)
* Adjusted total comprehensive income for the period ("**Adjusted net profit**")	**1,436,304**	2,975,225	(51.7)
Adjusted net profit margin	**25.4%**	42.8%	(17.4 pp)

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

	For the six months ended 30 June 2022 RMB'000 Unaudited	2021 RMB'000 Unaudited	Changes %
Total comprehensive income for the period before adjustment	**1,384,101**	2,878,816	(51.9)
Less:			
Share-based payment expenses related to pre-IPO share option scheme	**(52,203)**	(96,409)	
Adjusted net profit	**1,436,304**	2,975,225	(51.7)

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 incur 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 as our ordinary shares prior to the completion of the Capitalization Issue and the 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 above-mentioned items, our management does not track such items as key operating or financial metrics 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 in comparable periods.

	30 June 2022 RMB'000 Unaudited	31 December 2021 RMB'000 Audited	Changes %
Total assets	**23,653,877**	22,871,306	3.4
Total equity	**19,682,097**	19,246,359	2.3
Cash and cash equivalents	**13,875,609**	11,426,758	21.4
Asset-liability ratio (%)	**16.8**	15.8	1.0 pp
Current ratio (%)	**491.4**	529.9	(38.5 pp)
Trade and bills receivables turnover days (days)	**81.4**	61.4	32.7
Inventory turnover days (days)	**33.9**	28.6	18.6
Trade payables turnover days (days)	**49.5**	43.8	13.1

Notes:

1. Asset liability ratio = total liabilities/total assets
2. Current ratio = current assets/current liabilities
3. Trade and bills receivables turnover days = average balance of trade and bills receivables/revenue × 180
4. Inventory turnover days = average balance of inventory/cost of sales × 180
5. Trade payables turnover days = average balance of trade payables/cost of sales × 180
6. Average balance = (beginning balance for the period + ending balance for the period)/2

MANAGEMENT DISCUSSION AND ANALYSIS

Principal Business of the Group

The Group is a global leader in offering atomization technology solutions. During the Review Period, we mainly operated two 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.

In the first half of 2022, the prolonged and recurring COVID-19 pandemic had a certain impact on the production, supply chain and logistics of the Group. The gradual introduction, refinement and implementation of major market regulatory policies and regulations will be conducive to the sustainable and healthy development of the industry in the long run, but would have certain short-term impact on demand. During the Review Period, both revenue and profit of the Group decreased as compared with the same period last year.

Despite the complex and dynamic external environment, the Group always keeps a long-term perspective with a focus on the construction of long-term competitiveness. During the Review Period, the Group continued to step up efforts in the research and development of core technologies and the improvement of management capability. In terms of technology, during the Review Period, the Group launched a new generation of ceramic coil atomization technology platform Feelm Max to be applied to disposable vaping devices for overseas markets, and correspondingly made available on the overseas market disposable vaping products with higher safety performance and better user experience, which has been recognized by numerous clients in a fast manner and achieved breakthrough sales growth in disposable vaping products. The Group's research in relation to the application of atomization technology in the healthcare and beauty industry as well as related product development proceeded as scheduled and has made satisfactory progress. One of the atomization drug delivery devices developed by the Group has been approved into an Innovative Medical Device Special Approval Procedure by a regulatory authority of China. If finally approved, the product is expected to be commercialized in the near future.

Business Review

Summary of Material Laws, Regulations, Executive Orders and Policies Updates

The following table supplements the related disclosures in the published prospectus of the Company dated 29 June 2020 (the "**Prospectus**"), past interim and annual reports and illustrates major updates of material laws, regulations, executive orders and policies in relation to e-cigarette and the tobacco products of the vaping device industry promulgated or proposed by 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 6 months ended 30 June 2022:

Principal Sale Jurisdictions	Material Laws, Regulations, Executive Orders and Policies Updates	Relevant Products, Potential Impact and Compliance Status	Revenue Contribution[2] (%) Six months ended 30 June 2022
United States ("**U.S.**")[1]	PMTA filing requirements for ENDS products, including devices, assemblies and/or components that deliver vaporized e-liquids when inhaled	The Food and Drug Administration ("**FDA**") has taken action on more than 98% of PMTA submitted as of the deadline, being 9 September 2020. Among them, marketing denial orders ("**MDO**") have been issued for more than 1 million non-tobacco and non-menthol-flavored ENDS products. Many manufacturers have challenged these MDOs in court, and, as at 30 June 2022 two federal appellate courts have so far upheld FDA's actions, while many other appeals remain pending. The FDA has not indicated that the issues behind these MDOs were related to our PMTA for open ENDS. As at 30 June 2022, the FDA has issued marketing authorization for eleven closed-system tobacco-flavored ENDS products manufactured by the Group.	10.7%[3]
	Federal legislation subjecting ENDS products containing nicotine from any source to the Tobacco Control Act	Federal legislation enacted in March 2022 subjects ENDS nicotine from any source , including synthetic nicotine, to the FDA PMTA requirement. For such ENDS products that were marketed between March 15, 2022, and April 14, 2022, PMTAs were required to be submitted by May 14, 2022, and could continue to be legally sold until July 13, 2022. After that date, continued sales depend on FDA deferring enforcement against such products.	

Principal Sale Jurisdictions	Material Laws, Regulations, Executive Orders and Policies Updates	Relevant Products, Potential Impact and Compliance Status	Revenue Contribution[2] (%) Six months ended 30 June 2022
China	• **Administrative Measures for E-Cigarettes ("Administrative Measures")** On 11 March 2022, the State Tobacco Monopoly Administration announced the Administrative Measures stipulating that e-cigarette products shall comply with mandatory national standards and shall be sold on the market after technical review; the production, wholesale and retail of e-cigarettes shall acquire relevant tobacco monopoly licenses; the sale of flavoured e-cigarettes (other than tobacco flavor) and e-cigarettes which can be added with atomization materials are prohibited, and electronic cigarette products only for export shall comply with the laws, regulations and standards of the destination country or region, etc. The Administrative Measures has been implemented since 1 May 2022. From April to June 2022, the State Tobacco Monopoly Administration successively promulgated supporting rules for the Administrative Measures such as Guidance on the Issuance of Tobacco Monopoly Production Licenses to E-cigarette related Production Enterprises, Implementation Rules for Technical Review of E-cigarette Products, Rules for Traceability Management of E-cigarette Products, Implementation Rules for Quality Supervision of E-cigarette Products, Implementation Rules for Identification and Detection of E-cigarette Products, Implementation Rules for Packaging of E-cigarette Products, Regulations on Warning Signs of E-cigarette, Management Rules for Trading of E-cigarette (for Trial Implementation), Rules for Logistics Management of E-cigarette, etc.	We have applied for and submitted relevant tobacco monopoly licenses information according to the Administrative Measures. As at the disclosure date of this interim report, Shenzhen Vaporesso Technology Co., Ltd. (深圳市韋普萊思科技有限公司), Shenzhen Smoore Technology Co., Ltd. (深圳麥克韋爾科技有限公司) and Shenzhen Maike Brothers Technology Co., Ltd. (深圳市麥克兄弟科技有限公司), each being a wholly-owned subsidiary of the Group, have received relevant tobacco monopoly enterprise licenses issued by the State Tobacco Monopoly Administration. In the meantime, we have assisted our customers to submit products for technical review according to the Administrative Measures and the National Standards and several products have been approved upon technical review. The Group has established a dedicated team in respect of the "Administrative Measures", responsible for the coordination of all relevant compliance matters, to ensure that the production and operating activities of the Group are implemented in strict compliance with the Administrative Measures and related regulations.	37.6%[4]

Principal Sale Jurisdictions	Material Laws, Regulations, Executive Orders and Policies Updates	Relevant Products, Potential Impact and Compliance Status	Revenue Contribution(2) (%) Six months ended 30 June 2022
	• **National Standards for E-Cigarettes ("National Standards")** On 8 April 2022, the State Administration for Market Regulation and the State Standardization Administration officially released the National Standards (GB 41700-2022). It stipulates the definitions and normative requirements for e-cigarettes and e-liquids, smoking sets, components, cartridges, vaporizing agent, and additives to vaporized substances, such as clarifying that e-cigarettes are nicotine electronic delivery systems producing aerosol for human inhalation, e-liquids shall contain nicotine, and that nicotine shall be extracted from tobacco etc. The National Standards will be implemented from 1 October 2022. • **Policy Measures on Promoting the Legalization and Standardization of E-cigarette Industry (for Trial Implementation) ("Policy Measures")** On April 25, 2022, the State Tobacco Monopoly Administration promulgated the Policy Measures, stipulating the policy objectives of "bringing the e-cigarette industry into regulation according to law, scientific and reasonable industrial distribution, stable and orderly market operation, more efficient resource allocation, effective protection of people's health and safety, and the development of the e-cigarette industry on the track of legalization and standardization". The Policy Measures include policies and measures in the aspects of industrial distribution, supply and demand management, investment and financing management, market system, market supervision, quality safety, technical innovation and safeguard measures.		

Principal Sale Jurisdictions	Material Laws, Regulations, Executive Orders and Policies Updates	Relevant Products, Potential Impact and Compliance Status	Revenue Contribution(2) (%) Six months ended 30 June 2022
Hong Kong	Smoking (Public Health) (Amendment) Ordinance 2021 (the "**Amendment Ordinance**")	The Amendment Ordinance was promulgated in October 2021 and has taken effect on 30 April 2022. The Amendment Ordinance amends the Smoking (Public Health) Ordinance (Chapter 371 of the Laws of Hong Kong) (the "**Ordinance**") to prohibit import, manufacture, sale and restrict the advertisement and promotion of alternative smoking products, including e-cigarette products and their accessories. The revised Ordinance does not apply to e-cigarette products that are in transit or air transshipment (i.e. e-cigarette products that enter Hong Kong by sea or air for export to other places), as long as the product is not moved out from the ship or the designated cargo transfer area of Hong Kong International Airport. But e-cigarette products entering Hong Kong by land for export to other regions are subject to the revised Ordinance. From 30 April 2022, the Group has adjusted its transport arrangements to ensure that exports do not enter Hong Kong by land for transshipment.	22.5%
Japan	As advised by external legal counsels, no new material laws, regulations, executive orders and rules were issued in Japan as of 30 June 2022.		1.4%
E.U.	As advised by external legal counsels, no new material laws, regulations, executive orders and rules were issued in E.U. as of 30 June 2022. On 1 July 2022, France issues Decree 2022-975 (the "**Decree**").	From 1 July 2022, placing on the market or to make available on the market electrical and electronic equipment (including chargers) shall comply with the Decree, including the correct affixing of the CE marking and the ability to present the EU Declaration of Conformity and technical documentation to inspectors.	4.3%

Principal Sale Jurisdictions	Material Laws, Regulations, Executive Orders and Policies Updates	Relevant Products, Potential Impact and Compliance Status	Revenue Contribution[(2)] (%) Six months ended 30 June 2022
United Kingdom ("**UK**")	As advised by external legal counsels, there has been no substantial change in the UK's regulatory position since the implementation of the Tobacco Products and Nicotine Inhaling Products (Amendment) (EU Exit) Regulations 2020 from 1 January 2021.	UK will continue to apply separate pictorial and text warnings. Great Britain will use the MHRA (UK Medicines and Healthcare Products Regulatory Agency) portal for declarations, while Northern Ireland will continue to use EUCEG (European Union Common Entry Portal) and apply the pictorial and textual warning rules of the EU. From 23 August 2021, products that are successfully submitted and notified through the MHRA (UK Medicines and Healthcare Products Agency) portal will be published directly on the MHRA portal homepage. On 23 March 2022, MHRA (UK Medicines and Healthcare Products Agency) issued the Guidance on the Submission and Content of Notifications for Great Britain to provide guidance on how to prepare notifications.	19.7%

Notes:

(1) In U.S. market, only federal level laws, regulations, executive orders, and policies were summarized.

