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)

Annual Report 2021

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 LLP
DeHeng Law Offices (Shenzhen)
Conyers Dill & Pearman

COMPLIANCE ADVISER

Guotai Junan Capital Limited

CORPORATE INFORMATION

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
Citibank (China) Company Limited
China CITIC Bank International Limited
Standard Chartered Bank (Hong Kong) Limited
Bank of Beijing Co., Ltd.
Hua Xia Bank Co., 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

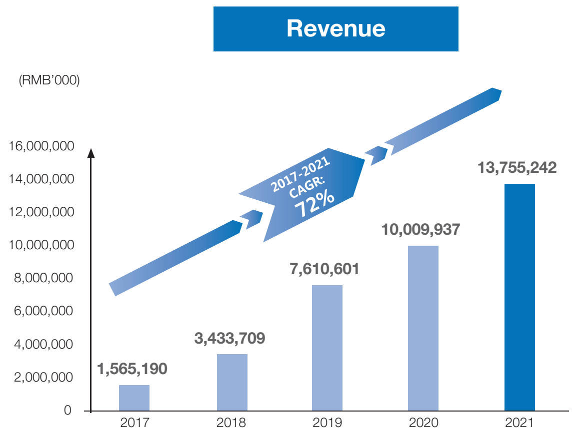
KEY FINANCIAL INFORMATION

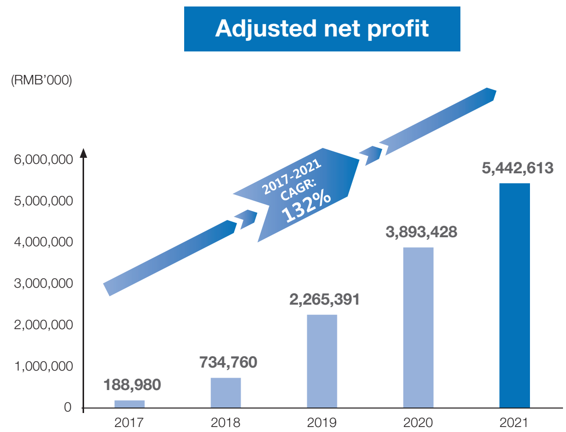
	For the year ended/as at 31 December				
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000	**2021** **RMB'000**
Revenue	1,565,190	3,433,709	7,610,601	10,009,937	**13,755,242**
Gross profit margin	26.8%	34.7%	44.0%	52.9%	**53.6%**
Profit and total comprehensive income for the year	188,980	733,952	2,173,789	2,399,921	**5,286,991**
*Adjusted profit and total comprehensive income for the year ("**Adjusted net profit**")	188,980	734,760	2,265,391	3,893,428	**5,442,613**
Non-current assets	253,037	588,136	1,132,163	2,333,221	**4,885,534**
Current assets	824,771	1,841,116	2,169,740	12,440,588	**17,985,772**
Current liabilities	586,271	1,248,465	2,049,243	2,108,440	**3,394,240**
Net current assets	238,500	592,651	120,497	10,332,148	**14,591,532**
Total assets	1,077,808	2,429,252	3,301,903	14,773,809	**22,871,306**
Total assets less current liabilities	491,537	1,180,787	1,252,660	12,665,369	**19,477,066**
Total equity/net assets	410,451	968,958	734,673	12,399,721	**19,246,359**
Cash and cash equivalents	333,242	941,964	731,394	9,557,802	**11,426,758**

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

	For the year ended 31 December				
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000	**2021** **RMB'000**
Profit and total comprehensive income for the year before adjustment	188,980	733,952	2,173,789	2,399,921	**5,286,991**
Less:					
Listing expenses	–	(808)	(26,299)	(72,988)	**–**
Share-based payment expenses related to pre-IPO share option scheme	–	–	(61,268)	(362,923)	**(155,622)**
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	188,980	734,760	2,265,391	3,893,428	**5,442,613**

FINANCIAL HIGHLIGHTS





Our management considers that, except for the share-based payment expenses related to pre-IPO 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 above mentioned items, our management does not track such items as key operating or financial metrics internally when reviewing our performance since these items do not relate to our daily operation. Therefore, by eliminating the impacts of such items in the calculation of adjusted net profit, it could better reflect our underlying operating performance and could better facilitate the comparison of operating performance from year to year.

The Board proposed to declare a final dividend of HK18 cents per ordinary share for the year ended 31 December 2021.

FINANCIAL HIGHLIGHTS

KEY FINANCIAL RATIOS

	For the year ended/as at 31 December				
	2017	2018	2019	2020	**2021**
Gross profit margin (%)	26.8	34.7	44.0	52.9	**53.6**
Adjusted net profit margin (%)	12.1	21.4	29.8	38.9	**39.6**
Asset-liability ratio (%)	61.9	60.1	77.8	16.1	**15.8**
Current ratio (%)	140.7	147.5	105.9	590.0	**529.9**
Trade and bills receivables turnover days (Day)	28.9	26.2	24.3	52.4	**61.4**
Inventory turnover days (Day)	47.5	45.8	40.3	38.2	**28.6**
Trade payables turnover days (Day)	86.0	76.4	43.4	44.3	**43.8**

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 2021 (the "**Review Period**").

BUSINESS REVIEW

During the Review Period, the Group experienced numerous challenges, including the continual influence of the COVID-19 pandemic and the rising prices of upstream important raw materials. The Group adhered to the established development strategies and created value for customers through technological innovation and leading manufacturing. By virtue of the joint efforts of all colleagues, the Group continued to achieve revenue and profit growth in line with expectations.

We always believe that only the innovation of underlying science and technology are the core driving forces of industry development and enterprise growth. The Group continues to deeply cultivate vaping technology, introduce more high-end R&D talents, and explore the application prospect of vaping technology in different fields. During the Review Period, the Group has made breakthroughs in basic research, helping our customers to further win business success, laying a solid foundation for the long-term development of the Group.

In terms of manufacturing, the Group has continued to lead the manufacturing field through continuous investment in research and development in the field of intelligent manufacturing. During the Review Period, the Group officially put into use the self-developed new generation of fully automatic vaporizer production line, and the hourly production efficiency of a single line reached a record high of 7,200 vaporizers per hour.

OUTLOOK

The vaping industry is still in its infancy. We believe that only by adhering to long-termism can we promote the vaping industry to become stronger and bigger. We will adhere to the leading strategy of technology and manufacturing. On the one hand, we will continue to increase the research on the basic theoretical breakthrough of vaping technology and explore the application of vaping technology in the medical, beauty and health fields, and strive to create greater value for the society. On the other hand, we will continue to improve our core competitiveness in intelligent manufacturing, supply chain management, etc., maintain the leading quality advantage and improve the overall level of flexible manufacturing. All of these are inseparable from the joint efforts of the people of Smoore. We will also continue to work hard to create value for customers while creating value for the society.

SINCERE APPRECIATION

The long-term development of the Company is inseparable from the support and recognition of consumers, clients, suppliers, employees, communities and other parties. We will make unremitting efforts to create more value for all stakeholders and the society.

On behalf of the Board, I would like to express my sincere appreciation to shareholders, clients, employees and all partners for their support over the past 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, 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.

In 2021, in the face of the ongoing COVID-19 pandemic, the pressure on the global economy continued to increase. Faced with the complex and ever-changing external environment, the Group overcame various difficulties, the sales still maintained rapid growth and the market share continued to increase. During the Review Period, the Group recorded sales of approximately RMB13.76 billion, representing a year-on-year increase of approximately 37.4%. During the Review Period, the Group adopted a large number of self-developed fully automatic production lines for vaporizers, which greatly improved the efficiency of production and operation, and further expanded the cooperation with corporate clients. Corporate client oriented sales increased by 37.4% year-on-year, further improving the Group's global market share. As for retail client oriented sales, relying on our robust R&D strength, the Group continuously launched more innovative products, and made constant breakthroughs in product features and user experience. Some of these products, such as the XROS Family, Target Family and etc., became star products as soon as being launched and were widely welcomed by overseas consumers. During the Review Period, retail client oriented sales increased significantly by approximately 37.1% as compared with last year.

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 the product strategies of the Group 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**"), past interim and annual reports and illustrates major updates of material laws, regulations, executive orders and policies in relation to e-cigarette and the tobacco products of the vaping device industry promulgated or proposed by relevant authorities in our major markets as well as the revenue contribution of the affected products sold in such major markets as a percentage of our total revenue for the year ended 31 December 2021:

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 2021
U.S.	• Premarket tobacco application ("**PMTA**") filing requirements for electronic nicotine delivery system ("**ENDS**") products, including devices, assemblies and/or components that deliver vaporized e-liquids when inhaled	The Food and Drug Administration ("**FDA**") has taken action on more than 98% of PMTA submitted as of the deadline, being 9 September 2020. Among them, marketing denial orders ("**MDO**") have been issued for more than 1 million non-tobacco and non-menthol-flavored ENDS products. Many manufacturers have challenged these MDOs in court, and three federal appellate courts have so far granted a stay of such MDOs while appeals continue on the merits. The FDA has not indicated that the issues behind these MDOs were related to our PMTA for open ENDS. To date, the FDA has issued marketing authorization for a closed-system tobacco-flavored ENDS product.	12.2%[3]

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 2021
	• Federal legislation extending the Prevent All Cigarette Trafficking ("**PACT**") to ENDS and non-ENDS products.	Effective from 21 October 2021, the U.S. Postal Service has prohibited mailing of ENDS products to consumers, and removed mailing as an option for online retailers. However, merchant-to-merchant mailing is still allowed if the distributor first obtains a "business purpose exception".	
	• Federal legislation subjecting ENDS products containing nicotine from any source to the Tobacco Control Act	Federal legislation enacted in March 2022 subjects ENDS products containing nicotine from any source, including synthetic nicotine, to the FDA PMTA requirement. For such ENDS products that are marketed within 30 days after the date of the legislation's enactment, PMTAs must be submitted within 60 days after the legislation's enactment, and may continue to be sold for an additional 60 days after the date of the submission deadline.	
China	• New tobacco products ("**New Tobacco**") including e-cigarettes are regulated with reference to cigarettes On 10 November 2021, the State Council announced the Decision of the State Council on Amending the Implementation Regulation of the Tobacco Monopoly Law of the People's Republic of China (Order No. 750 of the State Council), and decided to add an article to the regulations: New tobacco products such as e-cigarettes shall be regulated with reference to the relevant provisions for cigarettes in these regulations. • National Standards for E-Cigarettes ("**National Standards**") On 30 November 2021, the State Tobacco Monopoly Administration announced the National Standards (draft for comments). On 11 March 2022, the State Tobacco Monopoly Administration announced the second draft of National Standards for comments. On 8 April 2022, the State Administration for Market Regulation and the State Standardization Administration officially released the National Standards (GB 41700-2022). It stipulates the definitions and normative requirements for e-cigarettes and e-liquids, smoking sets, components, cartridges, vaporizing agent, and additives to vaporized substances, such as clarifying that e-cigarettes are nicotine electronic delivery systems, producing aerosol for human inhalation, e-liquids shall contain nicotine, and that nicotine shall be extracted from tobacco etc. The National Standards will be implemented from 1 October 2022. • Administrative Measures for E-Cigarettes ("**Administrative Measures**") On 2 December 2021, the State Tobacco Monopoly Administration announced the Administrative Measures for E-Cigarettes (draft for comments). On 11 March 2022, the State Tobacco Monopoly Administration announced the Administrative Measures stipulating that e-cigarette products shall comply with mandatory national standards and shall be sold on the market after technical review; the production, wholesale and retail of e-cigarettes shall acquire relevant tobacco monopoly licenses; the sale of flavoured e-cigarettes (other than tobacco flavor) and e-cigarettes which can be added with e-atomization materials are prohibited and electronic cigarette products only for export shall comply with the laws, regulations and standards of the destination country or region, etc. The Administrative Measures will be implemented from 1 May 2022.	As at the disclosure date of this annual report, we have declared e-cigarette business entities and product information in accordance with the requirements of the State Tobacco Monopoly Administration. We will apply for relevant tobacco monopoly licenses and submit our products for technical review in time according to the Administrative Measures and the National Standards.	40.2%[4]

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 2021
Hong Kong	Smoking (Public Health) (Amendment) Ordinance 2021 (the "**Amendment Ordinance**")	The Amendment Ordinance was promulgated in October 2021 and will take effect on 30 April 2022. The Amendment Ordinance amends the Smoking (Public Health) Ordinance (Chapter 371 of the Laws of Hong Kong) (the "**Ordinance**") to prohibit import, manufacture, sale and restrict the advertisement and promotion of products designated as alternatives to smoking, e-cigarette products and their accessories. The revised Ordinance does not apply to e-cigarette products that are in transit or air transshipment (i.e. e-cigarette products that enter Hong Kong by sea or air for export to other places), as long as the product is not moved out from the ship or the designated cargo transfer area of Hong Kong International Airport. But e-cigarette products entering Hong Kong by land for export to other regions are subject to the revised Ordinance. Prior to the commencement of the Amendment Ordinance, the Group will adjust its transport arrangements to ensure that exports do not enter Hong Kong by land for transhipment.	27.5%
Japan	As advised by external legal counsels, no new material laws, regulations, executive orders and rules were issued in Japan as of 31 December 2021.		1.5%
E.U.	As advised by external legal counsels, no new material laws, regulations, executive orders and rules were issued in E.U. as of 31 December 2021.		3.0%
U.K.	As advised by external legal counsels, there has been no substantial change in the U.K.'s regulatory position since the implementation of the Tobacco Products and Nicotine Inhaling Products (Amendment) (EU Exit) Regulations 2020 from 1 January 2021.	U.K. will continue to apply separate pictorial and text warnings. Great Britain will use the MHRA (U.K. Medicines and Healthcare Products Regulatory Agency) portal for declarations, while Northern Ireland will continue to use EUCEG (European Union Common Entry Portal) and apply the pictorial and textual warning rules of the EU. From 23 August 2021, products that are successfully submitted and notified through the MHRA (U.K. Medicines and Healthcare Products Agency) portal will be published directly on the MHRA portal homepage.	11.1%

Notes:

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

(2) During the Review Period, the percentage of revenue contribution demonstrates the portion of our affected business calculated by countries where direct customers were registered, excluding indirect sales. The percentage of revenue contribution for the year ended 31 December 2021 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. Taking into account sales forwarded through Hong Kong, the revenue contribution from the U.S. market during the Review Period was approximately 37.1%.

(4) The affected portion in PRC was calculated by regions where direct customers were registered. Export sales from some of these direct customers were not deducted. Excluding export sales from traders, the affected portion in PRC was approximately 34.0% during the Review Period. It decreased to approximately 27.0% in the second half of 2021.

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 beauty and healthcare industry.

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

Impact on Our Production and Operation

The outbreak of the COVID-19 has affected China and many other countries globally. The Chinese central government and local governments of other cities in China have introduced various temporary measures to restrain the Outbreak. In the first half of 2021, the impact of the Outbreak gradually decreased, and almost public life returned to normal. However, in the second half of the year, due to the emergence of mutant strains, the Outbreak resurged in certain areas. The management of the Group actively deployed prevention and control measures, promoted knowledge of the Outbreak, and publicized and strictly implemented prevention and control measures. As of 31 December 2021, the operation of the Group was not widely affected. All the production and operation ran normally.

In the first quarter of 2022, due to the stricter COVID-19 control measures adopted in some areas of Shenzhen, the production and operation of some factories of the Group was greatly affected, and the production and shipment plan of the Group in the first quarter was negatively affected. The Group expects that these effects will be temporary and will not affect the Group's production and shipment plans for the full year.

Impact on Supply Chain

During the Review Period, the Group and its major suppliers were operating normally, and the supply of raw materials was sufficient and stable. In 2021, the Company newly established a supply chain management department to strengthen the centralized procurement management and inventory management. Except for the price of a few raw materials that were affected by the industry, our major suppliers did not raise the price of materials due to the Outbreak. Our raw material transportation was not significantly affected either. In addition, the supply chain management department of the Group reserved some raw materials in advance in a timely and appropriate amount according to the usage and inventory of raw materials to ensure the orderly production. Therefore, the supply chain of the Group was not significantly affected by the Outbreak during the Review Period.

Impact on Consumer Demand and Sales Channels

Compared with 2020, the Review Period was less affected by the Outbreak. During the Review Period, our end consumers' demand for self-branded APV under retail client oriented sales increased compared to 2020, and the impact of the Outbreak was further mitigated. The sales channels of distributors for retail customers are mainly e-cigarette shops, tobacco shops, convenience stores and petrol stations. The Outbreak was relatively stable in China this year. Although the Outbreak in some overseas markets was more serious, the sales channels of our major customers were not greatly affected. However, due to the shortage of manpower at some destination ports during the Outbreak, the cargo processing time was prolonged, and some clients turned to air transportation which increased the transportation costs.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Review Period, our revenue from corporate client oriented sales increased by approximately 37.4% as compared to last year. 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 had a relatively limited impact on these retail channels. During the Review Period, the Group's revenue from retail client oriented sales increased by approximately 37.1% compared to last year.

Control Measures Addressing the Outbreak

Since the Outbreak in early 2020, during the Review Period, we have taken various measures to mitigate the impact of the Outbreak, for example, establishing a group-level contingency plan, which includes recruitment, management and timely communication with our customers and suppliers, etc.

The Group's COVID-19 control department and the COVID-19 control centre of each production base continued to perform the responsibility for controlling the Outbreak during the Review Period, so as to fully implement the COVID-19 prevention procedures. Meanwhile, as always, we stockpiled necessary anti-epidemic supplies, including a sufficient number of masks, disinfection supplies and temperature measurement equipment. We have also adopted strict prevention and control measures to facilitate the COVID-19 nucleic acid testing and vaccination for employees as a way to prevent the COVID-19 and implement control measures.

