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)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board (the "**Board**") of directors (the "**Directors**") of Smoore International Holdings Limited (the "**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2020 (the "**Review Period**"). Deloitte Touche Tohmatsu, certified public accountants, the independent auditor of the Company has reviewed the unaudited condensed consolidated interim financial information for the six months ended 30 June 2020 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. In addition, these interim results have also been reviewed by the Audit Committee of the Company (the "**Audit Committee**").

FINANCIAL HIGHLIGHTS

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

PRINCIPAL BUSINESS OF THE GROUP

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

BUSINESS REVIEW

Research and Development

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

Production and Operation

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

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

Production Capacity and Utilisation Rate

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

Notes:

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

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

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

Sales and Marketing

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

FUTURE PROSPECTS AND STRATEGIES

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

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

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

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

FINANCIAL REVIEW

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

1. Revenue-categorized by business types

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

(1) *Corporate client oriented sales*

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

(2) *Retail client oriented sales*

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

Revenue-categorized by customers' places of incorporation

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

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

2. Gross Profit and Cost of Sales

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

Cost of Sales

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

3. Distribution and Selling Expenses

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

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

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

4. Administrative Expenses

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

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

impact of the pre-IPO share option expenses amortization, the remuneration expenditure during the review period was approximately RMB62,276,000, representing an increase of approximately 13.1% over the same period last year.

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

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

5. Research and Development Expenses

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

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

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

6. Other Income

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

Items	For the six months ended 30 June		
	2020	2019	Changes
	RMB'000	*RMB'000*	*%*
Interest income from bank deposits	**4,418**	1,782	147.9
Interest income from rental deposits	**560**	402	39.3
Government grants	**29,105**	7,956	265.8
Compensation income from customers	**6,915**	16,390	(57.8)
Income from technical consultation services	**1,093**	—	100.0
Others	**2,374**	1,029	130.5
Total	**44,465**	27,559	61.3

7. Other Gains and Losses

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

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

8. Listing Expenses

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

9. Finance Costs

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

10. Income Tax Expense

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

11. Profit and Total Comprehensive Income for the Period

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

12. Liquidity and Financial Resources

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

Treasury management policy

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

Borrowings

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

Asset-liability ratio

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

13. Pledge of Assets

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

14. Exposure to Foreign Exchange Risk

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

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

Sensitivity Analysis

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

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

15. Employment, Training and Development

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

16. Capital Expenditures

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

17. Capital Commitments

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

18. Material Acquisitions and Disposal

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

19. Significant Investments

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

20. Contingent Liabilities

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

21. Future Plans for Material Investments or Capital Expenditures

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTE	For the six months ended 30 June 2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Revenue	4	**3,880,518**	3,273,653
Cost of sales		**(1,980,006)**	(1,915,204)
Gross profit		**1,900,512**	1,358,449
Other income		**44,465**	27,559
Distribution and selling expenses		**(74,029)**	(64,163)
Administrative expenses		**(281,187)**	(103,719)
Research and development expenses		**(208,935)**	(96,095)
Finance costs		**(8,295)**	(7,505)
Other gains and losses	5	**22,022**	(6,483)
Impairment loss recognised on trade receivables, net		**(6,962)**	(1,092)
Loss on fair value changes of convertible promissory notes	12	**(38,487)**	—
Loss on fair value changes of convertible preferred shares	13	**(1,019,109)**	—
Listing expenses		**(24,666)**	(10,345)
Profit before tax		**305,329**	1,096,606
Income tax expense	6	**(228,668)**	(175,608)
Profit and total comprehensive income for the period	7	**76,661**	920,998
Earnings per share	9		
Basic (RMB cents)		**1.53**	18.19
Diluted (RMB cents)		**1.47**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	NOTE	At 30 June 2020 RMB'000 (unaudited)	At 31 December 2019 RMB'000 (audited)
Non-current liabilities			
Lease liabilities		**215,876**	282,903
Convertible preferred shares	*13*	**1,657,866**	232,432
Deferred income		**2,306**	2,652
		1,876,048	517,987
Net assets		**960,384**	734,673
Capital and reserves			
Share capital		**4**	4
Reserves		**960,380**	734,669
Total equity		**960,384**	734,673

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

2. GROUP REORGANISATION AND BASIS OF PREPARATION

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

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

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

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

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

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

3. PRINCIPAL ACCOUNTING POLICIES

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

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

Application of amendments to HKFRSs

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

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

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

4. REVENUE AND SEGMENT INFORMATION

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

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

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

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

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

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

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

Geographical information

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

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

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

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

5. OTHER GAINS AND LOSSES

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

6. INCOME TAX EXPENSE

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

Hong Kong

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

PRC

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

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

7. PROFIT FOR THE PERIOD

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

8. DIVIDENDS

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

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

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

9. EARNINGS PER SHARE

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

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

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

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Reorganisation and the Capitalisation Issue as referred in Note 15 had been effected since 1 January 2019.