(2) During the Review Period, the percentage of revenue contribution demonstrates the proportion of our affected business calculated by countries where direct customers were registered, excluding indirect sales. The percentage of revenue contribution for the 6 months ended 30 June 2022 also represents the proportion 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. excluded sales forwarded through Hong Kong. Taking into account sales forwarded through Hong Kong, the revenue contribution from the U.S. market during the Review Period was approximately 30.9%.

(4) The affected proportion in PRC was calculated by regions where direct customers were registered. Export sales from some of these direct customers were not deducted. Excluding export sales from traders, the affected proportion in PRC was approximately 30.0% during the Review Period.

The legal department of the Group will continue to cooperate with external professionals to closely monitor global regulatory developments and changes related to our business activities, and adjust our business activities such as R&D and production in a timely manner to ensure that our business activities comply with regulations and adapt to the regulatory environment changes. At the same time, the Group will continue to diversify our revenue in different countries and regions, expand our product portfolio, promote the application of atomization technology in medical, health, beauty and other industries and develop a brand-new atomization technology industry.

Research and Development

The Group always believes that science and technology are the core driving forces for corporate development. We are committed to building world-leading atomization technology platforms, and realizing the extensive application of atomization technology in various fields in order to meet the needs of human beings for a healthy and better life. In the first half of 2022, despite various challenges from the external environment, we believe in the bright future of atomization and further increased investment in the basic research of atomization technology, especially in the fields of atomization mechanism, life science, material science, etc. In terms of talent recruitment, the Group recruited more than 300 R&D personnel during the Review Period, the number of R&D personnel exceeded 1,400, accounting for over 40% of the total non-production personnel of the Group. Regarding the establishment of research centers, the Group has newly established 7 research centers during the Review Period, focusing on the researches in the fields of new materials, medical research, atomization health, etc., making the number of the Group's basic research centers reaches 14. In addition, the Group has continued to establish extensive and in-depth partnerships with various universities and research institutions around the world. The establishment of China's first non-clinical full-scale testing laboratory for U.S. FDA Premarket Tobacco Application strongly supports the preparation and submission of PMTA applications by our clients in the U.S. As at the end of the Review Period, among the vaping ENDS products approved by the FDA for PMTA application, to our knowledge, the number of product models produced by the Group was higher than that of any other manufacturers. During the Review Period, the Group's total research and development expenses were RMB604,120,000, representing an increase of 155.7% as compared to the same period last year, and the percentage of revenue increased from 3.4% over the same period last year to 10.7% in the Review Period.

While maintaining its technological leadership, the Group continues to build up a global intellectual property protection system to continuously strengthen its intellectual property barriers against core technologies and to protect its own products brands and technology brands. Moreover, the legal and intellectual property teams of the Group have actively carried out intellectual property protection activities in domestic and overseas markets, which has had a positive impact on maintaining and enhancing the market share of the Group's products. During the Review Period, the Group filed 929 new patent applications worldwide, including 381 patents for invention. As of 30 June 2022, the Group had filed, accumulatively, a total of 4,337 patents worldwide, including 1,951 patents for invention.

Production and Operation

In the first quarter of 2022, due to the tightened pandemic control measures adopted in some areas of Shenzhen, the production and operation of some of the Group's factories were greatly affected. As a result, the Group's production and delivery scheme for the first quarter were negatively affected. In the second quarter, with the change of the pandemic control measures, the Group adjusted its production arrangements and delivery scheme in a timely manner, which led to a significant improvement in both overall output and production efficiency as compared to the first quarter and satisfied the order demands of clients.

We believe that in the process of value creation for customers, in addition to adhering to technology leadership, good products may not exist without leading manufacturing capability. In pursuit of manufacturing leadership, the Group adheres to an independent research and development mode to continuously improve the level of automation and intelligence of production. Benefiting from the Group's long-term experience and deep understanding of technology, products and processes, the Group has continued to improve the efficiency of the fully automated production lines to maintain its leading position in the industry, and successfully established a professional R&D team for intelligent production line. During the Review Period, in response to the market demand quickly, the Group has launched many new disposable vaping products in major overseas markets. Meanwhile, the Group utilized existing automated production lines, which greatly improved production efficiency and quality consistency and laid a solid foundation for the marketization of the disposable products in a fast manner.

In order to further improve the efficiency of the automated production lines, it is necessary to consider the needs of automated production prior to the product design stage. During the Review Period, the Group introduced an advanced new product development technology, which fully considers the requirements of product manufacturing and importing automation equipment at the stage of product design and improves the manufacturability and automation feasibility of products. With a standard process library in place, a design review mechanism for manufacturability has been established to improve the manufacturability of products. During the Review Period, the Group has implemented the development technology in a number of product development projects with remarkable results.

Sales and Marketing

During the Review Period, the Group achieved revenue of RMB5,653,321,000, which decreased by 18.7% as compared with the same period of last year. Among which the revenue from corporate client oriented sales decreased by 21.6%, the proportion of total revenue decreased from 93.4% in the same period of last year to 90.1% in the Review Period; the revenue from retail client oriented sales increased by 22.9%, the proportion of total revenue increased from 6.6% in the same period of last year to 9.9% in the Review Period.

During the Review Period, the Group's revenue growth from corporate client oriented sales showed notable difference in different markets around the world.

In the U.S. market, owing to the Group's continuous investment in product safety and compliance capabilities, the Group successfully assisted many major clients to get the FDA's PMTA approval in respect of their products, and became the manufacturer with the most PMTA-approved vaping ENDS products during the Review Period. With FDA's progress of PMTA review and the intensified law enforcement efforts, our competitiveness in the U.S. market will be further improved. Upholding the business philosophy of "Customer first", we have successfully supported one of our major customers to become the largest closed system vaping brand by market share in the United States by improving the level of production intelligence, optimizing cost structure, etc. During the Review Period, the Group experienced a short-term sales decline for corporate client oriented sales in the U.S. market mainly attributed to the structural changes of products at different prices, and the downward-adjusted prices of some products in order to support our clients to improve their market share. Taking into account sales forwarded through Hong Kong, the revenue of corporate client oriented sales contribution from the U.S. market during the Review Period decreased by 33.0% compared with the same period of last year, the proportion of total revenue decreased from 34.6% in the same period of last year to 28.6% in the Review Period. We believe that with FDA's intensified enforcement efforts, the Group's products are expected to demonstrate their capabilities in product compliance, safety performance and user experience, and we are strongly confident in maintaining a stable growth in the U.S. market in the long run.

In the Chinese market, the Group realized relatively high sales performance in the first half of 2021, especially sales for the second quarter of 2021 outperforming any previous quarters. With the successive introduction of Administrative Measures for E-Cigarettes, National Standards and related supporting measures, the Chinese market has entered an era of orderly management, which is undoubtedly beneficial to the long-term healthy development of the industry. During the Review Period, the relevant market players are required to apply for licenses, product reviews, etc. under the Administrative Measures, National Standards and related supporting regulations to lay the foundation for subsequent compliance operations. On this basis, the Group's sales in the Chinese market during the Review Period decreased as compared to a higher base for the first half of 2021, excluding export from traders, the revenue of corporate client oriented sales from the PRC market during the Review Period decreased by 40.1% compared with the same period of last year, the proportion of total revenue decreased from 40.8% in the same period of last year to 30.0% in the Review Period.

In the European and other markets, as the competitiveness of the Group's products in terms of technology, quality and user experience has been widely recognized by the users, as well as the intensified marketing efforts by its core clients, the Group achieved impressive results in the European market and supported one of its major clients to become the largest vaping brand by market share in many countries. The revenue of corporate client oriented sales from the European and other markets during the Review Period increased by 42.1%, the proportion of total revenue increased to 31.5% in the Review Period from 18.0% for the same period of previous year.

In terms of new product promotion, the Group has successively launched disposable vaping products to overseas markets in the first half of the year as scheduled. Relying on the Group's accumulated technological and manufacturing leadership, especially the newly launched ceramic heating element technology platform for disposable vaping products, these products have notably stood out in the market for their outstanding quality, user experience, safety performance, etc. and quickly won the favor of numerous clients and users immediately after launch. In particular, a large tobacco company client of the Group quickly entered the major European markets through the disposable ENDS products produced by the Group and achieved a significant increase in market share in a short period of time. During the Review Period, the Group's disposable products realized revenue of RMB319,939,000, representing an increase of 234.5% as compared to RMB95,634,000 for the full year of 2021. With the gradual improvement of the Group's ability in disposable vaping products delivery, we expect the revenue for the second half of the year to increase significantly as compared to the first half of the year.

For the retail client oriented business, riding on its strong research and development strength and manufacturing capabilities, as well as its in-depth understanding of users, the Group accurately identified the needs of consumers and launched many new technology solutions and competitively differentiated products during the Review Period. In the meantime, the Group further increased its promotion and marketing efforts during the Review Period, enabling new products to go to more retail end-users in a quick manner. During the Review Period, the revenue from retail client oriented products amounted to RMB560,416,000, representing an increase of 22.9% over the same period last year.

Future Prospects and Strategies

During the Review Period, many changes have taken place in the external environment. However, the Group remains confident in the long-term growth of the global atomization market. Engaged in the atomization sector, we will continue to concentrate on the field of atomization with "atomization technology" as the core, adhere to technology and manufacturing leadership, focus on building world-leading atomization technology platforms, innovate products, incubate business, and cultivate partnerships within the industry to create more value for the society through persistent efforts.

In terms of research and development, the Group will steadily push forward its research and development plan in accordance with the established research and development strategy and along its target track. In terms of ENDS, the Group will launch more competitive comprehensive solutions to atomization products in a timely manner according to market changes in order to satisfy the higher requirements of consumers, clients and regulatory authorities for products and lead the industry development. For the application of atomization technology in the healthcare and beauty industry, the Group will complete the registration and marketing approval procedures of its first-generation atomization products in medical field as soon as possible in the near future, and strive to bring them to the market. The Group has entered into an agreement with one of the largest of pharmaceutical manufacturing company in the world to develop aerosolized drug for asthma and chronic obstructive pulmonary disease.

In order to establish a better layout in the future, while increasing investment in research and development, the Group also continuously optimizes the research and development management system and improves the efficiency of research and development to lay a sound systematic foundation for further expansion.

In terms of production and operation, we will further improve the ability to serve clients by quickly responding to clients' requirements for agile manufacturing and timely delivery. We will also improve our cost control ability and the resilience of our core material supply. Moreover, in order to further improve our ESG performance, we will also work with our clients and suppliers to develop more eco-friendly materials, products and production processes to create more value for the society.