INDUSTRY OVERVIEW

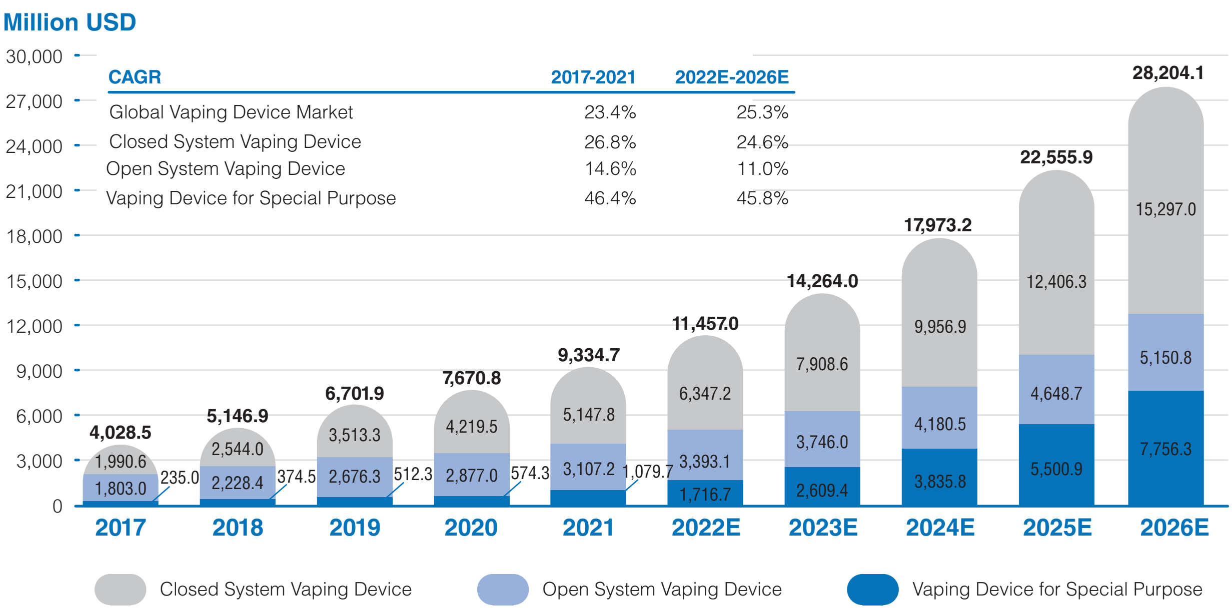
The Group is a global leader in offering vaping technology solutions. During the Review Period, the Group's products for corporate clients mainly included closed system vaping devices, vaping components, and vaping components for special purpose. The products for the retail client oriented business included self-branded open system vaping devices (APV). According to the independent market research report issued by industry consultant Frost & Sullivan in March 2022 (the "**Sullivan Report**"), the global vaping device market size increased at a compound growth rate of approximately 23.4% at ex-factory prices from 2017 to 2021, and is expected to increase at an estimated compound growth rate of approximately 25.3% from 2022 to 2026.

The global market size of closed system vaping devices has maintained a compound growth rate of approximately 26.8% at ex-factory price from 2017 to 2021, and is expected to grow at a compound growth rate of approximately 24.6% from 2022 to 2026. The global market size of open system vaping devices has maintained a compound growth rate of approximately 14.6% at ex-factory price from 2017 to 2021, and is expected to grow at a compound growth rate of approximately 11.0% from 2022 to 2026. The global market size of vaping device for special purpose has maintained a compound growth rate of approximately 46.4% at ex-factory prices from 2017 to 2021, and is expected to grow at a compound growth rate of approximately 45.8% from 2022 to 2026.

According to the Sullivan Report, the Group maintained its position as the world's largest manufacturer of vaping devices in 2021, and its market share in the global vaping devices manufacturing field has increased from approximately 18.9% in 2020 to approximately 22.8% in 2021.

Global Vaping Device Market Overview

Market Size of Global Vaping Device Market by Revenue (by Ex-factory Price), 2017–2026E



BUSINESS REVIEW

Sales and Marketing

In 2021, the global economy was affected by COVID-19. In face of a complex and changeable trading and regulatory environment, the Group has committed to providing clients with quality, competitive products, and satisfied clients' delivery requirements on time, in sufficient quantity and with guaranteed quality against difficulties. During the Review Period, the operating results reached a new high. The Group realized revenue of approximately RMB13,755,242,000 for the year of 2021, representing an increase of approximately 37.4% over 2020. Among which, direct and indirect export (export through traders) revenue ("**export revenue**") was approximately RMB9,082,316,000, accounting for approximately 66.0% of the total revenue (78.0% in the same period last year), which was approximately 59.2% of the total revenue in the first half of the year (85.8% in the same period last year) and increased to approximately 73.0% in the second half of the year (73.2% in the same period last year). Domestic sales revenue was approximately RMB4,672,926,000, accounting for approximately 34.0% of the total revenue, which was approximately 40.8% in the first half of the year (14.2% in the same period last year) and decreased to approximately 27.0% in the second half of the year (26.8% in the same period last year).

For the corporate client oriented business, leveraging on the Group's innovative products, leading manufacturing capabilities and good cooperative relationship, the Group further strengthened the depth and breadth of cooperation with large customers during the Review Period. During the Review Period, the revenue from corporate client oriented products recorded approximately RMB12,593,523,000, representing an increase of approximately 37.4% over 2020. The revenue from corporate client oriented products exceeded RMB10 billion for the first time.

For the retail client oriented business, the Group deeply understood the needs of consumers, developed more innovative and high-quality products, and constantly expanded sales channels, so that during the Review Period, the Group well achieved the performance target set at the beginning of the year. During the Review Period, revenue from retail client oriented products amounted to approximately RMB1,161,719,000, representing an increase of approximately 37.1% over 2020.

Research and Development

During the Review Period, the Group continued to strengthen the investment in research and development. The total research and development expenses was approximately RMB670,629,000, representing an increase of approximately 59.7% over the previous year. The proportion of expenses to revenue increased from approximately 4.2% in the previous year to approximately 4.9% in the Review Period. The Group believes that technology leadership is the core driving force for the Group's development. During the Review Period, the Group continued to explore materials science, hydromechanics, aerodynamics, thermodynamics and other fields, and has established world-class research and development teams with an aim to build a world-leading vaping technology platform. The Group has established basic research institutes worldwide, and has cooperated extensively with research institutions around the world to set up the most stringent testing standards in the industry. The Group has established 7 basic science research institutes in China, the United States, and has carried out in-depth cooperation with many universities and scientific research institutions. By integrating the latest scientific research results from multiple disciplines, the Group is committed to continuously improving the Group's leading edge in the field of atomization and exploring innovative applications of vaping technology in more fields.

During the Review Period, the number of the Group's new patent applications was 1,187 globally, of which 605 were invention patents. Such achievements further enhanced the Group's technological leadership in the vaping field. Moreover, the legal and intellectual property teams of the Group have actively carried out intellectual property protection activities in the PRC and overseas markets, which has had a positive impact on maintaining and enhancing the market share of the Group's products. As of 31 December 2021, the number of the Group's accumulative patent applications was 3,408, of which 1,570 were invention patents.

Production and Operation

During the Review Period, due to the impact of the COVID-19 and various factors, the Group faced a series of challenges, including the tight supply and rising prices of some raw materials. The Group overcame a series of difficulties, timely expanded production capacity, and introduced advanced production management system as a way to effectively meet clients' increasing order needs, and ensure that production activities were carried out in an orderly and steady manner.

In order to further improve production efficiency, the Group has been continuously enhancing the automation and intelligence of production through independent research and development. Benefiting from the Group's long-term experience and deep understanding of technology, products and processes, the Group put the latest generation of automated production lines into operation during the Review Period, and automated the whole production line such as fitting, liquid injection, packaging, etc. The automated production line used advanced manufacturing processes to reduce material loss and further improved product consistency. The single-line production efficiency reached 7,200 standard vaporizers per hour, maintaining the industry's leading position in production and manufacturing. The Group continued to improve the level of automation in manufacturing, which not only helped improve production efficiency, but also further strengthened in-depth cooperation with strategic clients.

Production Capacity and Utilisation Rate

	Designed 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	2,584.5	1,748.4	67.6%
Retail client oriented sales	24.7	22.4	90.7%

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. Utilisation Rate was calculated based on Production Volume during the Review Period divided by Designed Production Capacity.

CONSTRUCTION OF THE GROUP'S HEADQUARTERS OFFICE BUILDING

In order to meet the needs of the Group's future business development and to appropriately reduce rental expenses, in December 2021, the Group purchased a commercial land plot with an area of approximately 6,641 square meters in Bao'an Central District, Shenzhen City, Guangdong Province at a cost of approximately RMB977 million for the purpose of constructing the Group's headquarters building. According to the current plan, it is estimated that the construction area of the completed headquarters office building is approximately 66,000 square meters. The office building is initially expected to be completed by the end of 2026.

FUTURE PROSPECTS AND STRATEGIES

According to the Sullivan Report, the global market size of vaping devices is expected to grow at a compound growth rate of approximately 25.3% at ex-factory price from 2022 to 2026. The Group will maintain its leading edge in the vaping field by continuously increasing investment in research and development, and will actively explore the application of vaping technology in different fields. Being the world's largest manufacturer of vaping devices, we maintain full confidence in the future market prospects. In recent years, major countries have successively promulgated laws and regulations to regulate the vaping industry. The implementation of these laws and regulations helps to better protect the health of consumers and the long-term sustainable development of the industry as a whole.

In terms of basic research, the Group will further introduce more high-end talents, expand the field of basic research, and establish a global basic research system to lay a solid foundation for the long-term sustainable development of the Group. In 2022, the Group plans to add no less than 5 basic research institutes in the PRC and overseas, with research fields including new materials research, innovative research on vaping technology, vaping medical products research, etc.

In terms of product development, the Group will continuously optimize product structure and performance by fully applying basic research results, as well as innovative technologies and means such as innovation in materials, production processes, product structure. Meanwhile, it will strengthen close cooperation with major customers. The Group will keep abreast of changes in product requirements and demands of legislators, regulators and consumers, and design more competitive and innovative products in a targeted manner.

To further enhance the long term competitiveness of the Group, the Group will continue to improve investment in research and development. Based on current budget, it is expected the total research and development expenditure in the year 2022 will be approximately RMB1.68 billion, which will be higher than the total research and development expenditure in the past 6 years.

For production and operations, the Group will continuously improve the competitiveness of the Group's products in terms of cost and quality through production automation and intelligence and optimization of supply chains.

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 January 2022, the Group released a product solution, being a new generation of ultra-thin electronic vaporizer-Feelm Air. The product adopts a new generation of bionic thin film ceramic cores, and is equipped with the industry's first seven-layer composite heating film. Thinner ceramic cores offer seven user experience breakthroughs. Moreover, the Group will continue to strengthen the market expansion of its self-branded business. By creating high-quality products, the Group will improve product differentiation, and increase market share. For brand building, the Group will continue to invest in the closed system vaping product technology brands represented by Feelm, the heat-not-burn product technology brands represented by Metex and the open system vaping product brands represented by Vaporesso, so as to optimize the multi-brand strategy of the Group. The Group will continue to create value for customers and bring better experience to consumers around the world with leading technologies and differentiated innovative products.

The Group plans to launch disposable electronic vaping products in overseas markets in 2022 to further strengthen our product portfolio. Thanks to the Group's long-term accumulation in the vaping field, the newly launched disposable electronic vaping products will set a new standard in consumer experience and product safety. The launch of the new product will be a useful complement to the existing product line. The first batch of atomization beauty product and atomization medical product of the Group are under development process now as planned. Those products are expected to be launched to the market in the near future.

FINANCIAL REVIEW

During the Review Period, the total revenue of the Group was approximately RMB13,755,242,000 (2020: RMB10,009,937,000), representing an increase of approximately 37.4% compared with last year. The gross profit in the Review Period was approximately RMB7,377,039,000 (2020: RMB5,295,813,000), representing a year on year increase of approximately 39.3%. The gross profit margin in the Review Period was approximately 53.6% (2020: 52.9%). The profit and total comprehensive income for the year of the Group increased from approximately RMB2,399,921,000 in 2020 to approximately RMB5,286,991,000 this year. Adjusted net profit was approximately RMB5,442,613,000, representing a year-on-year increase of 39.8%. The increase was mainly due to the growth in revenue and the cost-reduction and efficiency-enhancement resulting in the improvement of gross profit margin.

1. Revenue — categorized by business types

	For the year ended 31 December				
	2021		2020		Changes
	RMB'000	**%**	RMB'000	%	%
Corporate client oriented sales	**12,593,523**	**91.6**	9,162,803	91.5	37.4
Retail client oriented sales	**1,161,719**	**8.4**	847,134	8.5	37.1
Total	**13,755,242**	**100.0**	10,009,937	100.0	37.4

(1) Corporate client oriented sales

During the Review Period, the revenue of corporate client oriented sales was approximately RMB12,593,523,000 (2020: RMB9,162,803,000), representing an increase of approximately 37.4% compared with last year, which was mainly due to the continuous enhancement of the competitiveness of the Group's products, the continuous improvement of market share and steady growth in market demand.

(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 oriented sales was approximately RMB1,161,719,000 (2020: RMB847,134,000), representing an increase of 37.1% from last year, mainly due to the fact that the Group actively expanded new markets, deepened brand influence and launched more differentiated products, as a result the sales performance increased significantly.

Revenue — categorized by customers' places of incorporation

	For the year ended 31 December				
	2021		2020		Changes
	RMB'000	**%**	RMB'000	%	%
U.S.	**1,677,274**	**12.2**	1,450,052	14.5	15.7
Mainland China*	**5,530,301**	**40.2**	2,709,058	27.1	104.1
Hong Kong, China**	**3,776,229**	**27.5**	3,632,582	36.3	4.0
Europe***	**2,109,303**	**15.3**	1,546,521	15.4	36.4
Japan	**199,490**	**1.5**	312,309	3.1	(36.1)
Others	**462,645**	**3.3**	359,415	3.6	28.7
Total	**13,755,242**	**100.0**	10,009,937	100.0	37.4

* During the Review Period, the Group's domestic sales was approximately RMB5,530,301,000 (2020: approximately RMB2,709,058,000), representing a significant increase of 104.1% from last year, mainly due to the fact that the COVID-19 in mainland China was controlled effectively during the Review Period, economic activities were gradually active and customer orders increased significantly. To our knowledge, certain customers in mainland China were export trading companies. Those products they purchased from the Group were exported to overseas market. If we exclude revenue to those customers, revenue of the Group generated from mainland China will account for 34.0% of total revenue (2020: 22.0%). The proportion decreased to 27.0% in the second half of the year.

** 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 of our overseas customers or are trading companies. To our knowledge, approximately 90.6% (2020: 96.3%) of the products sold to customers incorporated in Hong Kong during the Review Period were forwarded to the U.S.

*** The Group's revenue from the Russian market during the Review Period did not exceed 0.1% of its total revenue.

2. Gross Profit and Cost of Sales

During the Review Period, the gross profit of the Group was approximately RMB7,377,039,000 (2020: RMB5,295,813,000), representing an increase of approximately 39.3% from 2020 while the gross profit margin rose to approximately 53.6% during the Review Period from 52.9% last year. The main reasons for the increase in gross profit margin include: (i) the scale effect out of steady revenue growth; (ii) the impact of product structure changes.

Proportion of major cost of sales to total cost of sales:

	For the year ended 31 December				
	2021		2020		Changes
	RMB'000	**%**	RMB'000	%	%
Raw material cost	**4,467,152**	**70.0**	3,429,640	72.8	30.3
Labor cost	**1,011,034**	**15.9**	677,188	14.4	49.3
Production overhead	**773,797**	**12.1**	520,500	11.0	48.7
Tax and surcharge	**126,220**	**2.0**	86,796	1.8	45.4
Total	**6,378,203**	**100.0**	4,714,124	100.0	35.3

During the Review Period, the proportion of labor cost to the Group's total costs increased to approximately 15.9% this year from approximately 14.4% last year, mainly due to the fact that the local government of each factory exempted some social insurance and other expenses in 2020 due to the COVID-19, while during the Review Period, the local governments did not provide such exemptions due to the alleviation of the COVID-19.

3. Distribution and Selling Expenses

The Group's distribution and selling expenses increased from approximately RMB144,171,000 last year to approximately RMB192,916,000 during the Review Period, representing an increase of approximately 33.8%. Distribution and selling expenses as a percentage of total revenue was approximately 1.4% (2020: 1.4%). The increase in distribution and selling expenses as compared to last year was mainly due to the increase in marketing activities as a result of expansion of business scale, among which:

(1) employee's salaries and benefits increased from approximately RMB69,637,000 last year to approximately RMB81,434,000 this year, representing an increase of approximately 16.9%. The proportion of employee's salaries and benefits to total revenue decreased from approximately 0.7% last year to approximately 0.6% during the Review Period. The increase in employee's salaries and benefits was mainly due to the increase in sales personnel as a result of increased efforts in market development and marketing during the Review Period.

(2) marketing expenses increased from approximately RMB40,723,000 last year to approximately RMB61,229,000 this year, representing an increase of approximately 50.4%. The proportion of marketing expenses to revenue maintained at approximately 0.4%. The increase in marketing expenses was mainly due to the increase in expenses as a result of the Group's increased efforts in marketing and product distribution during the Review Period.

4. Administrative Expenses

The administrative expenses of the Group increased from approximately RMB682,681,000 last year to approximately RMB863,701,000 during the Review Period, representing an increase of approximately 26.5%. The administrative expenses as a percentage of revenue decreased from approximately 6.8% last year to approximately 6.3% in the Review Period, mainly due to the successful implementation of the cost-reduction and efficiency-enhancement measures of the Group and the scale effects. Among which:

(1) employee's salaries and benefits increased by approximately 11.4% from approximately RMB517,499,000 last year to approximately RMB576,261,000. Such salaries and benefits as a percentage of revenue decreased from approximately 5.2% last year to approximately 4.2% during the Review Period. The increase in employee's salaries and benefits was mainly due to the addition of management personnel during the Review Period.

(2) professional fees increased by approximately 86.4% from approximately RMB51,617,000 last year to approximately RMB96,229,000. Such fees as a percentage of revenue increased from approximately 0.5% last year to approximately 0.7% during the Review Period. The increase in such fees was mainly due to the fact that the increase in external management consulting fees was in line with the increase of the Group's business scale and management improvement requirements.

(3) depreciation and amortization expenses increased by approximately 70.2% from approximately RMB20,660,000 last year to approximately RMB35,160,000, accounting for approximately 0.3% of revenue (2020: 0.2%). The increase in such expenses was mainly due to the expansion of the Group's business scale, the equipment depreciation and the increase in decoration expenses of office space.

5. Research and Development Expenses

The Group's research and development expenses increased from approximately RMB419,806,000 in 2020 to approximately RMB670,629,000 during the Review Period, representing an increase of approximately 59.7%. Research and development expenses as a percentage of revenue increased from approximately 4.2% in 2020 to approximately 4.9% 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 continued to increase R&D investment, strengthened basic research, widened the research and development fields, among which:

(1) employee's salaries and benefits increased by approximately 76.5% from approximately RMB212,319,000 last year to approximately RMB374,637,000, and such salaries and benefits as a percentage of revenue increased from approximately 2.1% last year to approximately 2.7% during the Review Period. The main reason of the significant increase in employee's salaries and benefits was the fact that the Group widened the research and development fields and introduced more R&D talents.

