Smoore

2020 ANNUAL REPORT

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)

CONTENTS

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 *(ACIS, ACS, 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
DeHeng Law Offices (Shenzhen)
Conyers Dill & Pearman

COMPLIANCE ADVISER

Guotai Junan Capital Limited

CORPORATE INFORMATION (CONTINUED)

AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

35/F, One Pacific Place
88 Queensway
Hong Kong

THE CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR

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

PRINCIPAL BANKS

Bank of China Limited
China Construction Bank Corporation
Industrial and Commercial Bank of China Limited
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
The Hongkong and Shanghai Banking Corporation 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

FINANCIAL HIGHLIGHTS

Key financial information

	For the year ended/as at 31 December				
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020 RMB'000**
Revenue	707,254	1,565,190	3,433,709	7,610,601	**10,009,937**
Gross profit margin	24.3%	26.8%	34.7%	44.0%	**52.9%**
Profit and total comprehensive income for the year	106,200	188,980	733,952	2,173,789	**2,399,921**
*Adjusted profit and total comprehensive income for the year ("Adjusted net profit")	106,200	188,980	734,760	2,265,391	**3,893,428**
Non-current assets	117,629	253,037	588,136	1,132,163	**2,333,221**
Current assets	418,953	824,771	1,841,116	2,169,740	**12,440,588**
Current liabilities	255,658	586,271	1,248,465	2,049,243	**2,108,440**
Net current assets	163,295	238,500	592,651	120,497	**10,332,148**
Total assets	536,582	1,077,808	2,429,252	3,301,903	**14,773,809**
Total assets less current liabilities	280,924	491,537	1,180,787	1,252,660	**12,665,369**
Total equity/net assets	260,211	410,451	968,958	734,673	**12,399,721**
Cash and cash equivalents	104,387	333,242	941,964	731,394	**9,557,802**

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

	For the year ended 31 December				
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	**2020 RMB'000**
Profit and total comprehensive income for the year before adjustment	106,200	188,980	733,952	2,173,789	**2,399,921**
Less:					
Listing expenses	—	—	(808)	(26,299)	**(72,988)**
Share-based payment expenses plan related to pre-IPO share option scheme	—	—	—	(61,268)	**(362,923)**
Loss on fair value changes of convertible promissory notes	—	—	—	(3,635)	**(38,487)**
Loss on fair value changes of convertible preferred shares	—	—	—	(400)	**(1,019,109)**
Adjusted net profit	106,200	188,980	734,760	2,265,391	**3,893,428**

FINANCIAL HIGHLIGHTS (CONTINUED)

Our management considers that, except for the share-based payment expenses related to share option scheme before the Company's listing on The Stock Exchange of Hong Kong Limited on 10 July 2020 (the "**Listing**"), 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 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. 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 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, it could better reflect our underlying operating performance and could better facilitate the comparison of operating performance with respective year.

The Board proposed to declare a final dividend of HK27 cents per ordinary share for the year ended 31 December 2020.

Key financial ratios

	For the year ended/as at 31 December				
	2016	2017	2018	2019	**2020**
Gross profit margin (%)	24.3	26.8	34.7	44.0	**52.9**
Adjusted net profit margin (%)	15.0	12.1	21.4	29.8	**38.9**
Asset-liability ratio (%)	51.5	61.9	60.1	77.8	**16.1**
Current ratio (%)	163.9	140.7	147.5	105.9	**590.0**
Trade and bills receivables turnover days (Day)	41.1	28.9	26.2	24.3	**52.4**
Inventory turnover days (Day)	74.8	47.5	45.8	40.3	**38.2**
Trade payables turnover days (Day)	89.9	86.0	76.4	43.4	**44.3**

Notes:

1. Gross profit margin = gross profit/revenue
2. Adjusted net profit margin = adjusted net profit/revenue
3. Asset-liability ratio = total liabilities/total assets
4. Current ratio = current assets/current liabilities
5. Trade and bills receivables turnover days = average balance of trade and bills receivables/revenue*365
6. Inventory turnover days = average balance of inventory/cost of sales*365
7. Trade payables turnover days = average balance of trade payables/cost of sales*365
8. Average balance = (beginning balance for the year + ending balance for the year)/2

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "**Directors**") (the "**Board**") of Smoore International Holdings Limited ("**Smoore**" or the "**Company**"), I am pleased to present the annual report of the Company and its subsidiaries (together referred to as the "**Group**") as of 31 December 2020 (the "**Review Period**").

BUSINESS REVIEW

2020 is an extraordinary year for the Group. During the Review Period, the Company experienced major changes in the external environment and numerous challenges, especially a series of challenges brought about by the new coronavirus epidemic ("**Epidemic**"). The Group turned crises into opportunities by resolutely implementing the established long-term development strategy to overcome difficulties and achieved good operating results.

During the Review Period, the Group continued to adhere to leading technological manufacturing, concentric diversification and technology branding as the Company's core development strategies. In product research and development, we will continue to increase the investment in basic research, especially those related to vaping mechanism, safety and health. Due to our efforts put into with the external scientific consultant team, the experimental testing organization and other teams, the Group successfully submitted the premarket tobacco application ("**PMTA**") for the Group's own brand products to the US Federal Food and Drug Administration ("**FDA**") during the Review Period, becoming one of the earliest domestic enterprises which submitted such application and received acceptance from FDA.

In terms of manufacturing, the sudden outbreak of the Epidemic has posed severe challenges in production and caused the output reduction in the first quarter by one-third compared to the original plan. After the Group resumed work, it strictly prevented and controlled the Epidemic and also organized production in a timely manner to quickly restore production capacity to a normal level. On the whole, the Group satisfied clients' order demands and achieved stable revenue growth with no employees infected. Benefiting from the cost-reduction and efficiency-enhancement measures implemented by the Group during the Review Period, including improving production efficiency and automation level as well as optimizing supplier structure, the proportion of various costs to revenue for the year decreased, which strongly supported profit growth.

OUTLOOK

The Group's vision is to focus on building a world-leading vaping technology platform, creating value for society and bringing happiness for all colleagues. The Group will be committed to making unremitting efforts to realize the aforementioned vision. In terms of research and development, the Group will continue to increase investment in research and development of vaping platforms and promote the in-depth application of vaping products in the health care, medical and health field. For manufacturing, the Group will always devote to improve the automation and intelligence of manufacturing, and explore new manufacturing models that can create more value for clients through in-depth research and development. With regard to capacity expansion, the Group will expand our production capacity in a timely manner based on the growth of clients' needs. The Group has explored a set of operation models that can quickly and flexibly adjust production capacity according to clients' needs, and it will, when appropriate, increase the proportion of self-constructed factories. The Group believes that the current capacity expansion plan will strongly support the needs of our clients for business growth in the foreseeable future.

CHAIRMAN'S STATEMENT (CONTINUED)

SINCERE APPRECIATION

The Company's successful listing on the Hong Kong Stock Exchange on 10 July 2020 is an important milestone in the Company's development, laying a solid foundation for the Company's long-term and sound development. The Group will live up to expectations, generate fruitful returns for shareholders and create more value for all stakeholders and society.

I, hereby, on behalf of the Board, would like to express my sincere appreciation to shareholders, clients, employees and all partners for their unswerving support in the last year.

Chen Zhiping
Chairman of the Board
Smoore International Holdings Limited

MANAGEMENT DISCUSSION AND ANALYSIS

PRINCIPAL BUSINESS OF THE GROUP DURING THE REVIEW PERIOD

The Group is a global leader in offering vaping technology solutions. During the Review Period ("**Financial Year**"), through our innovative and pioneering vaping technology solutions, 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.

OPERATING ENVIRONMENT

In the external environment of the Group's operations, the Group shall pay close attention to the changes in laws and regulations in the main markets where clients are located and adjust its product strategy in a timely manner.

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**") and 2020 interim report of the Company (the "**Interim Report**") , and further 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 year ended 31 December 2020:

Principal Sale Jurisdictions[(1)]	Material Laws, Regulations, Executive Orders and Policies Updates	Relevant Products, Potential Impact and Compliance Status	Revenue Contribution[(2)] (%) for the year ended 31 December 2020
U.S.[(3)]	• Federal Legislation Extending Prevent All Cigarette Trafficking ("**PACT**") Act to electronic nicotine delivery systems ("**ENDS**") and Non-ENDS Products that are not used with nicotine-containing e-liquids. PACT Act will extend existing legislation affecting the interstate shipment of cigarettes and smokeless tobacco to ENDS and non-ENDS products.	(i) PACT Act requires a party that ships an ENDS or non-ENDS vaporizer product or its components or parts, with or without e-liquid: 1) to register with the Bureau of Alcohol, Tobacco, Firearms, and Explosives and with state tax departments prior to engaging in the interstate shipment of such products, 2) to have a registered agent in each state that taxes such products (of which there are approximately thirty (30)), and 3) to submit detailed monthly reports to state tax authorities of each shipment of such products into the state.	49.5%

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Principal Sale Jurisdictions[1]	Material Laws, Regulations, Executive Orders and Policies Updates	Relevant Products, Potential Impact and Compliance Status	Revenue Contribution[2] (%) for the year ended 31 December 2020
		(ii) PACT Act requires online retailers of such products (so-called "delivery sellers") to comply with all applicable state tax and licensing laws for each state into which they ship ENDS and non-ENDS products and require adult identity verification and signature upon delivery before a shipment can be released. PACT Act requires the distributors to obtain distributor or wholesale licenses in those states that tax ENDS or non-ENDS products where they do not presently have them, since distributors are required to also submit monthly reports of shipments into states. (iii) PACT Act prohibits the US Postal Service ("USPS") from accepting mailings of ENDS or non-ENDS products for shipments to consumers starting in April 2021 and will require any sender of such products for business-to-business shipments to obtain preclearance from USPS under a limited "business purpose" exception to the general rule of non-mailability of ENDS and non-ENDS vaporizer products. Combined with the announcements of Fed Ex and UPS that they will no longer accept shipments of ENDS products in the United States after 1 March 2021, and 5 April 2021, respectively, the new federal legislation is creating significant compliance and carriage challenges for distributors and online retailers of our ENDS and non-ENDS products.	
China	As advised by external legal counsels, no new material laws, regulations, executive orders and rules were issued in China as of 31 December 2020.		27.1%

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Principal Sale Jurisdictions[1]	Material Laws, Regulations, Executive Orders and Policies Updates	Relevant Products, Potential Impact and Compliance Status	Revenue Contribution[2] (%) for the year ended 31 December 2020
Hong Kong	To follow the related disclosures in the Interim Report, in July 2020, the Bills Committee of the Legislative Council of Hong Kong reported to the House Committee of the Legislative Council of Hong Kong its decision to discontinue its scrutiny work on the Smoking (Public Health) (Amendment) Bill 2019 (the "**Bill**") and the House Committee agreed to dissolve the Bills Committee. In 2020-2021 session of the Legislative Council, the House Committee agreed to set up a new Bills Committee to study the Bill. In October 2020, a Bills Committee for the 2020-2021 session has been formed for the Bill. There is currently no date set for date of resumption of 2nd Reading debate/3rd Reading.		36.3%
Japan	As advised by external legal counsels, no new material laws, regulations, executive orders and rules was issued in Japan as of 31 December 2020.		3.1%
E.U.[4]	For E.U., as advised by external legal counsels, no new material laws, regulations, executive orders and rules were issued in EU as of 31 December 2020.		5.1%
France	Decree of the French Government dated 27 November 2020 on reforming Extended Producer Responsibility. Order of the French Government dated 5 February 2021 on the specifications for prior approval of eco-organizations in the sector with extended producer responsibility for tobacco products. Above the Decree and Order only mandate the HNB devices as categorized as New Tobacco Product.	(i) Since 1 January 2021, the Extended Producer Responsibility constrains the producer of tobacco products (include, in particular, filters as required by HNB devices) to: 1) participate in the financing of a waste management organization for the management of waste from these products; or 2) organize the management of said waste itself. (ii) Regarding the participation in the financing of a waste management organization, the granting of authorizations from the French administrative authority to these organizations will start in the course of 2021. (iii) If the Company chooses the self-organization of waste, the latter shall ask as soon as possible for an authorization from the French administrative authority, which will answer within four (4) months.	4.1%

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Principal Sale Jurisdictions[1]	Material Laws, Regulations, Executive Orders and Policies Updates	Relevant Products, Potential Impact and Compliance Status	Revenue Contribution[2] (%) for the year ended 31 December 2020
U.K.	Directive 2014/40/EU The Tobacco Products and Nicotine Inhaling Products (Amendment) (EU Exit) Regulations 2020 (2020 Regulations)	Under the 2020 Regulations, from 1 January 2021: 1) Producers placing products on the Northern Ireland market need to notify on EU Common Entry Gate (EU-CEG) system, on the Great Britain market need to notify on the Great Britain domestic system. 2) Notifiers need to pay a fee if they notify in relation to placing products on one of the Great Britain or Northern Ireland markets and the same fee if a producer notifies in relation to placing products on the two markets. 3) The producer here covers anyone who manufactures or imports these products or who re-brands any product as their own. Retailers do not need to submit information for any products they sell unless they also qualify as a producer. Producers of new e-cigarette and refill container products must submit a notification to the MHRA (Medicines & Healthcare products Regulatory Agency) six months before a producer intends to put the product on the market in Great Britain and/or Northern Ireland. Once a notification has been published on the MHRA website a producer can launch the product in the notified region. If a notification has been published, a producer does not need to wait for the remainder of the 6 month period to elapse before a producer places the product on the market in the notified region. Replacement e-cigarette parts that could contain nicotine only require notification if they have not already been notified as part of a device or e-cigarette kit: 1) Identical replacement parts that have already been notified as part of another notified e-cigarette product do not need to be separately re-notified if it is clear on the labeling what notified product the part is for. 2) Non-identical replacement part, particularly one that alters the consumer safety profile of a product (for example by changing its refill capacity), would require a separate notification. 3) Rebuildable devices come within the definition above and require the same notification.	8.7%

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Notes:

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

(2) The percentage of revenue contribution demonstrates the portion of our business that was affected by the relevant regulations in the Review Period. The percentage of revenue contribution for the year ended 31 December 2020 also represents the portion of our business that will be affected by the same regulations in the future, assuming the percentage of revenue contribution remains constant and there is no further change to the legislative regimes in relation to e-cigarettes and vaping devices in the relevant jurisdictions.

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

(4) On 31 January 2020, the U.K. officially left the European Union.

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, diversify our product portfolio, and promote the application of vaping technology in the healthcare industry.

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

Impact on our Production and Operation

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

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

Impact on our supply chain

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Impact on consumer demand and sales channels

Our end consumers' demand for self-branded APV under retail client oriented sales has also been affected by the Outbreak. As of 31 December 2020, our revenue from retail client oriented sales decreased by approximately 18.7% as compared to last year. One of the primary reasons for the decrease was the interruption of production in the first quarter due to the impact of the Outbreak. The impact on the sales channels of our distributors also led to such decrease, as a number of vaping shops and tobacco shops had reduced business hours or had closed temporarily during the Outbreak period, which caused more inconvenience for end consumers. Further, compared with our closed system vaping device, the average selling price of our self-branded APV is higher, which made them more susceptible to have decreased consumer demand during the Outbreak.

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

Control Measures Addressing the Outbreak

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

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

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

As of 31 December 2020 and up to the date of this report, no employees of the Group have been found to be infected with COVID-19.

For detailed information about the impact of the Outbreak, please refer to the section headed "Business — Covid-19 Outbreak" in the Prospectus.

INDUSTRY OVERVIEW

During the Review Period, the Group's products for corporate clients mainly included closed system vaping devices, vaping components, including vaping components for special purpose. The products for the retail client oriented business included self-branded open system vaping devices (APV). According to the independent market research report issued by industry consultant Frost & Sullivan in March 2021 (the "**Sullivan Report**"), the global vaping device market size is expected to grow at a compound growth rate of approximately 25.9% at ex-factory prices from 2016 to 2020, and at an estimated compound growth rate of approximately 32.6% from 2021 to 2025.

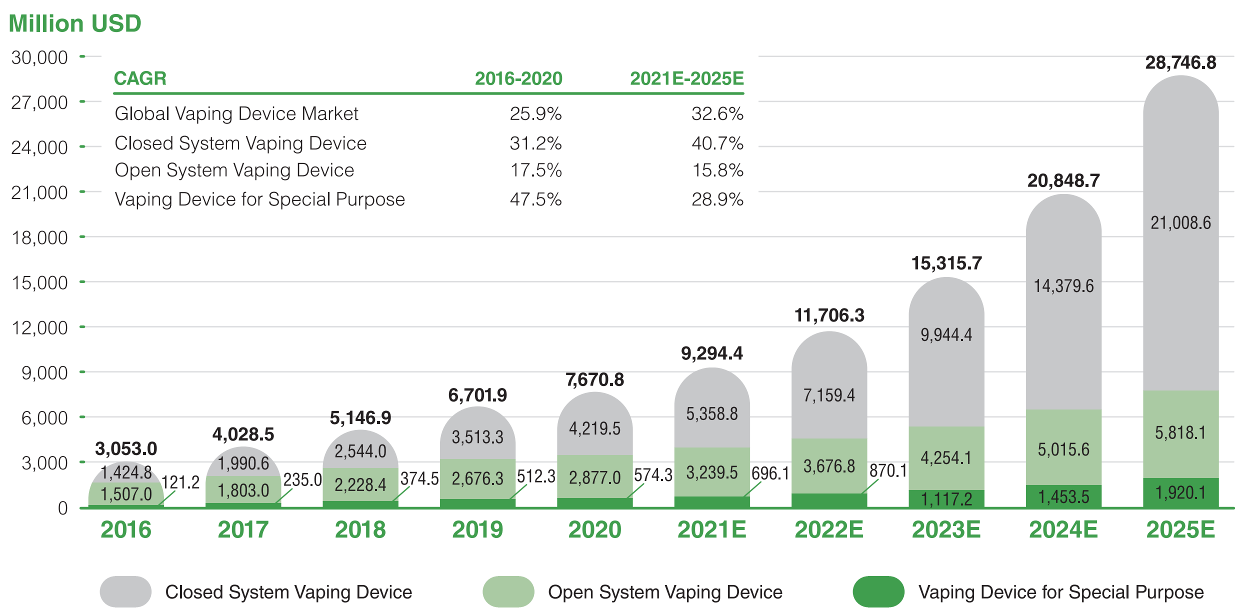
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The global market size of closed system vaping devices has maintained a compound growth rate of approximately 31.2% at ex-factory price from 2016 to 2020, and is expected to grow at a compound growth rate of approximately 40.7% from 2021 to 2025. The global market size of open system vaping devices has maintained a compound growth rate of approximately 17.5% at ex-factory price from 2016 to 2020, and is expected to grow at a compound growth rate of approximately 15.8% from 2021 to 2025. The global market of vaping device for special purpose is expected to grow at a compound growth rate of approximately 47.5% at ex-factory prices from 2016 to 2020, and is expected to grow at a compound growth rate of approximately 28.9% from 2021 to 2025.

According to the Sullivan Report, the Group continues to maintain its position as the world's largest manufacturer of vaping devices in the year of 2020, and its market share in the global vaping devices manufacturing field has increased from approximately 16.5% in 2019 to approximately 18.9% in 2020.

Global Vaping Device Market Overview

Market Size of Global Vaping Device Market by Revenue (by Ex-factory Price), 2016–2025E



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

BUSINESS REVIEW

Sales and Marketing

In 2020, the global economy was impacted by COVID-19. In face of a complex and changeable trading environment and regulatory environment, the Group has committed to providing clients with competitive products, and well satisfied client's delivery requirements and achieved relatively satisfying results during the Review Period against difficulties under the circumstance of adverse impact on the production and operation by the sudden Outbreak. The Group realized revenue of approximately RMB10,009,937,000 for the year of 2020, representing an increase of approximately 31.5% over 2019. In particular, the revenue of corporate client oriented products increased by approximately 39.5%, which was mainly due to the fact that the Group's FEELM brand ceramic atomization technology continued to be widely recognized by consumers around the world and the quality and delivery capabilities of the Group's products further gained corporate client's recognition. During the Review Period, the Group's revenue of retail client oriented products decreased by approximately 18.7%. The main reasons for the decrease in revenue were the impact of the Outbreak on the distribution channels of the Group's products, and the growth in consumer demand for open system vaping devices during the Review Period was weaker than that of closed system vaping devices.