In terms of market expansion and distribution, the Group will continue to improve market insights, fully identify the needs of users and clients, and adjust our products and marketing strategies in a timely manner to support our clients. For disposable vaping products, the Group will continue to improve the product delivery capability on the basis of its leading technology and manufacturing capabilities and make response to the differentiated needs of clients in time. The Group expects the total revenue for the second half of this financial year to be significantly higher than that for the first half.

Financial Review

During the Review Period, the total revenue of the Group was RMB5,653,321,000, representing a decrease of 18.7% from RMB6,953,406,000 over the same period last year. The Group's gross profit margin decreased from 54.9% in the same period last year to 47.9% during the Review Period. The Group's profit for the period decreased from RMB2,878,816,000 in the same period last year to RMB1,384,690,000, and the total comprehensive income for the period decreased from RMB2,878,816,000 in the same period last year to RMB1,384,101,000. The Adjusted net profit for the Review Period was RMB1,436,304,000, representing a decrease of 51.7% over the same period last year. The decrease in the Group's profit for the period was primarily due to the decrease in sales to corporate clients, the decrease in gross profit margin and the increase in selling, administrative and research and development expenses.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Revenue — categorized by business types

	For the six months ended 30 June				
	2022		2021		Changes
	RMB'000	%	RMB'000	%	%
Corporate client oriented sales	5,092,905	90.1	6,497,384	93.4	(21.6)
Retail client oriented sales	560,416	9.9	456,022	6.6	22.9
Total	5,653,321	100.0	6,953,406	100.0	(18.7)

(1) Corporate client oriented sales

During the Review Period, the revenue of corporate client oriented sales was RMB5,092,905,000 (the same period in 2021: RMB6,497,384,000), representing a decrease of 21.6% over the same period last year.

(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 RMB560,416,000 (the same period in 2021: RMB456,022,000), representing an increase of 22.9% over the same period last year.

Revenue — categorized by customers' places of incorporation

	For the six months ended 30 June				
	2022		2021		Changes
	RMB'000	%	RMB'000	%	%
U.S.	606,139	10.7	826,069	11.9	(26.6)
Mainland China*	2,126,870	37.6	3,156,173	45.4	(32.6)
Hong Kong, China**	1,269,989	22.5	1,776,529	25.5	(28.5)
Europe and others	1,650,323	29.2	1,194,635	17.2	38.1
Total	5,653,321	100.0	6,953,406	100.0	(18.7)

* To our knowledge, certain customers in mainland China were export trading companies. Those products they purchased from the Group were exported to overseas markets. If we exclude revenue to those customers, revenue generated by the Group from mainland China during the Review Period will be RMB1,698,480,000 (the same period last year: RMB2,835,593,000), and the proportion to total revenue will be 30.0% (the same period last year: 40.8%).

** Revenue generated from Hong Kong is on re-export or transhipment 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 transhipment for our overseas customers or trading companies. During the Review Period, revenue from products sold to the United States via Hong Kong amounted to RMB1,139,490,000 (the same period last year: RMB1,669,242,000), representing 89.7% of revenue from Hong Kong (the same period last year: 94.0%).

Taking into account the above mentioned impact of the export sales revenue of Chinese traders and the transhipment revenue in the Hong Kong market, the distribution of the Group's product sales is as follows:

	For the six months ended 30 June				
	2022		2021		Changes
	RMB'000	**%**	RMB'000	%	%
Corporate client oriented sales	**5,092,905**	**90.1**	6,497,384	93.4	(21.6)
— U.S.	**1,612,821**	**28.6**	2,407,798	34.6	(33.0)
— Mainland China	**1,698,480**	**30.0**	2,835,593	40.8	(40.1)
— Other countries and areas	**1,781,604**	**31.5**	1,253,993	18.0	42.1
Retail client oriented sales	**560,416**	**9.9**	456,022	6.6	22.9
Total revenue	**5,653,321**	**100.0**	6,953,406	100.0	(18.7)

2. Gross Profit and Cost of Sales

During the Review Period, the gross profit of the Group was RMB2,705,607,000 (the same period in 2021: RMB3,818,784,000), representing a decrease of 29.2% from the same period last year while the gross profit margin fell to 47.9% during the Review Period from 54.9% in the same period last year. The decrease in gross profit margin was primarily due to the structural changes of products with different gross profit margins, the increase in the proportion of fixed costs due to revenue decline, and the price adjustment of some products to support clients to improve their market share.

Cost of Sales

	For the six months ended 30 June				
	2022		2021		Changes
	RMB'000	**%**	RMB'000	%	%
Cost of raw materials	**2,058,810**	**69.8**	2,168,123	69.2	(5.0)
Labor cost	**513,747**	**17.4**	548,838	17.5	(6.4)
Production overhead	**324,496**	**11.0**	352,921	11.3	(8.1)
Tax and surcharge	**50,661**	**1.8**	64,740	2.0	(21.7)
Total	**2,947,714**	**100.0**	3,134,622	100.0	(6.0)

3. Distribution and Selling Expenses

The Group's distribution and selling expenses increased from RMB68,273,000 in the same period last year to RMB176,728,000 during the Review Period, representing an increase of 158.9%. The percentage of distribution and selling expenses to revenue rose from 1.0% in the same period last year to 3.1% in the Review Period. The increase in distribution and selling expenses as a percentage of revenue was mainly due to the Group's strengthening efforts to expand overseas markets, especially the expansion of disposable vaping products and open system vaping products into overseas markets, in line with its established development strategy during the Review Period. Among which:

(1) Employee's salaries and benefits increased by 90.6% from RMB36,787,000 in the same period last year to RMB70,117,000 during the Review Period. The proportion of employee's salaries to revenue increased from 0.5% in the same period last year to 1.2% during the Review Period.

(2) Marketing expenses increased by 185.0% from RMB14,377,000 in the same period last year to RMB40,968,000 during the Review Period. The proportion of marketing expenses to revenue increased from 0.2% in the same period last year to 0.7% in the Review Period.

(3) Other expenses increased by 283.7% from RMB17,109,000 in the same period last year to RMB65,643,000 during the Review Period. The proportion of other expenses to revenue increased from 0.3% in the same period last year to 1.2% in the Review Period. The main reason for the increase in other expenses as a percentage of revenue was that the Group strengthened its efforts in exploring the market during the Review Period, hence the corresponding travel expenses, consulting service expenses, etc. improved significantly. In addition, transportation expenses increased during the Review Period compared with the same period last year due to the influence of the COVID-19 pandemic.

4. Administrative Expenses

The administrative expenses of the Group during the Review Period increased from RMB362,798,000 in the same period last year to RMB587,777,000 during the Review Period, representing an increase of 62.0%. Administrative expenses as a percentage of revenue increased from 5.2% in the same period last year to 10.4% in the Review Period. The increase in administrative expenses as a percentage of revenue was primarily due to the Group's increased investment in the establishment of information systems, improvement in organization and processes during the Review Period in order to further improve management capability and meet the needs of long-term development in the future. At the same time, the Group increased the number of management personnel appropriately in order to support the development of new businesses in the future. Among which:

(1) Employee's salaries and benefits increased by 37.4% from RMB246,923,000 in the same period last year to RMB339,198,000, and its percentage of revenue increased from 3.6% in the same period last year to 6.0% during the Review Period.

(2) Professional fees increased by 147.6% from RMB41,135,000 in the same period last year to RMB101,835,000 during the Review Period. Such fees as a percentage of revenue increased from 0.6% in the same period last year to 1.8% during the Review Period. The main reason for the increase in such fees was the increased expenses on hiring external professional agencies of consultation services in order to further enhance the Company's long-term competitiveness.

(3) Depreciation and amortization expenses increased by 179.5% from RMB15,787,000 in the same period last year to RMB44,125,000 during the Review Period, accounting for 0.8% of revenue with an increase from 0.2% of revenue in the same period last year. The increase of such expenses was primarily due to the increase in amortization of land use rights and right-of-use assets.

5. Research and Development Expenses

The Group's research and development expenses increased from RMB236,264,000 in the same period last year to RMB604,120,000 during the Review Period, representing an increase of 155.7%. The research and development expenses as a percentage of revenue increased from 3.4% in the same period last year to 10.7% during the Review Period. The increase in research and development expenses as a percentage of revenue was primarily due to the Group's continuous increase in research and development investment, especially in the basic research of atomization technology, medical treatment and healthcare, in order to enhance its long-term competitive edge and to develop growth opportunities in new areas in accordance with the its established strategy during the Review Period. Among which:

(1) Employee's salaries and benefits increased by 173.5% from RMB140,900,000 in the same period last year to RMB385,413,000 during the Review Period, and such salaries and benefits as a percentage of revenue increased from 2.0% in the same period last year to 6.8% during the Review Period. The main reason of the increase in employee's salaries and benefits was the fact that the Group widened the research and development fields and introduced more R&D talents during the Review Period.

(2) The development costs increased by 136.1% from RMB66,026,000 in the same period last year to RMB155,897,000 during the Review Period, and the development costs as a percentage of revenue increased from 0.9% in the same period last year to 2.8% during the Review Period.

6. Other Income and expenses

During the Review Period, the total other income of the Group was RMB245,563,000, representing an increase of 13.5% from RMB216,298,000 in the same period last year, of which:

Items	For the six months ended 30 June 2022 RMB'000	2021 RMB'000	Changes %
Interest income from bank deposits	204,657	167,890	21.9
Government grants	36,094	36,500	(1.1)
Compensation income from customers	2,498	2,541	(1.7)
Income from technical consultation services	1,706	1,975	(13.6)
Interest income from rental deposits	852	672	26.8
Others	(244)	6,720	N/A
Total	245,563	216,298	13.5

7. Other Gains and Losses

During the Review Period, the total other gains of the Group were RMB106,185,000, representing an increase of 183.9% from RMB37,396,000 in the same period last year, of which:

Items	For the six months ended 30 June 2022 RMB'000	2021 RMB'000	Changes %
Net foreign exchange gain (loss)	69,946	(12,815)	N/A
(Loss) gain arising on forward foreign exchange contracts	(8,960)	13,311	N/A
Gain arising on short-term bank deposits with variable interest rate	48,345	52,243	(7.5)
Gain on early termination of lease	250	950	(73.7)
Impairment loss recognised on intangible assets	—	(17,847)	(100.0)
Loss on disposal/write off of property, plant and equipment and intangible assets	(2,244)	(4,246)	(47.2)
Others	(1,152)	5,800	N/A
	106,185	37,396	183.9

8. Finance Costs

The finance costs of the Group primarily include interest expenses on lease liabilities and interest expenses on discounted bank acceptance bill. During the Review Period, the finance costs of the Group were RMB14,690,000, representing an increase of 93.8% from RMB7,579,000 in the same period last year. The increase in the finance costs of the Group was primarily due to the increase in interest expenses on discounting as a result of an increase in the discounted bank acceptance bill during the Review Period.

9. Income Tax Expense

During the Review Period, the Group's income tax expense was RMB291,275,000, representing a decrease of 43.8% from RMB518,043,000 in the same period last year. Income tax expenses accounted for 16.9% (the same period in 2021: 14.8%) of adjusted profits before tax. The main reason for the decrease in income tax was the decrease in taxable profit.