(2) development costs increased by approximately 31.5% from approximately RMB171,091,000 last year to approximately RMB224,915,000, and such costs as a percentage of revenue decreased slightly from approximately 1.7% last year to approximately 1.6% during the Review Period.

6. Other Income

During the Review Period, the total other income of the Group was approximately RMB499,068,000, representing an increase of approximately 155.4% from approximately RMB195,376,000 last year, as detailed below:

	For the year ended 31 December		
Items	**2021 RMB'000**	2020 RMB'000	Changes %
Interest income from bank deposits	**422,783**	84,203	402.1
Interest income from rental deposits	**1,449**	1,143	26.8
Government grants	**54,161**	45,569	18.9
Compensation income from customers	**4,457**	14,712	(69.7)
Income from technical consultation services	**3,545**	11,062	(68.0)
Others	**12,673**	38,687	(67.2)
Total	**499,068**	195,376	155.4

7. Other Gains and Losses

During the Review Period, the total other gains of the Group was approximately RMB93,186,000 (2020: RMB19,317,000), as detailed below:

	For the year ended 31 December		
Items	2021 RMB'000	2020 RMB'000	Changes %
Net foreign exchange loss	**(38,087)**	(38,853)	(2.0)
Gain arising on forward foreign exchange contracts	**67,821**	18,103	274.6
Gain arising on short-term bank deposits with variable interest rate	**66,129**	25,682	157.5
Gain on early termination of leases	**6,004**	2,252	166.6
Loss on disposal/write off of property, plant and equipment	**(126)**	(7,480)	(98.3)
Others	**(8,555)**	19,613	N/A
Total	**93,186**	19,317	382.4

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 were nil (2020: RMB72,988,000).

9. Finance Costs

During the Review Period, the finance costs of the Group were approximately RMB25,046,000 (2020: RMB15,369,000), representing an increase of approximately 63.0% over last year. The Group's finance costs during the Review Period mainly derived from the interest expenses of lease liabilities and bills receivables discounted with recourse. The increase in the finance costs was primarily due to the finance costs arising from the discount of bills receivable during the Review Period.

10. Income Tax Expense

During the Review Period, the Group's income tax expense was approximately RMB922,375,000 (2020: RMB717,845,000), representing an increase of approximately 28.5% over last year. Income tax expenses accounted for approximately 16.9% (2020: 18.4%) of adjusted net profit. The main reason for the increase in income tax was the increase in taxable profit.

11. Profit and Total Comprehensive Income for the Year

During the Review Period, the Group's profit and total comprehensive income for the year was approximately RMB5,286,991,000 (2020: RMB2,399,921,000), representing an increase of approximately 120.3% from last year. The adjusted net profit was approximately RMB5,442,613,000 (2020: RMB3,893,428,000), representing an increase of approximately 39.8% 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 2021, the net current assets of the Group were approximately RMB14,591,532,000 (31 December 2020: RMB10,332,148,000). As at 31 December 2021, the Group's bank balance and cash were approximately RMB11,426,758,000 (31 December 2020: RMB9,557,802,000), of which approximately RMB11,348,674,000 were denominated in RMB, approximately RMB35,770,000 were denominated in USD, approximately RMB41,796,000 were denominated in HKD, approximately RMB373,000 were denominated in Great British Pound ("GBP"), approximately RMB145,000 were denominated in Indonesian Rupiah (31 December 2020: 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). As at 31 December 2021, the current ratio of the Group was approximately 529.9% (31 December 2020: 590.0%). The increase in net current assets during the Review Period was primarily due to the increase in bank balance and cash.

For the year ended 31 December 2021, the turnover days of trade and bills receivables were approximately 61.4 days (31 December 2020: 52.4 days), the increase in turnover days was mainly due to the change of customer sales mix with different credit terms. For the year ended 31 December 2021, the turnover days of inventory were approximately 28.6 days (31 December 2020: 38.2 days). The decrease in turnover days was mainly due to the improvement of production management efficiency, the enhancement of inventory liquidity, and the increase in sales scale was faster than that of inventory. For the year ended 31 December 2021, the turnover days of trade payables were approximately 43.8 days (31 December 2020: 44.3 days), which is stable when compared to last year.

For the year ended 31 December 2021, the current ratio was approximately 529.9% while the current ratio was approximately 590.0% for the year ended 31 December 2020, such decrease was due to the increase proportion of current assets smaller than that of current liabilities, and the increase in current liabilities was mainly due to the increase in payables for production facilities construction projects, self-made automatic production line projects and devices.

Treasury Management Policy

The treasury management policy of the Group is primarily to utilize surplus cash reserves in deposit products and generate income without interfering with the Group's business operations or capital expenditures.

Borrowings

As at 31 December 2021, the Group did not have any bank or other financial institutions borrowings (31 December 2020: nil). As of 31 December 2021, the banking facilities secured by the Group were RMB2,460.0 million, of which approximately RMB42.8 million had been used for the issuance of letter of credit, approximately RMB36.2 million had been used for the deposit of forward foreign exchange contracts and approximately RMB437.5 million had been used for bills receivables discounted to bank with full recourse.

Gearing Ratio

As at 31 December 2021, the gearing ratio of the Group, calculated as the total debt divided by the total equity, was approximately 18.8% (2020: approximately 19.1%).

13. Pledge of Assets

As at 31 December 2021, the Group did not have any pledges on its assets (31 December 2020: nil), except for the bank deposit of the Group for purchasing forward foreign exchange contracts of approximately RMB4.0 million.

14. Exposure to Foreign Exchange Risk

During the year ended 31 December 2021, the Group recorded a net foreign exchange loss of approximately RMB38,087,000 (2020: a net foreign exchange loss of RMB38,853,000). Meanwhile, the Group recorded a net gain of approximately RMB67,821,000 from forward foreign exchange contracts during the Review Period (2020: a net forward foreign exchange gain of RMB18,103,000).

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

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 amounts of assets and liabilities of the Group denominated in USD as of 31 December 2021, if the exchange rate of USD against RMB rises by 10%, the Group's profit after tax will increase by approximately RMB95,410,000 (31 December 2020: increase by RMB69,668,000). Otherwise, if the exchange rate of USD against RMB drops by 10%, the Group's profit after tax will decrease by approximately RMB95,410,000 (31 December 2020: decrease by RMB69,668,000).

15. Employment, Training and Development

As of 31 December 2021, the Group has 16,241, 9 and 13 employees in mainland China, Hong Kong and overseas respectively. The Group provides comprehensive and attractive remunerations, retirement plan, share option schemes, share award scheme 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. The Group also pays for corresponding pension insurance and medical insurance, etc. for its employees in overseas countries according to the laws and regulations of the host countries. In addition, the Company also offers other incentives to promote the personal growth and career development of employees.

During the Review Period, the Group continued to adhere to "people-driven is the first principle of SMOORE management", and recruited top talents in research and development, management, marketing and other fields worldwide through various channels. As of 31 December 2021, the Group has more than 100 employees with doctoral degree or above. During the Review Period, the Group carried out large-scale global campus recruitment for the first time and recruited 297 outstanding graduates from all over the world, including 27 doctoral graduates.

In respect of talent training and development, the Group established Smoore College (思摩爾學院) during the Review Period, continued to excavate lecturers in research and development, marketing, production, management, financial, legal, human resources and other aspects, designed a scientific and comprehensive curriculum system, and continued to provide professional and management trainings for employees. All new employees of the Group are required to participate in induction training courses, and a 6-month systematic orientation arrangement is available for fresh graduates.

During the Review Period, the total staff costs (including management and administration staff) accounted for approximately 17.6% of the revenue of the Group (2020: 17.0%). The increase in total staff costs as a percentage of revenue was mainly due to the increase of the number of R&D personnel higher than that of revenue during the Review Period.

16. Capital Expenditures

During the Review Period, except for the investment mentioned under the "Significant Investments" section in this annual report, the total investment of property, plant and equipment and intangible assets of the Group was approximately RMB1,234,123,000 (2020: RMB413,024,000), 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.

17. Capital Commitments

As at 31 December 2021, the Group had contracted capital commitment of approximately RMB390,128,000 (31 December 2020: RMB70,272,000) for procurement of right-of-use assets for land use right, property, plant and equipment, which will be financed with proceeds from the Listing and net proceeds generated from operations.

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

In order to develop the Group's future business and to reduce rental expenses, in December 2021, the Group purchased a commercial land plot with an area of approximately 6,641 square meters in Bao'an Central District, Shenzhen City, Guangdong Province at a cost of approximately RMB977 million for the purpose of constructing the Group's headquarters building through participating in public auction. Since the auction took place in mid December 2021, the management has reasonable belief that the fair value of the land plot as at 31 December 2021 was approximately RMB977 million and represented approximately 4.3% of the Group's total assets as at 31 December 2021. According to the preliminary plan, it is estimated that the construction area of the completed headquarter office building is approximately 66,000 square meters. The office building is initially expected to be completed by the end of 2026. Save for such investment, the Group did not have other significant investments during the Review Period (2020: nil).

20. Contingent Liabilities

As at 31 December 2021, the Group did not have any material contingent liabilities (2020: nil).

21. Future Plans for Material Investments or Capital Expenditures

According to the existing plan, the Group initially plans to invest approximately RMB1,500 million in the next five years, to implement the headquarters office building project of the Group as described in the section headed "Significant Investments".

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

CONTINUING CONNECTED TRANSACTIONS

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

During the year ended 31 December 2021 (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**") with EVE Energy on 19 June 2020, 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 the prices of batteries provided by EVE Energy, 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 RMB230,500,000, representing 5.2% of the total procurement amount of the Group.

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 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.

The Company's auditor has confirmed in its letter that nothing has come to its attention that causes 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 2021 as set by the Company.

CORPORATE GOVERNANCE REPORT

A. CORPORATE GOVERNANCE PRACTICES

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

For the year ended 31 December 2021, the Company had applied the principles and complied with all code provisions (except for the deviation from code provision A.2.1 of the Corporate Governance 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**").

B. BOARD

(1) Composition of the Board

As of 31 December 2021, Directors of the Company are as follows:

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 Directors and Senior Management" 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

For the year ended 31 December 2021, 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) and monitor 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.

(4) Chairman of the Board and Chief Executive Officer

In respect of code provision A.2.1 of the CG Code, positions of the chairman of the Board and the chief executive officer are held by the same individual, namely, Mr. Chen Zhiping. The Board 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 and the Company's management, which is mainly in view of the following considerations:

(1) The decision of the Board 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. Therefore, the Board believes that there are 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. The Board 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, and special committees under the Board after regular discussions.

The Group will continue to review the effectiveness of the corporate governance structure of the Group in order to assess whether the separation of 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.

(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 trainings 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.

(7) Attendance Record of Directors

For the year ended 31 December 2021, the Company has held five Board meetings, three Audit Committee meetings, one Remuneration Committee meeting, one Nomination Committee meeting, one meeting between Chairman and independent non-executive Directors and one Annual General Meeting. The attendance of the respective Directors at the meetings above is set out below (whether in person or by means of electronic communication):

Name of Directors	Board Meeting Attendance/ Meeting	Audit Committee Meeting Attendance/ Meeting	Remuneration Committee Meeting Attendance/ Meeting	Nomination Committee Meeting Attendance/ Meeting	The Meeting between the Chairman of the Board and Independent Non-executive Directors Attendance/ Meeting	Annual General Meeting Attendance/ Meeting
Mr. Chen Zhiping	5/5	—	1/1	1/1	1/1	1/1
Mr. Xiong Shaoming	5/5	—	—	—	—	1/1
Mr. Wang Guisheng	5/5	—	—	—	—	1/1
Dr. Liu Jincheng	5/5	—	—	—	—	1/1
Mr. Zhong Shan	5/5	3/3	—	1/1	1/1	1/1
Mr. Yim Siu Wing, Simon	5/5	3/3	1/1	—	1/1	1/1
Dr. Liu Jie	5/5	3/3	1/1	1/1	1/1	1/1

The Company should hold at least four regular Board Meetings each year at approximately quarterly intervals. Relevant agenda and accompanying meeting papers will be sent to each Director at least 3 days in advance of every regular Board meeting. 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.

(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 strictly with the provisions of the Model Code for the year ended 31 December 2021.

(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.

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 that the Company's business is involved in;

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

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

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

(11) Board 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.

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 reviewing the financial statements for the year ended 31 December 2021). For the year ended 31 December 2021, the Audit Committee held three meetings with the external auditors. All members attended to discuss the Company's performance, 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.

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 2021 is set out below. Details of the Directors' remuneration for the year ended 31 December 2021 are set out in notes 10 and 33(b) to the consolidated financial statements in this annual report.

Annual Remuneration	Number of Individuals
HK$0 to HK$10,000,000	2
HK$10,000,001 to HK$20,000,000	1

Note:

(1) Senior management as of 31 December 2021.

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 reviews 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. The Audit Committee and the Board 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.

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 Audit Department reports directly to the Chairman and has direct access to the Audit Committee. On a regular basis, the Internal Audit Department 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, and the progress of implementation is reported regularly.

The Board is responsible for managing and, through the Audit Committee, reviewing the effectiveness of the risk management and internal control system of the Group for the year ended 31 December 2021, which covered controls over financial reporting, operations and compliance, as well as risk management. The Board 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 systems of the Group by reviewing the investigation results of management report and internal audits, and considered that the risk management and internal control systems of the Company for the year ended 31 December 2021 were 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 2021. 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 2021 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 2021 amounted to RMB3,300,000 and RMB973,000, respectively. The non-audit services provided 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.

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 of Tricor Services Limited, an external service provider, 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 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. For the year ended 31 December 2021, the Company has held one annual general meeting on 27 May 2021.

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

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 for the year ended 31 December 2021.

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 the Board fails to take any action to convene such meeting within twenty-one days of such deposit, 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 Directors' failure to convene such meeting shall be reimbursed to the requisitionist(s) by the Company.

DIRECTORS' REPORT

The Board of the Company is pleased to present the Directors' report for the year ended 31 December 2021 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 35 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 2021.

Business Review

A business review of the Group for the year ended 31 December 2021 and its future development are 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 2021, the Group's sales to its top five customers accounted for approximately 75.5 % of its total sales (2020: approximately 73.6%), with the largest customer accounted for approximately 34.3% (2020: approximately 34.7%). The Group's procurement amount from its top five suppliers accounted for approximately 28.3% of its total procurement amount (2020: approximately 31.9%), with the largest supplier accounted for approximately 10.9% (2020: approximately 9.9%). 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 five suppliers during the year ended 31 December 2021 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 2021.

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 2021, the Group has no bank or other financial institutions borrowings except for the banking facilities secured by the Group of RMB2,460.0 million, of which approximately RMB42.8 million had been used for the issuance of letter of credit, approximately RMB36.2 million had been used for the deposit of forward foreign exchange contracts and approximately RMB437.5 million had been used for bills receivables discounted to bank with full recourse.

Reserves

As of 31 December 2021, the Company's distributable reserves amounted to RMB9,190.7 million. Changes in the Company's reserves for the year ended 31 December 2021 are set out in note 34 to the consolidated financial statements.

Donations

For the year ended 31 December 2021, the Group made charitable donations of approximately RMB11.3 million.

Property, Plant and Equipment

For the year ended 31 December 2021, details of the changes in the Group's property, plant and equipment are set out in note 13 to the consolidated financial statements.

Share Capital and Shares in Issue

For the year ended 31 December 2021, details of the changes in the Company's share capital and details of the shares in issue are set out in note 26 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 2021 or subsisted as at 31 December 2021.

Final Dividend

The Board recommends the payment of a final dividend of HK18 cents per ordinary share for the year ended 31 December 2021 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 22 June 2022.

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 Review Period and any final dividend for a Review Period will be subject to the Shareholders' approval.

Annual General Meeting

The AGM of the Company will be held on 27 May 2022, 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 2022 to 27 May 2022, both dates inclusive, during which period no transfer of shares will be registered. In order to determine the Shareholders who are entitled to attend and vote at the AGM, all transfers of shares 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 23 May 2022.

The Register of Members of the Company will be closed from 6 June 2022 to 8 June 2022, both dates inclusive, during such period no transfer of shares will be registered. In order to determine the Shareholders who are entitled to the said final dividend which will be resolved and voted at the AGM, all transfers of shares 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 2 June 2022.

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

For the year ended 31 December 2021, 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.

(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.

(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 Option 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.