Research and Development

The Group believes that technology leadership is the core driving force for the Group's development. During the Review Period, the Group continued to strengthen its investment in R&D. The R&D expenditure amounted to approximately RMB419,806,000, an increase of approximately 51.3% over the previous year, and its percentage of revenue continued to increase from approximately 3.6% in the previous year to approximately 4.2% in the Financial Year. The Group's R&D investment during the Review Period includes, but not limited to: in-depth research on the safety and user experience of vaping products, research and testing related to premarket tobacco application ("**PMTA**") product certification as required by the US Federal Food and Drug Administration ("**FDA**"), research and development of automated production equipments, and research of new materials, in-depth study of vaping mechanism etc. Based on the vaping technology platform, the Group has also made satisfying progress in research and development of medical and healthcare vaping products.

In response to the FDA's PMTA requirements for the electronic nicotine delivery systems (''**ENDS**''), the Group has submitted PMTA before the prescribed deadline 9 September 2020 in accordance with the requirements for related products. The Group is one of the earliest manufacturers in China to submit such application and the application submitted by the Group is in the process of FDA review. At the same time, the Group is also actively cooperating with large clients to prepare PMTA applications related to the Group's products.

During the Review Period, the number of the Group's new patent applications was 740, of which 341 were invention patents, which further enhanced the Group's technology leadership in the vaping field. As of 31 December 2020, the number of the Group's accumulative patent applications was 2,221, of which 965 were invention patents.

As at 31 December 2020, the number of the Group's R&D personnel accounted for approximately 46.4% (as at 31 December 2019: approximately 41.6%) of the non-production personnel (the total number of employees less the number of production personnel).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Production and Operation

The Group was affected by the COVID-19 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 of 2020. It also well satisfied the delivery demands of client and provided a strong support for major clients to seize market opportunities in a timely manner and increase market share.

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.

Production Capacity and Utilisation Rate

	Designed Production Capacity during the Review Period (equivalent units in millions per year)	**Adjusted Production Capacity** (equivalent units in millions per year)	**Production volume during the Review Period** (equivalent units in millions per year)	**Utilisation Rate**
Corporate client oriented sales	1,868.4	1,719.8	1,094.3	63.6%
Retail client oriented sales	25.8	23.7	12.9	54.4%

Notes:

1. During the Review Period, Designed Production Capacity was calculated based on the total of monthly designed production capacity per hour of our production line of 12 months. 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 Review Period divided by Adjusted Production Capacity.

4. As at 31 December 2020, our Designed Production Capacity for corporate clients products has been increased to 2,316.1 million equivalent units per year, and our Designed Production Capacity for retail clients products remained 25.8 million equivalent units per year.

5. The equivalent unit for our corporate client oriented sales is calculated by converting all of the parts of vaping devices at respective ratios into cartridges. The equivalent unit for our retail client oriented sales is calculated by converting all of the parts of APV at respective ratios into a full set APV. The respective ratios are determined based on the manufacturing time needed.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FUTURE PROSPECTS AND STRATEGIES

According to the Sullivan Report, the global vaping devices market size is expected to grow at a compound growth rate of approximately 32.6% at ex-factory price from 2021 to 2025. Being the world's largest manufacturer of vaping devices, we maintain full confidence in the future market prospects.

For 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 field in relation to product safety, health and consumer experience, and actively promote the in-depth application of vaping technology in health, medical and other fields. As for product application research, the Group will stick to work closely with major clients to keep abreast of the changes in product requirements and demands of legislators, regulators and consumers, so as to design more competitive and innovative products in a targeted manner.

For production and operations, the Group will further improve the competitiveness of the Group's products in terms of cost and quality through measures such as continuously increasing the level of production automation and intelligence to enhance production efficiency and optimizing supply chains.

For capacity expansion, the Group fully recognizes that only by establishing sufficient capacity reserves can it quickly response to client's 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. In addition to the production capacity of 2,316.1 million equivalent units per year for corporate client products owned by the Group as at 31 December 2020, the Group plans to increase the Group's capacity reserves for sales to corporate clients by no less than 500 million equivalent units per year by adding new leased properties and upgrading the level of automation in 2021. The first phase of the Group's industrial park in Jiangmen, Guangdong Province is under construction, and it is expected to increase the Group's capacity by no less than 1,080 million equivalent units per year (corporate client oriented products) by the end of 2022. After the completion of the second phase of the industrial park in Jiangmen, the Group is expected to further increase its production capacity by no less than 1,440 million equivalent units per year for corporate client products.

The Group believes that we have the ability to adjust our capacity expansion plan in a timely manner according to the changes of market to satisfy client's delivery demands.

With regard to sales of existing products, the Group will strive to strengthen in-depth cooperation with existing large-scale ODM clients, fully understand and respond to their needs in a timely manner and provide strong support for clients' 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 addition, the Group will further expand its product categories in 2021, including the exploration of market opportunities for heat-not-burn (''**HNB**'') products. In relation to branding and marketing, the Group will further increase the influence of the Group's own brand (such as Vaporesso) and ceramic vaping technology brand (such as FEELM) and enhance consumers' recognition on the Group's brands to lay a solid foundation for the sustainable growth of revenue.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW

During the Review Period, the total revenue of the Group was approximately RMB10,009,937,000 (2019: RMB7,610,601,000), representing an increase of approximately 31.5% compared with last year. The gross profit in the Financial Year was approximately RMB5,295,813,000 (2019: RMB3,352,352,000), representing a year on year increase of approximately 58.0%. The gross profit margin in the Financial Year was approximately 52.9% (2019: 44.0%). The profit and total comprehensive income for the year of the Group increased from approximately RMB2,173,789,000 in 2019 to approximately RMB2,399,921,000 this year. Adjusted net profit was approximately RMB3,893,428,000, representing a year-on-year increase of 71.9% from last year. The main reasons of such increases included the growth in revenue and improvement of gross profit margin. In the first half of the Financial Year, the Group's revenue increased by approximately 18.5% due to the impact of the Outbreak on production while a revenue increase of approximately 41.3% was recorded in the second half of the Financial Year as the effect of the Outbreak on production was basically eliminated.

1. Revenue — categorized by business types

	For the year ended 31 December				
	2020		2019		Changes
	RMB'000	**%**	RMB'000	%	%
Corporate client oriented sales	**9,162,803**	**91.5**	6,568,661	86.3	39.5
Retail client oriented sales	**847,134**	**8.5**	1,041,940	13.7	(18.7)
Total	**10,009,937**	**100.0**	7,610,601	100.0	31.5

(1) Corporate client oriented sales

During the Review Period, the revenue of corporate client oriented sales was approximately RMB9,162,803,000 (2019: RMB6,568,661,000), indicating an increase of approximately 39.5% compared with last year, which was primarily attributable to the continuous recognition of vaping devices equipped with FEELM ceramic heating technology of our Group by consumers in the market, and that the impact of the Outbreak on the sales channel of the Group's customers of vaping devices being relatively small, and the significant increase of purchase orders from the Company's major clients.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(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 RMB847,134,000 (2019: RMB1,041,940,000), indicating a decrease of 18.7% from 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 Outbreak period. The main sales channels of APV products are vaping devices shops and tobacco shops. During the Outbreak period, a number of vaping devices shops and tobacco shops have fewer business hours or have been temporarily closed, which caused more inconvenience for end consumers. 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 Outbreak period.

Revenue — categorized by customers' places of incorporation

	For the year ended 31 December				
	2020		2019		Changes
	RMB'000	**%**	RMB'000	%	%
U.S.	**1,450,052**	**14.5**	1,661,981	21.8	(12.8)
Mainland China	**2,709,058**	**27.1**	1,588,703	20.9	70.5
Hong Kong, China*	**3,632,582**	**36.3**	2,010,165	26.4	80.7
Europe	**1,546,521**	**15.4**	1,366,799	18.0	13.1
Japan	**312,309**	**3.1**	605,003	7.9	(48.4)
Others	**359,415**	**3.6**	377,950	5.0	(4.9)
Total	**10,009,937**	**100.0**	7,610,601	100.0	31.5

* 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. To our knowledge, approximately 96.3% (2019: 93.4%) of the products sold to customers incorporated in Hong Kong during the Review Period were forwarded to the U.S.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Gross Profit and Cost of Sales

During the Review Period, the gross profit of the Group was approximately RMB5,295,813,000 (2019: RMB3,352,352,000), indicating an increase of approximately 58.0% from 2019 while the gross profit margin rose to approximately 52.9% during the Review Period from 44.0% 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.

	For the year ended 31 December				
	2020		2019		Changes
	RMB'000	**%**	RMB'000	%	%
Cost of raw materials	**3,429,640**	**72.8**	3,049,348	71.6	12.5
Labor cost	**677,188**	**14.4**	625,462	14.7	8.3
Production overhead	**520,500**	**11.0**	499,548	11.7	4.2
Tax and surcharge	**86,796**	**1.8**	83,891	2.0	3.5
Total	**4,714,124**	**100.0**	4,258,249	100.0	10.7

3. Distribution and Selling Expenses

The Group's distribution and selling expenses decreased from approximately RMB157,713,000 last year to approximately RMB144,171,000 during the Review Period, representing a decrease of approximately 8.6%. Distribution and selling expenses as a percentage of total revenue was approximately 1.4% (2019: 2.1%). The decrease in distribution and selling expenses as a percentage of total revenue was mainly due to the scale effect brought by the growth of revenue. Among which:

(1) employee's salaries and benefits decreased from approximately RMB79,761,000 last year to approximately RMB69,637,000 this year, representing a decrease of approximately 12.7%. The proportion of employee's salaries and benefits in total revenue decreased from approximately 1.0% last year to approximately 0.7% during the Review Period. The main reason of decrease in employee's salaries and benefits was the decrease in selling activities related salaries due to the impact of the Outbreak.

(2) marketing expenses decreased from approximately RMB42,434,000 last year to approximately RMB40,723,000 this year, representing a decrease of approximately 4.0%. The proportion of marketing expenses to revenue decreased from 0.6% last year to 0.4% this year. The decrease in marketing expenses was mainly due to the decrease in the revenue of the Group's self-branded business during the Review Period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4. Administrative Expenses

The administrative expenses of the Group increased from approximately RMB327,048,000 last year to RMB682,681,000 during the Review Period, representing an increase of approximately 108.7%. Administrative expenses as a percentage of revenue increased from approximately 4.3% last year to approximately 6.8% in the Review Period. The significant increase in administrative expenses as a percentage of revenue was mainly due to the increase of share option expenses. Excluding the effect of share option expenses, the Group's administrative expenses during the Review Period increased by approximately 20.3%, and decreased from 3.5% last year to 3.2% during the Review Period as a percentage of revenue. Among which:

(1) employee's salaries and benefits increased by approximately 183.7% from approximately RMB182,438,000 last year to approximately RMB517,499,000. Its proportion of revenue increased from approximately 2.4% last year to approximately 5.2% 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 RMB362,923,000 during the Review Period (2019: RMB61,268,000). If excluding the impact of the Pre-IPO share option expenses amortization, the remuneration expenditure during the Review Period was approximately RMB154,576,000, representing an increase of approximately 27.6% over last year.

(2) professional fees increased by approximately 22.2% from approximately RMB42,242,000 last year to approximately RMB51,617,000. Such fees as a percentage of revenue decreased from approximately 0.6% 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 Group's business scale.

(3) depreciation and amortization expenses increased by approximately 49.5% from approximately RMB13,821,000 last year to approximately RMB20,660,000, accounting for approximately 0.2% of revenue (2019: 0.2%). The increase in such expenses was mainly due to the expansion of the Group's business scale and the corresponding increase of investment in equipments and decoration expenses.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

5. Research and Development Expenses

The Group's research and development expenses increased from approximately RMB277,401,000 in 2019 to approximately RMB419,806,000 during the Review Period, representing an increase of approximately 51.3%. Research and development expenses as a percentage of revenue increased from approximately 3.6% in 2019 to approximately 4.2% during the Review Period. The main reason of increase in research and development expenses as a percentage of revenue was the fact that the Group has always regarded technology leadership as the core driving force of the Group's development, and 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 54.9% from approximately RMB137,108,000 last year to approximately RMB212,319,000, and its proportion of revenue increased from approximately 1.8% last year to approximately 2.1% during the Review Period.

(2) the development costs increased by approximately 60.7% from approximately RMB106,479,000 last year to approximately RMB171,091,000, and its proportion of revenue increased from approximately 1.4% last year to approximately 1.7% during the Review Period.

6. Other Income

During the Review Period, the total other income of the Group was approximately RMB195,376,000, representing an increase of approximately 299.8% from approximately RMB48,870,000 last year, as detailed below:

Items	For the year ended 31 December		
	2020	2019	Changes
	RMB'000	RMB'000	%
Interest income from bank deposits	**84,203**	3,117	2,601.4
Interest income from rental deposits	**1,143**	1,041	9.8
Government grants	**45,569**	16,459	176.9
Compensation income from customers	**14,712**	24,093	(38.9)
Income from technical consultation services	**11,062**	—	100.0
Others	**38,687**	4,160	830.0
Total	**195,376**	48,870	299.8

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

7. Other Gains and Losses

During the Review Period, the total other gains of the Group were approximately RMB19,317,000 (2019: other losses of RMB18,620,000), as detailed below:

	For the year ended 31 December		
Items	**2020**	2019	changes
	RMB'000	RMB'000	%
Net foreign exchange (loss)/gain	**(38,853)**	10,789	(460.1)
Gain on fair value changes on financial assets at fair value through profit or loss ("**FVTPL**")	**43,785**	6,215	604.5
Gain on early termination of leases	**2,252**	725	210.6
Loss on disposal/write off of property, plant and equipment	**(7,480)**	(13,909)	(46.2)
Others	**19,613**	(22,440)	N.A.
Total	**19,317**	(18,620)	N.A.

8. Listing Expenses

The Group's listing expenses incurred during the Review Period and recognized in the consolidated statement of profit or loss and other comprehensive income amounted to RMB72,988,000 (2019: RMB26,299,000), 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 RMB15,369,000 (2019: RMB18,173,000), representing a decrease of approximately 15.4% from last year. The Group's finance costs during the Review Period derived from the interest expenses over lease liabilities. The decrease in the finance costs was primarily due to the decrease in average lease liabilities during the Review Period.

10. Income Tax Expense

During the Review Period, the Group's income tax expense was approximately RMB717,845,000 (2019: RMB393,262,000), representing an increase of approximately 82.5% over last year. Income tax expenses accounted for approximately 18.4% (2019: 17.4%) of adjusted net profit. The main reason for the increase in income tax was the increase in taxable profit.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

11. Profit and Total Comprehensive Income for the Year

The Group's profit and total comprehensive income for the year was approximately RMB2,399,921,000 (2019: RMB2,173,789,000), representing an increase of approximately 10.4% from last year. The adjusted net profit was approximately RMB3,893,428,000 (2019: RMB2,265,391,000), representing an increase of approximately 71.9% over last year. The main reason for such growth was the increase in revenue, gross profit margin and other gains.

12. Liquidity and Financial Resources

As at 31 December 2020, the net current assets of the Group were approximately RMB10,332,148,000 (31 December 2019: RMB120,497,000). As at 31 December 2020, the Group's bank balance and cash were approximately RMB9,557,802,000 (31 December 2019: RMB731,394,000), of which approximately RMB9,547,624,000 were denominated in RMB, approximately RMB8,388,000 were denominated in USD, approximately RMB1,667,000 were denominated in HKD, approximately RMB123,000 were denominated in GBP (31 December 2019: 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 31 December 2020, the current ratio of the Group was approximately 590.0% (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 primarily to utilize 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.

Gearing Ratio

As at 31 December 2020, the gearing ratio of the Group, calculated as the total debt divided by the total equity, was approximately 19.1% (2019: approximately 349.4%).

13. Pledge of Assets

As at 31 December 2020, the Group did not have any pledges on its assets (31 December 2019: Nil).

14. Exposure to Foreign Exchange Risk

During the year ended 31 December 2020, the Group recorded a net foreign exchange loss of approximately RMB38,853,000 (2019: a net foreign exchange gain of RMB10,789,000).

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 70% of the Group's revenue was settled in U.S. dollars and approximately 30% was settled in RMB. Meanwhile, 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 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 RMB.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 31 December 2020, if the exchange rate of USD against RMB rises by 10%, the Group's profit after tax will increase by approximately RMB69,668,000 (31 December 2019: decrease by RMB50,491,000). On the other hand, if the exchange rate of USD against RMB drops by 10%, the Group's profit after tax will decrease by approximately RMB69,668,000 (31 December 2019: increase by RMB50,491,000).

15. Employment, Training and Development

As at 31 December 2020, the Group has 14,266 and 7 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, 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. 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.

During the Review Period, the total staff costs (including management and administration staff) account for approximately 17.0% of the revenue of the Group (2019: 15.7%). The increase in total staff costs as a percentage of revenue was mainly due to the amortization amount of share options accumulated in the Review Period. If such effect is excluded, the total staff costs account for approximately 13.3% of the revenue in the Review Period (2019: 14.9%).

16. Capital Expenditures

As of 31 December 2020, the total investment in property, plant and equipment and intangible assets of the Group was approximately RMB413,024,000 (2019: RMB396,793,000), 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

17. Capital Commitments

As at 31 December 2020, the Group had contracted capital commitment of approximately RMB70,272,000 (31 December 2019: RMB61,596,000) for procurement of land use right assets, property, plant and equipment, which will be mainly financed with net proceeds from the Listing.

18. Material Acquisitions and Disposal

During the Review Period, the Group did not carry out any material acquisitions or disposals of any subsidiaries, associates or joint ventures.

19. Significant Investments

During the Review Period, the Group did not have any significant investments (2019: nil).

20. Contingent Liabilities

As at 31 December 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 and the section ''Intended Use of Net Proceeds'' in the announcement of the Company relating to the completion of top-up placing dated 4 February 2021, our Company has no other plans for material investments or capital expenditures.

CONTINUING CONNECTED TRANSACTIONS

EVE Energy Co., Ltd. ("**EVE Energy**") is a controlling shareholder of our Company. Pursuant to the Listing Rules, EVE Energy and its subsidiaries are the connected persons of the Group.

During the year ended 31 December 2020 (the "**Reporting Period**"), the Group conducted certain transactions with the above-mentioned connected persons in the ordinary course of business, which constitute continuing connected transactions ("**Continuing Connected Transactions**") of the Company based on the Listing Rules.

The details of the Continuing Connected Transactions conducted by the Company during the Review Period that are subject to reporting requirements set out in this section. Unless otherwise defined herein, capitalised terms used in this section shall have the same meaning as those defined in the Prospectus.

Procurement Transactions

The Company entered into a procurement framework agreement ("**Procurement Framework Agreement**") on 19 June 2020 with EVE Energy, pursuant to which EVE Energy shall manufacture battery products for the Group. The Procurement Framework Agreement will terminate on 31 December 2022 unless renewed otherwise.

Pricing Policy

The procurement prices are determined with reference to the prevailing market prices. To ascertain the prevailing market prices and batteries provided by EVE Energy are no less favorable than those available from independent third parties, we obtain comparable batteries quotations from independent third party suppliers shortlisted by us, in order to determine whether viable alternatives of comparable quality are available. In terms of similar products, we compare quotations from EVE Energy with other independent third party suppliers to ensure the reasonableness of the procurement prices.

Caps of Transactions

The maximum aggregate annual procurement amount from EVE Energy for the years ended 31 December 2020, 2021 and 2022 shall not exceed RMB240,000,000, RMB300,000,000 and RMB360,000,000, respectively.

Transaction Amounts during the Reporting Period

During the Reporting Period, the transaction amount of procurement of battery products which constitutes a connected transaction was approximately RMB180,764,000, which represents 5.5% of the total procurement amount of the Group.

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

During the Reporting Period, save as disclosed above, the Company did not have any other connected transactions which are required to be disclosed pursuant to the requirements of Chapter 14A of the Listing Rules.