10. Total Comprehensive Income for the Period

The Group's total comprehensive income for the period was RMB1,384,101,000, representing a decrease of 51.9% from RMB2,878,816,000 in the same period last year. The Adjusted net profit was RMB1,436,304,000, representing a decrease of 51.7% from RMB2,975,225,000 in the same period last year. The main reason for such decrease was the decrease in revenue, gross profit margin and the increase in expenses.

11. Liquidity and Financial Resources

As at 30 June 2022, the net current assets of the Group were RMB14,494,776,000 (31 December 2021: RMB14,591,532,000). As at 30 June 2022, the Group's bank balance and cash were RMB13,875,609,000 (31 December 2021: RMB11,426,758,000), mainly involving RMB13,757,418,000 denominated in RMB, RMB27,345,000 denominated in USD, RMB86,452,000 denominated in HKD (31 December 2021: mainly involving RMB11,348,674,000 were denominated in RMB, RMB35,770,000 were denominated in USD, RMB41,796,000 were denominated in HKD). As at 30 June 2022, the current ratio of the Group was 491.4% (31 December 2021: 529.9%).

Treasury management policy

The treasury management policy of the Group is primarily to utilize surplus cash reserves to invest in low-risk products such as low risk wealth management products, structured deposit or time deposit, etc. 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 (normally with maturity periods not more than one year) and principal-protected wealth management products, structured deposit or time deposit, etc.

Borrowings

As at 30 June 2022, the Group did not have any bank borrowings (31 December 2021: nil). As of 30 June 2022, the banking facilities secured by the Group were RMB4,460.0 million, of which RMB70.1 million had been used for the issuance of letter of credit.

Gearing Ratio

As at 30 June 2022, the gearing ratio (total liabilities divided by total equity) was 20.2% (31 December 2021: 18.8%).

12. Pledge of Assets

As of 30 June 2022, the Group did not have any pledges on its assets (31 December 2021: except for the bank deposit of the Group for purchasing forward foreign exchange contracts of RMB4.0 million, the Group did not have any pledges on its assets).

13. Exposure to Foreign Exchange Risk

During the six months ended 30 June 2022, the Group recorded a net foreign exchange gain of RMB69,946,000 (the same period in 2021: a net foreign exchange loss of RMB12,815,000). Meanwhile, the Group recorded a loss of RMB8,960,000 from forward foreign exchange contracts (the same period in 2021: a forward foreign exchange contracts gain of RMB13,311,000) during the Review Period.

The functional currency of the Group is RMB and the sales of the Group are mainly settled in USD and RMB. During the Review Period, approximately 60% of the Group's revenue was settled in USD and approximately 40% was settled in RMB. Most of the material, labor and various expenditures paid by the Group were settled in RMB. 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 USD, trade and bills receivables denominated in USD deducted by trade payables denominated in USD ("**USD exposure**") as a result of changes in the exchange rate between USD and RMB.

Sensitivity Analysis

For the above-mentioned USD 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 amounts of assets and liabilities of the Group denominated in USD as of 30 June 2022, if the exchange rate of USD against RMB rises by 10%, the Group's profit after tax will increase by RMB141,566,000 (31 December 2021: RMB95,410,000). Otherwise, if the exchange rate of USD against RMB drops by 10%, the Group's profit after tax will decrease by RMB141,566,000 (31 December 2021: RMB95,410,000).

14. Employment, Training and Development

As of 30 June 2022, the Group has 17,814, 9 and 889 employees in mainland China, Hong Kong and overseas countries respectively. The Group provides comprehensive and attractive remunerations, retirement plans, 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 mainland China are required to make contributions to pension insurance, medical 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. The Group also pays corresponding pension insurance, pension scheme, medical insurance, etc. for its employees in accordance with the laws and regulations of overseas countries where it operates. In addition, the Group also offers other incentives to motivate the personal growth and career development of employees. For instance, the Group continues to provide training to employees for improving their understanding in technology, product knowledge and industry quality standards. All new employees of the Group are required to participate in induction training courses and various training courses are also available to all employees, etc.

During the Review Period, the total staff costs (including management and administration staff) accounted for 26.0% of the revenue of the Group (the same period in 2021: 16.7%). The increase in total staff costs as a percentage of revenue was mainly due to the fact that the Group increased the number of R&D personnel, management personnel and marketing personnel in line with its long-term development strategy during the Review Period.

15. Capital Expenditures

During the six months ended 30 June 2022, the total investment in property, plant and equipment and intangible assets of the Group was RMB1,549,959,000 (the same period in 2021: RMB451,626,000), which was mainly used for purchasing land use rights for the headquarter office building, purchasing equipment for expanding R&D activities, etc.

16. Capital Commitments

As at 30 June 2022, the Group had contracted capital commitment of RMB723,749,000 (31 December 2021: RMB390,128,000) for procurement of property, plant and equipment, which will be financed with net proceeds from the Listing and generated from operations.

17. Material Acquisitions and Disposal

During the six months ended 30 June 2022, the Group did not carry out any material acquisitions or disposals of any subsidiaries, associates or joint ventures.

18. Significant Investments

During the six months ended 30 June 2022, the Group did not have any significant investments.

19. Contingent Liabilities

As at 30 June 2022, the Group did not have any material contingent liabilities.

20. Future Plans for Material Investments or Capital Expenditures

According to the existing plan, the Group initially plans to invest approximately RMB1,500 million from 2022 to 2026, to implement the headquarter office building project of the Group.

Save as the plan above and save as disclosed under the section “Future Plans and Use of Proceeds” in the prospectus of the Company dated 29 June 2020 and the section “Intended Use of Net Proceeds” in the announcement of the Company dated 4 February 2021 in relation to the completion of top-up placing, the Company has no other plans for material investments or capital expenditures.

OTHER INFORMATION

Major Customers and Suppliers

For the six months ended 30 June 2022, the Group's sales to its top five customers accounted for 73.7% (six months ended 30 June 2021: 78.2%) of its total sales. The Group's purchase amounts from its top five suppliers accounted for 29.6% (six months ended 30 June 2021: 29.4%) of its total purchase amounts. The Group aims to maintain long-term cooperative relationship with reputable customers and suppliers for the expansion of its business.

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.

For the six months ended 30 June 2022, 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 (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). In respect of code provision C.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 Directors 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 of Directors believes that there are sufficient checks and balances within the Board of Directors;

(2) Mr. Chen and 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 strategies 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.

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.

Audit Committee

For the six months ended 30 June 2022, 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 Audit Committee has reviewed, with the management and the independent auditor of the Company, the Group's unaudited condensed consolidated interim financial information for the six months ended 30 June 2022, the interim report, the accounting principles and practices adopted by the Group and has discussed the risk management, internal controls and financial reporting matters.

Remuneration Committee

For the six months ended 30 June 2022, 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 of Directors 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 objective of remuneration policy of the Company 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 of Directors, market rates and factors such as each Director's workload, responsibility, and job complexity are taken into account.

Nomination Committee

For the six months ended 30 June 2022, 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.

The primary duties of the nomination committee are to identify candidates with suitable qualifications as Directors, select and nominate such candidates for directorship and provide recommendations to the Board of Directors in this regard; regularly review the structure, size and composition (including skills, knowledge and experience) of the Board of Directors and make recommendations to the Board of Directors for any proposed changes.

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 unbiased view by using risk assessment method and consult management for the review by the Audit Committee of the Company (the "**Audit Committee**"). The audit work focuses on identification and analysis of the risks in relation to the Group's finance, operation, compliance monitoring, business activities and environmental, social and governance. An integral part of the internal audit function is to monitor and ensure effective operation of risk management and internal control systems.

The Board of Directors, 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 2022.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set forth in the Appendix 10 to the Listing Rules as a code of conduct of the Company for Directors' securities transactions (the "**Securities Trading Code**"). Having made specific enquiry on this matter, all Directors confirmed that they have strictly complied with the relevant provisions of the Securities Trading Code for the six months ended 30 June 2022.

Directors' Interests in Competing Business

During the six months ended 30 June 2022, none of the Directors had any interest in any business which competes with the Company or any of its subsidiaries.

Continuous Professional Development of Directors

All Directors should participate in continuous professional training to acquire and refresh their knowledge and skills pursuant to the code provision C.1.4 as 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.

Changes of Directors' Information

Mr. Wang Guisheng, an executive director of the Group, was an independent director of Sunshine Global Circuits Co., Ltd. (深圳明陽電路科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300739), until 8 February 2022. Apart from that, for the six months ended 30 June 2022, 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.

Investor Relations and Communication with Shareholders

The Company established different communication channels with the 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 the Shareholders can also choose to receive such documents using electronic means through the Company's website; (ii) the annual general meeting provides a platform for the Shareholders to raise comments and exchange views with the Board of Directors; (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 the 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 all the share registration and related matters for Shareholders; and (vii) a dedicated team of the Company handles general enquiries from the Shareholders and investors.

Shareholders and investors can send written inquiries or requests for the attention of the Board in the following ways:
Address: Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong
Email: IR@smooreholdings.com

The Company has adopted the Shareholders' communication policy and procedures for Shareholders to propose a person for election as Director on 15 June 2020.

Interim Dividend

The Board resolved to declare an interim dividend of HK10 cents per share for the six months ended 30 June 2022 (six months ended 30 June 2021: HK21 cents per share), to be paid to the shareholders of the Company as appearing on the register of members of the Company on 13 September 2022. The interim dividend is expected to be distributed on 26 September 2022.

Closure of Register of Members

The register of members of the Company will be closed from 8 September 2022 to 13 September 2022, both dates inclusive, during which period no transfer of shares will be registered. In order to establish the identity of the Shareholders who are entitled to the interim dividend, all transfer forms, accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on 7 September 2022.

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or Any of Its Associated Corporations

As of 30 June 2022, 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 Securities and Futures Ordinance (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	Long/short position	Ordinary shares held	Approximate percentage of the total number of issued shares (Note 1)
Chen Zhiping	(2)	Interest in controlled corporation	Long	1,989,705,600	33.17%
	(3)	Interest of concert party	Long	272,202,400	4.54%
	(4)	Beneficial owner	Long	76,073,000	1.27%
Xiong Shaoming	(5)	Interest in controlled corporation	Long	272,202,400	4.54%
	(6)	Interest of concert party	Long	1,989,705,600	33.17%
	(7)	Beneficial owner	Long	234,000	0.0039%
Liu Jincheng	(8)	Interest in controlled corporation	Long	1,950,240,000	32.51%
	(9)	Interest in controlled corporation	Short	59,040,705	0.98%
Wang Guisheng	(10)	Interest in controlled corporation	Long	7,800,000	0.13%
	(11)	Beneficial owner	Long	4,333,000	0.07%

Notes:

(1) The percentage is calculated based on the total number of shares of the Company in issue as of 30 June 2022, which was 5,998,444,220 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 their respective interests in the shares of the Company.

(4) These shares 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 has irrevocably and unconditionally undertaken to our Company that he would 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 272,202,400 shares of the Company. Accordingly, Mr. Xiong is deemed to be interested in the 272,202,400 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 interests in the shares of the Company.

(7) Mr. Xiong Shaoming beneficially holds a total interests of 234,000 shares. Such shares represent the shares of the Company to be issued upon the exercise of the post-IPO share option scheme of the Company granted to Mr. Xiong Shaoming.