Details of the movement of the Pre-IPO Share Option Scheme for the year ended 31 December 2021 are as follows:

Grantee	Date of grant	Number of options	Vesting period	Exercisable period	Exercise price (RMB)	Number of options at 20210101	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Number of options at 20211231
Chen Zhiping (Director)	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)	2019/09/30	6,000,000	2019/09/30–2020/10/09	2020/10/10–2029/09/29	0.38	6,000,000	–	6,000,000	–	–
		1,800,000	2019/09/30–2021/07/09	2021/07/10–2029/09/29	0.38	1,800,000	–	1,800,000	–	–
		1,800,000	2019/09/30–2022/07/09	2022/07/10–2029/09/29	0.38	1,800,000	–	–	–	1,800,000
		2,400,000	2019/09/30–2023/07/09	2023/07/10–2029/09/29	0.38	2,400,000	–	–	–	2,400,000
Li Xiaoping	2019/09/30	1,192,000	2019/09/30–2020/10/09	2020/10/10–2029/09/29	0.38	1,192,000	–	1,192,000	–	–
		358,000	2019/09/30–2021/07/09	2021/07/10–2029/09/29	0.38	358,000	–	358,000	–	–
		358,000	2019/09/30–2022/07/09	2022/07/10–2029/09/29	0.38	358,000	–	–	–	358,000
		476,000	2019/09/30–2023/07/09	2023/07/10–2029/09/29	0.38	476,000	–	–	–	476,000
	2020/05/01	10,000	2020/05/01–2021/07/09	2021/07/10–2030/04/30	0.38	10,000	–	10,000	–	–
		40,000	2020/05/01–2022/07/09	2022/07/10–2030/04/30	0.38	40,000	–	–	–	40,000
		25,000	2020/05/01–2023/07/09	2023/07/10–2030/04/30	0.38	25,000	–	–	–	25,000
		25,000	2020/05/01–2024/07/09	2024/07/10–2030/04/30	0.38	25,000	–	–	–	25,000
Yuan Xiang	2019/09/30	52,000	2019/09/30–2020/10/09	2020/10/10–2029/09/29	0.38	52,000	–	52,000	–	–
		31,000	2019/09/30–2021/07/09	2021/07/10–2029/09/29	0.38	31,000	–	31,000	–	–
		31,000	2019/09/30–2022/07/09	2022/07/10–2029/09/29	0.38	31,000	–	–	–	31,000
		31,000	2019/09/30–2023/07/09	2023/07/10–2029/09/29	0.38	31,000	–	–	–	31,000
		32,000	2019/09/30–2024/07/09	2024/07/10–2029/09/29	0.38	32,000	–	–	–	32,000
Xiong Fei	2019/09/30	81,000	2019/09/30–2020/10/09	2020/10/10–2029/09/29	0.38	81,000	–	81,000	–	–
		24,000	2019/09/30–2021/07/09	2021/07/10–2029/09/29	0.38	24,000	–	24,000	–	–
		24,000	2019/09/30–2022/07/09	2022/07/10–2029/09/29	0.38	24,000	–	–	–	24,000
		33,000	2019/09/30–2023/07/09	2023/07/10–2029/09/29	0.38	33,000	–	–	–	33,000
Other employees	2019/09/30	75,481,000	2019/09/30–2020/10/09	2020/10/10–2029/09/29	0.38	39,774,000	–	39,535,000	–	239,000
		33,626,000	2019/09/30–2021/07/09	2021/07/10–2029/09/29	0.38	33,233,000	–	29,296,500	46,000	3,890,500
		36,364,000	2019/09/30–2022/07/09	2022/07/10–2029/09/29	0.38	35,733,000	–	–	49,000	35,684,000
		31,990,000	2019/09/30–2023/07/09	2023/07/10–2029/09/29	0.38	31,477,000	–	–	50,000	31,427,000
		10,735,000	2019/09/30–2024/07/09	2024/07/10–2029/09/29	0.38	10,231,000	–	–	46,000	10,185,000
	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	7,005,000	–	6,659,000	145,000	201,000
		13,672,500	2020/05/01–2022/07/09	2022/07/10–2030/04/30	0.38	12,527,000	–	–	669,000	11,858,000
		9,565,500	2020/05/01–2023/07/09	2023/07/10–2030/04/30	0.38	8,816,500	–	–	418,500	8,398,000
		9,257,500	2020/05/01–2024/07/09	2024/07/10–2030/04/30	0.38	8,515,000	–	–	418,000	8,097,000

(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 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 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 the 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 must not in aggregate exceed 10% of the total number of Shares in issue of the Company 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 schemes 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 the 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 schemes 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) represent in aggregate more than 0.1% of the total number of shares in issue; and (2) have an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000, the proposed grant of option must be approved by the Shareholders by poll at general meeting.

(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 Option Scheme.

The exercise price of an option to subscribe for shares granted pursuant to the Post-IPO Share Option 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.

Since the adoption of the Post-IPO Share Option Scheme, as of 31 December 2021, the Company has granted 26,388,000, 3,670,000 and 9,733,000 share options to eligible participants under the Post-IPO Share Option Scheme on 1 April 2021, 9 July 2021 and 30 September 2021, respectively, for a total of 39,791,000 share options. The closing price per share immediately before 1 April 2021, 9 July 2021 and 30 September 2021, being the dates on which the options were granted, were HK$47.30, HK$42.95 and HK$35.50 respectively.

For more information of the Post-IPO Share Option Scheme, please refer to "Other Information — Share Option Schemes — Post-IPO Share Option Scheme" in the Prospectus.

Details of the movement of the Post-IPO Share Option Scheme as of 31 December 2021 are as follows:

Grantee	Date of grant	Number of options	Vesting period	Exercisable period	Exercise price (HKD)	Number of options at 20210101	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Number of options at 20211231
Wang Guisheng (Director)	2021/04/01	44,333	2021/04/01–2022/03/31	2022/04/01–2031/03/31	51.05	–	44,333	–	–	44,333
		44,333	2021/04/01–2023/03/31	2023/04/01–2031/03/31	51.05	–	44,333	–	–	44,333
		44,334	2021/04/01–2024/03/31	2024/04/01–2031/03/31	51.05	–	44,334	–	–	44,334
Xiong Shaoming (Director)	2021/04/01	78,000	2021/04/01–2022/03/31	2022/04/01–2031/03/31	51.05	–	78,000	–	–	78,000
		78,000	2021/04/01–2023/03/31	2023/04/01–2031/03/31	51.05	–	78,000	–	–	78,000
		78,000	2021/04/01–2024/03/31	2024/04/01–2031/03/31	51.05	–	78,000	–	–	78,000
Li Xiaoping	2021/04/01	21,667	2021/04/01–2022/03/31	2022/04/01–2031/03/31	51.05	–	21,667	–	–	21,667
		21,667	2021/04/01–2023/03/31	2023/04/01–2031/03/31	51.05	–	21,667	–	–	21,667
		21,666	2021/04/01–2024/03/31	2024/04/01–2031/03/31	51.05	–	21,666	–	–	21,666
Bu Zhiqiang	2021/04/01	10,333	2021/04/01–2022/03/31	2022/04/01–2031/03/31	51.05	–	10,333	–	–	10,333
		10,333	2021/04/01–2023/03/31	2023/04/01–2031/03/31	51.05	–	10,333	–	–	10,333
		10,334	2021/04/01–2024/03/31	2024/04/01–2031/03/31	51.05	–	10,334	–	–	10,334
Other Employees	2021/04/01	6,918,335	2021/04/01–2022/03/31	2022/04/01–2031/03/31	51.05	–	6,918,335	–	297,667	6,620,668
		6,918,335	2021/04/01–2023/03/31	2023/04/01–2031/03/31	51.05	–	6,918,335	–	297,667	6,620,668
		6,918,330	2021/04/01–2024/03/31	2024/04/01–2031/03/31	51.05	–	6,918,330	–	297,666	6,620,664
		5,170,000	2021/04/01–2025/03/31	2025/04/01–2031/03/31	51.05	–	5,170,000	–	295,000	4,875,000
	2021/07/09	921,000	2021/07/09–2022/07/08	2022/07/09–2031/07/08	42.08	–	921,000	–	100,000	821,000
		921,000	2021/07/09–2023/07/08	2023/07/09–2031/07/08	42.08	–	921,000	–	100,000	821,000
		921,000	2021/07/09–2024/07/08	2024/07/09–2031/07/08	42.08	–	921,000	–	100,000	821,000
		907,000	2021/07/09–2025/07/08	2025/07/09–2031/07/08	42.08	–	907,000	–	100,000	807,000
	2021/09/30	2,495,750	2021/09/30–2022/09/29	2022/09/30–2031/09/29	36.30	–	2,495,750	–	31,250	2,464,500
		2,495,750	2021/09/30–2023/09/29	2023/09/30–2031/09/29	36.30	–	2,495,750	–	31,250	2,464,500
		2,495,750	2021/09/30–2024/09/29	2024/09/30–2031/09/29	36.30	–	2,495,750	–	31,250	2,464,500
		2,245,750	2021/09/30–2025/09/29	2025/09/30–2031/09/29	36.30	–	2,245,750	–	31,250	2,214,500

Share Award Scheme

(1) Purpose

The Company adopted a share award scheme (the "**Scheme**") on 2 September 2021. The purpose and objective of the Scheme is to recognize and reward the contribution of certain Eligible Participants through the Awarded Shares to the growth and development of the Group and to provide incentives in order to retain them for continual operation and development of the Group; and to attract suitable personnel for further development of the Group.

(2) Management

The Scheme shall be subject to the administration of the Board or Committee whose decisions on all matters arising in relation to the Scheme or its interpretation or effect shall be final, conclusive and binding on all persons who may be affected thereby.

(3) Eligible Participants

(a) Any employee (whether full time or part time, including any executive director but excluding any non-executive director) of the Company, any subsidiary or any invested entity (an "**Employee**"); (b) any non-executive director (including independent non-executive Directors) of the Company, any subsidiary or any invested entity; (c) any adviser (professional or otherwise), consultant to or expert in any area of business or business development of any member of the Group or any invested entity; and (d) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group. And, for the purposes of this Scheme, the Award may be made to any company wholly owned by one or more of the above participants and to any trust of the settlor for one of the above participants.

(4) The Effective Date of the Scheme

The Scheme has a lifespan of 10 years with effect from the date of adoption, which may be terminated earlier as determined by the Board, provided that such termination shall not affect any subsisting rights of any selected participant under the Scheme (the "**Selected Participant**").

(5) Awarded Shares

Subject to and in accordance with those rules of the Scheme, the Board or Committee shall have the right (but not the obligation) to award shares to any Eligible Participants (excluding any Excluded Participants) from the shares Pool at any time during the duration of the Scheme (the "**Awarded Shares**").

(6) Shares Pool

Upon the receipt of an Award Notice, the Trustee (as defined under the Scheme) shall set aside from the Shares Pool the Awarded Shares provisionally awarded to the Selected Participant to whom such Award Notice relates. The Trustee shall hold the Awarded Shares so set aside during the Vesting Period in accordance with the terms of the Trust Deed.

(7) Vesting

The Trustee shall transfer to and vest in any Selected Participant the legal and beneficial ownership of the Awarded Shares to which such Selected Participant is entitled under the relevant Award as soon as practicable after the latest of: (a) the Earliest Vesting Date as specified in the Award Notice to which such Award relates; (b) the receipt by the Trustee of the requisite information and documents stipulated by the Trustee; and (c) (if applicable) the date on which the condition(s) and/or performance target(s) (if any) to be attained or paid by such Selected Participant as specified in the related Award Notice have been attained or paid and notified to the Trustee by the Board or Committee in writing.

(8) Lapse

In the event that the Selected Participant who is an employee ceases to be an employee by virtue of a corporate reorganisation of the Group or the invested entity, then any Award made to such Selected Participant, shall forthwith lapse and be cancelled.

(9) Scheme Limit

The maximum number of shares that the Trustee may hold (whether directly or indirectly through the controlled enterprise of the Trustee) at any time during the life of the Scheme shall not exceed 2% of the total issued share capital of the Company from time to time; and the maximum number of shares that may be granted under the Scheme and may be awarded under the Award shall not exceed 5% of the total issued share capital of the Company from time to time (collectively referred to as the "**Maximum Share Limits**"). The maximum number of shares which may be subject to an Award or Awards to the Selected Participants shall not in aggregate exceed 1% of the issued share capital of the Company from time to time.

(10) Voting Rights of the Shares in the Shares Pool

The Trustee shall not exercise the voting rights and shall abstain from voting in respect of any shares held in the trust pursuant to the Trust Deed (including but not limited to any shares in the Share Pool, the Awarded Shares, the Additional Shares, the Returned Shares, any bonus Shares and scrip Shares).

(11) Termination

The Scheme shall terminated on the earlier of (i) the tenth anniversary of the adoption date; and (ii) such date of early termination as determined by the Board or Committee provided that such termination shall not affect any subsisting rights of any Selected Participant hereunder.

(12) Details of the Changes

On 2 September 2021, the Board of the Company approved the adoption of the Share Award Scheme. For the year ended 31 December 2021, the Trustee purchased 1,412,700 and 1,449,000 shares on 15 September 2021 and 5 November 2021, respectively, in the market in respect of the Share Award Scheme. On 24 December 2021, the Company granted 4,797,300 Awarded Shares to certain Selected Participants in accordance with the terms of the Share Award Scheme.

(13) Table of the Movements

Movement of the Awarded Shares granted to the Eligible Participants pursuant to the Share Award Scheme during the year ended 31 December 2021 are as follows:

Grantee	Date of grant	Number of awards	Vesting period	Number of awards at 20210101	Granted during the year	Vested during the year	Cancelled/ lapsed during the year	Number of awards at 20211231
Other Employees ("not Directors")	24/12/2021	570,000	2022/4/1-2031/12/23	—	570,000	—	—	570,000
		570,000	2023/4/1-2031/12/23	—	570,000	—	—	570,000
		570,000	2024/4/1-2031/12/23	—	570,000	—	—	570,000
		570,000	2025/4/1-2031/12/23	—	570,000	—	—	570,000
Other Employees ("not Directors")	24/12/2021	90,000	2022/7/9-2031/12/23	—	90,000	—	—	90,000
		90,000	2023/7/9-2031/12/23	—	90,000	—	—	90,000
		90,000	2024/7/9-2031/12/23	—	90,000	—	—	90,000
		90,000	2025/7/9-2031/12/23	—	90,000	—	—	90,000
Other Employees ("not Directors")	24/12/2021	570,575	2022/9/30-2031/12/23	—	570,575	—	—	570,575
		570,575	2023/9/30-2031/12/23	—	570,575	—	—	570,575
		570,575	2024/9/30-2031/12/23	—	570,575	—	—	570,575
		445,575	2025/9/30-2031/12/23	—	445,575	—	—	445,575

Directors and Senior Management

The directors of the Company for the year ended 31 December 2021 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 46, is an executive Director, the chairman of the Board and the chief executive officer of the Group. Mr. Chen is principally responsible for the overall management and business operation of the 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 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.

(2) **Mr. Xiong Shaoming (熊少明)**, aged 51, is an executive Director and the vice president of the Group and is primarily responsible for leading strategic planning, undertaking business objectives set by the Board and managing daily operations of the 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 and received an executive master's degree in business administration from Cheung Kong Graduate School of Business (長江商學院) in October 2021.

(3) **Mr. Wang Guisheng (王貴升)**, aged 52, is an executive Director, the chief financial officer and joint company secretary of the Group. Mr. Wang Guisheng joined the Group in April 2018. Mr. Wang Guisheng is primarily responsible for financial planning and management and company secretarial matters of the 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 15 years of experience working as director 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). In addition, Mr. Wang Guisheng was an independent Director of Sunshine Global Circuits Co., Ltd. (深圳明陽電路科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300739) until 8 February 2022.

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.

(4) **Dr. Liu Jincheng (劉金成)**, aged 57, is a non-executive Director who is primarily responsible for providing strategic advice and guidance on the business development of the 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's 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. In addition, he 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 50, joined the Group in June 2020 as an independent non-executive Director. He is primarily responsible for providing independent advice and judgment to the 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 47, joined the Group in June 2020 as an independent non-executive Director who is primarily responsible for providing independent advice and judgment to the Board. Mr. Yim has approximately 17 years of experience in the financial industry. He has been serving as the chairman of the board of Winsome Group Holdings Limited (匯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. In addition, Mr. Yim received a master's 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.

(7) **Dr. Liu Jie (劉杰)**, aged 44, joined the Group in June 2020 as an independent non-executive Director who is primarily responsible for providing independent advice and judgment to the Board. Dr. Liu Jie has over 20 years of 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 (邱淩雲)**, aged 46, is the board secretary of the Group. Mr. Qiu is primarily responsible for the coordination of board meetings and related matters and investors' relationship management of the 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 51, is the general manager of operation department of the Group. Mr. Luo joined the Group in November 2010 as the head of our R&D Department. Mr. Luo is primarily responsible for overseeing the business development of the Group. Mr. Luo has over 10 years of experience in management and research and development of electric appliance. Prior to joining the 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 and received a master's degree in business administration from China Europe International Business School (中歐國際工商學院), in November 2017.

(10) **Mr. Pan Weidong (潘衛東)**, aged 46, is the general manager of technology center of the 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 the 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), 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 joint company secretary of the Company with effect from the Listing Date. Ms. Cheng is currently a senior 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 15 years of experience in the corporate service 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.

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 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 Review Period, as well as the individual performance of each executive director in each Review Period and the period of service completed.

b. Appointment Agreements of the Non-executive Directors and Independent Non-executive Directors

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 which was not determinable by the Company within one year without the payment of compensation (other than statutory compensation).

Change of Director Information

As at the date of this annual report, there was no change to the information of Directors which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules except for the changes mentioned below.

The term of Mr. Wang Guisheng as 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)) expired on 8 February 2022.

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 a Director or an entity connected with a Director was a party and in which the Company or any of its subsidiaries had a material interest, whether directly or indirectly, subsisted during the year ended 31 December 2021 and on 31 December 2021.

Directors' Interests in Competing Business

For the year ended 31 December 2021, 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 2021, 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 2021.

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 2021, the interests and short positions of our Directors or chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Directors or Chief executives	Notes	Nature of interest	Long/short position	Ordinary shares held	Approximate percentage of the total number of issued shares(Note 1)
Chen Zhiping	(2)	Interest in controlled corporation	Long position	1,989,705,600	33.11%
	(3)	Interest of concert party	Long position	272,202,400	4.53%
	(4)	Beneficial owner	Long position	76,073,000	1.27%
Xiong Shaoming	(5)	Interest in controlled corporation	Long position	272,202,400	4.53%
	(6)	Interest of concert party	Long position	1,989,705,600	33.11%
	(7)	Beneficial owner	Long position	234,000	0.0039%
Liu Jincheng	(8)	Interest in controlled corporation	Long position	1,950,240,000	32.45%
	(9)	Interest in controlled corporation	Short position	58,543,474	0.97%
Wang Guisheng	(10)	Interest in controlled corporation	Long position	7,800,000	0.13%
	(11)	Beneficial owner	Long position	4,333,000	0.07%

Notes:

(1) The percentage is calculated based on the total number of shares of the Company in issue as at 31 December 2021, which was 6,010,226,220 shares.

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

(3) By virtue of the acting-in-concert agreement entered into between Mr. Chen Zhiping and Mr. Xiong Shaoming on 24 March 2017 and as amended and restated on 11 December 2019 (the "**Concert Party Agreement**"), Mr. Chen and Mr. Xiong are deemed to be interested in 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 the 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 the Company reaches or exceeds HK$110 billion.

(5) Mr. Xiong Shaoming holds all the issued shares of Andy Xiong Holding Limited, which in turn directly holds 272,202,400 shares of the Company. Accordingly, Mr. Xiong is deemed to be interested in the 272,202,400 shares of the Company held by Andy Xiong Holding Limited.

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

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

(8) Dr. Liu Jincheng holds all the issued shares of Golden Energy Global Investment Ltd., which in turn directly holds 48,720,000 shares of the Company. In addition, Dr. Liu through EVE Energy Co., Ltd. and EVE Asia Co., Limited ultimately controls EVE BATTERY INVESTMENT LTD., which in turn directly holds 1,842,976,526 shares of the Company. Accordingly, Dr. Liu is deemed to be interested in an aggregate of 1,891,696,526 shares of the Company held by Golden Energy Global Investment Ltd. and EVE BATTERY INVESTMENT LTD.