At the time of the Company's initial public offering, the Company had applied to the Stock Exchange for, and the Stock Exchange had granted, waivers in relation to such continuing connected transactions from strict compliance with (i) the announcement and (ii) independent shareholders' approval requirements under the Listing Rules.

On the basis of the above, the Company confirms that it has complied with the requirements under Chapter 14A of the Listing Rules in relation to all connected transactions and continuing connected transactions to which the Company was a party during the Reporting Period.

Confirmation from and Review Opinions of the Independent Non-Executive Directors

Following specific enquiries with the Company and the recommendation from the Company's audit committee, the independent non-executive directors of the Company have reviewed those continuing connected transactions, the findings and conclusions and confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal or better commercial terms to the Company;

(3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Confirmation from the Company's Auditor

The Company's auditor was engaged to report to the Company on the Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). The Company's auditor has issued its unqualified letter containing its findings and conclusions in respect of the Continuing Connected Transactions disclosed in page 27 in this annual report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

The Company's auditor has confirmed in its letter that nothing has come to its attention that cause it to believe that the Continuing Connected Transactions: (i) have not been approved by the Board; (ii) were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (iii) have exceeded the annual cap for the year ended 31 December 2020 as set by the Company.

CORPORATE GOVERNANCE REPORT

A. CORPORATE GOVERNANCE PRACTICES

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 emphasise 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 report, the Company had applied the principles and complied with all code provisions (except those as stated in the section of "Chairman of the Board and Chief Executive Officer") 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**").

B. BOARD

(1) Composition of the Board of directors

As of the date of this report, Directors of the Company are as followed:

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

The biographical information of the Directors is set out in the section headed "Biographical Details of the Directors" in the Directors' Report of this annual report. In addition, an up-to-date list of our Directors and their roles and functions is maintained on the Company's website and the Stock Exchange's website.

(2) Independent non-executive Directors

From the Listing Date to the date of this report, the Board has met the requirements of the Listing Rules regarding the appointment of at least three independent non-executive directors (representing at least one-third of the Board), with at least one of whom possessing appropriate professional qualifications, or accounting, or related financial management expertise. To provide transparency to the investor community and in compliance with the Listing Rules and the CG Code, the independent non-executive Directors of the Company are clearly identified in all corporate communications containing the names of the Directors. The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive directors are independent.

(3) Responsibilities and Delegation

The Board is responsible for the leadership and supervision of the Company's affairs and acting in the best interests of the Company and the shareholders. The Board, directly and indirectly through its committees, provides directions to manage (by laying down strategies and overseeing their implementation), monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Director and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. All Directors have full and timely access to all the data of the Company, and may upon request, seek independent professional advice in appropriate circumstances at the Company's expenses for fulfilling their duties to the Company. The Directors need to disclose to the Company details of other offices held by them.

The Board reserves for its discretion on all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial data, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the chief executive officer and management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid personnel.

CORPORATE GOVERNANCE REPORT (CONTINUED)

(4) Chairman of the Board and Chief Executive Officer

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.

(5) Appointment and Re-Election of Directors

According to the Articles of Association of the Company, at every annual general meeting of the Company, one-third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation, every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A Director appointed by the Board of the Company, either to fill a casual vacancy or as an addition to the Board, shall hold office only until the next following general meeting of the Company. All retiring Directors shall be eligible for re-election. Each Director (including the non-executive Directors and independent non-executive Directors) is engaged for a term of three years. They are subject to retirement and re-election in accordance with the provisions of the Articles as mentioned above.

CORPORATE GOVERNANCE REPORT (CONTINUED)

(6) Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that the contribution to the Board remains relevant. Every newly appointed Director will receive relevant induction training on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills pursuant to provision A.6.5 of the CG Code, in order to ensure that the contribution to the Board remains relevant. Internally training for Directors will be arranged and reading material on relevant topics will be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses, and the expenses of which will be paid by the Company. During the Reporting Period, Directors' participation in continuous professional training is as follows:

Name of Directors	Types of Continuous Professional Development Training
Mr. Chen Zhiping	A and B
Mr. Xiong Shaoming	A and B
Mr. Wang Guisheng	A and B
Dr. Liu Jincheng	A and B
Mr. Zhong Shan	A and B
Mr. Yim Siu Wing, Simon	A and B
Dr. Liu Jie	A and B

Notes:

A: Attending seminars, meetings, forums and/or training courses

B: Reading material provided by the external or the Company, including but not limited to latest information or Director's responsibilities and obligations in relation to the business of the Company , CG code and other applicable and latest regulatory regulations.

CORPORATE GOVERNANCE REPORT (CONTINUED)

(7) Attendance Record of Directors

From 10 July 2020, the Listing Date of the Company, to 31 December 2020, the Company has held two Board Meetings and two Audit Committee Meetings in total. The attendance of the respective Directors at the meetings above is set out below:

Name of Directors	Board Meeting Attendance/Meeting	Audit Committee Meeting Attendance/Meeting
Mr. Chen Zhiping	2/2	—
Mr. Xiong Shaoming	2/2	—
Mr. Wang Guisheng	2/2	—
Dr. Liu Jincheng	2/2	—
Mr. Zhong Shan	2/2	2/2
Mr. Yim Siu Wing, Simon	2/2	2/2
Dr. Liu Jie	2/2	2/2

The Company should hold at least four regular Board Meetings each year at approximately quarterly intervals. Schedules for regular Board meetings are normally agreed with the Directors in advance to ensure their attendance. At least 14 days' notice for all regular Board meetings will be given to all Directors and all Directors are given the opportunity to include items or businesses for discussion in the agenda. For all other Board meetings, reasonable notice will also be given by the Company. Relevant agenda and accompanying meeting papers will be sent to each Director at least 3 days in advance of every regular Board meeting.

Since the shares were listed on the Stock Exchange on 10 July 2020 (the listing date), no Nomination Committee meeting and Remuneration Committee meeting were held during the Reporting Period. Immediately after the Reporting Period and up to the date of this annual report, the Nomination Committee and Remuneration Committee held a meeting on March 31, 2021, and all members attended the meeting. The Nomination Committee and the Remuneration Committee will arrange at least one meeting in each subsequent financial year.

(8) Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) set forth in Appendix 10 to the Listing Rules as a code of conduct of the Company for Directors and relevant employees' securities transactions. Having made specific enquiry of all the Directors and relevant employees, they all confirmed that they have complied with the provisions of the Model Code from the Listing Date to the date of this annual report.

(9) Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board. The Company recognises and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile.

In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

At present, the Nomination Committee considered that the Board is sufficiently diverse. The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

The Nomination Committee will review the board diversity policy, as appropriate, regularly to ensure its effectiveness.

(10) Director Nomination Policy

The Board has delegated its responsibilities to the Nomination Committee for identification and selection of candidates to stand for election as Directors. The Company has adopted a Director Nomination Policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience, knowledge and diversity of perspectives appropriate to the Company and satisfies the business requirements of the Company.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Diversity in aspects including but not limited to gender, age, experience, cultural and educational background, expertise, skills and know-how;

- Sufficient time to effectively carry out their duties; their services on other listed and non-listed companies should be limited to a reasonable number;

- Qualifications, including skills, accomplishments and experience in the relevant industries the Company's business is involved in;

- Independence;
- Reputation for integrity;
- Potential contributions that the individual(s) can bring to the Board; and
- Commitment to enhance and maximize shareholders' value.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings.

The Nomination Committee will review the Director Nomination Policy to ensure its effectiveness.

(11) Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the required standard of dealings of securities transactions, as well as the Company's compliance with the CG Code and disclosure in this corporate governance report.

C. Board Committees

The Board has established three Board committees, namely, the Audit Committee, the Nomination Committee and the Remuneration Committee, for overseeing particular aspects of the Company's affairs. All Board committees have established with specific written terms of reference which deals clearly with their authority and duties, and are posted on the Company's website and the Stock Exchange's website.

(1) Audit Committee

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 primary duties of the Audit Committee are to conduct critical and objective reviews of the Group's financial reporting procedures, risk management and internal control systems, including considering the nature and scope of statutory audits, reviewing the interim and annual accounts of the Group, approving connected transactions and providing advice to the Board.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Audit Committee has reviewed the results of the year and the accounting principles and practices adopted by the Group in conjunction with the management of the Company and the external auditors, and discussed matters such as auditing, risk management, internal control and financial statements (including review the financial statements for the year ended 31 December 2020). For the year ended 31 December 2020, the Audit Committee also held two meetings with the external auditors. All members attended to discuss audit procedures and accounting matters.

(2) Nomination Committee

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 review the Board composition, make recommendations to the Board regarding the rotation and appointment of Directors and Board succession, and assess the independence of independent non-executive Directors of the Company. In order to achieve a diversity of perspectives of the Board, the Company considers a number of factors when deciding on appointments to the Board and the continuation of those appointments. Such factors include gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

The Company has adopted the procedures for shareholders to propose a person for election as director which was published on the Company's website.

(3) Remuneration Committee

The Remuneration Committee consists of Mr. Chen Zhiping, an executive Director, Mr. Yim Siu Wing, Simon and Dr. Liu Jie, two independent non-executive Directors. Mr. Yim Siu Wing, Simon is the Chairman of the Remuneration Committee.

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

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

Pursuant to provision B.1.5 of the CG Code, the annual remuneration range (including share-based compensation) of senior management, for the year ended 31 December 2020 is set out below. Details of the Directors' remuneration for the year ended 31 December 2020 are set out in notes 11 and 36(b) to the consolidated financial statements in this annual report.

Annual Remuneration	**Number of individuals**
HK$0 to HK$20,000,000	2
HK$20,000,001 to HK$40,000,000	1

Notes:

(1) Senior management as of 31 December 2020.

D. Risk Management and Internal Controls

The Group's risk management and internal control system is designed to manage and enhance operating effectiveness and efficiency, to safeguard assets against misappropriation and unauthorized disposition, to maintain appropriate accounting records and financial reports that are true and fair, and to ensure compliance with relevant laws and regulations. The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and they can only provide reasonable, but not absolute, assurance against material misstatements or losses. The Board has the overall responsibility for evaluating and determining the nature and extent of the risk of failure to achieve the Company's strategic objectives, as well as establishing and maintaining effective risk management and internal control systems. The Audit Committee assists the Board in leading the management team to oversee the design, implementation and monitoring of the risk management and internal control systems. The management considers it is important to establish and to continue to improve its risk management and internal control systems, and has strengthened internal control, internal audit, compliance and forensic functions of the Company during the Report Period.

The overall risk management process of the Company is integrated in the day-to-day operations of the Group and the management is entrusted with duties to analyze, identify, monitor, evaluate and respond to risks associated with the business activities and operations of the Group. The management will evaluate risk levels acceptable for the Company, set up contingency plans and formulate contingency plans to minimize impact of unpredictable events and report its findings to the Audit Committee and the Board, who ultimately determine the nature and extent of significant risk that the Company is willing to take in achieving its business objectives and direct the Group's risk management strategies.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Internal Audit Department is tasked with performing internal control functions of the Company and plays an important role in monitoring the internal governance of the Company. The Internal Auditor reports directly to the Chairman and has direct access to the Audit Committee. On a regular basis, it conducts audits on major activities and processes of the Group's business and support units. It also conducts special reviews or investigations of areas of concern identified by the management or the Audit Committee. All audit reports are communicated to the Audit Committee, Directors and key senior management. Audit issues are tracked and followed up for proper implementation, with progress reported to the Audit Committee, Directors and senior management directly and periodically.

The Board, through the Audit Committee, reviewed the effectiveness of the risk management and internal control system of the Group for the year ended 31 December 2020, which covered controls over financial reporting, operations and compliance, as well as risk management functions, and considered that the system of internal controls in operation in the Group have been in place and functioning effectively.

Assisted by the Audit Committee, the Board assessed the effectiveness of the risk management and internal control system of the Group by reviewing the investigation results of management report and internal audits, and considered that the risk management and internal control system of the Group for the year ended 31 December 2020 was effective and adequate in all material respects.

E. Directors' Responsibilities in Respect of the Financial Statements

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2020. The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other regulatory requirements. The senior management has provided to the Board necessary explanation and information to enable the Board to make an informed assessment of the financial information and position of the Company, which are put forward to the Board for approval. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. The statement of the Auditor about their reporting responsibilities on the Company's consolidated financial statements for the year ended 31 December 2020 is set out in the section headed "Independent Auditor's Report" in this annual report.

F. Auditor's Remuneration

The Group's independent external auditor is Deloitte Touche Tohmatsu. The Audit Committee is responsible for the appointment of the external auditors and reviewing the non-audit functions performed by the external auditors for the Group. In particular, the Audit Committee will, prior to the execution of contract with the external auditors and the commencement of their duties, consider whether the non-audit functions will result in any potential material conflict of interest. The related remuneration for the audit services and non-audit services provided by Deloitte Touche Tohmatsu to the Group for the year ended 31 December 2020 amounted to RMB3,600,000 and RMB1,035,000, respectively. The non-audit services conducted by the Auditor mainly include professional services on tax advisory and interim review of financial statement.

According to the recommendation of the Audit Committee, the Board will submit a resolution at the forthcoming annual general meeting to reappoint Deloitte Touche Tohmatsu as the Company's auditor.

CORPORATE GOVERNANCE REPORT (CONTINUED)

G. Joint Company Secretaries

Mr. Wang Guisheng, the joint company secretary of the Company, is responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures as well as the applicable laws, regulations and rules are being followed. Ms. Cheng Choi Ha, an external service provider of the Corporate Services Division of Tricor Services Limited, has been engaged by the Company as the other joint company secretary to assist to perform the duties of the joint company secretary of the Company. The primary contact person of the Company is Mr. Wang Guisheng, an executive Director. Mr. Wang Guisheng and Ms. Cheng Choi Ha have taken the required number of hours of relevant professional trainings.

H. Communications with Shareholders and Investors

The Board believes that effective communication with shareholders is of great importance in enhancing investor relation. The annual report and interim report offer comprehensive operation and financial performance information to shareholders while the annual general meeting provides a forum for shareholders to express their opinions directly to the Board. The Board welcomes comments from shareholders and encourages them to attend general meetings to raise concerns they might have with the Board or management directly. The Board members and appropriate senior management personnel of the Company will respond issues raised by shareholders at the meeting. To safeguard shareholders' interests and rights, a separate resolution will be proposed for each issue at general meetings. Since the Listing Date to the date of this annual report, the Company has not held any annual general meeting.

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

Shareholders and investors can send written inquiries or requests to the attention of the Board in the following ways:

Address: Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
Email: IR@smooreholdings.com

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Company has formulated communication policy for shareholders aimed at promoting continuously effective communication between the Company and shareholders so as to make them informed when exercise their rights. The Company will review the shareholder communication policy on a regular basis to ensure its effectiveness.

I. Constitutional Documents

The Company adopted amended and restated memorandum and articles of association on 15 June 2020 with effect from the Listing Date (i.e. 10 July 2020). There was no significant change in the constitutional documents of the Company during the period from the Listing Date to 31 December 2020.

J. Shareholder's Rights

Procedures on Convening an Extraordinary General Meeting and Putting Forward Proposals at General Meetings

According to Article 58 of the Articles of Association, any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

DIRECTORS' REPORT

The Board is pleased to present the Directors' report for the year ended 31 December 2020 to the Shareholders.

Principal Business

The Group is a global leader in offering vaping technology solutions. During the Review Period, through our innovative and pioneering vaping technology solutions, 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. Particulars of the principal activities of the Company's subsidiaries are set out in Note 38 to the consolidated financial statements of the Group. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2020.

Business Review

A business review of the Group for the year ended 31 December 2020 and its future development is set out in the Chairman's Statement and Management Discussion and Analysis of this annual report.

Major Customers and Suppliers

During the year ended 31 December 2020, the Group's sales to its top five customers accounted for approximately 73.6% of its total sales (2019: approximately 63.0%), with the largest customer accounted for approximately 34.7% (2019: approximately 15.7%). The Group's purchase amount from its top five suppliers accounted for approximately 31.9% of its total purchase amount (2019: approximately 25.5%), with the largest supplier accounted for approximately 9.9% (2019: approximately 6.0%). The Group aims to maintain long-term cooperative relationship with reputable customers and suppliers.

Dr. Liu Jincheng, our non-executive Director, is the chairman of the board, the legal representative and the controlling shareholder of EVE Energy Co., Ltd, which is one of our top 5 suppliers during the year ended 31 December 2020 and is also a substantial shareholder of the Company. Except for Dr. Liu Jincheng, none of the Directors, or any of their close associates (as defined under the Listing Rules), or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital), had any interest in any of the five largest customers or suppliers of the Group during the year ended 31 December 2020.

Financial Highlights

A summary of the Group's key financial information for the five years is set out on page 4 of this annual report.

Bank Loans and Borrowings

For the year ended 31 December 2020, the Group has no bank loans and other borrowings.

DIRECTORS' REPORT (CONTINUED)

Reserves

As of 31 December 2020, the Company's distributable reserves amounted to RMB7,536.3 million. Changes in the Company's reserves for the year ended 31 December 2020 are set out in note 37 to the consolidated financial statements.

Donations

For the year ended 31 December 2020, the Group made charitable donations of approximately RMB1.1 million.

Property, Plant and Equipment

For the year ended 31 December 2020, details of the changes in the Group's property, plant and equipment are set out in note 14 to the consolidated financial statements.

Share Capital and Shares in Issue

For the year ended 31 December 2020, details of the changes in the Company's share capital and details of the shares in issue are set out in note 29 to the consolidated financial statements.

Equity-linked Arrangements

Save for the share option schemes of the Company disclosed in the section headed "Share Option Scheme" below, no equity-linked agreement was entered into by the Company during the year ended 31 December 2020 or subsisted as at 31 December 2020.

Final Dividend

The Board recommends the payment of a final dividend of HK27 cents per ordinary share for the year ended 31 December 2020 to shareholders which shall be subject to approval by shareholders at the forthcoming annual general meeting (the "**AGM**"). It is expected that the dividend will be paid on or around 18 June 2021.

The Company has adopted a dividend policy regrading to the payment of dividends, which is subject to the financial conditions of the Company and the Group and the conditions and factors as set out in the dividend policy. Dividends may be proposed to declare by the Board during a financial year and any final dividend for a financial year will be subject to the Shareholders' approval.

Annual General Meeting

The AGM of the Company will be held on 27 May 2021, notice of which will be published and despatched to the shareholders as soon as practicable in accordance with the requirements of the Company's articles of association and Listing Rules.

Closure of Register of Members

The Register of Members of the Company will be closed from 24 May 2021 to 27 May 2021, 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 attend and vote at the AGM, 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 Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 21 May 2021.

The Register of Members of the Company will be closed from 2 June 2021 to 4 June 2021, both dates inclusive, during such period no transfer of shares will be registered. In order to establish the identity of the Shareholders who are entitled to the said final dividend which will be resolved and voted at the AGM, 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 Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 1 June 2021.

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

For the year ended 31 December 2020, neither the Company nor its subsidiaries purchased, redeemed or sold any of the listed securities of the Company.

Share Option Scheme

(1) Pre-IPO Share Option Scheme

The Company approved and adopted the pre-IPO Share Option Scheme pursuant to a resolution in writing passed by the shareholders on 30 September 2019 (the "**Pre-IPO Share Option Scheme**"). The terms of our Pre-IPO Share Option Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as our Pre-IPO Share Option Scheme will not involve the grant of options by us to subscribe for Shares after we are listed.

Summary of major terms of the Pre-IPO Share Option Scheme are as follows:

(i) Purposes of Pre-IPO Share Option Scheme

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.

(ii) Participants of Pre-IPO Share Option Scheme

Eligible participant of the Pre-IPO Share Option Scheme included employees (whether full time or part-time) or a director of a member of the Group as the Board may at its absolute discretion select.

DIRECTORS' REPORT (CONTINUED)

(iii) Maximum number of Shares

The Company had granted options for a total of 319,032,000 shares to eligible participants under the Pre-IPO Share Option Scheme on 30 September 2019 and 1 May 2020. No further option will be granted under the Pre-IPO Share Option Scheme.