(8) 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. ("**EVE Energy**") and EVE Asia Co., Limited ultimately controls EVE BATTERY INVESTMENT LTD.("**EVE Battery**"), 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.

(9) Reference is made to the announcements of the Company dated 12 November 2021 and 30 June 2022, on 30 June 2022, the Company was informed by EVE Battery that dividend of HK$10,537,825.32 of the Company was received for the Exchange Property on 22 June 2022, and this is one of the certain events enumerated in the Terms and Conditions of the Bonds. Further adjustment is required on the Exchange Property according to market practice. Therefore, EVE Battery intends to pledge an additional 497,231 shares it holds to the specific trust account which will then constitute part of the Exchange Property. After completion of the additional pledge, the Exchange Property will include 59,040,705 shares.

(10) Mr. Wang Guisheng holds all the issued shares of Sunrise & Rainbow Holding Limited, which directly holds 7,800,000 shares of the Company. Therefore, Mr. Wang is deemed to be interested in the 7,800,000 shares of the Company held by Sunrise & Rainbow Holding Limited.

(11) Mr. Wang Guisheng beneficially holds a total interests of 4,333,000 shares. Such shares represent the shares of the Company to be issued upon the exercise of pre-IPO share options and post-IPO share option scheme of the Company granted to Mr. Wang Guisheng.

Substantial Shareholders' and Other Persons' Interests and Short Positions in the Shares and Underlying Shares

As of 30 June 2022, so far as the Directors of the Company 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 Divisions 2 and 3 of Part XV of the SFO and Section 366 of the SFO:

Name of substantial shareholders	Notes	Nature of interest	Long/short position	Ordinary shares held	Approximate percentage of the total number of issued shares (Note 1)
SMR & Alon Limited	(2)	Beneficial owner	Long	1,989,705,600	33.17%
Zhao Zihan	(3)	Interest of spouse	Long	2,337,981,000	38.98%
Han Xiao	(4)	Interest of spouse	Long	2,262,142,000	37.71%
EVE Battery	(5)	Beneficial owner	Long	1,901,520,000	31.70%
	(6)	Beneficial owner	Short	59,040,705	0.98%
EVE Asia Co., Limited	(5)	Interest in controlled corporation	Long	1,901,520,000	31.70%
	(6)	Interest in controlled corporation	Short	59,040,705	0.98%
EVE Energy	(5)	Interest in controlled corporation	Long	1,901,520,000	31.70%
	(6)	Interest in controlled corporation	Short	59,040,705	0.98%
Luo Jinhong	(7)	Interest of spouse	Long	1,950,240,000	32.51%
	(7)	Interest of spouse	Short	59,040,705	0.98%

Notes:

(1) The percentage is calculated based on the total number of shares of the Company in issue as of 30 June 2022, which was 5,998,444,220 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) 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.

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

(6) Reference is made to the announcements of the Company dated 12 November 2021 and 30 June 2022, on 30 June 2022, the Company was informed by EVE Battery that dividend of HK$10,537,825.32 of the Company was received for the Exchange Property on 22 June 2022, and this is one of the certain events enumerated in the Terms and Conditions of the Bonds. Further adjustment is required on the Exchange Property according to market practice. Therefore, EVE Battery pledged an additional 497,231 shares it holds to the specific trust account which will then constitute part of the Exchange Property. After completion of the additional pledge, the Exchange Property will include 59,040,705 shares.

(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.

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 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 "Appendix IV — Statutory and General 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 as of 30 June 2022 are as follows:

Grantee	Date of grant	Number of options	Vesting period	Exercisable period	Exercise price (RMB)	Number of options at 20220101	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Number of options at 20220630
Chen Zhiping	20200501	16,000,000	20200501–20201009	20201010–20300430	0.38	16,000,000	–	–	–	16,000,000
(Director)		16,000,000	20200501–20210709	20210710–20300430	0.38	16,000,000	–	–	–	16,000,000
		16,000,000	20200501–20220709	20220710–20300430	0.38	16,000,000	–	–	–	16,000,000
		16,000,000	20200501–20230709	20230710–20300430	0.38	16,000,000	–	–	–	16,000,000
		12,073,000	20200501–20240709	20240710–20300430	0.38	12,073,000	–	–	–	12,073,000
Wang Guisheng	20190930	6,000,000	20190930–20201009	20201010–20290929	0.38	–	–	–	–	–
(Director)		1,800,000	20190930–20210709	20210710–20290929	0.38	–	–	–	–	–
		1,800,000	20190930–20220709	20220710–20290929	0.38	1,800,000	–	–	–	1,800,000
		2,400,000	20190930–20230709	20230710–20290929	0.38	2,400,000	–	–	–	2,400,000
Li Xiaoping	20190930	1,192,000	20190930–20201009	20201010–20290929	0.38	–	–	–	–	–
		358,000	20190930–20210709	20210710–20290929	0.38	–	–	–	–	–
		358,000	20190930–20220709	20220710–20290929	0.38	358,000	–	–	–	358,000
		476,000	20190930–20230709	20230710–20290929	0.38	476,000	–	–	–	476,000
	20200501	10,000	20200501–20210709	20210710–20300430	0.38	–	–	–	–	–
		40,000	20200501–20220709	20220710–20300430	0.38	40,000	–	–	–	40,000
		25,000	20200501–20230709	20230710–20300430	0.38	25,000	–	–	–	25,000
		25,000	20200501–20240709	20240710–20300430	0.38	25,000	–	–	–	25,000
Yuan Xiang	20190930	52,000	20190930–20201009	20201010–20290929	0.38	–	–	–	–	–
		31,000	20190930–20210709	20210710–20290929	0.38	–	–	–	–	–
		31,000	20190930–20220709	20220710–20290929	0.38	31,000	–	–	–	31,000
		31,000	20190930–20230709	20230710–20290929	0.38	31,000	–	–	–	31,000
		32,000	20190930–20240709	20240710–20290929	0.38	32,000	–	–	–	32,000
Xiong Fei	20190930	81,000	20190930–20201009	20201010–20290929	0.38	–	–	–	–	–
		24,000	20190930–20210709	20210710–20290929	0.38	–	–	–	–	–
		24,000	20190930–20220709	20220710–20290929	0.38	24,000	–	–	–	24,000
		33,000	20190930–20230709	20230710–20290929	0.38	33,000	–	–	–	33,000
Other employees	20190930	75,481,000	20190930–20201009	20201010–20290929	0.38	239,000	–	–	–	239,000
		33,626,000	20190930–20210709	20210710–20290929	0.38	3,890,500	–	106,000	–	3,784,500
		36,364,000	20190930–20220709	20220710–20290929	0.38	35,684,000	–	–	66,000	35,618,000
		31,990,000	20190930–20230709	20230710–20290929	0.38	31,427,000	–	–	67,000	31,360,000
		10,735,000	20190930–20240709	20240710–20290929	0.38	10,185,000	–	–	64,000	10,121,000
	20200501	37,000	20200501–20201009	20201010–20300430	0.38	–	–	–	–	–
		7,407,500	20200501–20210709	20210710–20300430	0.38	201,000	–	–	–	201,000
		13,672,500	20200501–20220709	20220710–20300430	0.38	11,858,000	–	–	334,500	11,523,500
		9,565,500	20200501–20230709	20230710–20300430	0.38	8,398,000	–	–	254,500	8,143,500
		9,257,500	20200501–20240709	20240710–20300430	0.38	8,097,000	–	–	230,500	7,866,500

Post-IPO Share Option Scheme

The post-IPO share option scheme was conditionally approved and adopted by the 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 part time) or Directors of the members of the Group, and the number of share subscription could be determined by the Board of Directors.

For the six months ended 30 June 2022, the Company has granted 3,830,000 and 11,975,000 share options to eligible participants under the Post-IPO Share Option Scheme on 4 January 2022 and 19 May 2022 respectively, for a total of 15,805,000 share options.

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

Details of the movement of the post-IPO share option scheme during the six months ended 30 June 2022, are as follows:

Grantee	Date of grant	Number of options	Vesting period	Exercisable period	Exercise price (HK$)	Number of options at 20220101	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Number of options at 20220630
Wang Guisheng	20210401	44,333	20210401–20220331	20220401–20310331	51.05	44,333	–	–	–	44,333
(Director)		44,333	20210401–20230331	20230401–20310331	51.05	44,333	–	–	–	44,333
		44,334	20210401–20240331	20240401–20310331	51.05	44,334	–	–	–	44,334
Xiong Shaoming	20210401	78,000	20210401–20220331	20220401–20310331	51.05	78,000	–	–	–	78,000
(Director)		78,000	20210401–20230331	20230401–20310331	51.05	78,000	–	–	–	78,000
		78,000	20210401–20240331	20240401–20310331	51.05	78,000	–	–	–	78,000
Li Xiaoping	20210401	21,667	20210401–20220331	20220401–20310331	51.05	21,667	–	–	–	21,667
		21,667	20210401–20230331	20230401–20310331	51.05	21,667	–	–	–	21,667
		21,666	20210401–20240331	20240401–20310331	51.05	21,666	–	–	–	21,666
Bu Zhiqiang	20210401	10,333	20210401–20220331	20220401–20310331	51.05	10,333	–	–	–	10,333
		10,333	20210401–20230331	20230401–20310331	51.05	10,333	–	–	–	10,333
		10,334	20210401–20240331	20240401–20310331	51.05	10,334	–	–	–	10,334
Other Employees	20210401	6,918,335	20210401–20220331	20220401–20310331	51.05	6,620,668	–	–	119,667	6,501,001
		6,918,335	20210401–20230331	20230401–20310331	51.05	6,620,668	–	–	119,667	6,501,001
		6,918,330	20210401–20240331	20240401–20310331	51.05	6,620,664	–	–	119,666	6,500,998
		5,170,000	20210401–20250331	20250401–20310331	51.05	4,875,000	–	–	100,000	4,775,000
	20210709	921,000	20210709–20220708	20220709–20310708	42.08	821,000	–	–	60,000	761,000
		921,000	20210709–20230708	20230709–20310708	42.08	821,000	–	–	60,000	761,000
		921,000	20210709–20240708	20240709–20310708	42.08	821,000	–	–	60,000	761,000
		907,000	20210709–20250708	20250709–20310708	42.08	807,000	–	–	60,000	747,000
	20210930	2,495,750	20210930–20220929	20220930–20310929	36.30	2,464,500	–	–	115,500	2,349,000
		2,495,750	20210930–20230929	20230930–20310929	36.30	2,464,500	–	–	115,500	2,349,000
		2,495,750	20210930–20240929	20240930–20310929	36.30	2,464,500	–	–	115,500	2,349,000
		2,245,750	20210930–20250929	20250930–20310929	36.30	2,214,500	–	–	115,500	2,099,000
	20220104	957,500	20220104–20230103	20230104–20320103	38.43	–	957,500	–	90,000	867,500
		957,500	20220104–20240103	20240104–20320103	38.43	–	957,500	–	90,000	867,500
		957,500	20220104–20250103	20250104–20320103	38.43	–	957,500	–	90,000	867,500
		957,500	20220104–20260103	20260104–20320103	38.43	–	957,500	–	90,000	867,500
	20220519	2,447,000	20220519–20230518	20230519–20320518	16.88	–	2,447,000	–	82,250	2,364,750
		2,993,750	20220519–20240518	20240519–20320518	16.88	–	2,993,750	–	82,250	2,911,500
		2,993,750	20220519–20250518	20250519–20320518	16.88	–	2,993,750	–	82,250	2,911,500
		2,993,750	20220519–20260518	20260519–20320518	16.88	–	2,993,750	–	82,250	2,911,500
		546,750	20220519–20270518	20270519–20320518	16.88	–	546,750	–	–	546,750

OTHER INFORMATION (CONTINUED)

Share Award Scheme

The Board of Directors of the Company has approved to adopt a share award scheme on 2 September 2021. The purpose of the Share Award Scheme is to recognize and reward the contribution of certain Eligible Participants through the Awarded Shares to the growth and development of the Group and to provide incentives in order to retain them for continual operation and development of the Group; and to attract suitable personnel for further development of the Group.