(9) As disclosed in the announcement of the Company dated 12 November 2021 in relation to the proposed financing activities by controlling shareholder, the exchangeable bonds issued by EVE BATTERY INVESTMENT LTD. involved 58,543,474 shares of the Company. After meeting certain conditions, investors may apply for conversion into shares of the Company at a specific time.

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

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

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

As at 31 December 2021, 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:

Name of substantial shareholders	Notes	Nature of interest	Long/short position	Ordinary shares held	Approximate percentage of the total number of issued shares (Note 1)
SMR & Alon Limited	(2)	Beneficial owner	Long position	1,989,705,600	33.11%
Zhao Zihan	(3)	Interest of spouse	Long position	2,337,981,000	38.90%
Andy Xiong Holding Limited	(4)	Beneficial owner	Long position	272,202,400	4.53%
Han Xiao	(5)	Interest of spouse	Long position	2,262,142,000	37.64%
EVE BATTERY INVESTMENT LTD.	(6)	Beneficial owner	Long position	1,901,520,000	31.64%
	(7)	Beneficial owner	Short position	58,543,474	0.97%
EVE Asia Co., Limited	(6)	Interest in controlled corporation	Long position	1,901,520,000	31.64%
	(7)	Interest in controlled corporation	Short position	58,543,474	0.97%
EVE Energy Co., Ltd.	(6)	Interest in controlled corporation	Long position	1,901,520,000	31.64%
	(7)	Interest in controlled corporation	Short position	58,543,474	0.97%
Luo Jinhong	(8)	Interest of spouse	Long position	1,950,240,000	32.45%
	(8)	Interest of spouse	Short position	58,543,474	0.97%

Notes:

(1) The percentage is calculated based on the total number of shares of the Company in issue as at 31 December 2021, which was 6,010,226,220 shares.

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

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

(4) 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. is ultimately controlled by Dr. Liu Jincheng and Ms. Luo Jinhong (spouse of Dr. Liu).

(7) As disclosed in the announcement of the Company dated 12 November 2021 in relation to the proposed financing activities by controlling shareholder, the exchangeable bonds issued by EVE BATTERY INVESTMENT LTD. involved 58,543,474 shares of the Company. After meeting certain conditions, investors may apply for conversion into shares of the Company at a specific time.

(8) 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 2021.

Management Contract

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 for the year ended 31 December 2021.

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 Shares by Controlling Shareholder

On 7 July 2021, EVE BATTERY INVESTMENT LTD. pledged 115,000,000 shares of its 1,901,520,000 shares of the Company to China Construction Bank (Asia) Corporation Limited as security for a loan facility provided by China Construction Bank (Asia) Corporation Limited to EVE Asia Co., Limited. Meanwhile, the 40,000,000 pledged shares disclosed in the Company's announcement dated 31 December 2020 were released.

On the same day, EVE BATTERY INVESTMENT LTD. pledged its 115,000,000 shares of its 1,901,520,000 shares of the Company to CMB Wing Lung Bank Limited as security for a loan facility provided by CMB Wing Lung Bank Limited to EVE Asia Co., Limited.

Exchangeable Bonds issued by Controlling Shareholder

As disclosed in the announcement of the Company dated 12 November 2021 in relation to the proposed financing activities by controlling shareholder, on 11 November 2021, EVE BATTERY INVESTMENT LTD. entered into a subscription agreement in relation to pledge of the secured and exchangeable bonds, involving 58,543,474 shares of the Company. After meeting certain conditions, investors may apply for conversion into shares of the Company at a specific time.

Continuing Connected Transactions

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

Corporate Governance

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

For the year ended 31 December 2021, 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 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 and the Company's management, which is mainly in view of the following considerations:

(1) The decision of the Board 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. Therefore, the Board believes that there are sufficient checks and balances within the Board;

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

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

(4) The Group's development strategies and other major operating decisions are jointly made by the management team, the Board, and special committees under the Board 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.

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 "Environmental, Social and Governance Report" of the Company.

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 share (the "**Listing**"). The gross and net proceeds raised by the Company from the Listing were approximately HK$8,190.3 million and approximately HK$7,909.9 million, respectively.

The net proceeds from the Listing have been and will be 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 2021:

Use of proceeds	Approximate percentage of total amount	Amount of net proceeds allocated upon Listing (HK$ million)	Actual usage up to 31 December 2021 (HK$ million)	Unutilised amount as at 31 December 2021 (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	334.3	3,620.6	By the end of 2026
(ii) Implement automated production and assembly lines at our new production bases, upgrade our group-level ERP system and upgrade our existing factories	25%	1,977.5	1,127.6	849.9	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	338.8	1,243.2	By the end of 2027
(iv) Provide funding for our working capital and other general corporate purposes	5%	395.5	395.5	—	—
	100%	7,909.9	2,196.2	5,713.7	

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

Placing

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 net share price for the Subscription after deduction of all expenses incurred by the Top-up Vendor, including legal fees and fees of other advisers, in connection with the Subscription is approximately HK$74.09 per subscription share. The market price of the shares on the date when the terms of the Placing and Subscription were determined (i.e. 27 January 2021) was HK$80.

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 Subscription (after deducting related costs and expenses) were approximately HK$4,445.5 million, equivalent to approximately RMB3,705.6 million.

For details of the Placing and Subscription, please refer to the Company's announcements dated 27 January 2021, 28 January 2021 and 4 February 2021.

The intended and actual use of proceeds from the Placing and Subscription up to 31 December 2021 are set out as follows:

Use of proceeds	Approximate percentage of total amount	Amount of net proceeds allocated (HK$ million)	Actual usage up to 31 December 2021 (HK$ million)	Unutilised amount as at 31 December 2021 (HK$ million)	Expected timeline
(i) Expansion of production capacity	55%	2,445.0	95.0	2,350.0	By the end of 2026
(ii) Allocating more resources and funds in the PMTA application for more products rollout in the market of the United States once approved	10%	444.5	—	444.5	By the end of 2026
(iii) Investing in the R&D on the vaping devices for healthcare and pharmaceutical industry	35%	1,556.0	309.1	1,246.9	By the end of 2025
	100%	4,445.5	404.1	4,041.4	

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 on 31 December 2021.

Compliance with Relevant Laws and Regulations

During the year ended 31 December 2021, to the knowledge of the Directors, 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 2021. 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. 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 2021. 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.

Auditor

The consolidated financial statements of the Group as of 31 December 2021 have been audited by Deloitte Touche Tohmatsu, who is eligible for election at the forthcoming annual general meeting.

Events after the Review Period

On 24 March 2022, one of the major customers of the Group, Logic Technology Development LLC ("**LOGIC**") received marketing granted orders ("**MGO(s)**") for eight new tobacco products in respect of which it had submitted Premarket Tobacco Product Applications. To the best of our knowledge, five of these products are currently supplied by the Group, including closed electronic nicotine delivery system products LOGIC PRO and LOGIC POWER tobacco-flavored e-liquid pods, batteries and kits. According to the press release on 24 March 2022 by the U.S. Food and Drug Administration, the menthol-flavored new tobacco products of LOGIC are still under review.

In the first quarter of 2022, due to the stricter COVID-19 control measures adopted in some areas of Shenzhen, the production and operation of some factories of the Group was affected to some extent, and the production and shipment plan of the Group in the first quarter was negatively affected. The Group expects that these effects were temporary and will not affect the Group's production and shipment plans for the full year.

Except for the above matters and note 36 of this annual report, there are no other major events after 31 December 2021 that are required to be disclosed by the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE REPORT

Reporting Scope

Smoore International Holdings Limited ("**Smoore**" or the "**Company**") and its subsidiaries (collectively referred to as the "**Group**" or "**we**") are pleased to present the Environmental, Social and Governance ("**ESG**") Report 2021 (this "**Report**") to report our sustainability strategies, policies and performance in the past year to the stakeholders. Unless otherwise stated, the reporting scope of this Report covers the two main business segments of the Group:

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.

Reporting Period

The reporting period of this Report is from 1 January 2021 to 31 December 2021 (the "**Reporting Period**").

Reporting Standards

This Report is prepared in accordance with the "mandatory disclosure requirements" and "comply or explain" provisions of the Environmental, Social and Governance Reporting Guide (the "**ESG Guide**") as set out in the Appendix 27 to the Listing Rules issued by the Stock Exchange of Hong Kong Limited (the "**HKEX**"), and was reviewed and approved by the board of directors on 31 March 2021.

Reporting Principles

This Report is prepared based on the following four ESG reporting principles:

Materiality	Balance	Quantitative	Consistency
• Definition: This Report should disclose the issues which have significant impacts on economy, environment and society, or on the assessments and decisions of stakeholders of the Group. • Responses from Smoore: We have focused on the current material sustainability issues through communicating with stakeholder as well as considering the business nature and development of the Group.	• Definition: This Report should report both positive and negative information and present an unbiased picture of the sustainability performance of the Group. • Responses from Smoore: In this Report, the Group disclosed its achievements in sustainability as well as the challenges to fully reflect its performance and development.	• Definition: The key performance indicators (KPIs) stated in the Report need to be measurable. • Responses from Smoore: The Group would disclose its environmental and social KPIs in a quantitative manner, where appropriate.	• Definition: Consistent methodologies should be employed in preparing the ESG report. Otherwise, the Group should explain any changes in methodologies, to allow meaninigful comparisons of ESG data in the future. • Responses from Smoore: The Group has adopted a consistent reporting framework and statistical methodology to enable meaningful comparisons of ESG data over time. Any changes to the methodology used are detailed in this Report for stakeholders' reference.

Feedback

Valuable opinions from stakeholders have always been an essential part of promoting the sustainable development of the Group. If you have any comments or recommendations on this Report, please contact us at IR@smooreholdings.com.

SUSTAINABLE BUSINESS HIGHLIGHTS

We are pleased to present our progress made in sustainability in 2021 as a result of our ongoing efforts to achieve sustainable business development.

Economic Highlights

Total revenue of the Group was approximately RMB 13.76 billion

Revenue growth was approximately 37.4%

Retail outlets are available in more than 50 countries across the globe, including China, U.S., France and U.K.

The new-generation of automated production lines developed by the Group has commenced production in 2021, reaching a record single-line production efficiency of 7,200 standard vaping devices per hour

During the Reporting Period, the Group continued to introduce research and development (R&D) talents, with more than 1,200 R&D personnel

Environmental Highlights

Established the Environmental Target:

Achieve scope 1 & 2 carbon neutrality in 2050

16% The Greenhouse Gas emission intensity in 2021 was 54.2 tCO_2e/RMB'0 000 000, representing a fall as compared with 2020 of approximately

Water consumption intensity in 2021 was 585.7 m^3/RMB'0 000 000, representing a fall as compared with 2020 of approximately 9.4%

Social Highlights

Total number of employees

16,263

The ratio of male to female employees

1.00 : 1.01

Funds invested in charitable activities reached

RMB 11,300,000

Employees participating in volunteer work for more than

500 hours

The areas of contribution included

- Community Involvement
- Poverty Alleviation
- Flood Relief
- Anti-epidemic support
- Youth Learning and Development

Total training hours exceeded

3,460,000 hours

Average training hour per employee was approximately

76 hours

ABOUT THE GROUP

Established in 2009, Smoore International has been listed in Hong Kong since 2020 (stock code: 6969), and is a global leader in offering atomization technology solutions. We operate across the globe, including but not limited to China, U.S., U.K., France and Japan. The Group possesses advanced R&D technologies, strong manufacturing capabilities, a broad product portfolio and a diversified customer base.

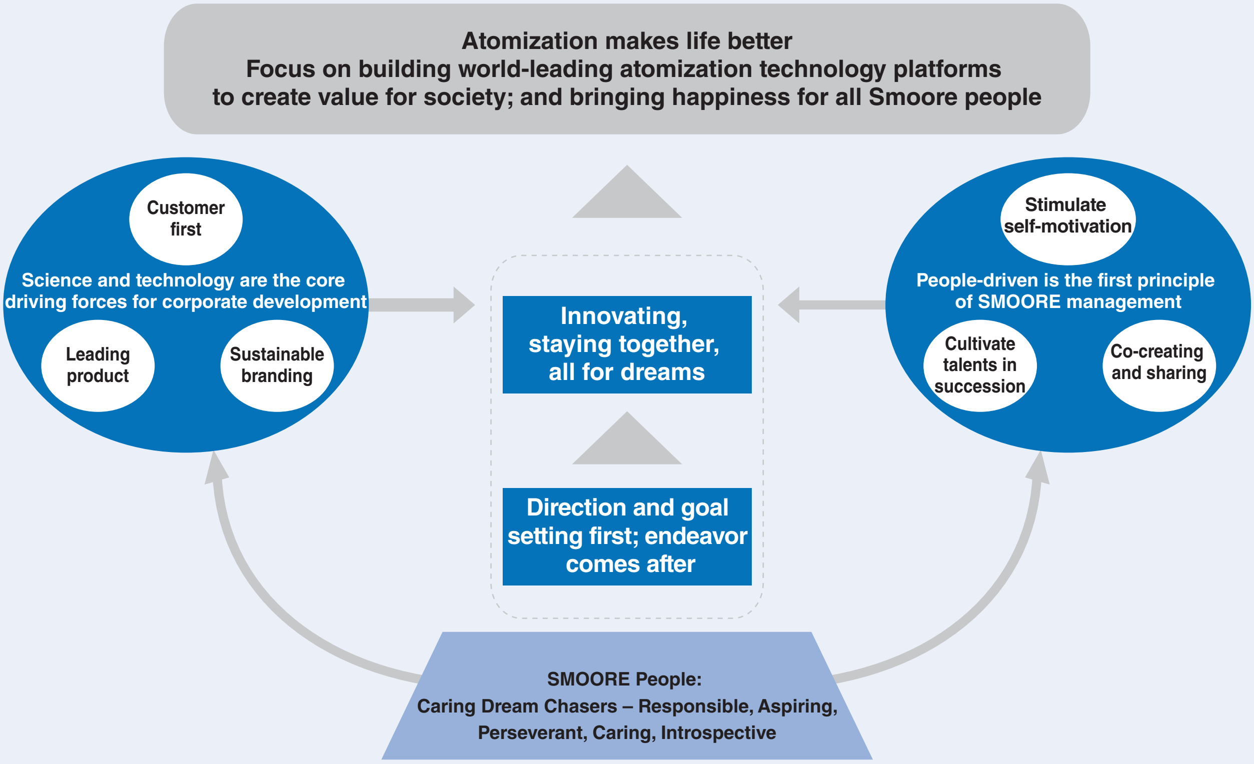
Our Corporate Culture

To plan ahead for the future and reflect on past successful experience, we explored and refined the concepts that contribute towards the success of Smoore and summarized into the "SMOORE Dream Declaration" released in 2021, which clearly defines our cultural philosophy and basic principles for our actions, and will continue to build a talent team with Smoore culture. We hoped that "SMOORE Dream Declaration" could be integrated into our employee's mind and upheld as our common principles that will be embedded along their career growth, allowing them witness the power of dreams.

The following outlines the key elements of our corporate culture:

Corporate Mission:	Atomization makes life better
Corporate Vision:	Focus on building world-leading atomization technology platforms to create value for society; and bringing happiness for all Smoore people
SMOORE People — Caring Dream Chasers:	Responsible, aspiring, perseverant, caring, introspective
Core Values:	Direction and goal setting first; endeavor comes after Innovating, staying together, all for dreams People-driven is the first principle of SMOORE management Science and technology are the core driving forces for corporate development
Management Philosophy:	Stimulate self-motivation, cultivate talents in succession, co-creating and sharing
Business Philosophy:	Customer first, leading product, sustainable branding

The following is the model of our logic of success:



Business Overview

The business of the Group mainly consists of two business segments. We are dedicated to driving the overall economic development through technological innovation and a responsible business model. The Group expanded 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 continued to increase the influence of its own brand (such as Vaporesso) and the ceramic vaping technology brand (such as FEELM) to lay a solid foundation for the sustainable growth of revenue.

2021 Financial Performance Summary			
Total revenue was approximately RMB **13.76** billion	Revenue growth was approximately **37.4**%	Possessed **15** production bases **7** basic research centers	Retail outlets are available in more than **50** countries across the globe, including China, U.S., U.K. and France, etc.

Business Model

Research, design and manufacturing of closed system vaping devices and vaping components for a number of global leading tobacco companies and independent vaping companies

Research, design, manufacturing and sale of self-branded open system vaping devices, or advanced personal vaporizers (APV), for retail clients

Strategic Direction

Product Research and Development	Production and Operation	Production Capacity Expansion	Sales of Products
• Adhere to the technology-leading strategy, continue to increase investment in R&D • Keep abreast of the demands of consumers and markets, so as to design more competitive and innovative products in a targeted manner	• Increase the level of production automation and intelligence to enhance production efficiency and optimize supply chains	• Advance its capacity expansion plan in an orderly manner, laying the foundation for new market opportunities	• Strengthen in-depth cooperation with existing large-scale original design manufacturer (ODM) clients, fully understand and timely respond to their needs and provide strong support for clients' business growth

Development Path

2009 Founding	• Establishment of Smoore Shenzhen Technology Co,. Ltd
2012	• Started exporting our products to the U.S.
2015	• Launched our self-branded Vaporesso in the U.S. market • Exported our products and expanded our distributor network to Europe • Awarded the "High and New Technology Enterprise Certificate" (高新技術企業證書) by Shenzhen Science and Technology Innovation Commission (深圳市科技創新委員會) together with three other government authorities • Listed on the National Equities Exchange and Quotations (NEEQ)
2016 Launched ceramic heating technology for the first time	• Introduced the first ceramic heating technology into the market
2017	• Established our first basic research center
2018	• "FEELM" was awarded the "Golden Leaf Award" by Tobacco Reporter and Vapor Voice Magazines

2019

- Awarded the Certificate of Participation by the Underwriters Laboratories (UL), a global safety certification company approved by the U.S. Federal Agency Occupational Safety and Health Administration to perform safety testing
- Established three basic research centers, and the basic laboratory established under our basic research center in Shenzhen was awarded the Laboratory Accreditation Certificate (實驗室認可證書) by China National Accreditation Service for Conformity Assessment (中國合格評定國家認可委員會) (CNAS)
- Awarded the "21st China Patent Excellence Award" (中國專利獎) by the National Intellectual Property Administration of the PRC (中國國家知識產權局)

2020

- "FEELM" was awarded the "iF Design Award" by iF Industrie Forum Design
- Listed on the HKEX on 10 July (stock code 6969.HK)

2021

- "Vaporesso" was awarded the "Red Dot Award for Product Design" by the German Red Dot Award Judging Committee
- "Feelm" was awarded the "American Muse Design Award" by International Awards Associates (IAA)
- "Feelm" was awarded the "German Design Award" by the German Design Council
- The new-generation of automated production lines developed by Smoore has commenced production, reaching a record single-line production efficiency of 7,200 standard vaping devices per hour
- Established three new basic research centers
- Smoore officially released the "Smoore Vision Statement" as the core framework of our corporate culture of the Group.