As at 31 December 2020, a total of 278,244,500 share options were remain outstanding, representing approximately 4.67% of the issued shares of the Company as at 31 March 2021.

(iv) Limit for each participant

Under the Pre-IPO Share Option Scheme, there is no specific limit on the maximum number of share options which may be granted to a single eligible participant.

(v) Option Period

The option period shall be determined by the Board and shall not exceed ten years from the offer date of the option. Any option which remain unexercised shall lapse upon the expiry of the option period.

An option shall be subject to such terms and conditions (if any) as may be determined by the Board and specified in the offer of the option, including any vesting schedule and/or conditions, any minimum period for which any option must be held before it can be exercised and/or any performance target which need to be achieved by an option-holder before the option can be exercised.

(vi) Payment on Acceptance of Offer and Exercise Price

Each grantee is required to pay HK$1 as consideration for the acceptance of the grant of the options under the Pre-IPO Share Options Scheme. The exercise price in respect of each option granted under the Pre-IPO Share Option Scheme is RMB0.38.

(vii) Remaining life of the Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme shall be valid and effective for a period from the date of adoption (i.e. 30 September 2019) and expiring on the Listing Date (i.e. 10 July 2020), after which period no further options will be granted but the provisions of the Pre-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto.

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

DIRECTORS' REPORT (CONTINUED)

Details of the movement of the Pre-IPO Share Option Scheme for the year ended 31 December 2020 are as follows:

Grantee	Date of grant	Number of options	Vesting period	Exercisable period	Exercise price (RMB)	Number of options at 2020/01/01	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Number of options at 2020/12/31
Chen Zhiping *(director of the Company)*	2020/05/01	16,000,000	2020/05/01-2020/10/09	2020/10/10-2030/04/30	0.38	—	16,000,000	—	—	16,000,000
		16,000,000	2020/05/01-2021/07/09	2021/07/10-2030/04/30	0.38	—	16,000,000	—	—	16,000,000
		16,000,000	2020/05/01-2022/07/09	2022/07/10-2030/04/30	0.38	—	16,000,000	—	—	16,000,000
		16,000,000	2020/05/01-2023/07/09	2023/07/10-2030/04/30	0.38	—	16,000,000	—	—	16,000,000
		12,073,000	2020/05/01-2024/07/09	2024/07/10-2030/04/30	0.38	—	12,073,000	—	—	12,073,000
Wang Guisheng *(director of the Company)*	2019/09/30	6,000,000	2019/09/30-2020/10/09	2020/10/10-2029/09/29	0.38	6,000,000	—	—	—	6,000,000
		1,800,000	2019/09/30-2021/07/09	2021/07/10-2029/09/29	0.38	1,800,000	—	—	—	1,800,000
		1,800,000	2019/09/30-2022/07/09	2022/07/10-2029/09/29	0.38	1,800,000	—	—	—	1,800,000
		2,400,000	2019/09/30-2023/07/09	2023/07/10-2029/09/29	0.38	2,400,000	—	—	—	2,400,000
Li Xiaoping *(cousin of Mr. Chen Zhiping who is a director of the Company)*	2019/09/30	1,192,000	2019/09/30-2020/10/09	2020/10/10-2029/09/29	0.38	1,192,000	—	—	—	1,192,000
		358,000	2019/09/30-2021/07/09	2021/07/10-2029/09/29	0.38	358,000	—	—	—	358,000
		358,000	2019/09/30-2022/07/09	2022/07/10-2029/09/29	0.38	358,000	—	—	—	358,000
		476,000	2019/09/30-2023/07/09	2023/07/10-2029/09/29	0.38	476,000	—	—	—	476,000
	2020/05/01	10,000	2020/05/01-2021/07/09	2021/07/10-2030/04/30	0.38	—	10,000	—	—	10,000
		40,000	2020/05/01-2022/07/09	2022/07/10-2030/04/30	0.38	—	40,000	—	—	40,000
		25,000	2020/05/01-2023/07/09	2023/07/10-2030/04/30	0.38	—	25,000	—	—	25,000
		25,000	2020/05/01-2024/07/09	2024/07/10-2030/04/30	0.38	—	25,000	—	—	25,000
Yuan Xiang *(cousin of Mr. Chen Zhiping who is a director of the Company)*	2019/09/30	52,000	2019/09/30-2020/10/09	2020/10/10-2029/09/29	0.38	52,000	—	—	—	52,000
		31,000	2019/09/30-2021/07/09	2021/07/10-2029/09/29	0.38	31,000	—	—	—	31,000
		31,000	2019/09/30-2022/07/09	2022/07/10-2029/09/29	0.38	31,000	—	—	—	31,000
		31,000	2019/09/30-2023/07/09	2023/07/10-2029/09/29	0.38	31,000	—	—	—	31,000
		32,000	2019/09/30-2024/07/09	2024/07/10-2029/09/29	0.38	32,000	—	—	—	32,000
Xiong Fei *(nephew of Mr. Xiong Xiaoming who is a director of the Company)*	2019/09/30	81,000	2019/09/30-2020/10/09	2020/10/10-2029/09/29	0.38	81,000	—	—	—	81,000
		24,000	2019/09/30-2021/07/09	2021/07/10-2029/09/29	0.38	24,000	—	—	—	24,000
		24,000	2019/09/30-2022/07/09	2022/07/10-2029/09/29	0.38	24,000	—	—	—	24,000
		33,000	2019/09/30-2023/07/09	2023/07/10-2029/09/29	0.38	33,000	—	—	—	33,000
Other employees	2019/09/30	75,481,000	2019/09/30-2020/10/09	2020/10/10-2029/09/29	0.38	75,481,000	—	35,486,000	221,000	39,774,000
		33,626,000	2019/09/30-2021/07/09	2021/07/10-2029/09/29	0.38	33,626,000	—	—	393,000	33,233,000
		36,364,000	2019/09/30-2022/07/09	2022/07/10-2029/09/29	0.38	36,364,000	—	—	631,000	35,733,000
		31,990,000	2019/09/30-2023/07/09	2023/07/10-2029/09/29	0.38	31,990,000	—	—	513,000	31,477,000
		10,735,000	2019/09/30-2024/07/09	2024/07/10-2029/09/29	0.38	10,735,000	—	—	504,000	10,231,000
	2020/05/01	37,000	2020/05/01-2020/10/09	2020/10/10-2030/04/30	0.38	—	37,000	—	—	37,000
		7,407,500	2020/05/01-2021/07/09	2021/07/10-2030/04/30	0.38	—	7,407,500	—	402,500	7,005,000
		13,672,500	2020/05/01-2022/07/09	2022/07/10-2030/04/30	0.38	—	13,672,500	—	1,145,500	12,527,000
		9,565,500	2020/05/01-2023/07/09	2023/07/10-2030/04/30	0.38	—	9,565,500	—	749,000	8,816,500
		9,257,500	2020/05/01-2024/07/09	2024/07/10-2030/04/30	0.38	—	9,257,500	—	742,500	8,515,000

DIRECTORS' REPORT (CONTINUED)

(2) Post-IPO Share Option Scheme

The post-IPO share option scheme was conditionally approved and adopted by our Shareholders on 15 June 2020 (the "**Post-IPO Share Option Scheme**"). The terms of Post-IPO Share Option Scheme are subject to the provisions of Chapter 17 of the Listing Rules.

Summary of major terms of the Post-IPO Share Option Scheme are as follows:

(i) Purpose of the Post-IPO Share Option Scheme

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.

(ii) Participants of Post-IPO Share Option Scheme

Participants of the Post-IPO Share Option Scheme included employees or directors of a Member of the Group or associated companies of our Company.

(iii) Maximum number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue as of the Listing Date, being 574,351,272 Shares, or such higher limit as the Stock Exchange may allow pursuant to a waiver granted at the Stock Exchange's discretion (the "**Scheme Mandate Limit**"). Options lapsed in accordance with the terms of the Post-IPO Share Option Scheme and any other share option scheme of the Company will not be counted for the purpose of calculating the Scheme Mandate Limit. The Scheme Mandate Limit may be refreshed with the approval of the Shareholders in general meeting. At any time, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and not yet exercised under the Post-IPO Share Option Scheme and any other share option schemes of our Company to the eligible persons must not exceed 30% of the total number of Shares in issue from time to time.

(iv) Limit for each participant

The total number of Shares issued and to be issued upon exercise of all options granted under the Post-IPO Share Option Scheme and any other share option schemes of the Company to each participant (including options exercised, cancelled and outstanding) in any 12-month period shall not exceed 1% of the total number of Shares in issue. Where Shares issued and to be issued upon exercise of all options already granted and to be granted under the Post-IPO Share Option Scheme and any other share option scheme of the Company (including options exercised, cancelled and outstanding) to a participant who is a substantial Shareholder or an independent non-executive Director, or any of his or her associate in the 12-month period up to and including the date of grant, (1) representing in aggregate more than 0.1% of the total number of Shares in issue; and (2) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HKD5,000,000, the proposed grant of option must be approved by the Shareholders by poll in general meeting.

DIRECTORS' REPORT (CONTINUED)

(v) Option Period

The option period shall be determined by the Board and shall not exceed ten years from the offer date of the option. Any option which remain unexercised shall lapse upon the expiry of the option period.

An option shall be subject to such terms and conditions (if any) as may be determined by the Board and specified in the offer of the option, including any vesting schedule and/or conditions, any minimum period for which any option must be held before it can be exercised and/or any performance target which need to be achieved by an option-holder before the option can be exercised.

(vi) Payment on Acceptance of Offer and Exercise Price

Each grantee is required to pay HK$1 as consideration for the acceptance of the grant of the options under the Post-IPO Share Options Scheme.

The exercise price of an option to subscribe for Shares granted pursuant to the Post-IPO Share Options Scheme shall not be less than the highest of:

- the closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on the date of offer of the option;

- the average closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer of the option; and

- the nominal value of the Shares.

(vii) Remaining life of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme shall be valid and effective for a period of ten years commencing on the Listing Date (i.e. 10 July 2020), after which period no further options will be granted but the provisions of the Post-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto which are at that time or become thereafter capable of exercise under the Post-IPO Share Option Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Post-IPO Share Option Scheme.

For the year ended 31 December 2020, no option had been granted, agreed to be granted, exercised, cancelled or lapsed under the Post-IPO Share Option Scheme. Details of the Post-IPO Share Option Scheme, please refer to "Other Information — Share Option Schemes — Post-IPO Share Option Scheme" in the prospectus of the Company dated 29 June 2020.

DIRECTORS' REPORT (CONTINUED)

Directors and Senior Management

The directors of the Company for the year ended 31 December 2020 and as at the date of this annual report are as follows:

Executive Directors:

Mr. Chen Zhiping
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

The Company has obtained an annual confirmation of independence from each of the independent non-executive directors pursuant to Rule 3.13 of the Listing Rules and the Board considers them to be independent.

Biographical Details of Directors and Senior Management

Directors

(1) **Mr. Chen Zhiping (陳志平)**, aged 45, is an executive Director, the chairman of the Board and the chief executive officer of our Group. Mr. Chen is principally responsible for the overall management and business operation of our Group, including coordinating board affairs, formulating strategies and operational plans and making major business decisions. Mr. Chen has over 10 years of experience in the vaping industry and is experienced in business management. Mr. Chen has been the key driver of our business strategies and achievements to date and continues to oversee the management of our operations and business.

Mr. Chen founded Shenzhen Smoore Technology Co., Ltd. (深圳麥克韋爾科技有限公司) ("**Smoore Shenzhen**") in 2009 and since then, Mr. Chen has been serving as the general manager of Smoore Shenzhen. Besides, in June 2017, Mr. Chen was further appointed as the chairman of the board of Smoore Shenzhen.

Mr. Chen received a bachelor's degree in economics majoring in marketing from Tongji University (同濟大學), Shanghai, in July 1999 and an executive master's degree in business administration from China Europe International Business School (中歐國際工商學院), in October 2014.

DIRECTORS' REPORT (CONTINUED)

(2) **Mr. Xiong Shaoming (熊少明)**, aged 50, is an executive Director and the vice general manager of our Group and is primarily responsible for leading strategic planning, undertaking business objectives set by the Board and managing daily operations of our Group.

Mr. Xiong joined Smoore Shenzhen in 2009 and has been serving as its vice general manager since then. Mr. Xiong has also been serving as a supervisor and the chairman of the supervisory committee of Smoore Shenzhen since July 2015.

Mr. Xiong graduated from Wuhan University of Technology (武漢理工大學), Wuhan, majoring in materials management in June 1994.

(3) **Mr. Wang Guisheng (王貴升)**, aged 51, is an executive Director, the chief financial officer and joint company secretary of our Group. Mr. Wang Guisheng joined our Group in April 2018. Mr. Wang Guisheng is primarily responsible for financial planning and management and overseeing the accounting department, legal department and company secretarial matters of our Group. Mr. Wang Guisheng has over 20 years of experience in financial management, accounting, taxation and business management, and in particular, Mr. Wang Guisheng has over 14 years of experience working as directors and senior management for publicly listed companies on the Stock Exchange and other stock exchanges in the PRC.

In November 2010, Mr. Wang Guisheng joined Man Wah Holdings Limited (敏華控股有限公司), a company listed on the Stock Exchange (stock code: 01999), where he was appointed as chief financial officer in January 2011 and also appointed as an executive director in May 2011 until he resigned in March 2018. Currently, Mr. Wang Guisheng is an independent non-executive director of Xinyi Electric Storage Holdings Limited (信義儲電控股有限公司), formerly known as Xinyi Automobile Glass Hong Kong Enterprises Limited, a company listed on the GEM of the Stock Exchange (stock code: 08328) and 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).

Mr. Wang Guisheng obtained a bachelor's degree in economics majoring in insurance from China Institute of Finance (中國金融學院) which was merged with and is currently known as University of International Business and Economics (對外經濟貿易大學), Beijing, in July 1993 and an executive master's degree in business administration from China Europe International Business School (中歐國際工商學院), in August 2014. Mr. Wang Guisheng qualified as Certified Public Accountant with the Chinese Institute of Certified Public Accountants ("CICPA") in December 2009 and the HKICPA in July 2013 and has been a member of the Association of Chartered Certified Accountants ("ACCA") since April 2003.

DIRECTORS' REPORT (CONTINUED)

(4) **Dr. Liu Jincheng (劉金成)**, aged 56, is a non-executive Director who is primarily responsible for providing strategic advice and guidance on the business development of our Group. Dr. Liu Jincheng was designated as a non-executive Director in October 2019. Dr. Liu Jincheng has around 18 years of experience in battery industry in China.

Dr. Liu Jincheng joined EVE Energy Co., Ltd. ("EVE Energy", a company listed on the Shenzhen Stock Exchange) in December 2001 and currently is the legal representative and the chairman of the board of EVE Energy.

Dr. Liu Jincheng received a master degree in science from Wuhan University (武漢大學), Wuhan, in August 1993 and a Ph.D. in material physics and chemistry from South China University of Technology (華南理工大學), Guangzhou, in December 2004. He further received an executive master's degree in business administration from China Europe International Business School (中歐國際工商學院), Shanghai, in September 2012.

(5) **Mr. Zhong Shan (鍾山)**, aged 49, joined our Group in June 2020 as an independent non-executive Director. He is primarily responsible for providing independent advice and judgment to our Board. Mr. Zhong has extensive experience in financial business management. He has been the chief financial officer at Innoscience (Suzhou) Technology Co. Ltd (英諾賽科(蘇州)科技有限公司) since September 2017. From April 2007 to September 2017, Mr. Zhong was the non-executive director and a member of the strategy committee of the board of Livzon Pharmaceutical Group Inc. (麗珠醫藥集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000513) and the Stock Exchange (stock code: 01513). From August 2006 to September 2017, Mr. Zhong served as the vice general manager at Joincare Pharmaceutical Group Industry Company Limited (健康元藥業集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600380). Mr. Zhong was designated as the member of ACCA Southern China Steering Team in May 2017.

Mr. Zhong graduated from the applied chemistry of the faculty of applied chemistry of Huaqiao University (華僑大學), Fujian, and obtained a diploma in July 1993. Mr. Zhong was admitted as a member of the ACCA in August 1999.

(6) **Mr. Yim Siu Wing, Simon (閻小穎)**, aged 46, joined our Group in June 2020 as an independent non-executive Director who is primarily responsible for providing independent advice and judgment to our Board. Mr. Yim has approximately 16 years of experience in the financial industry. He has been serving as the chairman of the board of Winsome Group Holdings Limited (滙盛集團控股有限公司) since he founded it in May 2016. He worked at Nomura International (Hong Kong) Limited from August 2005 to May 2016 where his last position held was executive director. Before Mr. Yim Siu Wing, Simon started his career in financial industry in 2005, he worked in legal field at Baker & Mckenzie and Clifford Chance from September 1999 to January 2003 and February 2003 to July 2005, respectively. Mr. Yim has also been a member of the Chengdu Municipal Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議成都市委員會) since February 2009 and become a standing committee member since February 2013.

Mr. Yim received his bachelor's degree in law from City University of Hong Kong in November 1998 and Postgraduate Certificate in Laws (PCLL) from the University of Hong Kong in June 1999. Mr. Yim further received a master degree in law majoring in Chinese and Comparative Law from City University of Hong Kong in November 2001. Mr. Yim Siu Wing, Simon was admitted as a Solicitor of the High Court of Hong Kong and the Supreme Court of England and Wales in November 2001 and February 2002, respectively.

DIRECTORS' REPORT (CONTINUED)

(7) **Dr. Liu Jie (劉杰)**, aged 43, joined our Group in June 2020 as an independent non-executive Director who is primarily responsible for providing independent advice and judgment to our Board. Dr. Liu Jie has over 20 years study and work experience in the medical field. Dr. Liu Jie has been worked at The First Affiliated Hospital of Guangdong Medical University (廣州醫科大學第一附屬醫院) (formerly known as The First Affiliated Hospital of Guangdong Medical College (廣州醫學院第一附屬醫院)) since July 2000 where he was appointed as the deputy chief physician in July 2012. Dr. Liu Jie obtained a certificate of practicing physician and a qualification in respiratory medicine from the National Health Commission (formerly known as Ministry of Health) of the PRC in December 2001 and May 2007, respectively. He was qualified as an associate chief physician in respiratory medicine by the Labor and Social Security Department of Guangdong Province (廣東省人力資源和社會保障廳) in March 2011.

Dr. Liu Jie received his bachelor's degree in medicine majoring in clinical medicine of Guangzhou Medical University (廣州醫科大學), previously known as Guangzhou Medical College (廣州醫學院), Guangzhou, in June 2000, and received his master's degree as well as doctor's degree in medicine majoring in internal medicine from Guangzhou Medical University (廣州醫科大學), Guangzhou, in July 2007 and June 2018, respectively. Dr. Liu Jie was appointed as a committee member of Rare Diseases Society of Guangdong Medical Association (廣東省醫學會罕見病學分會) (the "Society") in June 2013 and was appointed as the deputy chief of the Society's pneumology group in May 2017. He has been a managing director of Rare Diseases Society of Chinese Research Hospital Association (中國研究型醫院學會罕見病分會) since December 2016 and a member of Interstitial Lung Disease Committee of the Respiratory Doctor Society of the Chinese Medical Doctor Association (中國醫師協會呼吸醫師分會) since June 2017.

Senior Management

(8) **Mr. Qiu Lingyun (邱凌雲)**, aged 45, is the board secretary of our Group. Mr. Qiu is primarily responsible for the coordination of board meetings and related matters and investors' relationship management of our Group. Mr. Qiu has approximately 5 years of financial management experience. Besides undertaking the responsibility of board secretary, Mr. Qiu served as chief financial officer of Smoore Shenzhen from January 2011 to July 2016. Mr. Qiu received a bachelor's degree in engineering majoring in industrial international commerce from Shanghai University (上海大學), Shanghai, in July 1999 and an executive master's degree in business administration from China Europe International Business School (中歐國際工商學院), in October, 2015.