For the six months ended 30 June 2022, the Company has granted 940,000 and 6,354,000 Awarded Shares to certain Selected Participants in accordance with the terms of the Share Award Scheme on 4 January 2022 and 19 April 2022 respectively, for a total of 7,294,000 Awarded Shares.

Details of the movement of the Share Award Scheme for the six months ended 30 June 2022 are as follows:

Grantee	Date of grant	Number of awards	Vesting period	Number of awards at 20220101	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Number of awards at 20220630
Other Employees	2021/12/24	570,000	2022/4/1–2031/12/23	570,000	—	—	10,000	560,000
(“not Directors”)		570,000	2023/4/1–2031/12/23	570,000	—	—	10,000	560,000
		570,000	2024/4/1–2031/12/23	570,000	—	—	10,000	560,000
		570,000	2025/4/1–2031/12/23	570,000	—	—	10,000	560,000
Other Employees	2021/12/24	90,000	2022/7/9–2031/12/23	90,000	—	—	—	90,000
(“not Directors”)		90,000	2023/7/9–2031/12/23	90,000	—	—	—	90,000
		90,000	2024/7/9–2031/12/23	90,000	—	—	—	90,000
		90,000	2025/7/9–2031/12/23	90,000	—	—	—	90,000
Other Employees	2021/12/24	570,575	2022/9/30–2031/12/23	570,575	—	—	17,625	552,950
(“not Directors”)		570,575	2023/9/30–2031/12/23	570,575	—	—	17,625	552,950
		570,575	2024/9/30–2031/12/23	570,575	—	—	17,625	552,950
		445,575	2025/9/30–2031/12/23	445,575	—	—	17,625	427,950
Other Employees	2022/1/4	235,000	2023/1/4–2032/1/3	—	235,000	—	20,000	215,000
(“not Directors”)		235,000	2024/1/4–2032/1/3	—	235,000	—	20,000	215,000
		235,000	2025/1/4–2032/1/3	—	235,000	—	20,000	215,000
		235,000	2026/1/4–2032/1/3	—	235,000	—	20,000	215,000
Other Employees	2022/4/19	974,250	2023/4/19–2032/4/18	—	974,250	—	28,000	946,250
(“not Directors”)		1,588,500	2024/4/19–2032/4/18	—	1,588,500	—	30,000	1,558,500
		1,588,500	2025/4/19–2032/4/18	—	1,588,500	—	30,000	1,558,500
		1,588,500	2026/4/19–2032/4/18	—	1,588,500	—	30,000	1,558,500
		614,250	2027/4/19–2032/4/18	—	614,250	—	2,000	612,250

Purchase, Sale or Redemption of the Listed Securities of the Company

Pursuant to the Repurchase Mandate passed at the annual general meeting on 27 May 2021, the Company was allowed to repurchase up to 596,607,872 shares, being 10% of the total number of shares in issue as at the date of passing the resolution at the annual general meeting. During the period under review, the Company has repurchased totally 11,888,000 shares on the market in accordance with the Repurchase Mandate. The total consideration for the repurchased shares was approximately HK$199,490,420 (before brokerage and expenses). These shares have been cancelled on 13 May 2022. Details are as follows:

Repurchase date	Number of shares	Share price (per share) Highest HK$	Share price (per share) Lowest HK$
7 April 2022	2,913,000 shares	17.48	16.72
8 April 2022	2,902,000 shares	17.36	17.04
11 April 2022	3,022,000 shares	16.62	16.22
12 April 2022	3,051,000 shares	16.88	15.70
Total	11,888,000 shares		

Pledge of Controlling Shareholder's Equity

Reference is made to the announcements of the Company dated 7 July 2021 and 11 April 2022, on 11 April 2022, EVE Battery, the controlling shareholder of the Company, pledged an addition of 0.185 billion shares out of the 1,901,520,000 shares of the Company held by it in favour of CHINA CONSTRUCTION BANK (ASIA) CORPORATION LIMITED ("**Lender 1**") which is an authorized institution. After the completion of the above additional pledge, EVE Battery has pledged an aggregate of 0.3 billion shares in favour of Lender 1.

On the same day, EVE Battery pledged an addition of 0.155 billion shares out of the 1,901,520,000 shares of the Company held by it in favour of CMB WING LUNG BANK LIMITED ("**Lender 2**"). After the completion of the above additional pledge, EVE Battery has pledged an aggregate of 0.27 billion shares in favour of Lender 2.

Exchangeable Bonds issued by Controlling Shareholder

Reference is made to the announcements of the Company dated 12 November 2021 and 30 June 2022, on 30 June 2022, the Company was informed by EVE Battery that dividend of HK$10,537,825.32 of the Company was received for the Exchange Property on 22 June 2022, and this is one of the certain events enumerated in the Terms and Conditions of the Bonds. Further adjustment is required on the Exchange Property according to market practice. Therefore, EVE Battery pledged an additional 497,231 shares it holds to the specific trust account which will then constitute part of the Exchange Property. After completion of the additional pledge, the Exchange Property will include 59,040,705 shares.

Adequacy 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 for the six months ended 30 June 2022.

Use of Proceeds from the Global Offering

The Shares of the Company were successfully listed on the Main Board of the Stock Exchange on 10 July 2020 by offering a total of 660,504,000 Shares (including the over-allotment shares issued upon the full exercise of the over-allotment option) at offer price of HK$12.40 per share (the "**Listing**"). The gross and net proceeds raised by the Company from the Listing were approximately HK$8,190.3 million and approximately HK$7,909.9 million, respectively.

The net proceeds from the Listing have been and will be utilized in the same manner and proportion as set out in the prospectus of the Company dated 29 June 2020 under the section headed "Future Plans and Use of Proceeds". The table below sets out the planned applications of the net proceeds and actual usage as of 30 June 2022:

Use of proceeds	Approximate percentage of total amount	Amount of net proceeds allocated upon Listing (HK$ million)	Actual usage up to 30 June 2022 (HK$ million)	Unutilised amount as at 30 June 2022 (HK$ million)	Expected timeline
(i) Expand our production capacity, including the establishment of industrial parks in Jiangmen and Shenzhen, Guangdong Province	50%	3,954.9	508.5	3,446.4	By the end of 2026
(ii) Implement automated production and assembly lines at our new production bases, upgrade our group-level ERP system and upgrade our existing factories	25%	1,977.5	1,739.0	238.5	By the end of 2026

Use of proceeds	Approximate percentage of total amount	Amount of net proceeds allocated upon Listing (HK$ million)	Actual usage up to 30 June 2022 (HK$ million)	Unutilised amount as at 30 June 2022 (HK$ million)	Expected timeline
(iii) Invest in research and development, including building a group-level research center in Shenzhen, developing new heating technology and paying for product certification expenses	20%	1,582.0	585.8	996.2	By the end of 2027
(iv) Provide funding for our working capital and other general corporate purposes	5%	395.5	395.5	—	—
	100%	7,909.9	3,228.8	4,681.1	

* The figures above are rounded to the nearest one decimal place and may not add up due to rounding.

Placing

The intended and actual use of proceeds from the Placing and the Subscription up to 30 June 2022 are set out as follows:

Intended use of proceeds	Approximate percentage of total amount	Amount of net proceeds allocated (HK$ million)	Actual usage up to 30 June 2022 (HK$ million)	Unutilised amount as at 30 June 2022 (HK$ million)	Expected timeline
(i) Expansion of production capacity	55%	2,445.0	235.6	2,209.4	By the end of 2026
(ii) Allocating more resources and funds in the PMTA application for more products rollout in the market of the United States once approved	10%	444.5	—	444.5	By the end of 2026
(iii) Investing in the R&D on the atomization devices for healthcare and pharmaceutical industry	35%	1,556.0	657.8	898.2	By the end of 2025
	100%	4,445.5	893.4	3,552.1	

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 in this interim report, the Company confirms that the Company's current information in relation to those matters set out in paragraph 32 of Appendix 16 to the Listing Rules has not been changed materially from the information disclosed in the Company's annual report 2021.

Review of Accounts

Deloitte Touche Tohmatsu, the independent auditor of the Company, has reviewed the unaudited condensed consolidated interim financial information for the six months ended 30 June 2022 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.

Events after the Review Period

On 11 March 2022, the State Tobacco Monopoly Administration of China announced the Administrative Measures and answers to some questions, stipulating that e-cigarette products shall comply with mandatory national standards and shall be sold on the market after technical review; the production, wholesale and retail of e-cigarettes shall acquire relevant tobacco monopoly licenses; the sale of flavoured e-cigarettes (other than tobacco flavor) and e-cigarettes which can be added with atomization materials are prohibited and electronic cigarette products only for export shall comply with the laws, regulations and standards of the destination country or region, etc. The Administrative Measures has been implemented since 1 May 2022. During the transition period from 1 May 2022 to 30 September 2022, the existing e-cigarette production and operation entities may continue to carry out production and operation activities, and shall apply for relevant licenses and conduct product technical review pursuant to the requirements under the Administrative Measures, National Standards and other supporting policies.

On 20 July 2022, Shenzhen Vaporesso Technology Co., Ltd. (深圳市韋普萊思科技有限公司), a wholly-owned subsidiary of the Group, received the tobacco monopoly production enterprise license issued by the Tobacco Monopoly Administration, with a validity period from 11 July 2022 to 31 July 2023. On 3 August 2022, Shenzhen Smoore Technology Co., Ltd. (深圳麥克韋爾科技有限公司) and Shenzhen Maike Brothers Technology Co., Ltd. (深圳市麥克兄弟科技有限公司), also being wholly-owned subsidiaries of the Group, received the tobacco monopoly production enterprise licenses issued by the Tobacco Monopoly Administration, with a validity period from 25 July 2022 to 31 July 2023 respectively.