Awards and Recognitions

Enterprise Development	—	Selected by the Shenzhen Enterprise Confederation (深圳市企業聯合會) and the Shenzhen Entrepreneurs Association (深圳市企業家協會) as "Shenzhen Top 500 Enterprises" (深圳500強企業)
	—	Received the "Six Categories of Top 100 Companies in Bao'an District" (寶安區六類百強企業) and the "Tax Benchmark Enterprise in Bao'an District" (寶安區納稅標杆企業) awards from the Shenzhen Five Categories of Top 100 Enterprises Association (深圳市五類百強企業聯合會)
	—	Received the "National Outstanding Foreign-Invested Enterprises — Top Ten Enterprises in Shenzhen in terms of Turnover" (全國優秀外商投資企業-深圳市十大營業額企業) from the Shenzhen Association of Enterprises with Foreign Investment (深圳外商投資企業協會)
Corporate Governance	—	Selected by the China National Intellectual Property Administration as "National Intellectual Property Advantage Enterprise (2019–2022)" (國家知識產權優勢企業(2019–2022))
	—	Selected by Guangdong Province Administration for Market Regulation (廣東省市場監督管理局) as "Guangdong Province Contract-abiding and Credit-worthy Enterprise" (廣東省守合同重信用企業)
	—	Selected as "Integrity and Compliance Demonstration Enterprise in Bao'an District" (寶安區誠信合規示範企業) by the Office of the Working Group for the Construction of Social Credit System of Shenzhen Bao'an District (深圳市寶安區社會誠信體系建設工作領導小組辦公室) and the Office of the Committee for Promoting Corporate Compliance of Shenzhen Bao'an District (深圳市寶安區促進企業合規建設委員會辦公室)
Quality and Innovation	—	An open system vaping product was awarded with the "Red Dot Award for Product Design" by the German Red Dot Award Judging Committee
	—	Awarded the "German Design Award" by the German Design Council
	—	Awarded the "American Muse Design Award" by International Awards Associates (IAA)
	—	Awarded the "Best Accessory of 2021" (1st place) and "Best Mod of 2021" (1st place) by Vaporound
	—	Closed system vaping devices won the "Most Concerned Vaping Device Solution of the Year (Smoore Feelm)" (年度最受關注霧化器解決方案(思摩爾Feelm)) in the first Lscar Electronic Cigarette Industry Ranking (藍斯卡電子煙行業榜單)
	—	Selected as "Guangdong Outstanding High and New Technology Product" (廣東省名優高新技術產品) by the Guangdong High and New Technology Association (廣東省高新技術企業協會)
	—	Selected as "National High and New Technology Enterprise (Moore Jiangmen)" (國家高新技術企業(江門摩爾)) by Jiangmen Science and Technology Innovation Bureau (江門市科技創新局), Jiangmen Finance Committee (江門市財政委員會), and Jiangmen Taxation Bureau of the State Taxation Administration (國家稅務總局江門市稅務局)
	—	Selected as "National High and New Technology Enterprise (Smoore)" (國家高新技術企業(麥克韋爾)) by Shenzhen Science and Technology Innovation Bureau (深圳市科技創新局), Shenzhen Finance Committee (深圳市財政委員會), and Shenzhen Taxation Bureau of the State Taxation Administration (國家稅務總局深圳市稅務局)
	—	Selected as "National High and New Technology Enterprise (Maishi Technology)" (國家高新技術企業(麥時科技)) by Shenzhen Science and Technology Innovation Bureau (深圳市科技創新局), Shenzhen Finance Committee (深圳市財政委員會), and Shenzhen Taxation Bureau of the State Taxation Administration (國家稅務總局深圳市稅務局)
Human Resources	—	Received "Liepin Guangdong Outstanding Employer of 2021" (獵聘2021廣東年度非凡僱主) award from Liepin (獵聘)
	—	Awarded "Approved Employer Certification" by the Association of Chartered Certified Accountants (ACCA)
Caring for the Society	—	Awarded the " Disaster Relief Pioneer Enterprise of the Year" (年度戰役救災先鋒企業) by Southern Metropolis Daily, Shenzhen Federation of Industry & Commerce (深圳市工商聯(總商會)), PPC Daily culture and media (人民政協·文化傳媒), Corporate Social Responsibility Research Center of Chinese Academy of Social Sciences (中國社科院企業社會責任研究中心) and Shenzhen Charity Federation (深圳市慈善會)
	—	Selected as the "Caring Enterprise Donating HK$5 Million to Henan "7.20" Flood Relief and Disaster Relief" (為河南"7·20"抗洪救災捐款500萬港元 愛心企業) by the China Electronic Chamber of Commerce

OUR APPROACH TO SUSTAINABLE DEVELOPMENT

Sustainability Strategy

The Group strives to fulfill its corporate social responsibility and sees sustainability as an essential part of our daily operations and business decisions by adhering to the mission of "atomization makes life better" and the corporate vision of "focus on building world-leading atomization technology platforms to create value for society; and bringing happiness for all Smoore people" and "bringing happiness for all Smoore people". Our sustainability strategy is based on the following five core areas, coupled with the United Nations' Sustainable Development Goals ("**SDGs**"), aiming at creating a long-term and positive impact on the environment and society.

Innovation	Commitment	Atomization	Aspiration	Love
Creating high-quality products	Marketing responsibly	Embracing a greener future	Nurturing teams of talents	Creating a sustainable community
3 GOOD HEALTH AND WELL-BEING 8 DECENT WORK AND ECONOMIC GROWTH	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	8 DECENT WORK AND ECONOMIC GROWTH	1 NO POVERTY 10 REDUCED INEQUALITIES
Commit to providing brand-new products to promote technological development	Optimize customer experience, strengthen close communication with customers, and maintain information transparency	Protect environment and integrate green concepts and practices into the operation process	Protect the rights and interests of employees and fulfill social responsibilities	Influence the world with love and create value for society
SDG 3.9 Promote the use of safe materials and reduce hazardous chemicals	**SDG 12.8** Ensure transparent and fair information, promote sustainable lifestyle through producing qualified and traceable products	**SDG 12.2** Strengthen the sustainable management and efficient use of natural resources	**SDG 8.7** Prevent and identify child labor	**SDG 1.1** Promote the eradication of extreme poverty among people in the world
SDG 8.3 Promote technical learning and innovation Physical and mental health and well-being		**SDG 12.5** Promote recycling and reusing to reduce waste generation	**SDG 8.8** Protect labor rights and build a safe and secured working environment	**SDG 10.1** Promote reduction of inequality

The United Nations has set 17 SDGs to lead the world towards a better and sustainable future. Such goals indicate the global challenges we face, including eliminating poverty, eradicating inequality, climate change, environmental protection, education, health, social protection, economic growth, with an aim to build a more peaceful and prosperous society by 2030, while protecting the planet and boosting economic prosperity.

Stakeholder Engagement

Constant communication with stakeholders allows us to better understand their expectations, giving us a clearer direction in developing our sustainability strategy. Therefore, regular communication is maintained with our stakeholders to optimize our operating directions and sustainability strategies by collecting their views on sustainability measures of the Group. The business of the Group involves various stakeholder groups, including employees, customers, suppliers, shareholders and investors, government and non-governmental organizations as well as media. The following are the communication channels established for our stakeholders:

Stakeholders	Regular Participation or Communication Channels	
Employees	• Interview • Performance appraisal and complaint hotline • Staff forum	• Training courses • Employees activities and employee satisfaction survey • Announcement
Customers (including corporate customers, wholesalers, distributors or brands)	• the Group's website • Exhibition	• Telephone • Customer satisfaction survey • Social media (such as WeChat official account)
Suppliers	• On-site inspection • Regular review	• the Group's website • Supplier conference
Shareholders and investors	• General meetings • Annual report, financial report and announcement • Social media (such as WeChat official account)	• the Group's website • Mass media
Government and non-governmental organizations	• Meetings • Environmental survey	• Direct communication • Qualification assessment
Media	• Social media (such as WeChat official account) • Charitable activities	• Volunteer service

Materiality Analysis

During the Reporting Period, we commissioned an independent third party sustainability consultant to conduct a stakeholder survey, and invited different stakeholders to rate the materiality of various sustainability issues to the Group. Our independent third party prioritizes the identified issues based on the results of survey, enabling us to identify material ESG issues and take corresponding actions.

Our materiality assessment consists of the following three main phases:

Phase 1: Identify the ESG aspects

To effectively identify ESG issues that are material to the Group, our independent sustainability consultant conducted in-depth research with reference to the Listing Rules requirements of the HKEX, SDGs, stakeholders' opinions, industry trends on sustainability and media information analysis, to ensure the identified ESG issues fully reflect the nature of the Group's business and the results of previous communications with stakeholders. During the Reporting Period, we have identified 24 sustainability issues that are most relevant to our business.

Phase 2: Collect opinions from stakeholders and develop a materiality matrix

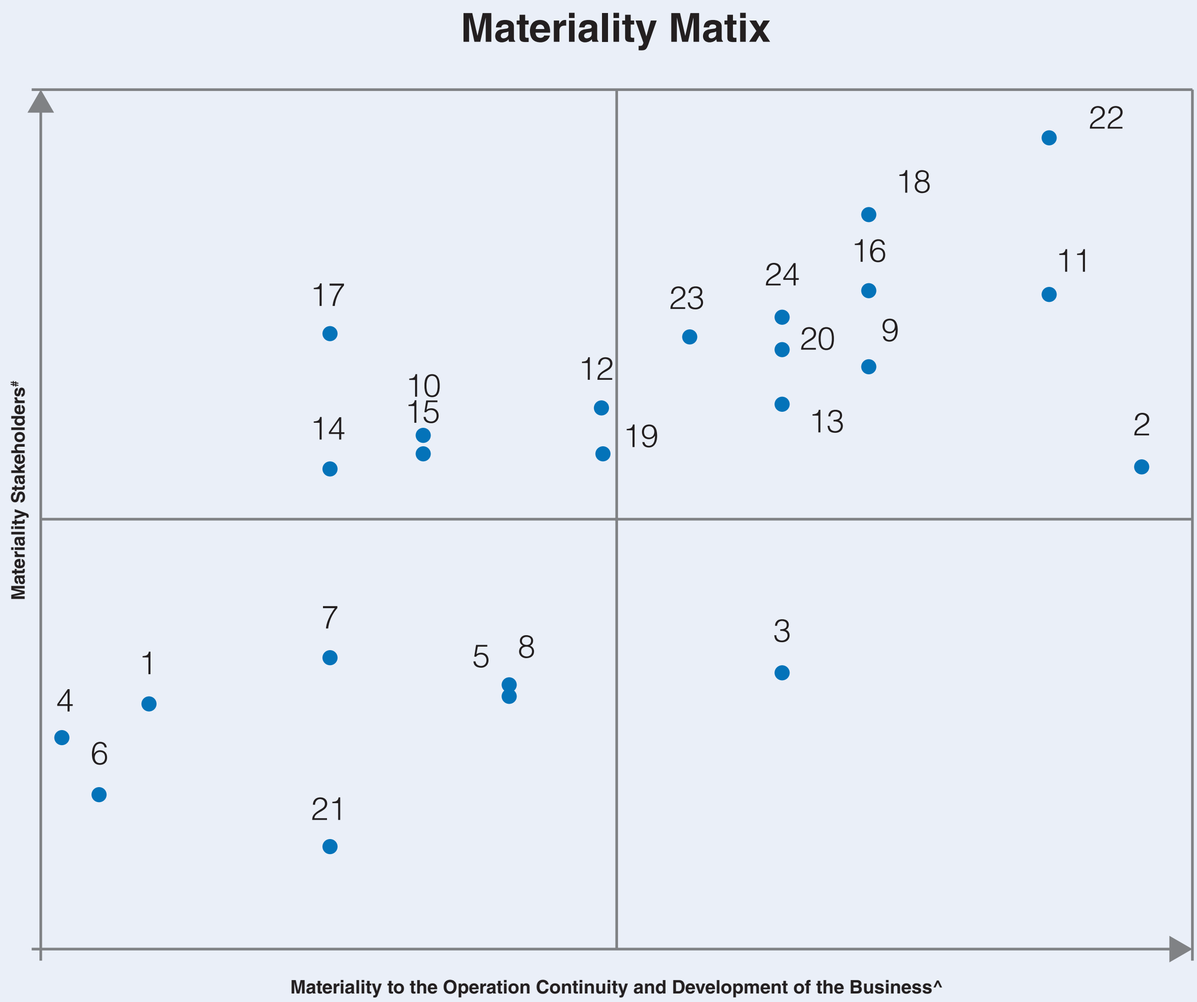
In phase 2, six key stakeholder groups were invited to participate in an online survey to rate the materiality of each sustainability issue to the Group. To prioritize the ESG issues in a more accurate manner, the consultant conducted a quantitative analysis of the materiality of these issues based on the stakeholder's views and the materiality of the issues to the operation continuity and development of the Group's business, then presented the results of the analysis in a matrix form to determine the most material issues from these two perspectives. The most material issues at the stakeholder and the Group levels are the focus of disclosure in this Report

Phase 3: Verify the material issues

The management of the Group verified these ten prioritized material issues to ensure the rationality, balance and completeness of this Report.

During the Reporting Period, we have concluded the results of materiality analysis which are set out in the following materiality matrix, in which the ten issues in the upper right corner are the issues that stakeholders are more concerned about in this analysis and will be disclosed in detail in this Report.

Materiality Matrix



The materiality to stakeholders is determined based on the rating by external stakeholders on the impact of materiality issues on society/environment.

^ The materiality to the operation continuity and development of the business is determined based on the rating by internal stakeholders on the likelihood and potential impact of issues affecting continued operation and development of the Group's business.

List of Sustainability Issues

Environment	Society	Economy
1. Air emissions	**9. Employee benefits**	**23. Economic performance**
2. Waste	10. Equal opportunity, diversity, anti-discrimination	**24. Business expansion**
3. Carbon emissions and energy	**11. Occupational health and safety**	
4. Water resources	12. Employee development and training	
5. Packaging material consumption	**13. Employment compliance**	
6. Climate-related risks	14. Social risks from the supply chain	
7. Green procurement	15. Transparency and traceability of raw materials	
8. Environmental risks from the supply chain	**16. Product certification, quality and safety**	
	17. Customer service	
	18. Intellectual property management	
	19. Marketing, advertising and product labeling	
	20. Anti-corruption	
	21. Community investment	
	22. Product development and innovation	

Top Ten Issues Identified

Top Ten Issues	Related Chapters/Sub-units
Waste	— Waste management
Employee benefits	— Compensation and benefits
Occupational health and safety	— Health and safety
Employment compliance	— Labor standards maintenance
Product certification, quality and safety	— Product diversification
Intellectual property management	— Promote product innovation, research and development and intellectual property protection
Anti-corruption	— Anti-corruption
Product development and innovation	— Technology platformization — Product diversification
Economic performance	— About the Group
Business expansion	— About the Group

Opinions from Stakeholders and Our Responses

Caring for employees

Opinions from stakeholders

It is hoped that the Company can enhance the sense of superiority and belonging of front-line employees through policies including employee welfare and training, allowing the employees to cohere as a whole and grow together, while forging ahead and enjoying happy working and living.

Our response

We believe that the talent is the Group's important asset and the core to its success. Therefore, we provide our employees with competitive benefits, clear career development paths and training programs. For details, please refer to the relevant chapters in "**Aspiration — Nurturing Teams of Talents**".

Social Responsibility

Opinions from stakeholders

The Company should actively undertake social responsibilities with the role of large corporation and conduct welfare and volunteer activities in nearby communities, and recruit internal employees to participate. In the long run, it is hoped that SMOORE will become an excellent enterprise with greater sense of social responsibility.

Our response

This year, we have greatly increased our resources for caring for community and broadened the scope of community investment. For details, please refer to the relevant chapters in "**Love — Creating a Sustainable Community**".

Product Responsibility

Opinions from stakeholders

In the process of product realization, the Company should consider EHS (i.e. environmental, health and safety) risks in advance and determine whether the product will have an impact on the environment.

Our response

We attach great importance to environmental protection in the procurement of product materials, and have formulated relevant agreements to regulate the quality, environmental performance and the compliance of suppliers and raw materials. For details, please refer to the relevant chapters in "**Innovation — Creating High-quality Products**".

Responsible Business Model

Corporate Governance

We believe that the sound corporate governance is not only an element of effective operations, but also the key to advancing sustainable development. The Board is responsible for setting the direction for business strategy and overall business management and providing leadership over departments to ensure our business operations comply with all applicable rules and regulations as well as applicable codes and standards. Governance system is established in accordance with the size and nature of the business of the Group. It clearly outlines the accountability of management team to ensure that the system is sound and effective.

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.

Primary Duties of the Board Committees

Audit Committee	— 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.
Nomination Committee	— 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.
Remuneration Committee	— 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.

Anti-corruption

The Group is dedicated to upholding the highest standards of business integrity, honesty and transparency in all business activities, and regards fairness, integrity and honesty as our core values. We adopt a zero-tolerance attitude towards all acts of corruption, solicitation, bribery, misappropriation of public funds and embezzlement of corporate property. The Group does not tolerate any form of fraud or bribery and has established anti-fraud and anti-money laundering systems to prevent, deter and investigate fraud and bribery. All misconducts such as forging virtual documents, indulging in malpractices, pursuing private interests at the expense of public interests, corruption, receiving kickbacks are strictly prohibited.

In addition, we extend our anti-corruption work to the supply chain level to ensure employees adhere to the principle of fairness and equity in selecting suppliers and the performance of suppliers in anti-corruption is strictly reviewed. Suppliers are required to sign the Anti-Commercial Bribery Agreement (《反商業賄賂協議》) before cooperation to confirm that appropriate anti-corruption management system is in place to comply with our terms of cooperation. Compliance of suppliers will be constantly monitored. In case of any violation of the agreement, we will conduct an in-depth investigation and report it to the law enforcement agencies. Employees who offer or accept bribes will be subject to punishment.