(9) **Mr. Luo Chunhua (羅春華)**, aged 50, is the general manager of operation department of our Group. Mr. Luo joined our Group in November 2010 as the head of our R&D Department. Mr. Luo is primarily responsible for overseeing the business development of our Group. Mr. Luo has over 10 years of experience in management and research and development of electric appliance. Prior to joining our Group, Mr. Luo worked at various positions specializing in technology development. From July 1998 to February 2008, Mr. Luo was the vice manager at Dongguan VTech Electronic Communication Equipment Factory (東莞偉易達電子通訊設備廠) of Dongguan VTech Group (東莞偉易達集團). Since January 2008, Mr. Luo served as a manager responsible for management and professional technology for approximately three years at Guangzhou Mingmei Technology Co., Ltd. (廣州名美科技有限公司), previously known as Guangzhou Mingmei Electronics Co., Ltd. (廣州明美電子有限公司). Mr. Luo graduated from an undergraduate program at the school of radio engineering of Beijing Institute of Technology (北京理工大學), Beijing, in July 1992 and received a master's degree in engineering majoring in electronics and communication engineering from South China University of Technology (華南理工大學), Guangzhou, in January 2007. Mr. Luo was awarded the second prize of "Scientific and technological progress" (科技進步二等獎) by China Ordnance Industries Group Corporation (中國兵器工業總公司) in November 1998.

(10) **Mr. Pan Weidong (潘衛東)**, aged 45, is the general manager of technology center of our Group since he joined us in April 2014. Mr. Pan Weidong is primarily responsible for overseeing the research and development of our products. Mr. Pan Weidong has over 9 years of experience in business operation and research and development. Prior to joining our Group, Mr. Pan Weidong served as a director of operation at Shenzhen Youhesheng Communication Technology Co. Ltd. (深圳優合勝通信技術有限公司) from March 2010 to March 2014. Mr. Pan Weidong graduated from an undergraduate program in thermal processing technology and equipment from Hubei University of Automotive Technology (湖北汽車工業學院), Shiyan, in June 1997 and received a master's degree in business administration from China Europe International Business School (中歐國際工商學院), Shenzhen, in August 2017.

Joint company secretaries

Mr. Wang Guisheng, is the joint company secretary of the Company. For the biographical details of Mr. Wang, please refer to the paragraph headed "Directors and Senior Management — Directors" above.

Ms. CHENG Choi Ha (鄭彩霞), was appointed as the company secretary of the Company with effect from the Listing Date. Ms. Cheng is currently a manager of the Corporate Services Division of Tricor Services Limited, which is an Asia's leading business expansion specialist specializing in integrated business, corporate and investor services. She is a Chartered Secretary, a chartered governance professional and an Associate of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom. Ms. Cheng holds a bachelor's degree of Business Administration. Ms. Cheng has over 10 years of experience in the corporate secretarial field. She has been providing professional corporate services to Hong Kong listed companies, as well as multinational, private and offshore companies. Ms. Cheng is a core team member for providing company secretarial services to various companies listed on The Stock Exchange of Hong Kong Limited.

DIRECTORS' REPORT (CONTINUED)

Service Contracts and Appointment Agreements of the Directors

a. Service Contracts of the Executive Directors

Each of the Executive Directors entered into a service contract with the Company for a term of three years subject to compliance with the Articles of Association of the Company and the Listing Rules until it is terminated pursuant to the terms of the respective service contract. According to the respective service contract, it may be terminated at any time by either party giving the other party not less than two months' prior written notice.

The total remuneration of each Executive Director is determined by the remuneration package formulated by the Board of Directors or remuneration committee of the listed company. If any part of the remuneration is subject to the approval of the general meeting in accordance with applicable laws and regulations and the Listing Rules, such part of the remuneration shall only be effective upon the approval of the General Meeting.

Pursuant to the terms of their respective service contracts, each Executive Director is entitled to an annual discretionary management bonus, in addition to the Directors' remuneration, to be approved by the Board or the Remuneration Committee. In assessing the total amount of discretionary bonuses for the Executive Directors, the Board or the Remuneration Committee shall take into account the overall performance of the Listing Group in each financial year, as well as the individual performance of each executive director in each financial year and the period of service completed.

b. Appointment Agreements of the Non-Executive Directors and Independent Non-Executive Director

Each of the Non-executive Director and Independent Non-executive Directors has entered into an appointment agreement with the Company for a term of three years, subject to the Articles of Association of the Company and the Listing Rules, until the agreement is terminated in accordance with the terms of the respective appointment agreement. Pursuant to their respective appointment agreements, the appointment agreements are automatically terminated upon the occurrence of certain events as specified therein. Each of the independent non-executive directors is entitled to a fixed annual director's remuneration in accordance with the terms of the respective appointment agreement.

None of the directors who intend to be re-elected at the forthcoming annual general meeting has a service contract with the Company that the Company cannot terminate within one year without the payment of compensation (other than statutory compensation).

Change of Director Information

From the publication of the Company's 2020 interim report on 10 September 2020 to the date of this report, there were no change to the information of Directors which are required to be disclosed pursuant to Rule 13.51(2)(a) to (e) and (g) of the Listing Rules.

Directors' Interests in Transactions , Arrangements or Contracts of Significance

Save as disclosed in this annual report, no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of or during the year ended 31 December 2020.

Directors' Interests in Competing Business

As of 31 December 2020, none of the Directors had any interest in any business which competes with the Company or any of its subsidiaries.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in this annual report, during the year ended 31 December 2020, neither the Company nor its holding company, subsidiaries or fellow subsidiaries was a party to any arrangement that would enable the Directors or any of their spouses or children under the age of 18 to obtain benefits through the acquisition of shares or debentures of the Company or any other corporation.

Permitted Indemnity Provision

Pursuant to the Articles of Association of the Company and subject to the applicable laws and regulations, every Director shall be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director in defending any proceedings, whether civil or criminal, in which judgement is given in his favour, or in which he is acquitted. The Company has taken out liability insurance for our Directors during the year ended 31 December 2020.

DIRECTORS' REPORT (CONTINUED)

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

As at 31 December 2020, 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:

Long position in the shares and underlying shares of the Company

Name of Directors or Chief executives	Notes	Nature of Interest	Ordinary shares held	Approximate percentage of the total number of issued shares (Note 1)
Chen Zhiping	(2)	Interest in controlled corporation	1,989,705,600	33.92%
	(3)	Interest of concert party	302,202,400	5.15%
	(4)	Beneficial owner	76,073,000	1.30%
Xiong Shaoming	(5)	Interest in controlled corporation	302,202,400	5.15%
	(6)	Interest of concert party	1,989,705,600	33.92%
Liu Jincheng	(7)	Interest in controlled corporation	1,950,240,000	33.25%
Wang Guisheng	(8)	Beneficial owner	12,000,000	0.20%

Notes:

(1) The percentage is calculated based on the total number of shares of the Company in issue as at 31 December 2020, which was 5,865,150,720 Shares.

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

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

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

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

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

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

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

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2020, so far as the Directors are aware, the following parties (other than our Directors or chief executives of the Company) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 366 of the SFO:

Long position in the shares and underlying shares of the Company

Name of Substantial shareholders	Notes	Nature of Interest	Ordinary shares held	Approximate percentage of the total number of issued shares(Note 1)
SMR & Alon Limited	(2)	Beneficial owner	1,989,705,600	33.92%
Zhao Zihan	(3)	Interest of spouse	2,367,981,000	40.37%
Andy Xiong Holding Limited	(4)	Beneficial owner	302,202,400	5.15%
Han Xiao	(5)	Interest of spouse	2,291,908,000	39.08%
EVE BATTERY INVESTMENT LTD.	(6)	Beneficial owner	1,901,520,000	32.42%
EVE Asia Co., Limited	(6)	Interest in controlled corporation	1,901,520,000	32.42%
EVE Energy Co., Ltd.	(6)	Interest in controlled corporation	1,901,520,000	32.42%
Luo Jinhong	(7)	Interest of spouse	1,950,240,000	33.25%

Notes:

(1) The percentage is calculated based on the total number of shares of the Company in issue as at 31 December 2020, which was 5,865,150,720 Shares.

DIRECTORS' REPORT (CONTINUED)

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

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

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

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

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

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

Contracts with Controlling Shareholders

Save as disclosed in the section headed "Continuing Connected Transactions", there were no material contracts entered into by the Company or any of its subsidiaries with controlling shareholders for the year ended 31 December 2020.

Management Contract

During the year ended 31 December 2020, no contracts concerning the managing and handling of the overall business or any material part of the business of the Group were entered into or existed by the Group.

Pre-emptive Rights

There is no provision for pre-emptive right requiring the Company to grant its existing shareholders these rights in proportion to their shareholdings when issuing new shares under the Articles of Association of the Company and the laws of Cayman Islands.

Pledge of Controlling Shareholder's Equity

On 31 December 2020, EVE Battery Investment Ltd. pledged 40,000,000 of the 1,901,520,000 shares held by the Company in the name of China Construction Bank (Asia) Corporation Limited as guarantee for the loan provided by China Construction Bank (Asia) Corporation Limited to EVE Asia Co., Limited.

Continuing Connected Transactions

Please refer to the section headed "Continuing Connected Transactions" of this annual report.

Corporate Governance

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 Listing Date to the date of this report, the Company had applied the principles and complied with all code provisions (except code provision A.2.1 of the CG Code) 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.

For details of the Company's corporate governance, please refer to the "Corporate Governance Report" of the Company.

Environmental Policies and Performance

The Group recognizes the importance of protecting the environment and strives to minimize the impact to the environment by reducing use of energies and other resources. Further information of the environmental policies and performance will be detailed in the Environment, Social and Governance Report of the Company which will be available on the websites of the Company and the Stock Exchange within three months after the publication of this annual report.

DIRECTORS' REPORT (CONTINUED)

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 issuance of the over-allotment shares upon the full exercise of the over-allotment option) at offer price of HK$12.40 per shares (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 utilised 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 up to 31 December 2020:

Use of proceeds	Approximate percentage of total amount	Amount of net proceeds allocated upon Listing (HK$ million)	Actual usage up to 31 December 2020 (HK$ million)	Unutilised amount as at 31 December 2020 (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	22.7	3,932.2	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	200.3	1,777.2	By the end of 2026
(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	80.1	1,501.9	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	698.6	7,211.3	

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

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 as at the date of this annual report.

Compliance with Relevant Laws and Regulations

During the year ended 31 December 2020, to the knowledge of the Board, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the business and operation of the Group.

Contingent Liabilities

The Company was not involved in any material litigation or arbitration during the year ended 31 December 2020. Nor were the Directors aware of any material litigation or claims that were pending or threatened against the Company.

Audit Committee

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

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

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

The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2020. It has also discussed with the Company's senior management members and auditors regarding the accounting policies, risk management and internal control matters adopted by the Company.

DIRECTORS' REPORT (CONTINUED)

Auditor

The consolidated financial statements of the Group as of 31 December 2020 have been audited by Deloitte Touche Tohmatsu, who will retire and, being eligible, offer themselves for re-appointment at the annual general meeting.

Events after the Review Period

On 27 January 2021, the Company, Aletech Holding Limited (''**Top-up Vendor'**'), and CLSA Limited (''**Placing Agent**'') entered into the placing and subscription agreement. Pursuant to which, the Top-up Vendor agreed to sell, and the Placing Agent agreed to procure purchasers to purchase, the 60,000,000 shares of the Company held by Top-up Vendor at a price of HK$74.40 per share (the ''**Placing**''). Subject to completion of the Placing, the Top-up Vendor agreed to subscribe for 60,000,000 new shares of the Company at a subscription price of HK$74.40 per share (the ''**Subscription**'').

The Placing and the Subscription were completed on 1 February 2021 and 4 February 2021, respectively. The Company's net proceeds for the Placing and the Subscription (after deducting related costs and expenses) are approximately HK$4,445.5 million, equivalent to approximately RMB3,705.6 million.

As of the date of this annual report, except for the above matters and note 39(ii) to the consolidated financial statement, there is no other major event after 31 December 2020 that is required to be disclosed by the Company.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

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

Opinion

We have audited the consolidated financial statements of Smoore International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 69 to 144, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Revenue Recognition	
We identified the revenue recognition as a key audit matter due to its financial significance to the consolidated financial statements. The Group recognises the revenue at a point in time when the control of the goods is transferred to the customers, pursuant to the terms of the contracts entered into between the Company and its customers. For the year ended 31 December 2020, the Group recognised revenue of RMB10,009,937,000. Details of the accounting policies for revenue recognition and an analysis of revenue are disclosed in notes 4 and 6, respectively, to the consolidated financial statements.	Our procedures in relation to revenue recognition included: • Obtaining an understanding of the Group's revenue recognition process and evaluating the effectiveness of the key controls over revenue recognition; • Inspecting the sale contracts, on a sample basis, to understand the terms of the sales transactions and evaluating the appropriateness of the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards; • Performing analytical procedures to major customers to identify unusual fluctuations and reviewing supporting documents to support the analysis; • Performing analytical procedures to compare revenue and gross margin with those reported in prior periods for identifying unusual fluctuations, and obtaining explanations from management about such fluctuations; and • Verifying sales transactions of the Group by tracing the transactions to the corresponding supporting documents, such as sales invoices and delivery notes, on a sample basis.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables	
We identified impairment assessment of trade receivables as a key audit matter due to the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("ECL") of the Group's trade receivables at the end of the reporting period. As at 31 December 2020, the Group's net trade receivables amounting to RMB1,413,206,000, which represented approximately 10% of total assets of the Group. As disclosed in note 5 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade receivables individually, based on internal credit ratings of trade debtors, after considering aging, historical repayment records, past due status of respective trade receivables and forward-looking information. As disclosed in note 32(b) to the consolidated financial statements, the Group recognised impairment loss, net of reversal of RMB129,000, on trade receivables for the year and the Group's lifetime ECL on trade receivables as at 31 December 2020 amounted to RMB8,903,000.	Our procedures in relation to impairment assessment of trade receivables included: • Obtaining an understanding of management's assessment process on the ECL of trade receivables; • Challenging management's basis and judgement in determining ECL of trade receivables as at 31 December 2020, including their identification of credit-impaired trade receivables, the reasonableness of management's assessment of internal credit rating, and the basis of estimated loss rates applied; • Testing the accuracy of trade receivables aging analysis as at 31 December 2020, on a sample basis, by comparing individual items in the analysis with the relevant sales contracts, sales invoices and other supporting documents; • Evaluating the reasonableness of internal credit rating given to each debtor by checking trade receivables aging analysis as at 31 December 2020, historical repayment records and past due status of respective trade receivables by comparing individual items in the analysis with the relevant invoice and other supporting documents, on a sample basis; and • Evaluating the reliability of the management's estimation by comparing the ECL in previous year with the actual defaults occurred in the current year.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Woo King Wa.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	2020 RMB'000	2019 RMB'000
Revenue	6	**10,009,937**	7,610,601
Cost of sales		**(4,714,124)**	(4,258,249)
Gross profit		**5,295,813**	3,352,352
Other income	7(a)	**195,376**	48,870
Other gains and losses	7(b)	**19,317**	(18,620)
Loss on fair value changes of convertible promissory notes		**(38,487)**	(3,635)
Loss on fair value changes of convertible preferred shares		**(1,019,109)**	(400)
Distribution and selling expenses		**(144,171)**	(157,713)
Administrative expenses		**(682,681)**	(327,048)
Research and development expenses		**(419,806)**	(277,401)
Finance costs	8	**(15,369)**	(18,173)
Impairment loss recognised on trade receivables, net		**(129)**	(4,882)
Listing expenses		**(72,988)**	(26,299)
Profit before tax		**3,117,766**	2,567,051
Income tax expense	9	**(717,845)**	(393,262)
Profit and total comprehensive income for the year	10	**2,399,921**	2,173,789
Earnings per share	13		
Basic (RMB cents)		**44.49**	43.03
Diluted (RMB cents)		**42.17**	42.75

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment	14	**1,116,212**	886,953
Intangible assets	15	**88,158**	58,796
Deposits paid for acquisition of property, plant and equipment		**82,668**	148,464
Deferred tax assets	17	**11,616**	13,804
Long-term bank deposits	16(a)	**1,006,044**	—
Rental deposits	20	**28,523**	24,146
		2,333,221	1,132,163
Current assets			
Inventories	18	**438,830**	548,012
Trade and bills receivables	19	**2,217,590**	659,006
Other receivables, deposits and prepayments	20	**226,366**	231,328
Bank balances and cash	16(b)	**9,557,802**	731,394
		12,440,588	2,169,740
Current liabilities			
Trade payables	21	**702,324**	441,747
Other payables and accrued expenses	22	**748,773**	572,557
Tax payables		**284,755**	94,288
Contract liabilities	23	**253,788**	386,003
Lease liabilities	24	**118,014**	106,566
Convertible promissory notes	25	**—**	367,838
Deferred income	27	**786**	708
Advances drawn on bills receivables discounted with recourse	28	**—**	79,536
		2,108,440	2,049,243
Net current assets		**10,332,148**	120,497
Total assets less current liabilities		**12,665,369**	1,252,660
Non-current liabilities			
Lease liabilities	24	**212,644**	282,903
Convertible preferred shares	26	**—**	232,432
Deferred income	27	**1,943**	2,652
Deferred tax liability	17	**51,061**	—
		265,648	517,987
Net assets		**12,399,721**	734,673

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	NOTE	2020 RMB'000	2019 RMB'000
Capital and reserves			
Share capital	29	**410,068**	4
Reserves		**11,989,653**	734,669
Total equity		**12,399,721**	734,673

The consolidated financial statements on pages 69 to 144 were approved and authorised for issue by the Board of Directors on 31 March 2021 and are signed on its behalf by:

Chen Zhiping	**Wang Guisheng**
Executive Director	*Executive Director And Chief Financial Officer*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital RMB'000 (Note i)	Share premium RMB'000	Share-based payments reserve RMB'000	Statutory reserve RMB'000 (Note ii)	Other reserve RMB'000 (Note iii)	Retained profits RMB'000	Total RMB'000
At 1 January 2019	63,300	70,050	—	31,650	—	803,958	968,958
Profit and total comprehensive income for the year	—	—	—	—	—	2,173,789	2,173,789
Recognition of equity-settled share-based payments	—	—	61,268	—	—	—	61,268
Issuance of ordinary shares of Smoore Shenzhen (as defined below)	3,332	54,318	—	—	—	—	57,650
Issuance of ordinary shares of Smoore International Holdings Limited (the "Company")	4	—	—	—	—	—	4
Issuance of convertible preferred shares as deemed contribution (note 26)	—	—	—	—	(232,032)	—	(232,032)
Effect of Reorganisation (as defined in note 2)	(66,632)	(124,368)	—	—	(962,000)	—	(1,153,000)
Dividend recognised as distribution (note 12)	—	—	—	—	—	(1,141,964)	(1,141,964)
Transfer to statutory reserve	—	—	—	2,059	—	(2,059)	—
At 31 December 2019	4	—	61,268	33,709	(1,194,032)	1,833,724	734,673
Profit and total comprehensive income for the year	—	—	—	—	—	2,399,921	2,399,921
Recognition of equity-settled share-based payments	—	—	362,923	—	—	—	362,923
Capitalisation issue (note 29)	361,542	(361,542)	—	—	—	—	—
Issuance of shares upon listing (note 29)	46,190	7,344,033	—	—	—	—	7,390,223
Transaction costs attributable to issurance of shares	—	(159,370)	—	—	—	—	(159,370)
Conversion of convertible preferred shares to ordinary shares	—*	1,657,866	—	—	—	—	1,657,866
Exercise of share options	2,332	96,995	(85,842)	—	—	—	13,485
Transfer to statutory reserve	—	—	—	2,110	—	(2,110)	—
At 31 December 2020	410,068	8,577,982	338,349	35,819	(1,194,032)	4,231,535	12,399,721

* Less than RMB1,000

Notes:

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

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

(iii) Other reserve represents i) the difference between the share capital and share premium of Smoore Shenzhen, a subsidiary of the Company, of RMB66,632,000 and RMB124,368,000, respectively, and cash considerations of RMB1,095,350,000 and RMB57,650,000 for the acquisition of 95% and 5% interest in Smoore Shenzhen by Smoore (Hong Kong) Limited ("Smoore HK") and Smile Baby Investment Limited ("SBI 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 as detailed in note 26.