The issuance of the tobacco monopoly production enterprise licenses further improves the confidence of Smoore toward future development and enables the Group to produce and operate as scheduled. In the future, Smoore will firmly support the relevant national policies, continue to implement regulatory requirements, and operate in compliance with laws and regulations. With science and technology as the driving force for its development, the Group will proactively promote the long-term and healthy development of the industry to provide services to global clients and users, fulfill its corporate responsibilities and create higher values for the society.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

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 (collectively referred to as the "Group") set out on pages 44 to 66, which comprise the condensed consolidated statement of financial position as of 30 June 2022 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24 August 2022

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

		For the six months ended 30 June	
		2022	2021
	NOTES	RMB'000 (unaudited)	RMB'000 (unaudited)
Revenue	4	5,653,321	6,953,406
Cost of sales		(2,947,714)	(3,134,622)
Gross profit		2,705,607	3,818,784
Other income and expenses		245,563	216,298
Distribution and selling expenses		(176,728)	(68,273)
Administrative expenses		(587,777)	(362,798)
Research and development expenses		(604,120)	(236,264)
Finance costs		(14,690)	(7,579)
Other gains and losses	5	106,185	37,396
Impairment loss recognised on trade receivables, net		1,925	(705)
Profit before tax		1,675,965	3,396,859
Income tax expense	6	(291,275)	(518,043)
Profit for the period	7	1,384,690	2,878,816
Other comprehensive expense:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		(589)	—
Other comprehensive expense for the period		(589)	—
Total comprehensive income for the period		1,384,101	2,878,816
Earnings per share	9		
Basic (RMB cents)		23.08	48.45
Diluted (RMB cents)		22.38	46.54

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

	NOTES	At 30 June 2022 RMB'000 (unaudited)	At 31 December 2021 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	10	3,536,949	2,107,839
Intangible assets		68,949	66,399
Deposits paid for acquisition of property, plant and equipment		268,971	1,154,085
Deferred tax assets		15,352	15,778
Long-term bank deposits		1,541,722	1,516,030
Rental deposits		24,121	25,403
		5,456,064	4,885,534
Current assets			
Inventories		549,800	560,070
Trade and bills receivables	11	2,706,572	2,409,254
Other receivables, deposits and prepayments		550,192	335,245
Financial assets at fair value through profit or loss ("FVTPL")		—	6,385
Restricted bank deposits		8,412	12,412
Short-term bank deposits over three months		507,228	3,235,648
Bank balances and cash		13,875,609	11,426,758
		18,197,813	17,985,772
Current liabilities			
Trade payables	12	794,580	826,800
Other payables and accrued expenses		1,457,854	1,434,129
Tax payables		181,702	294,972
Contract liabilities		215,411	250,183
Lease liabilities		141,989	145,513
Deferred income		5,134	5,138
Advances drawn on bills receivables discounted with recourse		906,367	437,505
		3,703,037	3,394,240
Net current assets		14,494,776	14,591,532
Total assets less current liabilities		19,950,840	19,477,066

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2022

	NOTE	At 30 June 2022 RMB'000 (unaudited)	At 31 December 2021 RMB'000 (audited)
Non-current liabilities			
Lease liabilities		215,161	174,562
Deferred income		2,521	5,084
Deferred tax liability		51,061	51,061
		268,743	230,707
Net assets		19,682,097	19,246,359
Capital and reserves			
Share capital	13	418,628	419,451
Reserves		19,263,469	18,826,908
Total equity		19,682,097	19,246,359

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Shares held under share award scheme RMB'000	Statutory reserve RMB'000 (Note i)	Other reserve RMB'000 (Note ii)	Translation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2021 (audited)	410,068	8,577,982	–	338,349	–	–	35,819	(1,194,032)	–	4,231,535	12,399,721
Total comprehensive income for the period	–	–	–	–	–	–	–	–	–	2,878,816	2,878,816
Recognition of share-based payment expenses	–	–	–	128,875	–	–	–	–	–	–	128,875
Issuance of shares (note 13)	3,877	3,716,867	–	–	–	–	–	–	–	–	3,720,744
Expense on issue cost	–	(15,170)	–	–	–	–	–	–	–	–	(15,170)
Exercise of share options	2,770	116,881	–	(103,396)	–	–	–	–	–	–	16,255
Dividends recognised as distribution (note 8)	–	(1,321,534)	–	–	–	–	–	–	–	–	(1,321,534)
At 30 June 2021 (unaudited)	416,715	11,075,026	–	363,828	–	–	35,819	(1,194,032)	–	7,110,351	17,807,707
At 1 January 2022 (audited)	419,451	10,139,476	–	406,466	2,809	(82,156)	42,597	(1,194,032)	24	9,511,724	19,246,359
Profit for the period	–	–	–	–	–	–	–	–	–	1,384,690	1,384,690
Other comprehensive expense for the period	–	–	–	–	–	–	–	–	(589)	–	(589)
Total comprehensive income for the period	–	–	–	–	–	–	–	–	(589)	1,384,690	1,384,101
Recognition of share-based payment expenses	–	–	–	140,189	70,302	–	–	–	–	–	210,491
Exercise of share options	7	288	–	(254)	–	–	–	–	–	–	41
Purchase of shares under share award scheme	–	–	–	–	–	(81,207)	–	–	–	–	(81,207)
Repurchase and cancellation of shares (note 13)	(830)	(161,787)	830	–	–	–	–	–	–	–	(161,787)
Dividends recognised as distribution (note 8)	–	(915,901)	–	–	–	–	–	–	–	–	(915,901)
At 30 June 2022 (unaudited)	418,628	9,062,076	830	546,401	73,111	(163,363)	42,597	(1,194,032)	(565)	10,896,414	19,682,097

Notes:

(i) 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.

(ii) Other reserve represents i) the difference between the share capital and share premium of Smoore Shenzhen Technology Co,. Ltd ("Smoore Shenzhen"), a subsidiary of the Company, and cash considerations for the acquisition of 95% and 5% interest in Smoore Shenzhen by Smoore (Hong Kong) Limited and Smile Baby Investment Limited, the wholly-owned subsidiaries of the Company, respectively; and ii) the difference between the par value and fair value of convertible preferred shares of the Company at the date of issuance as part of the group reorganisation in prior year.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
NET CASH (USED IN)/FROM OPERATING ACTIVITIES (NOTE)	**(333,257)**	2,440,733
INVESTING ACTIVITIES		
Payment for acquisition of property, plant and equipment	**(651,851)**	(480,254)
Purchase of intangible assets	**(11,320)**	(2,285)
Placement of short-term bank deposits with variable interests	**(3,000,000)**	(6,836,000)
Withdrawal of short-term bank deposits with variable interests	**3,048,345**	3,930,477
Placement of restricted bank deposits	**—**	(48,000)
Withdrawal of restricted bank deposits	**4,000**	—
Placement of long-term bank deposits	**—**	(1,000,000)
Withdrawal of long-term bank deposits	**—**	50,000
Placement of short-term bank deposits over three months	**(500,000)**	—
Withdrawal of short-term bank deposits over three months	**3,277,884**	—
Payments for rental deposits	**(9,710)**	(13,445)
Refund of rental deposits upon termination of leases	**5,218**	3,458
Interest received	**142,281**	134,290
Government grants received	**—**	2,000
Proceeds from disposal of property, plant and equipment	**3,990**	20,413
Development costs paid	**—**	(3,792)
NET CASH FROM/(USED IN) INVESTING ACTIVITIES	**2,308,837**	(4,243,138)
FINANCING ACTIVITIES		
Dividends paid	**(915,901)**	(1,321,531)
Proceeds from issue of shares upon exercise of share options	**41**	16,264
Payment on repurchase and cancellation of shares	**(161,787)**	—
Purchase of shares under share award scheme	**(81,207)**	—
Repayment of lease liabilities	**(81,746)**	(60,548)
Interest paid	**(15,330)**	(7,579)
Issue of shares of the Company	**—**	3,720,744
Payment of issue costs	**—**	(37,496)
Transaction cost attributable to issuance of shares	**—**	(15,170)
Advances drawn on bills receivables discounted with recourse (note)	**1,716,867**	—
NET CASH FROM FINANCING ACTIVITIES	**460,937**	2,294,684

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 30 June 2022

	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**2,436,517**	492,279
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**11,426,758**	9,557,802
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**12,334**	3,825
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	**13,875,609**	10,053,906

Note: During the six months ended 30 June 2022, the Group received bills receivables of RMB1,701,318,000 (six months ended 30 June 2021: RMB2,304,365,000) and transferred bills receivables of RMB1,716,867,000 (six months ended 30 June 2021: nil) to banks by discounting the bills receivables on a full recourse basis. Without discounting the bills receivables, the cash collection upon maturity of the bills receivables would be included in cash flows from operating activities in the condensed consolidated statement of cash flows. During the current period, the Group has discounted the bills receivables and the relevant cash flows have been included in cash flows from financing activities and subsequent settlement by customers to banks directly would be accounted for as non-cash transactions.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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. 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. 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 the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

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 as appropriate.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("HKFRSs") and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2021.

3. Principal Accounting Policies (Continued)

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2022 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020

The application of the amendments to HKFRSs in the current interim 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 75 days upon delivery.

The Group has one operating segment based on information reported to the chief operating decision maker of the Group, being the executive directors of the Company (the "**CODM**"), for the purpose of resource allocation and performance assessment, which is the consolidated results of the Group. 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.

4. Revenue and Segment Information (Continued)

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

	For the six months ended 30 June 2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Vaping devices and components, other than APV	5,092,905	6,497,384
APV	560,416	456,022
Total revenue that recognised at a point in time	5,653,321	6,953,406

The following is an analysis of the Group's revenue and results by reportable segment:

	For the six months ended 30 June 2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Segment revenue	5,653,321	6,953,406
Segment profit	1,649,741	3,368,202
Unallocated income	28,765	32,493
Unallocated expenses	(2,541)	(3,836)
Profit before tax	1,675,965	3,396,859

The accounting policies of the operating segment is the same as the Group's accounting policies. Segment profit represents profit earned from the segment without allocation of certain interest income from bank deposits and central administration costs. This is the measure reported to the CODM for the purpose of resource allocation and performance assessment.

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	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
The PRC (excluding Hong Kong)	**2,126,870**	3,156,173
Hong Kong, China (note)	**1,269,989**	1,776,529
United Kingdom	**1,110,892**	672,632
United States of America	**606,139**	826,069
France	**139,218**	126,034
Japan	**78,632**	86,262
New Zealand	**62,957**	60,440
Others	**258,624**	249,267
	5,653,321	6,953,406

Note: Revenue generated from Hong Kong are on re-export or transhipment basis and 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	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net foreign exchange gain/(loss)	**69,946**	(12,815)
(Loss)/gain arising on forward foreign exchange contracts	**(8,960)**	13,311
Gain arising on short-term bank deposits with variable interest rate	**48,345**	52,243
Gain on early termination of lease	**250**	950
Impairment loss recognised on intangible assets	**—**	(17,847)
Loss on disposal/write off of property, plant and equipment and intangible assets	**(2,244)**	(4,246)
Others	**(1,152)**	5,800
	106,185	37,396

6. Income Tax Expense

	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
— PRC Enterprise Income Tax ("**EIT**")	**287,513**	519,550
— Hong Kong Profits Tax	**—**	3,015
	287,513	522,565
Underprovision in prior years		
— PRC EIT	**3,336**	753
	290,849	523,318
Deferred tax	**426**	(5,275)
	291,275	518,043

6. Income Tax Expense (Continued)

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% except for Smoore Shenzhen, Jiangmen Moore Technology Co., Ltd ("**Moore Jiangmen**") and Shenzhen Maishi Technology Co., Ltd ("**Maishi Technology**"), three major operating subsidiaries in the PRC. Smoore Shenzhen was qualified as High Technology and New Enterprise in November 2015 which was subsequently renewed in November 2018 and December 2021, and therefore Smoore Shenzhen is entitled to a preferential income tax rate of 15% for the six months ended 30 June 2021 and 2022. Moore Jiangmen and Maishi Technology were qualified as High Technology and New Enterprise in December 2021, and therefore Moore Jiangmen and Maishi Technology are entitled to a preferential income tax rate of 15% for the six months ended 30 June 2022 (six months ended 30 June 2021: 25%). 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.