To ensure the source of funds and background of customers, we have established a sound customer identification system to avoid transactions with customers with unidentified fund source or background. Furthermore, all business units are required to report to the management on any suspicious cases and suspend related business transactions. The management will then set up a special investigation team to investigate and cooperate with local government authorities if necessary. Specific guidelines for business activities are formulated. In case of any violation, the employees involved will be subject to punishment; in severe cases, the labor contract will be terminated.

To establish a reputation for integrity, during the Reporting Period, we provided our employees with training on Creating a Bribery-free Working Environment (《共創廉潔工作環境》), which covered trade secret protection, job crime prevention and anti-corruption. Annual anti-money laundering training will also be conducted by our legal department for employees to ensure that they are aware of the latest requirements of relevant laws and regulations. We will check the list of customers quarterly to review their legitimacy, and cross-check with the anti-money laundering blacklist (e.g. list of wanted criminals and terrorists, and anti-money laundering blacklist of the related regulatory authorities).

Whistleblowing Mechanism

Employees are encouraged to report any suspected improper and unlawful conducts. Comprehensive whistleblowing mechanism is in place, providing clear guidelines for reporting illegal or unethical conducts. Employees or other stakeholders can report or expose fraud through various channels such as reporting telephone, mailboxes, emails, official account of the social platform and official website of the Group. All reported incidents are handled confidentially to ensure that the whistleblower is protected from any retaliation such as unfair dismissal, persecution or unreasonable disciplinary action.

Sustainability Governance

The Board has full responsibility for the ESG strategy and reporting of the Group, while the CEO is assigned to formulate work plans and objectives for the ESG strategy, as well as review and implement ESG-related policies and measures. The CEO is responsible for advising the Board on the followings:

— Review, approve and report on the ESG objectives and metrics, strategies and management approaches of the Group

— Identify, review and report to the Board on major ESG-related trends, risks and opportunities

— Monitor sustainability issues, trends and best practices that may affect the Group's business operations and performance

— Monitor, review, evaluate actions and initiatives to promote sustainability

— Review any ESG-related violations and non-compliance with applicable laws, rules and regulations

— Review the Group's public reporting/ESG report on its sustainability performance and provide advice to the Board

During the Reporting Period, we established an ESG task force to promote the implementation of ESG management, ESG strategies and work plans for achieving the objectives of the Group. The task force is comprised of sixteen department heads from each business unit, and chaired by the CEO. Each member represents different business areas, including finance, human administration, procurement, safety and environmental protection, information technology, internal audit, government affairs, legal intellectual property and investor relations. The task force is responsible for identifying ESG-related risks and opportunities, implementing sustainability policies, procedures and measures and collecting ESG information and data for ESG disclosure.

Sustainability Risk Management

The Board acknowledges that it has full responsibility for the risk management of the Group as well as managing the significant ESG-related risks. Therefore, we undertook ESG-related risk assessments during the Reporting Period and incorporated risk management into corporate governance and daily management. We first identify the potential ESG risks of the Group by identifying major ESG trends and issues, peer analysis, collecting opinions from stakeholders and assessing the nature of the business, and prioritize them according to the degree of impact and possibility of each risk on the Group. We will then formulate strategies and measures for major ESG risks, and regularly evaluate and monitor the effectiveness of the measures, as well as propose improvement plans when necessary. The ESG task force shall ensure that imminent or potential crises or issues as well as policies and procedures are followed up in a timely manner, and reported to the Board through the CEO to avoid or mitigate risks. We understand the broad implications of climate change and ESG risks. In the face of frequent extreme weather, feasible measures including purchasing natural disaster compensation insurance for factory buildings, equipment and inventories are taken, to reduce major losses caused by heavy rains, floods or typhoons.

INNOVATION — CREATING HIGH-QUALITY PRODUCTS

3 GOOD HEALTH AND WELL-BEING

8 DECENT WORK AND ECONOMIC GROWTH

As a world-leading atomization technology platform, the Group recognizes "science and technology" as the driving forces for us to continuously optimize product quality. "Science" focuses on the discovery and research of the principles of the physical world and basic technologies. "Technology" focuses on the application effects of transformational discovery and research.

Vision: Focus on building world-leading atomization technology platforms
Core value: Science and technology are the core driving forces for corporate development

ESG Summary	
The total number of patents applied in the PRC and beyond was **3,408**	The total number of suppliers was **245**

Technology platformization

Our strong R&D capability is a critical factor for us to establish and maintain our global leading position in the market. Beyond every effort made to ensure product safety, the Group also strives to actively invest in scientific research and pay close attention to the practical application of new technologies, and upgrade our unique atomization technology. Our research work involves different stages, including basic exploratory research, fundamental knowledge advancement, applying scientific theories to conduct new technology development and project incubation. We will then further apply and test such technology to ensure the mass production of our products. As of 31 December 2021, we had 1,254 R&D personnel.

R&D Platform

Basic Research Centers	—	During the Reporting Period, the Group has a total of 7 basic research centers in the PRC and beyond, which are engaged in vaping mechanism, material research, medical research, innovative vaping devices research, safety and health research, respectively.
Technology Center	—	Based on the research results from basic research centers, our technology center subsequently applies these scientific theories to the research and development of new technologies and project incubation.
Technology Industrial Center	—	After new technologies are developed, our technology industrial center will apply and test such technologies for the mass production of our products.
Product Development Team	—	Each product division of the Group has established a product development team to develop more competitive products for customers by making full use of basic research results based on market and customer needs.

The Group is committed to pursuing breakthroughs in scientific research. We expect to keep creating consumer-friendly products in order to enhance our market competitiveness. Therefore, we regard technology as the core to achieve a leading role in products, and look forward to further optimizing existing products through the launch of innovative technologies. The Group's sustainable growth is attributable to the professional team that we are proud of. We make active endeavors to create an open and inclusive working environment for our employees, and encourage them to think from different perspectives and embrace different ideas and suggestions. We also provide high-quality training courses to R&D personnel. Taking the "technology deepening" strategy as an important entry point, we will introduce leading innovative thinking methodologies and theoretical systems.

Empowered by Core Technology — Complete PMTA Test & Analysis Independently

Our analysis and testing center has successfully obtained CNAS and UL8139 certification, and has become a laboratory that can independently complete the requirements under PMTA guidelines, to strictly conduct the test and analysis of all toxic and hazardous substances and the corresponding health and safety risk assessment.

Product Diversification

Since the development of business, our products now are sold to more than 50 countries and regions at home and abroad, including the United States, Europe and Japan. We actively establish good cooperative relationships with global customers, including the leading tobacco companies and independent system vaping companies, and strive to explore development opportunities of different products for them. By having an edge on independently developing and integrating innovative technologies, we are able to maintain high quality requirements from product design to technology in a view to provide customers with premium system vaping devices. In order to further expand our customer base, we have launched varied products to meet the needs of different customers, including closed system vaping devices and self-branded open system APV, etc. In addition, we are actively developing atomization medical products and atomization beauty products to enable the widespread use of atomization technology.

FEELM's New Self-developed Heating Element

Trans-scientific research

Breakthrough in the balance between industrial design aesthetics and practicality

FEELM, our high-end electronic vaping technology brand, combines a metallic film with a ceramic material to redefine vaping technology. It is a combination of Feel+Film. Feel represents the ultimate sensory experience, and also represents our cognitive philosophy of high-end vaping technology; Film represents a film-like film, which is a wide heated surface that perfectly fits the surface of the atomizers. This unique structural design brings a better vaping experience. We have always manufactured every pore of the vaping core according to the most stringent standards, allowing customers worldwide to enjoy the ultimate excellent experience.

Careful raw material sourcing	—	Perform sample check on raw materials, isolate unqualified batches and provide feedback or send the goods back to the supplier when necessary
Strict control of semi-finished products	—	Inspect the first semi-finished product of each production line everyday. Only products from those passed line are allowed to move on to the next stage. Lines with abnormality will be suspended to allow further analysis
Close monitoring of production process	—	Stringent quality testing on critical control point of production process will be conducted to ensure smooth operation
Rigorous test of -finished products	—	Every batch of final products, which is sent to the warehouse, will be tested for their quality and performance to ensure that customers' requirements are met. Final sample check will be conducted before delivery

The Group attaches great importance to the design and practicality of products, and strives to integrate the three elements of innovation, quality and safety into the control of product quality. To ensure product quality, the Group has formulated a comprehensive quality management system in accordance with the ISO9001:2015 international standard. We have also established the industry's first medical-grade factory that have obtained GMP and cGMP certificates, with an aim to maintain professional production technology.

In addition, we also have a quality control team specifically responsible for setting quality control standards and handling customer complaints. The team is also responsible for implementing a series of quality control measures and closely monitoring the entire production process. All products have comprehensive batch manufacturing records and bear product quality traceability, which enable us to track the product quality during the entire production process. Finally, the products are also subject to multiple testing procedures, including: chemical analysis, physical testing, structural characterization testing, product evaluation, etc. Our testing procedures have also received the "Laboratory Accreditation Certificate" from the China National Accreditation Service for Conformity Assessment, which makes our testing data and results more credible. Physical testing includes battery reliability testing and product functional testing, while chemical analysis includes testing and analyzing the components of our closed system vaping devices, to ensure that the leachable and extractable substances and aerosols of these components comply with relevant regulations and standards of the jurisdictions where our products are sold.

Promoting Product Innovation, Research and Development and Intellectual Property Protection

We protect our intellectual property rights in strict compliance with the intellectual property protection laws related to patent, trademark and copyright, fair trade practices and confidentiality agreements. In an aim to ensure compliance with intellectual property laws and reduce business risks related to infringement and breach of confidence, the Group has established a sound security system for trade secrets to prohibit leaking intellectual property rights to third parties or unauthorized plagiarism through strict authorization control and confidentiality protection in R&D, production and other business activities. In addition, in the induction process, we require all employees to sign an employment contract, the terms of which stipulate that the Group owns all the inventions, trade secrets, research and development achievements and other crafts developed or created by the employees on our behalf. Serious offenders will be terminated from employment without compensation and may be subject to legal action. After leaving the company, the senior management still have to assume the same confidentiality obligations as during their tenure, and shall not use confidential information without authorization, regardless of the reason for terminating the labor relationship with the company.

Furthermore, the Group has obtained numerous design and development patents in the field of vaping technology. As of 31 December 2021, the Group has applied for 3,408 patents in the PRC and beyond.

Industry Recognition

Since our inception, our own technology brands have been highly recognized by the industry. In 2016, we launched our first generation of heating technology. It was more efficient and effective in absorbing and vaporizing high viscosity extracted e-liquid as compared to conventional wick-based coil. We then also researched the second generation "FEELM", which combines metallic films with ceramic materials to achieve improvements in material and structural science. Such technology also won the "Golden Leaf Award" from Tobacco Reporter and Vapor Voice Magazine in 2018.

We never slack off in the research of system vaping technology, and focus on building world-leading atomization technology platforms. In addition to the two heavyweight awards from Vapouround — Industry Leader and Innovation of the Year in 2020, the Group maintained its success in 2021, and was awarded the first place in Best Accessory of 2021 and the first place in Best Mod of 2021 by Vapouround, the most authoritative and influential media in the global vaping industry. The awards are definitely a full recognition on our growth journey.

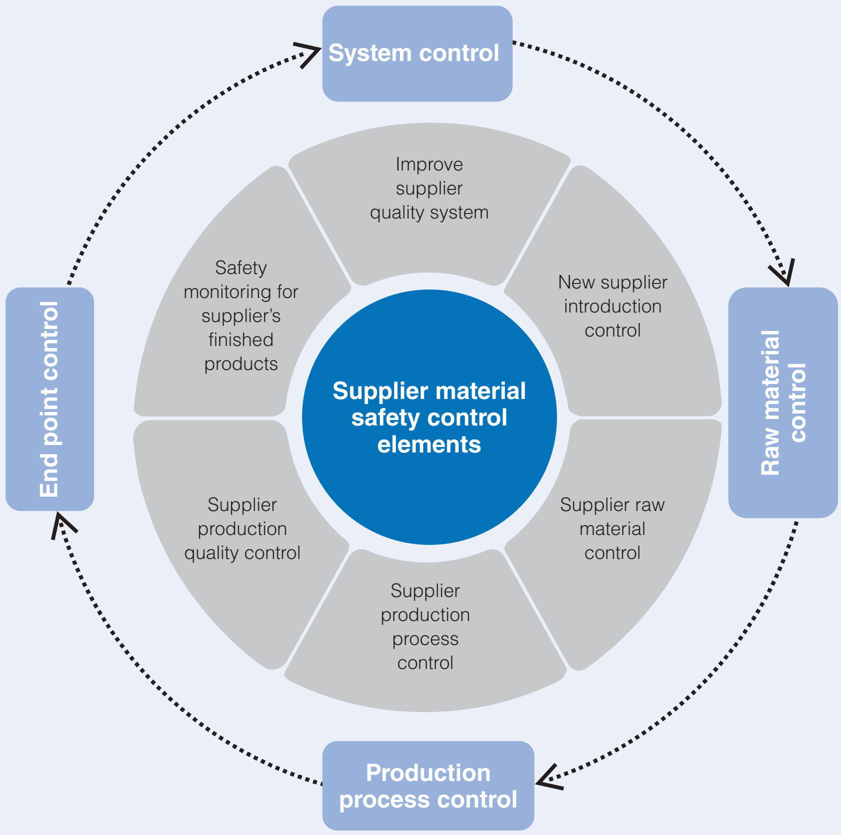
Responsible Supply Chain Management

We are committed to working closely with our suppliers and establishing fair and equal relationships. To ensure the integrity and smooth operation of our production system, we have developed the Procurement Management Code ("**Code**") for all suppliers. Suppliers are engaged based on the merits by evaluating the production capacity, quality assurance and technical requirements of suppliers. The Code also specifies the means, scoring standards and reward and punishment mechanism for supplier audits. We assess the performance of suppliers on a fair and open basis in four aspects: quality, delivery, cost and service. Suppliers at home and abroad will be screened and managed according to the above process to ensure that all links of the supply chain meet the standards and safety requirements through strict control measures. We will disqualify the suppliers who fail to meet the Group's assessment criteria.

As of 31 December 2021, the number of suppliers by region was as follows:	
233 Mainland China	**12** Other countries and regions

Meanwhile, we also attach great importance to the performance and risks related to sustainable development of our suppliers. During the Reporting Period, we incorporated the environmental and social risk assessment of the supply chain ESG into the ESG-related risk assessment of the Group. In terms of the identified ESG risks of the supply chain, we have formulated risk response strategies and would monitor the results to avoid or reduce risks. We also focus on the performance of environmental and social responsibility of suppliers in the selection of new suppliers and the annual review of suppliers. The Group requires the suppliers to sign the Purchase (Quality Assurance) Agreement (《採購(質量保證)協議》) and the ROHS/REACH (SVHC) Declaration (《ROHS/REACH(SVHC)聲明書》) to regulate the quality, environmental performance and compliance of suppliers. For example, we demand suppliers to make environmental protection commitments, to ensure that the hazardous substances contained in raw materials do not exceed the limits required by the EU RoHS Directive, so as to protect the health of customers. We also promote the recycling and disposal of waste electrical and electronic devices to meet environmental requirements. Suppliers are required to conduct regular ROHS/REACH (SVHC) tests for their products by third-party testing agencies and on provide valid reports. In order to procure suppliers to shoulder social responsibilities, we conduct due diligence to each supplier before signing contracts with them to ensure they comply with all the laws and regulations related to human rights. We incorporate social responsibility elements into the annual evaluation process of suppliers, and terminate contracts with suppliers who have violated regulations. Furthermore, we strictly prohibit any bribery and corruption through the Integrity Cooperation Agreement (《廉潔合作協議》).

To ensure that the procurement procedures are open, transparent, efficient, legal and compliant so as to reduce procurement costs and to build a flexible and responsive supply chain, we also enhance the professionalism of the procurement personnel and standardize the procurement processes. Each business unit also adopts a mode of centralized procurement of resources to obtain competitive procurement costs.



Stringent Raw Material Inspection

The Group only purchases raw materials from qualified suppliers of raw materials that have passed quality and reliability assessments. Our quality control system is designed to identify and deal with defective raw materials early in the production process. For that reason, we conduct quality inspections throughout the entire procurement process. Firstly, sample tests would be conducted for the raw materials before confirming the purchase order. Before the delivery of raw materials, we will designate quality control staff to conduct on-site inspections at manufacturing bases of some suppliers. After the delivery of raw materials, we also conduct random sampling tests on the submitted raw materials to ensure that the quality of raw materials meets our strict requirements.

The Group attaches great importance to the quality and safety of raw materials. Therefore, we carry out a comprehensive and thorough safety assessment of all raw materials, which includes four areas: extractables research of material structure and composition, migration research, material safety risk assessment and toxicity analysis. Upon the completion of the safety assessment, we eliminate hazardous raw materials and finally formulate a qualified purchasing list for suppliers. Our suppliers can only purchase raw materials from the list, thus raising the monitoring point of raw materials to the most upstream of the supply chain and providing multiple guarantees for product quality.

COMMITMENT — MARKETING RESPONSIBLY

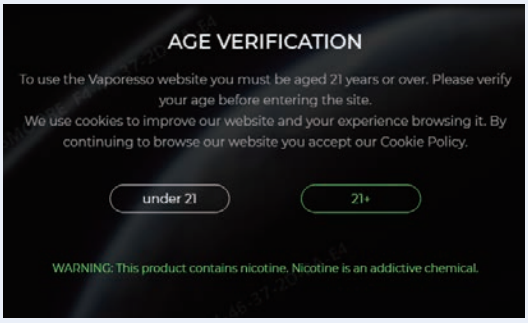
12 RESPONSIBLE CONSUMPTION AND PRODUCTION

We strive to treat our current and potential customers with a humble and sincere attitude, actively respond to their needs, and make best efforts to ensure our products and services exceed our customers' expectations and maximize their benefits when using our products. With the belief of helping our customers succeed, we strive to increase their satisfaction and trust in our products and services.

Core value: Leading product, sustainable branding

Promotion, Sales Channels and Services

The Group attaches great importance to the impact of our products on society, customers and the youth, and actively promotes the healthy development of the society. We strictly deal with the communication of information related to products and services, and strive to take all actions to prevent minors from contacting, buying or using our vaping products. In order to shoulder the corporate social responsibility, the Group has set the browsing age restriction on the homepage of the official website of our brands. Those under the legal age will not be able to browse the pages of the website, preventing any minors from obtaining any information about vaping products. Since we mainly rely on distributors of our customers to sell our self-branded APV products to end consumers, our business does not involve retail promotion or marketing.