English name is for identification purpose only

CONSOLIDATED STATEMENT OF CASH FLOWS

	2020 RMB'000	2019 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**3,117,766**	2,567,051
Adjustments for:		
Depreciation of property, plant and equipment	**53,281**	28,217
Amortisation of intangible assets	**2,926**	1,637
Finance costs	**15,369**	18,173
Loss on disposal/write-off of property, plant and equipment	**7,480**	13,909
Interest income	**(85,346)**	(4,158)
(Reversal of allowance for) allowance for inventories, net	**(12,764)**	22,495
Impairment loss recognised on trade receivables, net	**129**	4,882
Fair value loss on convertible promissory notes	**38,487**	3,635
Fair value loss on convertible preferred shares	**1,019,109**	400
Share-based payment expenses	**362,923**	61,268
Gain on termination of leases	**(2,252)**	(725)
Gain on fair value changes of financial assets at fair value through profit or loss ("FVTPL")	**(43,785)**	(6,215)
Unrealised exchange loss, net	**41,660**	11,313
Release of deferred income	**(1,772)**	(538)
Operating cash flows before movements in working capital	**4,513,211**	2,721,344
Decrease (increase) in inventories	**297,338**	(35,367)
Increase in trade and bills receivables	**(1,626,964)**	(311,945)
Increase in other receivables, deposits and prepayment	**(562)**	(83,374)
Increase (decrease) in trade payables	**268,691**	(131,811)
Increase in other payables	**168,197**	267,223
(Decrease) increase in contract liabilities	**(110,425)**	179,980
Net cash generated from operations	**3,509,486**	2,606,050
PRC Enterprise Income Tax paid	**(474,129)**	(421,699)
NET CASH FROM OPERATING ACTIVITIES	**3,035,357**	2,184,351
INVESTING ACTIVITIES		
Placement of financial assets at FVTPL	**(8,378,793)**	(2,160,000)
Placement of long-term bank deposits	**(1,000,000)**	—
Payment for acquisition of property, plant and equipment	**(339,234)**	(455,856)
Development costs paid	**(39,813)**	(46,028)
Purchase of intangible assets	**(7,994)**	(3,961)
Payments for rental deposits	**(7,223)**	(17,348)
Refund of rental deposits upon termination of leases	**7,188**	—
Withdrawal of financial assets at FVTPL	**8,424,280**	2,166,215
Interest received	**78,159**	3,117
Government grants received	**1,141**	3,898
Proceeds from disposal of property, plant and equipment	**825**	59,488
Upfront payment of land use rights in the PRC	**—**	(54,487)
Withdrawal of restricted bank deposits	**—**	15,564
Repayment to a related party	**—**	(62)
NET CASH USED IN INVESTING ACTIVITIES	**(1,261,464)**	(489,460)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	2020 RMB'000	2019 RMB'000
FINANCING ACTIVITIES		
Issue of shares of the Company	**7,390,223**	4
Proceeds from issue of shares upon exercise of share options	**13,485**	—
Payment of issue costs	**(149,581)**	(2,047)
Repayment of lease liabilities	**(101,130)**	(86,029)
Repayment of advances drawn on bills receivables discounted with recourse	**(79,536)**	—
Interest paid	**(15,369)**	(18,173)
Dividends paid	**—**	(1,141,964)
Proceeds from bank borrowings	**—**	1,000
Repayment of bank borrowings	**—**	(1,000)
Advances drawn on bills receivables discounted with recourse	**—**	79,536
Proceeds on issue of convertible promissory notes	**—**	364,203
Capital injection to Smoore Shenzhen	**—**	57,650
Acquisition of SBI Limited as part of the Reorganisation	**—**	(57,650)
Acquisition of Smoore HK as part of the Reorganisation	**—**	(1,095,350)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**7,058,092**	(1,899,820)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**8,831,985**	(204,929)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**731,394**	941,964
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(5,577)**	(5,641)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**9,557,802**	731,394

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 Date**"). 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 (i) the research, design and manufacture of vaping devices and components, other than self-branded advanced personal vaporizers ("**APV**") and (ii) the research, design, manufacture and sale of APV.

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

2. Group Reorganisation and Basis of Preparation and Presentation of Consolidated Financial Statements

Historically and during the year ended 31 December 2019, the Group's operations were conducted by an existing group of entities headed by Smoore Shenzhen which has always been the holding company of all operating and non-operating subsidiaries.

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

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

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year ended 31 December 2019 include the results and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the year ended 31 December 2019, or since the date of incorporation, where there is a shorter period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

3. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the 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

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on application of Amendments to HKAS 1 and HKAS 8 Definition of Material

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

3. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to HKFRS 16	Covid-19-Related Rent Concessions[4]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020[2]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after a Date to be Determined.
4 Effective for annual periods beginning on or after 1 June 2020.
5 Effective for annual periods beginning on or after 1 January 2021.

The directors of the Company anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

4. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

4. Significant Accounting Policies (Continued)

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKFRS 16 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the entities comprising the Group. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

4. Significant Accounting Policies (Continued)

Basis of consolidation (Continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

The Group is principally engaged in the manufacture and sales of APV and vaping devices and components other than APV. The Group recognises the revenue at a point in time when the control of products is transferred to the customer, i.e. when the goods have been delivered to customers. A receivable is recognised by the Group when the goods are delivered to the customer's premises as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. The customers have neither rights of return nor rights to defer or avoid payment for the goods once they are accepted by the customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

4. Significant Accounting Policies (Continued)

Revenue from contracts with customers (Continued)

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Leasing

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and

4. Significant Accounting Policies (Continued)

Leasing (Continued)

The Group as a lessee (Continued)

Right-of-use assets (Continued)

- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets in "property, plant and equipment", the same line item as that within which the corresponding underlying assets would be presented if they were owned.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

4. Significant Accounting Policies (Continued)

Leasing (Continued)

The Group as a lessee (Continued)

Lease liabilities (Continued)

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

4. Significant Accounting Policies (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise.

Borrowing costs

All borrowing costs not directly attributable to the acquisition, construction or production of qualifying assets are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of immediate financial support to the Group with no future related costs are recognised in profit or loss in the period they become receivable.

Employee benefit

Retirement benefit costs

Payments to the state-owned retirement benefit schemes and the Mandatory Provident Fund Scheme ("**MPF Scheme**") are recognised as an expense when employee have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, bonus and commissions) after deducting any amount already paid.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

4. Significant Accounting Policies (Continued)

Share-based payments

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payments reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

When share options are exercised, the amount previously recognised in share-based payments reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payments reserve will be transferred to retained profits.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

4. Significant Accounting Policies (Continued)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets is reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 "Income Taxes" requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

4. Significant Accounting Policies (Continued)

Property, plant and equipment (Continued)

Property, plant and machinery in the course of construction for production or supply are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasehold land and building

When the Group makes payment for ownership interests of a property which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses, if any. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

4. Significant Accounting Policies (Continued)

Intangible assets (Continued)

Internally-generated intangible assets — research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Impairment on property, plant and equipment, right-of-use assets and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

4. Significant Accounting Policies (Continued)

Impairment on property, plant and equipment, right-of-use assets and intangible assets (Continued)

The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit or group of cash-generating units) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit or group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined based on a weighted average cost method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

4. Significant Accounting Policies (Continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognised immediately in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

Amortised cost and interest income

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment under expected credit loss ("ECL") model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and bills receivables, other receivables, long-term bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk on financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at each reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment under ECL model (Continued)

(i) Significant increase in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; and

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment under ECL model (Continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over three years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment under ECL model (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is designated as at FVTPL.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9 permits the entire combined contract to be designated as at FVTPL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities at FVTPL (Continued)

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

Financial liabilities at amortised cost

Financial liabilities including trade payables, other payables and advances drawn on bills receivables discounted with recourse are subsequently measured at amortised cost, using the effective interest method.

Convertible promissory notes

Convertible promissory notes issued by the Company that contain both the debt and conversion option components are designated at FVTPL on initial recognition. A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivatives. Convertible promissory notes are measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of convertible promissory notes are charged to profit or loss immediately.

Convertible preferred shares

Convertible preferred shares issued by the Company in which the Group has no contractual obligation to redeem and the conversion option of which may be settled by the exchange of variable number of the Company's own equity instruments are classified as financial liabilities and are measured at FVTPL. Subsequent to initial recognition, convertibles preferred shares are measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of convertibles preferred shares are charged to profit or loss immediately.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

5. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 4, the management of the Group is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(i) Provision of ECL for trade receivables

The management of the Group estimates the amount of lifetime ECL of trade receivables individually, based on internal credit ratings of trade debtors, after considering aging, historical repayment records, past due status of respective trade receivables and forward-looking information. The assessment of the provision of ECL for trade receivables involves high degree of estimation and uncertainty.

The information about the ECL and the Group's trade receivables are disclosed in note 32(b).

(ii) Deferred tax liabilities

The Group provides deferred tax liabilities in relation to the earnings expected to be distributed from its subsidiaries in the PRC. Deferred tax liabilities have not been provided on all distributable profits of these subsidiaries as the Group plans to retain the profits in the respective entities for their daily operations and future developments. In case where the actual distribution of profits are larger than expected or changes in the Group's future development plan which affects the expected timing and amounts of future distributions, material tax liabilities may arise, which will be recognised in profit or loss in the period in which such events occur.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

6. 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 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 and there is no changes in the operating segment reported to the CODM during the year. 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 year is as follows:

	2020 **RMB'000**	2019 RMB'000
Vaping devices and components, other than APV	**9,162,803**	6,568,661
APV	**847,134**	1,041,940
Total revenue that recognised at a point in time	**10,009,937**	7,610,601

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

6. Revenue and Segment Information (Continued)

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

	2020 RMB'000	2019 RMB'000
Segment revenue	**10,009,937**	7,610,601
Segment profit	**4,244,009**	2,597,834
Unallocated income	**30,851**	254
Unallocated expenses	**(26,510)**	(703)
Listing expenses	**(72,988)**	(26,299)
Loss on fair value changes of convertible promissory notes	**(38,487)**	(3,635)
Loss on fair value changes of convertible preferred shares	**(1,019,109)**	(400)
Profit before tax	**3,117,766**	2,567,051

The accounting policies of the operating segment is the same as the Group's accounting policies described in note 4. Segment profit represents profit earned from the segment without allocation of certain interest income from bank deposits and central administration costs, listing expenses, loss on fair value changes of convertible promissory notes and loss on fair value changes of convertible preferred shares. This is the measure reported to the CODM for the purpose of resource allocation and performance assessment.

Geographical information

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

	2020 RMB'000	2019 RMB'000
Hong Kong, China (note)	**3,632,582**	2,010,165
The PRC (excluding Hong Kong)	**2,709,058**	1,588,703
United States of America	**1,450,052**	1,661,981
United Kingdom	**867,598**	508,675
France	**413,351**	146,291
Japan	**312,309**	605,003
Switzerland	**170,274**	606,957
Others	**454,713**	482,826
	10,009,937	7,610,601

Note: Revenue generated from Hong Kong are on re-export or transshipment basis and none of the Group's products are distributed or sold in Hong Kong.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

6. Revenue and Segment Information (Continued)

Geographical information (Continued)

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

The Group applies the practical expedient in HKFRS 15 and does not disclose information about its remaining performance obligation as the performance obligation is part of a contract that has an original expected duration of one year or less.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2020	2019
	RMB'000	RMB'000
Customer A	**3,477,093**	1,147,565
Customer B	**1,840,706**	877,619
Customer C	**N/A**[1]	1,192,888
Customer D	**N/A**[1]	959,739

1 Revenue from the customers are less than 10% of the total sales of the Group

7. Other Income and Other Gains and Losses

(a) Other income

	2020	2019
	RMB'000	RMB'000
Interest income from bank deposits	**84,203**	3,117
Interest income from rental deposits	**1,143**	1,041
Government grants (note)	**45,569**	16,459
Compensation income from customers	**14,712**	24,093
Income from technical consultation services	**11,062**	—
Others	**38,687**	4,160
	195,376	48,870

Note: Except for the government grants as described in note 27, the remaining amount mainly represents subsidy income received from certain government authorities in the PRC as support funds for expenses incurred for the operations of Smoore Shenzhen as a High and New Technology Enterprise in the PRC. The subsidies are one-off and non-recurring in nature.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

7. Other Income and Other Gains and Losses (Continued)

(b) Other gains and losses

	2020 RMB'000	2019 RMB'000
Net foreign exchange (loss) gain	(38,853)	10,789
Gain on fair value changes on financial assets at FVTPL	43,785	6,215
Gain on early termination of leases	2,252	725
Loss on disposal/write off of property, plant and equipment	(7,480)	(13,909)
Others	19,613	(22,440)
	19,317	(18,620)

8. Finance Costs

	2020 RMB'000	2019 RMB'000
Interest expense on bank borrowings	—	21
Interest expense on lease liabilities	15,369	18,152
	15,369	18,173

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

9. Income Tax Expense

	2020 RMB'000	2019 RMB'000
Current tax:		
— PRC Enterprise Income Tax ("**EIT**")	**619,956**	383,727
— Hong Kong Profits Tax	**40,694**	19,191
	660,650	402,918
Underprovision in prior years		
— PRC EIT	**3,946**	132
	664,596	403,050
Deferred tax (note 17)	**53,249**	(9,788)
	717,845	393,262

Hong Kong

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduced the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong Profits Tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million for the qualifying group entity.

PRC

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 that Smoore Shenzhen, a major operating subsidiary in the PRC, was qualified as High Technology and New Enterprise, and therefore Smoore Shenzhen is entitled to a preferential income tax rate of 15% for the years ended 31 December 2020 and 2019. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

9. Income Tax Expense (Continued)

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2020 **RMB'000**	2019 RMB'000
Profit before tax	**3,117,766**	2,567,051
Income tax expense calculated at 15% (note i)	**467,665**	385,058
Tax effect of expense not deductible for tax purpose	**237,418**	31,342
Tax effect of income not taxable for tax purpose	**(8,263)**	(341)
Tax effect of tax losses not recognised	**4,164**	1,624
Utilisation of tax losses previously not recognised	**(1,098)**	—
Effect of different tax rates of subsidiaries operating in the PRC and Hong Kong	**9,310**	1,778
Tax relief related to additional tax deduction on research and development costs incurred (note ii)	**(46,567)**	(28,212)
Underprovision in prior years	**3,946**	132
Withholding tax on distributed profits of a PRC subsidiary	**51,061**	—
Others	**209**	1,881
	717,845	393,262

Notes:

(i). The PRC EIT rate of Smoore Shenzhen that accounts for substantial operation of the Group is 15%.

(ii). Pursuant to Caishui 2018 circular No. 99, Smoore Shenzhen is entitled to additional tax deduction on qualifying research and development costs expenditures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

10. Profit for the Year

	2020 RMB'000	2019 RMB'000
Profit before tax has been arrived at after charging (crediting):		
Directors' remuneration: (note 11)	**96,602**	7,559
Other staff costs:		
— Salaries, bonus and other benefits	**1,475,574**	1,216,380
— Retirement benefit scheme contributions	**40,007**	136,862
— Share-based payment expense	**274,933**	57,347
	1,887,116	1,418,148
Less: amounts capitalised as cost of inventories manufactured	**(1,034,115)**	(933,808)
amounts capitalised in intangible assets	**(24,706)**	(23,821)
	828,295	460,519
Depreciation of right-of-use assets for buildings and land use rights	**109,561**	102,874
Depreciation of property, plant and equipment	**103,593**	62,079
Amortisation of intangible assets	**18,445**	8,554
	231,599	173,507
Less: amounts capitalised as cost of inventories manufactured	**(175,392)**	(143,653)
	56,207	29,854
Expenses related to short-term leases	**4,472**	8,214
Auditor's remuneration	**4,450**	4,266
Cost of inventories recognised as expense	**4,714,124**	4,258,249
(Reversal of allowance for) allowance for inventories, net	**(12,764)**	22,495

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

11. Directors', Chief Executive's and Employees' Emoluments

(a) Directors' and chief executive's emoluments

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and the Hong Kong Companies Ordinance, is as follows:

	Fees RMB'000	Salaries, bonus and other allowances RMB'000	Retirement benefit scheme contributions RMB'000	Share-based payment expense RMB'000	Total RMB'000
For the year ended 31 December 2020					
Executive directors:					
— Mr. Chen (note i)	**—**	**5,030**	**42**	**70,736**	**75,808**
— Mr. Xiong Shaoming	**—**	**529**	**43**	**—**	**572**
— Mr. Wang Guisheng	**—**	**2,436**	**43**	**17,254**	**19,733**
Non-executive director:					
— Dr. Liu Jincheng	**—**	**—**	**—**	**—**	**—**
Independent non-executive directors:					
— Mr. Zhong Shan (note ii)	**163**	**—**	**—**	**—**	**163**
— Mr. Yim Siu Wing (note ii)	**163**	**—**	**—**	**—**	**163**
— Dr. Liu Jie (note ii)	**163**	**—**	**—**	**—**	**163**
	489	**7,995**	**128**	**87,990**	**96,602**
For the year ended 31 December 2019					
Executive directors:					
— Mr. Chen	—	526	51	—	577
— Mr. Xiong Shaoming	—	524	54	—	578
— Mr. Wang Guisheng	—	2,429	54	3,921	6,404
Non-executive director:					
— Dr. Liu Jincheng	—	—	—	—	—
	—	3,479	159	3,921	7,559

Notes:

(i) Mr. Chen is also the chief executive of the Company and his emoluments disclosed above included those for services rendered by him as the chief executive.

(ii) Mr. Zhong Shan, Mr. Yim Siu Wing and Dr. Liu Jie were appointed as independent non-executive directors of the Company on 5 June 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

11. Directors', Chief Executive's and Employees' Emoluments (Continued)

(a) Directors' and chief executive's emoluments (Continued)

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

No director's emolument was paid or payable by the Company to the non-executive director for both years ended 31 December 2020 and 2019.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

During the year, certain directors of the Company were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in note 30.

(b) Employees' emoluments

The five highest paid employees of the Group during the year included two director (2019: one director) of the Company, details of his emolument is set out above. Details of the remuneration of the remaining three (2019: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2020	2019
	RMB'000	RMB'000
Salaries, bonus and other allowances	**2,728**	2,261
Retirement benefit scheme contributions	**127**	178
Share-based payment expense	**82,495**	22,579
	85,350	25,018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

11. Directors', Chief Executive's and Employees' Emoluments (Continued)

(b) Employees' emoluments (Continued)

The number of highest paid employees who are not the directors of the Company whose remuneration fell within the following band are as follows:

	Number of employees	
	2020	2019
HK$5,000,001 to HK$5,500,000	—	1
HK$5,500,001 to HK$6,000,000	—	1
HK$8,000,001 to HK$8,500,000	—	1
HK$8,500,001 to HK$9,000,000	—	1
HK$23,000,001 to HK$23,500,000	1	—
HK$34,500,001 to HK$35,000,000	1	—
HK$37,500,001 to HK$38,000,000	1	—

During the year, no emoluments were paid by the Group to any of the directors, chief executive or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors and the chief executive has waived or agreed to waive any emoluments during the year ended 31 December 2020.

12. Dividends

	2020	2019
	RMB'000	RMB'000
Dividends recognised as distribution during the year	—	1,141,964

For the year ended 31 December 2019, the rate of dividend and number of shares ranking for dividend are not presented as such information is not meaningful having regards to the purpose of this report.