7. Profit for the Period

	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging:		
Depreciation of right-of-use assets for buildings and land use rights	**98,282**	64,173
Depreciation of property, plant and equipment	**131,674**	74,689
Amortisation of intangible asset	**8,529**	11,524
	238,485	150,386
Less: amounts capitalised as cost of inventories manufactured	**(148,768)**	(111,103)
	89,717	39,283
Allowance for inventories, net	**1,176**	1,084
Government grants	**36,094**	36,500

8. Dividends

	For the six months ended 30 June 2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Dividends recognised as distribution during the period	915,901	1,321,534

During the current interim period, a final dividend of HK18 cents per share in respect of the year ended 31 December 2021 (six months ended 30 June 2021: HK27 cents) was declared and paid to owners of the Company. The aggregate amount of the final dividend paid in the interim period amounted to HK$1,079,181,000 (equivalent to approximately RMB915,901,000) (six months ended 30 June 2021: HK$1,610,837,000 (equivalent to approximately RMB1,321,531,000)).

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK10 cents per share amounting to approximately HK$608,493,000 in aggregate (six months ended 30 June 2021: HK$1,262,033,000) will be paid to owners of the Company whose names appear in the register of members of the Company on 13 September 2022.

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 2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Earnings:		
Earnings for the purpose of basic and diluted earnings per share	1,384,690	2,878,816
	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating earnings per share	5,999,590	5,941,819
Effect of dilutive potential ordinary shares:		
Share options/Award shares	186,569	243,894
	6,186,159	6,185,713

10. Property, Plant and Equipment

During the current interim period, the Group acquired property, plant and equipment of RMB1,663,743,000 (six months ended 30 June 2021: RMB572,488,000). Furthermore, during the current interim period, the Group entered into several new lease agreements with lease terms ranged from 2 years to 10 years. On lease commencement, the Group recognised right-of-use assets of RMB125,181,000 (six months ended 30 June 2021: RMB123,148,000) and lease liabilities of RMB122,520,000 (six months ended 30 June 2021: RMB121,739,000).

11. Trade and Bills Receivables

	At 30 June 2022 RMB'000 (unaudited)	At 31 December 2021 RMB'000 (audited)
Trade receivables		
— contracts with customers	1,714,791	1,703,163
Less: Allowance for credit losses	(14,586)	(16,562)
	1,700,205	1,686,601
Bills receivables	1,006,367	722,653
	2,706,572	2,409,254

The Group allows a credit period of 0 to 75 days to its trade customers.

11. Trade and Bills Receivables (Continued)

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 period:

	At 30 June 2022 RMB'000 (unaudited)	At 31 December 2021 RMB'000 (audited)
Trade receivables		
Within 30 days	836,231	998,721
31 to 60 days	480,288	438,734
61 to 90 days	376,087	248,221
Over 90 days	7,599	925
	1,700,205	1,686,601

As at 30 June 2022, bills receivables of RMB1,006,367,000 (31 December 2021: RMB722,653,000) 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 period:

	At 30 June 2022 RMB'000 (unaudited)	At 31 December 2021 RMB'000 (audited)
Within 30 days	689,830	763,272
31-60 days	89,981	61,708
61-90 days	12,645	1,737
Over 90 days	2,124	83
	794,580	826,800

13. Share Capital

	Number of shares	Share Capital US$'000
Ordinary shares		
Ordinary shares of US$0.01 each		
Authorised:		
At 1 January 2021 (audited), 30 June 2021 (unaudited), 31 December 2021 (audited) and 30 June 2022 (unaudited)	10,000,000,000	100,000

	Number of shares	Share Capital US$'000	RMB'000
Issued and fully paid			
At 1 January 2021 (audited)	5,865,150,720	58,652	410,068
Issuance of ordinary share (Note)	60,000,000	600	3,877
Exercise of share options (note 14)	42,765,000	428	2,770
At 30 June 2021 (unaudited)	5,967,915,720	59,680	416,715
Exercise of share options (note 14)	42,310,500	423	2,736
At 31 December 2021 (audited)	6,010,226,220	60,103	419,451
Exercise of share options (note 14)	106,000	1	7
Repurchase and cancellation of shares	(11,888,000)	(119)	(830)
At 30 June 2022 (unaudited)	5,998,444,220	59,985	418,628

13. Share Capital (Continued)

Note:

On 27 January 2021, the Company entered into a placing and subscription agreement with Aletech Holding Limited (the "Vendor") and CLSA Limited (the "Placing Agent"), pursuant to which the Placing Agent agreed to place 60,000,000 existing shares to not less than six placees at HK$74.40 per share (the "Placing"), and the Vendor agreed to subscribe for 60,000,000 new shares of the Company at HK$74.40 per share (the "Subscription"). The Placing and the Subscription were completed on 1 February 2021 and 4 February 2021 respectively. The net proceeds (after deducting related costs and expenses) from the Subscription amounted to approximately HK$4,445.5 million (equivalent to RMB3,705.6 million).

The net proceeds received by the Company was recognised as share capital at par value of US$0.01 each and the remaining amount was recognised as share premium of the Company.

The new shares rank pari passu with the existing shares in all respects.

14. Share-Based Payment Transactions

(i) The Pre-IPO share option scheme

On 30 September 2019, a share option scheme (the "**Pre-IPO share option scheme**") was adopted by the shareholders of the Company 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:

	2022		2021	
	Exercise price RMB	**Number of share option**	Exercise price RMB	Number of share option
As at 1 January (audited)	**0.38**	**191,327,500**	0.38	278,244,500
Exercised during the period	**0.38**	**(106,000)**	0.38	(42,765,000)
Forfeited during the period	**0.38**	**(1,016,500)**	0.38	(1,634,000)
As at 30 June (unaudited)	**0.38**	**190,205,000**	0.38	233,845,500
Exercisable at the end of the reporting period	**0.38**	**36,224,500**	0.38	20,371,000

14. Share-Based Payment Transactions (Continued)

(ii) The Post-IPO share option scheme

On 15 June 2020, a share option scheme (the "**Post-IPO share option scheme**") was adopted by the shareholders of the Company for the purpose of incentivising and retaining directors, senior management and other employees for their contribution to the Group. Under the Post-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 Post-IPO share option scheme:

	2022		2021	
	Exercise price HK$	Number of share options	Exercise price HK$	Number of share options
As at 1 January (audited)	36.30–51.05	38,078,000	—	—
Granted during the period	16.88–38.43	15,805,000	51.05	26,388,000
Forfeited during the period	16.88–51.05	(1,850,000)	51.05	(280,000)
As at 30 June (unaudited)	16.88–51.05	52,033,000	51.05	26,108,000
Exercisable at the end of the reporting period	51.05	6,655,334	51.05	—

14. Share-Based Payment Transactions (Continued)

(ii) The Post-IPO share option scheme (Continued)

During the current interim period, 3,830,000 and 11,975,000 share options were granted on 4 January 2022 and 19 May 2022 under the Post-IPO share option scheme respectively. The fair value of the options determined at the date of grant using the Binomial Option Pricing model was HK$41,286,000 and HK$65,200,000 (equivalent to approximately RMB33,776,000 and RMB56,094,000) respectively. The key inputs into the model were as follows:

	Share options granted on 4 January 2022	Share options granted on 19 May 2022
Weighted average share price	HK$38.43	HK$16.88
Exercise price	HK$38.43	HK$16.88
Expected life	10 years	10 years
Risk-free rate	1.41%	2.90%
Expected dividend yield	0.60%	2.14%

The directors of the Company estimated the risk-free rate based on the yield of the Hong Kong 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.

(iii) Share Award scheme

On 2 September 2021 ("**Adoption date**"), the Company's Restricted Share Award Plan (the "**Restricted Share Award Scheme**") was adopted with a duration of 10 years commencing from the Adoption date. The purposes of the Restricted Share Award Scheme are (i) to recognise and reward the contribution of certain employees, directors, advisors and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group (the "**Eligible Participants**"); and (ii) to attract suitable personnel for further development of the Group.

14. Share-Based Payment Transactions (Continued)

(iii) Share Award scheme (Continued)

The table below discloses movement of the Share Award scheme:

	2022	2021
As at 1 January (audited)	4,797,300	—
Granted during the period	7,294,000	—
Forfeited during the period	(310,500)	—
As at 30 June (unaudited)	11,780,800	—
Exercisable at the end of the reporting period	560,000	—

During the current interim period, 940,000 and 6,354,000 awarded shares were granted on 4 January 2022 and 19 April 2022 respectively under the Restricted Share Award Scheme.

15. Related Party Transactions

(a) The Group has following transactions and balances with a related party:

Name of related party	Nature of transactions	For the six months ended 30 June 2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
EVE Energy Co., Ltd, shareholder of the Company and controlled by a non-executive director of the Company	Purchase of raw material	169,781	100,572

Name of related party	Nature of balances	At 30 June 2022 RMB'000 (unaudited)	At 31 December 2021 RMB'000 (audited)
EVE Energy Co., Ltd,	Trade payables	94,642	62,740
	Prepayments	10,400	—

15. 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 2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Salaries and other benefits	6,110	2,609
Retirement benefit schemes contributions	129	171
Share-based payment expense	26,088	41,216
	32,327	43,996

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

16. Commitments

	At 30 June 2022 RMB'000 (unaudited)	At 31 December 2021 RMB'000 (audited)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	723,749	390,128

17. Fair Value Measurements of Financial Instruments

Some of the Group's financial instruments are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial instruments are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key input	Signification unobservable input
	30 June 2022 RMB'000	31 December 2021 RMB'000			
Financial assets at FVTPL — forward foreign exchange contracts	–	6,385	Level 2	Discounted cash flow — Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.	—

There was no transfer between different level of the fair value hierarchy during the current interim period.

Except the above financial instruments that are measured at fair value on a recurring basis, the directors of the Company consider the carrying amounts of financial assets and liabilities recorded at amortised costs approximate their fair values.

18. Subsequent Events

Pursuant to the Administrative Measures for Electronic Cigarettes (the "**Administrative Measures**") issued by the State Tobacco Monopoly Administration of China (the "**Tobacco Monopoly Administration**") on 11 March 2022 and related questions and answers, the production, wholesale and retail of e-cigarettes in China shall acquire relevant tobacco monopoly licenses, and a transition period from 1 May 2022 to 30 September 2022 is imposed.

Relevant subsidiaries of the Group are applying for relevant licenses strictly in accordance with the provisions of the Administrative Measures. On 20 July 2022, the wholly-owned subsidiary of the Company, Shenzhen Vaporesso Technology Co., Ltd. has received the tobacco monopoly production enterprise license issued by Tobacco Monopoly Administration which is valid from 11 July 2022 to 31 July 2023. And on 3 August 2022, other two wholly-owned subsidiaries of the Company, Smoore Shenzhen and Shenzhen Maike Brothers Technology Co., Ltd. have received the tobacco monopoly production enterprise licenses issued by Tobacco Monopoly Administration with validity period from 25 July 2022 to 31 July 2023.