10. TRADE AND BILLS RECEIVABLES

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

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

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

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

11. TRADE PAYABLES

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

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

12. CONVERTIBLE PROMISSORY NOTES

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

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

Notes:

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

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

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

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

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

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

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

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

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

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

13. CONVERTIBLE PREFERRED SHARES

As part of the Reorganisation, the Company issued 837.969 Series A-1 Preferred Shares of US$0.01 each to five Pre-IPO investors. Furthermore, the Company issued 1,314.509 Series A-2 Preferred Shares of US$0.01 each to three Pre-IPO investors upon conversion of convertible promissory notes as detailed in Note 12.

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

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

	Series A-1 Preferred Shares	**Series A-2 Preferred Shares**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 31 December 2019 (audited)	232,432	—	232,432
Conversion of convertible promissory notes *(note 12)*	—	406,325	406,325
Loss arising on changes of fair value *(Note)*	412,982	606,127	1,019,109
At 30 June 2020 (unaudited)	645,414	1,012,452	1,657,866

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

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

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

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

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

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

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

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

14. SHARE-BASED PAYMENT TRANSACTIONS

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

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

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

On 1 May 2020, the Company granted 116,113,000 share options to eligible directors, management and employees under the Pre-IPO share option scheme, on the assumption that the Capitalisation Issue (as defined in Note 15) as described in the section "Share Capital" of the Prospectus had been effective as of the date of acceptance.

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

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

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

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

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

15. SUBSEQUENT EVENTS

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

(i) Pursuant to the resolutions of the Company's shareholders passed on 15 June 2020, on 10 July 2020, the Company allotted and issued a total of 5,169,096,105.491 shares by way of capitalisation of the sum of approximately US$51,690,961.06 standing to the credit of the share premium account of the Company (the "Capitalisation Issue"), credited as fully paid at par to the shareholders as appearing on the register of members of the Company. Upon the conversion of Preferred Shares as detailed in Note 13 and the completion of Capitalisation Issue on 10 July 2020, the Company have an aggregate of 5,169,160,720 ordinary shares.

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

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

OTHER INFORMATION

INTERIM DIVIDEND

The Board did not recommend a payment of interim dividend for the six months ended 30 June 2020 to Shareholders.

CORPORATE GOVERNANCE

Compliance with the Code Provisions of the Corporate Governance Code

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

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

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

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

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS OF DIRECTORS

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

AUDIT COMMITTEE

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

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

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

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

REVIEW OF ACCOUNTS

Deloitte Touche Tohmatsu, certified public accountants, the independent auditor of the Company has reviewed the unaudited condensed consolidated interim financial information for the six months ended 30 June 2020 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

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

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

NET PROCEEDS FROM THE GLOBAL OFFERING

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

- Approximately 50%, will be used to expand our production capacity, including the establishment of industrial parks in Jiangmen and Shenzhen, Guangdong province.
- Approximately 25%, will be used to (i) implement automated production and assembly lines at our new production bases, (ii) upgrade our group-level ERP system, and (iii) upgrade our existing factories.
- Approximately 20%, will be used to invest in research and development, including building a group-level research center in Shenzhen, developing new heating technology and paying for product certification expenses.
- Approximately 5%, will be used to provide funding for our working capital and other general corporate purposes.

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

EVENTS AFTER THE REVIEW PERIOD

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

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

(1) Hang Seng Composite Index:

— Hang Seng Composite Industry Index — Consumer Discretionary;

— Hang Seng Composite Large Cap Index;

— Hang Seng Composite LargeCap & MidCap Index;

(2) Hang Seng Consumer Goods & Services Index;

(3) Hang Seng SCHK New Economy Index.

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

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement has been published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.smooreholdings.com. The interim report for the six months ended 30 June 2020 containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

By Order of the Board
Smoore International Holdings Limited
Mr. Chen Zhiping
Chairman of the Board

Hong Kong, 24 August 2020

As at the date of this announcement, the executive Directors of the Company are Mr. Chen Zhiping, Mr. Xiong Shaoming and Mr. Wang Guisheng; the non-executive Director of the Company is Dr. Liu Jincheng; and the independent non-executive Directors of the Company are Mr. Zhong Shan, Mr. Yim Siu Wing, Simon and Dr. Liu Jie.