No dividend was paid or declared by the Company since its incorporation. Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2020 of HK27 cents per share, in an aggregate amount of approximately HK$1,609,509,000, has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

13. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to owners of the Company is as follow:

	2020 RMB'000	2019 RMB'000
Earnings:		
Earnings for the purpose of basic earnings per share	2,399,921	2,173,789
Effect of dilutive potential ordinary shares:		
Loss on fair value changes of convertible promissory notes	—	3,635
Loss on fair value changes of convertible preferred shares	—	400
Earnings for the purpose of diluted earnings per share	2,399,921	2,177,824

	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating earnings per share	5,394,565	5,051,511
Effect of dilutive potential ordinary shares:		
Share options	292,312	12,233
Over-allotment option	4,155	—
Convertible promissory notes	—	18,151
Convertible preferred shares	—	12,489
	5,691,032	5,094,384

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 year ended 31 December 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 29 had been effected since 1 January 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

14. Property, Plant and Equipment

	Right-of-use assets for buildings	Right-of-use assets for land use rights	Buildings	Leasehold improvements	Plant and machinery	Furniture and fixtures	Electronic equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST										
At 1 January 2019	311,439	—	—	123,106	125,669	21,210	16,962	3,669	22,149	624,204
Additions	278,846	54,487	—	112,829	89,094	23,856	61,060	2,206	49,300	671,678
Transfer	—	—	—	—	22,224	—	—	—	(22,224)	—
Disposals/written-off/termination of leases	(85,288)	—	—	(58,406)	(33,659)	(4,320)	(4,983)	—	—	(186,656)
At 31 December 2019	504,997	54,487	—	177,529	203,328	40,746	73,039	5,875	49,225	1,109,226
Additions	95,296	—	22,156	164,964	119,783	11,205	38,997	1,705	46,220	500,326
Disposals/written-off/termination of leases	(84,179)	—	—	(1,075)	(11,081)	(305)	(618)	—	—	(97,258)
At 31 December 2020	516,114	54,487	22,156	341,418	312,030	51,646	111,418	7,580	95,445	1,512,294
DEPRECIATION										
At 1 January 2019	50,659	—	—	25,445	15,775	5,187	4,018	1,029	—	102,113
Provided for the year	102,692	182	—	33,753	15,822	5,294	6,618	592	—	164,953
Eliminated on disposals/written-off/ termination of leases	(16,822)	—	—	(19,179)	(5,909)	(1,031)	(1,852)	—	—	(44,793)
At 31 December 2019	136,529	182	—	40,019	25,688	9,450	8,784	1,621	—	222,273
Provided for the year	108,472	1,089	—	50,510	28,393	7,609	16,075	1,006	—	213,154
Eliminated on disposals/written-off/ termination of leases	(34,571)	—	—	(483)	(3,816)	(236)	(239)	—	—	(39,345)
At 31 December 2020	210,430	1,271	—	90,046	50,265	16,823	24,620	2,627	—	396,082
CARRYING VALUES										
At 31 December 2020	305,684	53,216	22,156	251,372	261,765	34,823	86,798	4,953	95,445	1,116,212
At 31 December 2019	368,468	54,305	—	137,510	177,640	31,296	64,255	4,254	49,225	886,953

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

14. Property, Plant and Equipment (Continued)

The above items of property, plant and equipment, other than construction in progress, are depreciated over the estimated useful lives, after taking into account the estimated residual values, on a straight-line basis as follows:

Right-of-use assets for buildings and land use rights	Over the lease term
Buildings	50 years
Leasehold improvement	Shorter of lease term or useful life of 5 years
Plant and machinery	5–10 years
Furniture and fixtures	3–5 years
Electronic equipment	4–5 years
Motor vehicles	4–5 years

The Group as lessee

Right-of-use assets (included in the property, plant and equipment)

The Group leases various properties to operate its business. Lease contracts are entered into for fixed term of 1 year to 10 years (2019: 1 year to 9 years). Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions and no extension and termination options. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable. Except for right-of-use assets for buildings, all the other class of property, plant and equipment are owned by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

15. Intangible Assets

	Development costs RMB'000	Technology know-how RMB'000	Softwares RMB'000	Total RMB'000
COST				
At 1 January 2019	—	26,575	9,099	35,674
Additions	46,028	—	3,961	49,989
Transfer	(46,028)	46,028	—	—
Written-off	—	(6,142)	(1,626)	(7,768)
At 31 December 2019	—	66,461	11,434	77,895
Additions	39,813	800	7,194	47,807
Transfer	(39,813)	39,813	—	—
At 31 December 2020	—	107,074	18,628	125,702
AMORTISATION AND IMPAIRMENT				
At 1 January 2019	—	15,781	2,532	18,313
Provided for the year	—	6,542	2,012	8,554
Written-off	—	(6,142)	(1,626)	(7,768)
At 31 December 2019	—	16,181	2,918	19,099
Provided for the year	—	15,361	3,084	18,445
At 31 December 2020	—	31,542	6,002	37,544
CARRYING VALUES				
At 31 December 2020	—	75,532	12,626	88,158
At 31 December 2019	—	50,280	8,516	58,796

Development costs and technology know-how are internally generated except for the addition in technology know-how of RMB800,000, which was acquired from a third party in 2020. All of the Group's softwares were acquired from third parties.

The above intangible assets have finite useful lives. Development costs will not be amortised until it is transferred to technology know-how and is available for use. Intangible assets other than development costs are amortised on a straight-line basis over five years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

16. Long-term Bank Deposits and Bank Balances and Cash

(a) Long-term bank deposits

Long-term bank deposits are deposits with a bank with a maturity period of more than twelve months when acquired. Long-term bank deposits will mature after twelve months from the end of the reporting period and are therefore classified as non-current assets as at 31 December 2020. The deposits carry interest at 3.50% per annum upon maturity or carry at floating rate based on daily bank deposit rate if early redemption at any time before the maturity date.

(b) Bank balances and cash

As at 31 December 2020, the Group's bank balances carry interests at prevailing market rates which range from 0% to 0.3% (2019: 0% to 0.3%) per annum and the bank deposits with maturity dates of three months or less carry fixed interest rates from 2.4% to 3.3% (2019: nil) per annum.

At the end of each reporting period, included in bank balances and cash are the following amounts denominated in currencies other than the functional currency of the relevant group entities which they relate.

	2020 **RMB'000**	2019 RMB'000
US$	**8,388**	156,826
Hong Kong dollars ("**HK$**")	**1,667**	34
Great British Pound ("**GBP**")	**123**	346

17. Deferred Tax Assets/Liability

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2020 **RMB'000**	2019 RMB'000
Deferred tax assets	**11,616**	13,804
Deferred tax liability	**(51,061)**	–
	(39,445)	13,804

17. Deferred Tax Assets/Liability (Continued)

The followings are the major deferred tax assets (liability) recognised and movements thereon during the current and prior years.

	Right-of-use assets/ lease liabilities RMB'000	Allowance for credit losses RMB'000	Allowance for inventories RMB'000	Undistributed earnings of a subsidiary RMB'000	Total RMB'000
At 1 January 2019	1,781	1,469	766	—	4,016
Credit to profit or loss	3,469	695	5,624	—	9,788
At 31 December 2019	5,250	2,164	6,390	—	13,804
Credit (charge) to profit or loss	993	10	(3,191)	(51,061)	(53,249)
At 31 December 2020	6,243	2,174	3,199	(51,061)	(39,445)

Under the EIT Law of the PRC, 10% withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards to their foreign shareholders. For the immediate holding company incorporated in Hong Kong, a preferential rate of 5% will be applied. As at 31 December 2020, deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB4,219,247,000 (2019: RMB1,836,757,000), as the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At 31 December 2020, the Group had unused tax losses of RMB31,305,000 (2019: RMB10,861,000) available to offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unrecognised tax losses will expire in the following years:

	2020 RMB'000	2019 RMB'000
2023	**—**	34
2024	**3,544**	10,827
2025	**27,761**	—
	31,305	10,861

There were no other significant unrecognised temporary differences at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

18. Inventories

	2020 RMB'000	2019 RMB'000
Raw materials	167,667	167,097
Work in progress	169,304	153,914
Finished goods	101,859	227,001
	438,830	548,012

19. Trade and Bills Receivables

	2020 RMB'000	2019 RMB'000
Trade receivables from contracts with customers	1,422,109	446,908
Less: allowance for credit losses	(8,903)	(8,802)
	1,413,206	438,106
Bills receivables	804,384	220,900
	2,217,590	659,006

The Group allows a credit period of 0 to 75 days (2019: 0 to 60 days) to its trade customers.

As at 1 January 2019, trade receivables from contracts with customers amounted to RMB352,887,000.

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:

	2020 RMB'000	2019 RMB'000
Trade receivables		
Within 30 days	836,092	220,001
31 to 60 days	423,510	213,284
61 to 90 days	150,207	2,668
Over 90 days	3,397	2,153
	1,413,206	438,106

The maturity dates of bills receivables are within three months as at 31 December 2020 (2019: three months).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

19. Trade and Bills Receivables (Continued)

As at 31 December 2020, included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB13,588,000 (2019: RMB8,102,000), which are past due at the end of each reporting period for which the Group has not provided for impairment loss as the Group considers such balances could be recovered based on historical experience. The Group does not hold any collateral over these balances.

As at 31 December 2020, RMB1,268,000 (2019: RMB37,000) have been past due over 90 days or more and is not considered as in default because there had not been significant change in credit quality and the amounts are still considered recoverable.

Details of impairment assessment of trade receivables are set out in note 32(b).

As of 22 March 2021, RMB2,223,184,000 of trade and bills receivables as of 31 December 2020 had been settled subsequent to the end of the reporting period.

At the end of the reporting period, included in trade receivables are the following amounts denominated in currencies other than the functional currency of the relevant group entities which they relate.

	2020 **RMB'000**	2019 RMB'000
US$	**1,012,876**	359,248

20. Other Receivables, Deposits and Prepayments

	2020 **RMB'000**	2019 RMB'000
Value added tax recoverable	**114,663**	172,025
Prepayments	**43,335**	34,755
Rental deposits	**32,408**	33,466
Deferred issue costs	**—**	5,233
Other receivables	**64,483**	9,995
	254,889	255,474
Less: rental deposits (non-current portion)	**(28,523)**	(24,146)
	226,366	231,328

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

21. Trade Payables

	2020	2019
	RMB'000	RMB'000
Trade payables		
— third parties	**649,032**	418,769
— a related party (note 36)	**53,292**	22,978
	702,324	441,747

The Group is normally granted credit terms of 30 to 60 days.

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:

	2020	2019
	RMB'000	RMB'000
Within 30 days	**644,595**	347,068
31–60 days	**51,195**	78,952
61–90 days	**3,821**	14,843
Over 90 days	**2,713**	884
	702,324	441,747

22. Other Payables and Accrued Expenses

	2020	2019
	RMB'000	RMB'000
Accrued staff costs and benefits	**505,308**	365,707
Other payables	**91,776**	91,546
Accrued expenses	**82,237**	61,818
Other tax payables	**32,070**	34,100
Accrued listing expenses and issue costs	**37,382**	19,386
	748,773	572,557

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

23. Contract Liabilities

Contract liabilities are recognised when the Group receives an amount from customers before goods are transferred, this will give rise to contract liabilities at the beginning of a contract, until the revenue recognised on the relevant contract exceeds the amount received. The Group typically receives a deposit of 30% of total consideration from certain customers when they enter into contracts with the Group.

Revenue recognised during each reporting period included the whole amount of contract liabilities at the beginning of the respective reporting period. There was no revenue recognised during the year ended 31 December 2020 that related to performance obligations that were satisfied in prior years.

As at 1 January 2019, contract liabilities amounted to RMB208,543,000.

24. Lease Liabilities

	2020	2019
	RMB'000	RMB'000
Lease liabilities payable:		
— Within one year	**118,014**	106,566
— More than one year but not exceeding two years	**105,009**	110,941
— More than two years but not exceeding five years	**78,698**	153,273
— More than five years	**28,937**	18,689
	330,658	389,469
Less: Amounts due for settlement within twelve months shown under current liabilities	**(118,014)**	(106,566)
Amounts due for settlement after twelve months shown under non-current liabilities	**212,644**	282,903

The Group leases various properties to operate its factories and these lease liabilities were measured at the present value of the lease payments that are not yet paid. All leases are entered at fixed prices. As at 31 December 2020, the weighted average incremental borrowing rate applied is 4.76% (2019: 4.79%). The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function. The lease liabilities of the Group were unguaranteed and secured by rental deposits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

25. Convertible Promissory Notes

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

	RMB'000
At 1 January 2019	—
Issuance on 30 October 2019	364,203
Loss arising on changes of fair value (note i)	3,635
At 31 December 2019	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 31 December 2020	—

Notes:

(i) Changes of fair value presented in RMB include offset of exchange on translation from US$ 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 were denominated in US$, non-redeemable, unsecured and bore interest of 8% per annum on the principal outstanding amount. The Group had 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 the date of issuance, 31 December 2019 and 30 April 2020 (date of conversion).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

25. Convertible Promissory Notes (Continued)

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	At 31 December 2019
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 non-qualifying IPO within 180 days from the issuance of convertible promissory notes	**100%**	80%

Qualified initial public offering ("**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 was measured using a valuation technique with significant unobservable inputs and hence was classified as Level 3 of the fair value hierarchy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

26. Convertible Preferred Shares

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
Issuance on 30 October 2019	232,032	—	232,032
Loss arising on changes of fair value (note)	400	—	400
At 31 December 2019	232,432	—	232,432
Conversion of convertible promissory notes (note 25)	—	406,325	406,325
Loss arising on changes of fair value (note)	412,982	606,127	1,019,109
Conversion to ordinary shares	(645,414)	(1,012,452)	(1,657,866)
At 31 December 2020	—	—	—

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

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 25.

The Series A-1 Preferred Shares and Series A-2 Preferred Shares (collectively, the Preferred Shares) were 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 convertible preferred shares were financial liabilities measured at FVTPL. The change in fair value of the convertible preferred shares was charged to profit or loss. Management considered that there is no credit risk of the financial liability that drives the change of the fair value of the financial liability.

The convertible preferred shares were valued by the directors of the Company with reference to valuation reports carried out by an independent qualified professional valuer. 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 of the date of issuance and 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%, volatility of 40%, dividend yield of 1.50%, possibilities under liquidation scenario of 10% and possibilities under IPO scenario of 90%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

26. Convertible Preferred Shares (Continued)

On 4 July 2020, all convertible preferred shares met the conversion condition to convert into ordinary shares of the Company and the conversion completed on 10 July 2020. The directors of the Company took reference to the offer price of HK$12.40 to determine the fair value of the convertible preferred shares as at 4 July 2020.

The fair value of the convertible preferred shares was measured using a valuation technique with significant unobservable inputs and hence was classified as level 3 of the fair value hierarchy.

27. Deferred Income

	2020 **RMB'000**	2019 RMB'000
Balance at beginning of the year	**3,360**	—
Government grants received	**1,141**	3,898
Released to profit or loss	**(1,772)**	(538)
Balance at end of the year	**2,729**	3,360
Less: Amount to be recognised as income within one year included in current liabilities	**(786)**	(708)
Amount to be recognised as income after one year included in non-current liabilities	**1,943**	2,652

Note: The Group received government grants for capital expenditure incurred for the acquisition of plant and machineries. The amounts are deferred and amortised over the estimated useful lives of the respective assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

28. Transfers of Financial Assets

The following were the Group's financial assets as at 31 December 2020 and 2019 that were transferred to banks by discounting bills receivables on a full recourse basis. As the Group had not transferred the significant risks and rewards relating to these receivables, it continued to recognise the full carrying amount of the receivables and had recognised the cash received on the transfer as a collateralised borrowing. These financial assets were carried at amortised cost in the consolidated statement of financial position.

	2020	2019
	RMB'000	RMB'000
Carrying amount of bills receivables discounted to bank with full recourse	—	79,536
Carrying amount of associated liabilities	—	(79,536)
Net position	—	—

29. Share Capital

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

29. Share Capital (Continued)

	Number of shares	Amount US$'000	Equivalent amount of ordinary shares RMB'000
Issued and fully paid:			
At 22 July 2019 (date of incorporation)	1.000	— *	— *
Issuance of ordinary shares (note ii)	62,461.031	— *	4
At 31 December 2019	62,462.031	— *	4
Automatic conversion of Preferred Shares upon IPO (note 26)	2,152.478	— *	— *
Capitalisation issue (note iii)	5,169,096,105.491	51,691	361,542
Issuance of ordinary share (note iv)	574,352,000.000	5,744	40,172
Issuance of shares on exercise of over-allotment option (note v)	86,152,000.000	862	6,018
Exercise of share options (note 30)	35,486,000.000	355	2,332
At 31 December 2020	5,865,150,720.000	58,652	410,068

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

Notes:

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

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

(iii) Pursuant to the resolutions of the Company's shareholders passed on 15 June 2020, the Company allotted and issued a total of 5,169,096,105.491 shares by way of capitalisation of the sum of 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 on 10 July 2020.

(iv) 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 for a total gross cash consideration of approximately HK$7,121,965,000 (equivalent to approximately RMB6,427,431,000) and the Company's shares were listed on the Stock Exchange on the same date. The shares allotted and issued rank pari passu with the existing shares in all respects.

(v) 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 for a total gross cash consideration of approximately HK$1,068,285,000 (equivalent to approximately RMB962,792,000) on 5 August 2020. The shares allotted and issued rank pari passu with the existing shares in all respects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

30. 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 primary 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.

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 had been effective as of the date of acceptance.

At 31 December 2020, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO share option scheme was 278,244,500 (2019: 202,919,000), representing 4.7% of the shares of the Company in issue at that date (2019: 3.3% (assuming the over-allotment option is not exercised and without taking into account any shares which may be issued upon the exercise of the options granted under the Pre-IPO share option scheme or any options which may be granted under the post-IPO share option scheme)). The total number of shares in respect of which options may be granted under the Pre-IPO share option scheme is not permitted to exceed 10% of the shares of the Company in issue as at the Listing Date, without prior approval from the Company's shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

30. Share-Based Payment Transactions (Continued)

The following table discloses movements in the Company's share options held by directors and employees during the years ended 31 December 2020 and 2019:

	Granted during the year ended 31 December 2019 and outstanding at 1 January 2020	Granted during the year	Exercised during the year	Lapsed during the year (Note)	Outstanding at 31 December 2020
Share options granted on 30 September 2019:					
Lot I	82,806,000	—	(35,486,000)	(221,000)	47,099,000
Lot II	35,839,000	—	—	(393,000)	35,446,000
Lot III	38,577,000	—	—	(631,000)	37,946,000
Lot IV	34,930,000	—	—	(513,000)	34,417,000
Lot V	10,767,000	—	—	(504,000)	10,263,000
Share options granted on 1 May 2020:					
Lot I	—	16,037,000	—	—	16,037,000
Lot II	—	23,417,500	—	(402,500)	23,015,000
Lot III	—	29,712,500	—	(1,145,500)	28,567,000
Lot IV	—	25,590,500	—	(749,000)	24,841,500
Lot V	—	21,355,500	—	(742,500)	20,613,000
Total	202,919,000	116,113,000	(35,486,000)	(5,301,500)	278,244,500

Note: Certain employees resigned during the year and respective share options lapsed accordingly.

Out of the outstanding share options of 278,244,500 (2019: 202,919,000), 63,136,000 (2019: nil) options were exercisable as at 31 December 2020 with an exercise price of RMB0.38 (2019: RMB0.38) per share.

The weighted average exercise price is RMB0.38 since the date of grant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

30. Share-Based Payment Transactions (Continued)

Details of specific categories of options are as follows:

Granted on 30 September 2019:

Types	Vesting period	Exercisable period	Grant date fair value per option RMB
Lot I	30.09.2019 — 3 months from the Listing Date	3 months from the Listing Date — 29.09.2029	2.4186
Lot II	30.09. 2019 — 12 months from the Listing Date	12 months from the Listing Date — 29.09.2029	2.3962
Lot III	30.09. 2019 — 24 months from the Listing Date	24 months from the Listing Date — 29.09.2029	2.3678
Lot IV	30.09. 2019 — 36 months from the Listing Date	36 months from the Listing Date — 29.09.2029	2.3402
Lot V	30.09. 2019 — 48 months from the Listing Date	48 months from the Listing Date — 29.09.2029	2.3129
Fair value of share options granted			RMB484,140,000

Granted on 1 May 2020:

Types	Vesting period	Exercisable period	Grant date fair value per option RMB
Lot I	01.05.2020 — 3 months from the Listing Date	3 months from the Listing Date — 30.04.2030	2.0433
Lot II	01.05.2020 — 12 months from the Listing Date	12 months from the Listing Date — 30.04.2030	2.0962
Lot III	01.05.2020 — 24 months from the Listing Date	24 months from the Listing Date — 30.04.2030	2.1077
Lot IV	01.05.2020 — 36 months from the Listing Date	36 months from the Listing Date — 30.04.2030	2.0845
Lot V	01.05.2020 — 48 months from the Listing Date	48 months from the Listing Date — 30.04.2030	2.0779
Fair value of share options granted			RMB242,200,000

30. Share-Based Payment Transactions (Continued)

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise was HK$51.15 (2019: Nil).

Binomial Option Pricing model ("**BOPM**") was used to determine the fair value of the option granted. Key assumptions, such as risk-free rate and volatility, are required to be determined by the directors of the Company with best estimate. The key inputs into the model were as follows:

	Share options granted on 1 May 2020	Share options granted on 30 September 2019
Weighted average share price	**RMB2.89**	RMB3.11
Exercise price	**RMB0.38**	RMB0.38
Expected volatility	**40%**	40%
Risk-free rate	**2.54%**	3.14%
Expected dividend yield	**1.50%**	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 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.

During the year, the Group recognised the total expense of RMB362,923,000 (2019: RMB61,268,000) in relation to share options granted by the Company.

31. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debts, which include lease liabilities disclosed in note 24, net of cash and cash equivalents and equity of the Group, comprising share capital, retained profits and other reserves.

The management of the Group reviews the capital structure regularly. As part of this review, the management considers the cost of capital and the risks associated with the capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as new debt or the redemption of existing debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

32. Financial Instruments

a. Categories of financial instruments

	2020 RMB'000	2019 RMB'000
Financial assets		
Amortised cost	**12,878,327**	1,433,861
Financial liabilities		
Amortised cost	**831,482**	632,215
FVTPL		
— Convertible promissory notes	**—**	367,838
— Convertible preferred shares	**—**	232,432
Lease liabilities	**330,658**	389,469
	1,162,140	1,621,954

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, other receivables, long-term bank deposits, bank balances and cash, trade payables, other payables, convertible promissory notes, convertible preferred shares and lease liabilities. Details of the financial instruments are disclosed in the respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

The Group undertakes certain transactions denominated in foreign currencies which are different from RMB, the functional currency of the group entities. The Group currently does not have a foreign exchange hedging policy. However, the Group will monitor its foreign currency exposure closely and will consider hedging significant currency exposure should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

32. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

Currency risk (Continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities as at 31 December 2020 are as follows.

	Assets		Liabilities	
	2020	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000
US$	**1,037,000**	516,076	**42,516**	657,789
HK$	**1,835**	204	**32,587**	614
GBP	**154**	346	**—**	—
	1,038,989	516,626	**75,103**	658,403

Sensitivity analysis

The above GBP denominated assets are insignificant to the Group. Accordingly, no sensitivity analysis is prepared in management's opinion.

The following table details the Group's sensitivity to a 10% (2019:10%) increase and decrease in the relevant foreign currencies, against the functional currency of the respective group entities. 10% (2019:10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for 10% (2019:10%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit where the relevant foreign currencies strengthens 10% (2019:10%) against the functional currency. For a 10% (2019:10%) weakening of the relevant foreign currencies against the functional currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	2020	2019
	RMB'000	RMB'000
US$	**84,460**	(21,291)
HK$	**(3,080)**	(96)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

32. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to long-term bank deposits and lease liabilities and cash flow interest rate risk in relation to bank balances due to the fluctuation of the prevailing market interest rate.

The management of the Group considers that the impact to profit or loss for respective years are insignificant for a reasonable change in the market interest rate. Accordingly, no sensitivity analysis is prepared.

Credit risk and impairment assessment

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge obligations by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's credit risk is primarily attributable to its trade receivables. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

At 31 December 2020, the Group had concentration risk as 63% (2019: 64%) of the total gross trade receivables was due from the Group's largest debtor, and 94% (2019: 95%) of the total gross trade receivables was due from the five largest debtors.

Group's exposure to credit risk

In addition to the credit risk limit management and other mitigation measures as described above, the Group monitors all financial assets, except for trade receivables, that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime ECL rather than 12m ECL.

32. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Trade receivables

For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items individually.

The Group writes off trade receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

Bill receivables

In order to minimise the credit risk on bills received from customers, the Group will only accept bills issued by certain licensed banks with high credit ratings. Before accepting any bills from customers, the Group will verify the validity of each bill. In this regard, the management of the Group considers that the Group's credit risk associated with its bills receivables is limited.

Other receivables

For other receivables, the Group has applied the general approach in HKFRS 9 to measure the loss allowance at 12m ECL, since the management of the Group assesses that there has not been any significant increase in credit risk since initial recognition.

In determining the expected credit losses, the Group determines the ECL on these items individually based on past default experience of the counterparty and reputation.

Long-term bank deposits and bank balances

The long-term bank deposits and bank balances are determined to have low credit risk. The credit risk on long-term bank deposits and bank balances are limited because the majority of the counterparties are reputable banks and the risk of inability to pay is low.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

32. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

As part of the Group's credit risk management, the Group applied internal credit rating for its customers. The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets/ other items
Group A	The counterparty has a low risk of default based on historical repayment records and has a good reputation	Lifetime ECL — not credit-impaired	12-month ECL — not credit-impaired
Group B	The counterparty has high creditability but sometimes repays after due dates in full	Lifetime ECL — not credit-impaired	12-month ECL — not credit-impaired
Group C	The counterparty usually settles in full after due dates with a higher risk of default	Lifetime ECL — not credit-impaired	Lifetime ECL — not credit-impaired
Group D	There is evidence indicating the asset is credit-impaired	Lifetime ECL — credit-impaired	Lifetime ECL — credit-impaired
Group E	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

32. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

	Notes	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amounts 2020 RMB'000	Gross carrying amounts 2019 RMB'000
Financial assets at amortised cost						
Long-term bank deposits	16(a)	(Note ii)	Group A	12-month ECL — not credit impaired	**1,006,044**	—
Bank balances	16(b)	(Note ii)	Group A	12-month ECL — not credit-impaired	**9,557,802**	731,394
Trade receivables	19	N/A	Group A	Lifetime ECL — not credit-impaired	**37,180**	21,986
			Group B	Lifetime ECL — not credit-impaired	**1,362,005**	271,660
			Group C	Lifetime ECL — not credit-impaired	**20,165**	150,503
			Group D	Lifetime ECL — credit-impaired	**2,759**	2,759
Bills receivables	19	(Note ii)	Group A	12-month ECL — not credit-impaired	**804,384**	220,900
Other receivables	20	N/A	(Note i)	12-month ECL — not credit-impaired	**96,891**	43,461

Notes:

(i). For the purposes of internal credit risk management, the Group uses past due information, historical repayment records and past experience to assess whether credit risk has increased significantly since initial recognition.

As at 31 December 2020, the gross carrying amount of rental deposits amounted to approximately RMB32,408,000 (2019: RMB33,466,000) and the management of the Group makes periodic individual assessment on the recoverability of rental deposits based on the landlord's credit quality.

(ii). The external credit ratings range from A2 to Ba1 quoted from the rating scale of an international credit rating agency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

32. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

For trade receivables which are not credit-impaired, lifetime ECL of approximately RMB6,144,000 (2019: RMB6,043,000) were made as at 31 December 2020 and 2019, respectively, for average loss rates below 4.3% (2019: below 2.8%).

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

In the opinion of the management of the Group, the trade receivables within Group A, B, and C at the end of the reporting period which have been past due 90 days or more are not considered as in default by considering the expected subsequent and historical repayment from the trade debtors.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) RMB'000	**Lifetime ECL (credit-impaired)** RMB'000	**Total** RMB'000
As at 1 January 2019	3,411	4,801	8,212
New financial assets originated	6,043	3,075	9,118
Impairment losses reversed	(3,411)	(825)	(4,236)
Write-offs	—	(4,292)	(4,292)
As at 31 December 2019	6,043	2,759	8,802
New financial assets originated	3,406	269	3,675
Impairment losses reversed	(3,305)	(241)	(3,546)
Write-offs	—	(28)	(28)
As at 31 December 2020	6,144	2,759	8,903

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

32. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following tables detail the Group and the Company's remaining contractual maturity for financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. As the convertible preferred shares issued by the Company did not contain any redemption feature, the contractual maturity for convertible preferred shares is not presented in the table below.

The directors of the Company are satisfied that the Group will have sufficient financial resource to meet its financial obligation as they fall due for the foreseeable future after taking into account of the expected working capital requirements for the next twelve months from the end of the reporting period.

Liquidity tables

	Weighted average effective interest rate	On demand or less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2020								
Trade payables	—	644,595	55,016	2,713	—	—	702,324	702,324
Other payables	—	129,158	—	—	—	—	129,158	129,158
Lease liabilities	4.76	10,661	21,326	98,733	198,330	31,579	360,629	330,658
		784,414	76,342	101,446	198,330	31,579	1,192,111	1,162,140
As at 31 December 2019								
Trade payables	—	426,498	15,029	220	—	—	441,747	441,747
Other payables	—	110,932	—	—	—	—	110,932	110,932
Advance drawn on bills receivables discounted with recourse	2.58	—	79,541	—	—	—	79,541	79,536
Convertible promissory notes	8.00	—	—	377,647	—	—	377,647	367,838
Lease liabilities	4.79	10,078	20,358	92,454	284,493	20,482	427,865	389,469
		547,508	114,928	470,321	284,493	20,482	1,437,732	1,389,522

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

32. Financial Instruments (Continued)

c. Fair value measurements of financial instruments

The following provides information about how the Group determines fair values of financial instruments.

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities were measured at fair value at the end of the reporting period. The following table gives information about how the fair values and financial liabilities of these financial assets were determined.

Financial liabilities	Fair values as at 31 December 2020 RMB'000	Fair values as at 31 December 2019 RMB'000	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Convertible promissory notes	—	367,838	Level 3	Binomial pricing model — the key inputs are: risk-free rate, volatility and dividend yield	Volatility	Higher the volatility, higher the fair value
Convertible preferred shares	—	232,432	Level 3	Equity allocation model and Black-Scholes model — the key inputs are: risk-free rate, volatility and dividend yield	Possibilities under liquidation-scenario: 10% Possibilities under successful listing scenario: 90%	Higher the possibilities under successful listing scenario, lower the fair value

There is no transfer between different levels of the fair value hierarchy during the years ended 31 December 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

32. Financial Instruments (Continued)

c. Fair value measurements of financial instruments (Continued)

(ii) Reconciliation of Level 3 fair value measurement

Details of reconciliation of Level 3 fair value measurement for convertible promissory notes and convertible preferred shares are set out in notes 25 and 26, respectively.

(iii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The management of the Group considers the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair value.

The fair values of these financial assets and financial liabilities at amortised cost are determined in accordance with generally accepted pricing models based on discounted cash flow analysis with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

33. Reconciliation of Liabilities Arising from Financing Activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows from financing activities.

	Dividend payable RMB'000	Interest payable RMB'000	Advance drawn on bills receivables discounted with recourse RMB'000	Convertible promissory notes RMB'000	Convertible preferred shares RMB'000	Lease liabilities RMB'000	Accrued issue costs RMB'000	Total RMB'000
At 1 January 2019	—	—	—	—	—	267,908	269	268,177
Financing cash flows	(1,141,964)	(21)	79,536	364,203	—*	(104,181)	(2,047)	(804,474)
Dividend declared (note 12)	1,141,964	—	—	—	—	—	—	1,141,964
Recognition of lease liabilities	—	—	—	—	—	276,022	—	276,022
Early termination of leases	—	—	—	—	—	(68,432)	—	(68,432)
Issuance of convertible preferred shares (note 26)	—	—	—	—	232,032	—	—	232,032
Interest expenses	—	21	—	—	—	18,152	—	18,173
Loss on fair value changes of convertible promissory notes	—	—	—	3,635	—	—	—	3,635
Loss on fair value changes of convertible preferred shares	—	—	—	—	400	—	—	400
Shares issue costs accrued	—	—	—	—	—	—	4,964	4,964
At 31 December 2019	—	—	79,536	367,838	232,432	389,469	3,186	1,072,461
Financing cash flows	—	—	(79,536)	—	—	(116,499)	(149,581)	(345,616)
Recognition of lease liabilities	—	—	—	—	—	94,165	—	94,165
Early termination of leases	—	—	—	—	—	(51,846)	—	(51,846)
Interest expenses	—	—	—	—	—	15,369	—	15,369
Loss on fair value changes of convertible promissory notes	—	—	—	38,487	—	—	—	38,487
Loss on fair value changes of convertible preferred shares	—	—	—	—	1,019,109	—	—	1,019,109
Conversion of convertible promissory notes to convertible preferred shares	—	—	—	(406,325)	406,325	—	—	—
Conversion of convertible preferred shares to ordinary share	—	—	—	—	(1,657,866)	—	—	(1,657,866)
Shares issue costs accrued	—	—	—	—	—	—	154,137	154,137
Foreign exchange translation	—	—	—	—	—	—	(3,507)	(3,507)
At 31 December 2020	—	—	—	—	—	330,658	4,235	334,893

* less than RMB1,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

34. Commitments

	2020	2019
	RMB'000	RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**70,272**	61,596

At 31 December 2020, the Group has commitment for future minimum lease payments in respect of short term leases.

	2020	2019
	RMB'000	RMB'000
Within one year	**3,156**	1,780

35. Retirement Benefit Plans

The employees of the Group in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government. The Group is required to contribute specified percentage of payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

The Group also operates a MPF Scheme for all its qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules.

The amounts of contributions made by the Group in respect of the retirement benefits scheme during the year are disclosed in notes 10 and 11.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

36. Related Party Transactions

(a) Save as disclosed in note 21, the Group entered into the following transactions with the related party:

Name of related party	Name of transactions	2020 RMB'000	2019 RMB'000
EVE Energy Co. Ltd, the substantial shareholder of the Company and controlled by a non-executive director of the Company	Purchase of raw material	**180,764**	208,704
	Rental income	**—**	41

(b) Compensation of key management personnel

The remuneration of key management personnel, including members of the board of directors and other members of senior management, during the year was as follows:

	2020 RMB'000	2019 RMB'000
Salaries and other benefits	**11,351**	5,145
Retirement benefit schemes contributions	**255**	293
Share-based payment expenses	**119,984**	11,344
	131,590	16,782

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

37. Statement of Financial Position and Reserves of the Company

	2020 RMB'000	2019 RMB'000
Non-current assets		
Investments in subsidiaries	843,842	480,919
Amounts due from subsidiaries (note i)	4,390,699	—
	5,234,541	480,919
Current assets		
Other receivables, deposits and prepayments	3,229	6,002
Amounts due from subsidiaries	—	782
Bank balances and cash	2,767,983	1,118
	2,771,212	7,902
Current liabilities		
Other payables and accrued expenses	44,804	19,617
Amounts due to subsidiaries	14,612	61,481
Convertible promissory notes	—	367,838
	59,416	448,936
Net current assets (liabilities)	2,711,796	(441,034)
Total assets less current liabilities	7,946,337	39,885
Non-current liability		
Convertible preferred shares	—	232,432
Net assets (liabilities)	7,946,337	(192,547)
Capital and reserves		
Share capital (note 29)	410,068	4
Reserves (note ii)	7,536,269	(192,551)
Total equity (Deficiency of equity)	7,946,337	(192,547)

Notes:

(i) The amounts are unsecured, interest-free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

37. Statement of Financial Position and Reserves of the Company (Continued)

Notes:

(ii) Movement in the Company's reserves:

	Share premium RMB'000	Share-based payments reserve RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 22 July 2019 (date of incorporation)	—	—	—	—	—
Loss and total comprehensive expense for the year	—	—	—	(21,787)	(21,787)
Recognition of equity-settled share-based payments	—	61,268	—	—	61,268
Issuance of convertible preferred shares (note 26)	—	—	(232,032)	—	(232,032)
At 31 December 2019	—	61,268	(232,032)	(21,787)	(192,551)
Loss and total comprehensive expense for the year	—	—	—	(1,126,243)	(1,126,243)
Recognition of equity-settled share-based payments	—	362,923	—	—	362,923
Capitalisation issue (note 29)	(361,542)	—	—	—	(361,542)
Issuance of shares upon listing (note 29)	7,344,033	—	—	—	7,344,033
Transaction costs attributable to issuance of shares	(159,370)	—	—	—	(159,370)
Conversion of convertible preferred shares to ordinary shares	1,657,866	—	—	—	1,657,866
Exercise of share options	96,995	(85,842)	—	—	11,153
At 31 December 2020	8,577,982	338,349	(232,032)	(1,148,030)	7,536,269

38. Particulars of Subsidiaries of the Company

Details of the subsidiaries held by the Company at the end of the reporting periods are set out below:

Name of subsidiary	Place of incorporation/ establishment and place of operation	Issued and fully paid capital/ registered capital	Attributable equity interest held by the Company 2020	2019	Principal activities
Smoore Group Limited	British Virgin Islands ("**BVI**")	US$100	**100%**	100%	Investment holding
Smoore HK	Hong Kong	HK$10,000	**100%**	100%	Investment holding and export sales of vaping devices
SBI Limited	BVI	US$22,000	**100%**	100%	Investment holding
Smoore Shenzhen*	The PRC	RMB66,631,579	**100%**	100%	Investment holding, research and development, manufacturing and sales of vaping devices

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

38. Particulars of Subsidiaries of the Company (Continued)

Name of subsidiary	Place of incorporation/ establishment and place of operation	Issued and fully paid capital/ registered capital	Attributable equity interest held by the Company 2020	2019	Principal activities
東莞市麥克電子科技有限公司*	The PRC	RMB3,000,000	100%	100%	Manufacturing of vaping devices
深圳市麥克兄弟科技有限公司*	The PRC	RMB3,000,000	100%	100%	Manufacturing of vaping devices
東莞市思摩爾新材料科技有限公司*	The PRC	RMB500,000	100%	100%	Manufacturing of vaping devices
深圳市韋普萊思科技有限公司*	The PRC	RMB1,000,000	100%	100%	Manufacturing of vaping devices
Smoore Industry Limited	Hong Kong	HK$50,000	100%	100%	Export sales of vaping devices
SVR Inc.	United States	US$75,000	100%	100%	Inactive
江門摩爾科技有限公司*	The PRC	RMB10,000,000	100%	100%	Manufacturing and sales
東莞市麥克新材料科技有限公司*	The PRC	RMB500,000	100%	100%	Manufacturing of vaping devices
深圳麥時科技有限公司*	The PRC	RMB20,000,000	100%	100%	Manufacturing of vaping devices
長沙思摩爾電子科技有限公司*	The PRC	RMB500,000	100%	100%	Inactive
江門思摩爾科技有限公司*	The PRC	RMB1,000,000	100%	100%	Manufacturing and sales of vaping devices
Spectrum Dynamic Research	United States	—	100%	N/A	Research and development
深圳粵傑能電子科技有限公司*	The PRC	RMB1,000,000	100%	N/A	Manufacturing and sales of vaping devices
江門思摩爾新材料科技有限公司*	The PRC	RMB1,000,000	100%	N/A	Manufacturing of vaping devices

* These PRC subsidiaries are registered as limited liability companies under the PRC laws.

None of the subsidiaries had issued any debt securities at the end of the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

39. Subsequent Events

The Group has the following subsequent events:

(i) 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).

(ii) On 22 March 2021, the Ministry of Industry and Information Technology ("**MIIT**") of the People's Republic of China ("**PRC**") made a publication for seeking public opinion on the Draft Decision on Amending the Regulation for the Implementation of the Tobacco Monopoly Law of the PRC (《關於修改〈中華人民共和國煙草專賣法實施條例〉的決定(徵求意見稿)》) for strengthening the regulation of e-cigarettes and new tobacco products in the PRC. The publication of the MIIT can be found on its website at: https://www.miit.gov.cn/jgsj/zfs/gzdt/art/2021/art_e233af8bb3484ed59e98dbb79e49a0bd.html.

The Company is not in a position to verify or know the details of any legislation plan or enforcement policy of the regulatory authorities in this regard but will monitor the situation and its potential effect on the Group's business in the PRC.