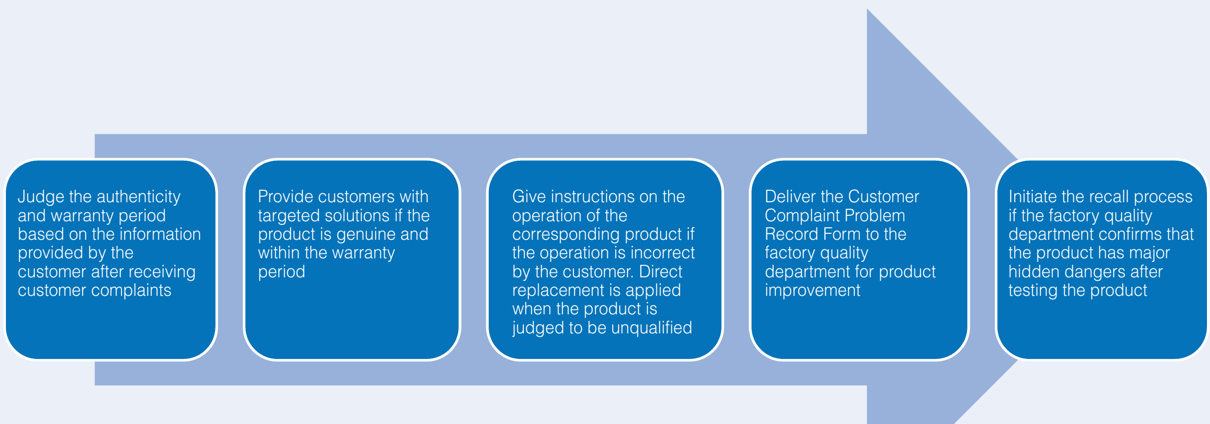
In addition, we have the user manuals of our self-branded APV and closed system vaping devices and the online electronic version of the product manuals clearly state that the product is only for adults and not for use by minors. Product packaging boxes are marked with signs that should be kept away from children. The posts on the official website of the Group contain stern and clear safety tips, reminding that these products contain nicotine ingredients, expecting to achieve a deterrent effect. For the design of our self-branded APV products, we have incorporated elements that can prevent children from misuse, such as requiring users to press the power button five times before starting the program of the device, or filling the system vaping device with e-liquid, etc.

After-sales Service

Customers' opinions are an important driving force for the Group's business development to continuously optimize the quality of our products and services. We have formulated complete customer management service system for customers, including Customer Feedback Management Control Procedures and Customer Satisfaction Survey Procedures, and established requirements and processes for quality complaints, product replacement and improvement, etc., in an expectation to systematically meet customers' needs and establish long-term and good relationships with them.

In addition, with an aim to continuously improve customer satisfaction, the sales department of the Group is responsible for conducting an annual customer satisfaction survey online, inviting customers to score product quality stability, price reasonableness, product delivery timeliness and service effectiveness. We conduct statistics and analysis on the collected opinions and data, and then send them to the quality department to take corresponding corrective and preventive measures according to the survey results, and regularly track the implementation. Customers' engagement and satisfaction are critical to our long-term development. We will continue to provide high-quality after-sales service regardless of national boundaries and cherish every customer's opinion and feedback.

The Group provides warranty services for our products, and the warranty period varies depending on the actual situation of the product. When a customer discovers quality defects in our products and files a complaint with us, we will first acquire the details of the defective products from the customer, and require the customer to provide the batch number, product contents, product list and the reason for the defect, so that we can effectively follow up on the complaint case. Depending on the situation, we will provide customers with warranty or replacement services based on the outcome of consultation with customers and our assessment. During the Reporting Period, the Group did not receive any material complaints regarding product quality and services, nor did we recall any products for safety and health reasons.



Customer After-sales Service Process

Consumer Rights Protection

As the world-leading provider of vaping technology solutions, the Group spares no effort to provide consumers with safety protection to prevent them from incautiously purchasing counterfeit products. Therefore, we have printed all product packaging with Universal Product Code (UPC barcode), which serves as the identification code of the product during the entire logistics process. Such code technology can help integrate the sales data of distributors and stores, realize sales data management, and ensure the compliance of products sold. We enable consumers to buy at ease and ensure that customers can purchase and enjoy genuine products through the anti-counterfeiting code and query system.

Information Security

The Group recognizes the importance of customer privacy protection and takes feasible security measures to prevent the leakage of sensitive business information or personal information. We have formulated the Information Security Management Manual, which requires each department to conduct proper data management in their respective job functions in the form of a confidentiality responsibility system. In respect of trade secrets, such as customer information, supplier information, financial information, etc., we have installed security software and firewalls on the computers of relevant personnel to maintain our data system. We encrypt all confidential and important information files involving data of customers or end-consumers to prevent employees from downloading or exporting files of the company without authorization. If the files of the company need to be transmitted or carried out due to business needs, employees must apply to their superiors and obtain approval before they can copy them to the company's storage device. During the Reporting Period, we established an Information Security Management Committee to promote the implementation of information security management, ensure the Group's information security work is carried out in an orderly manner, effectively control and prevent information system security risks and improve the Group's overall information security management level. The standing members of the Information Security Management Committee include three executive directors of the Group. To comprehensively implement the primary responsibility of the Group's information security, the Information Security Committee guides the Group's establishment of the information security from the overall point of view.

ATOMIZATION — EMBRACING A GREENER FUTURE

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

In line with the corporate mission of "Atomization makes life better", we expect to improve people's life quality with the innovation of atomization technology. The Group also shoulders its corporate social responsibility, and strives to reduce the Group's environmental footprint, so as to lead its customers to embrace a new green future.

Core value: Direction and goal setting first; endeavor comes after

ESG Summary			
Total waste produced was **2,793.2** tonnes	Scope 1 & 2 GHG emissions were **74,524.8** tonnes of CO_2e	Total energy consumption was **122,019.5** MWh	Total water consumption was **805,660** tonnes

Our environmental management system has been awarded the ISO14001 international environmental management system certificate since 2014. We integrate environmental factors into our business operations and hope to effectively manage the environment and energy performance.

Our Environmental Goals

Greenhouse Gas

Implement regulatory measures in an orderly manner, gradually reduce greenhouse gas intensity and achieve scope 1 & 2 carbon neutral by 2050 eventually

Energy

Improve energy efficiency to reduce energy use, explore renewable energy and achieve the target that 30% of total energy will come from renewable source by 2030

Waste

Properly dispose of waste and encourage recycling to reduce generated waste

Water consumption

Make full use of water resources to reduce water consumption

Management of Greenhouse Gas and Waste Gas Emission

The Group is committed to reducing waste gas emission through the implementation of greenhouse gas and waste gas regulatory measures, so as to reduce the burden on the environment. The greenhouse gas and waste gas we generate mainly come from indirect emissions caused by the use of purchased electricity during our operations and direct emissions from the use of fuel by vehicles. To achieve our scope 1 & 2 carbon neutral targets by 2050, we have formulated the Greenhouse Gas Control Procedures and the Waste Gas Management Regulations, to strictly monitor the air pollutant emissions of the Group. We have also set up a Greenhouse Gas Inventory and Voluntary Reduction Implementation Team, responsible for formulating and implementing greenhouse gas emission reduction plans, and rewarding departments with outstanding energy conservation performance.

Waste Management

To ensure proper treatment of waste generated during our operations, we have formulated the Waste Management Regulations and are committed to encouraging employees to make good use of resources and recycle waste through implementing of waste reduction measures in the office. The Waste Management Regulations specifies detailed guidelines for the storage and treatment of non-hazardous and hazardous wastes. In terms of non-hazardous waste, waste cardboard, waste plastic and other waste are collected by qualified third-party sanitation companies for proper disposal or recycling. We have also engaged relevant parties with hazardous waste disposal qualifications recognized by the Environmental Protection Agency to handle hazardous waste such as smoke oil, smoke tubes, atomizers,etc.

Besides, in order to reduce waste at the source, we preset office printers to double-sided printing, and restrict the use of office copiers and printers to reduce paper consumption. We also place recycling bins with clear signs in the office to help staff develop proper waste sorting habits.

Water Resources Management

The Group also strives to prevent water resource waste through regular inspections, so as to reduce our water consumption. The sewage generated by our operations is mainly general domestic wastewater, which is directly discharged into municipal sewage pipelines for comprehensive treatment. In order to prevent the dripping and water loss, our equipment department strives to improve water efficiency by strengthening the inspection of production equipment and office water equipment. We also adopted recycled water in the production process to reduce the amount of new water replenishment. As our water came from the local municipal water supply system, we did not encounter any problems when obtaining applicable water sources during the Reporting Period.

In addition, we are building a system for the comprehensive utilization of rainwater in storage tank for the first-phase production base of the Jiangmen New Industrial Park which collects rainwater into a rainwater collection tank, then diverts it to a fully automatic self-cleaning filter for filtration and ultraviolet sterilizer for disinfection, and finally sends it to the greening system and road flushing system of the construction site. The filtered rainwater will be used for landscaping and road flushing, which is expected to reduce our dependence on tap water and save approximately 3,000 tonnes of water.

Energy Management

In order to reduce the energy consumption of our business operations, the Group has formulated systems related to resource management, including the Management Procedures for Energy Conservation and Emission Reduction, the Management Regulations for Saving Resources, the Control Procedures for Environmental Monitoring and Measurement, with a commitment to improving the level of energy management. In addition, we also actively consider effective energy-saving solutions to enhance energy efficiency. Relevant measures include:

Raising employees' awareness

- Post propaganda in public areas of the office to remind and require staff to ensure that the idle electronic equipment, such as lighting equipment and air conditioners, are switched off, so as to develop good habits in reducing energy consumption

Improving equipment energy efficiency

- Adjust lighting settings in production areas to reduce lighting in non-operating production line areas

- Install temperature, humidity and time control devices and improve the distribution of fume cupboards for air-conditioners to reduce the energy consumption of the central air-conditioning system

Replacing or upgrading equipment

- Adopt air conditioning units with magnetic levitation compressor and frequency control to improve the motor efficiency

- Add heat recovery equipment to the air compressor to recover the heat in the machine in the form of hot water and apply it in the heating and humidification procedures

Carbon Footprint Reduction

In order to reduce carbon footprint of our products, we are committed to adopting the policy of maximizing energy conservation and emission reduction, and implementing feasible environmental protection solutions at all stages of our product life cycle, in order to reduce the burden on the environment. The following table outlines our environmental protection measures from material procurement, manufacturing and product use:

Material procurement	• Promote sustainable procurement, regularly evaluate and monitor suppliers' environmental compliance • Prohibit the procurement of hazardous substances that are harmful to health and environment, and raw materials shall comply with relevant EU regulations such as ROHS/REACH(SVHC)
Manufacturing	• Formulate regulations and scientific schemes for the use and consumption of raw and auxiliary materials to save raw materials • Provide quality awareness training to all employees to minimize repetitive processing and defective products • Provide employees with energy-saving operation training and assessment • Recycle and reuse waste raw materials to reduce the generation of waste
Logistics	• Fully utilize electric forklifts in the plant to reduce waste gas generated from fuel consumption • Improve the automation of production lines to reduce the logistic requirements
Product use	• Improve product quality to maximize the service life of product • Evaluate the impact of our products on air quality in accordance with internationally recognized standards, such as National Ambient Air Quality Standards ("**NAAQS**") established by the U.S. Environmental Protection Agency in accordance with the Clean Air Act of 1977
Disposal and recycling	• Replacing plastic materials with environmentally friendly materials to improve product degradability

For the Group's principal business segments, corporate client oriented sales, we are committed to discussing product recycling plans with downstream customers, in order to promote the collection and reuse of products at the end-consumer stage. So far, many of our customers have launched cartridge recycling projects. At the same time, we have been working with our suppliers to develop environmentally friendly packaging and parts, including the use of degradable materials, to reduce the carbon footprint of our products.

Climate Change

Due to the increasing natural disasters caused by climate change in recent years, climate change has become one of the issues that are concerned about across the world. In view of this, during the Reporting Period, our independent third-party sustainability consultant conducted ESG-related risk assessments for the Group's business, identified potential climate-related risks, and regularly evaluated the effectiveness of existing mitigation measures to further enhance our climate resilience. We have also taken various energy-saving and emission-reduction measures in our workplaces and project construction to make our best endeavors to reduce greenhouse gas emissions during our operations.

In response to extreme climates, the Group has formulated and strictly implemented standard procedures for the daily operations of its offices and plants, including inspections and maintenance of equipment and facilities. We have also developed the Emergency Plan for Incidents, Disasters and Accidents ("**Emergency Plan**"), which sets out the sources of danger and mitigation measures during the production process. We have included extreme weather-related risks and mitigation measures in the Emergency Plan. Also, we have strengthened employees' awareness training and improved their emergency response capabilities through regular emergency drills. We will continue to review the latest developments in the laws, regulations and regulatory requirements related to climate change to prepare for climate change mitigation efforts.

ASPIRATION — NURTURING TEAMS OF TALENTS

8 DECENT WORK AND ECONOMIC GROWTH

The Group is committed to creating a corporate culture of adhering to dreams. On the rough journey of chasing dreams, we not only need to unremitting perseverance, but also tolerate and love the people around, and work together to achieve our dreams. We achieve success on the journey of chasing your dreams through continuous improvement and review.

Innovating, staying together, all for dreams
Responsible, aspiring, perseverant, caring, introspective
Vision:
Bringing happiness for all Smoore people

Talents are important assets and key to the success of the Group. Therefore, we attract, retain and make good use of top talents to form an outstanding team and promote growth of employees with the Group. In view of this, we continue to strengthen, improve and review the existing human resources policies. We have also established the Human Resource Management Manual, enabling employees to obtain a full understanding in terms of issues related to the employment and labor, such as recruitment, employees' deployment, training, remuneration and benefits, performance appraisal, etc.

ESG Summary

The total number of empoyees was **16,263**	The ratio of male to female employees was **1.00:1.01**	Total training hours exceeded **3,460,000** hours	Average training hours per employee were approxmately **76** hours

Diversified and Elite Culture

In order to nurture sufficient talents to cope with to the rapid development of the Group, we offer attractive remuneration to our employees and have a sound talent recruitment mechanism, including:

1. Identify suitable and outstanding talents through diversified recruitments, including internal recruitment, internal recommendation, recruitment websites, headhunting companies, campus recruitment, social platforms, recruitment official websites and others

2. Focus on cultivation of internal talents. When recruiting, we adopt the principle of "internal first and then external" by encouraging all departments to give priority to internal talents

3. Prioritize career development opportunities for existing employees, so as to boost productivity more effectively

As an employer that advocates equal opportunities, the Group is committed to establishing a non-discriminatory workplace during recruitment, and objectively considers the match between the candidate's cultural background and ability with the job requirements. In addition, we actively promote equal opportunities, regardless of the race, color, religious belief, gender, age, disability, family status and nationality of our employees, to form a diverse, inclusive and harmonious team. To ensure fair and impartial evaluations, we prohibit interviewers from participating in interviews with their relatives or friends, and relatives of current employees are not allowed to join the same department. At the same time, we arrange interviews with resigned employees to understand the reasons for their resignation and ensure that they have not been treated unfairly during their employment.

During the Reporting Period, the Group was awarded the "Liepin Guangdong Extraordinary Employer for 2021" (獵聘2021 廣東年度非凡僱主) and the "Association of Chartered Certified Accountants (ACCA) Approved Employer Certification" (特許公認會計師公會(ACCA)認可僱主認證). We appreciate the recognition from all walks of life and continue to do a good job in talent management.

Development Opportunities and Performance Management

"Stimulate self-motivation, cultivate talents in succession, co-creating and sharing" is the management philosophy of the Group". We have been committed to providing sufficient and tailored career development opportunities and conducting performance appraisal to strengthen the driving force of employees, to keep improving. In order to grow with employees and make them "caring dream chasers", we hope to cultivate employees to have the following "five traits", namely responsible, aspiring, perseverant, caring and introspective. We also grant annual bonuses and carry out the promotions and job transfers based on the results of employees' performance appraisal, to commend employees who have made great contributions to the Group's business development.

The Group supports the realization of corporate strategic goals through an important dimension of performance management. Therefore, performance management is an effective tool to realize the mutual development of the corporate and SMOORE people. Managers at all levels attach great importance to process-based performance coaching, provide high-frequency formal and informal performance feedback, and rectify deviations in a timely manner. We will also evaluate employees with ratings based on their performance, and provide them with performance-based bonuses, job promotions and more development opportunities based on their annual performance ratings to recognize contributions made by outstanding employees to the business development of the Group.

Traits of a Caring Dream Chaser

- Responsible — self-driven, proactively taking ownership, accountable for results.
- Aspiring — seek for excellence, continuously improving and pursuing higher goals.
- Perseverant — facing difficulties head on, make persistent efforts and never give up without putting up a fight.
- Caring — take the initiative in helping and enabling others.
- Introspective — constantly reflecting and being self-aware, reinforcing strengths and rectifying weaknesses.

We have set up a clear career development ladder for our employees, which can be divided into five career development paths, namely management, technical, marketing, functional and skills. Employees can obtain promotion opportunities through professional competency rating or salary review process. We expect employees to find their suitable development paths, so as to exert their strengths in the long run, and all the employees can have sustainable career paths.

Career Path

- Management
- Technical
- Marketing
- Functional
- Skills

Remuneration and Benefits

Adhering to the corporate vision of "bringing happiness for all Smoore people", we greatly treasure the development of human resources and provide competitive remuneration and benefits packages. The human resources department of the Group conducts market research on salary level to establish a comprehensive and competitive remuneration system. In addition, recreational facilities and equipment such as basketball courts, fitness equipment and lounges are available in our premises, to help employees to achieve a work-life balance.

State statutory benefits

- Five social insurances and one housing provident fund stipulated by the state
- Statutory holidays, marriage leave, funeral leave, breastfeeding leave

Unique corporate welfare

In addition to statutory benefits, we provide employees with other additional benefits, including:

- Purchase commercial insurance for all employees such as insurance for medical treatment for serious diseases, accidental injuries, etc.
- Arrange annual physical examination
- Organize annual travel to strengthen team cohesion
- Provide benefits during various traditional festivals
- Provide monetary gifts for red and white events
- Organize afternoon tea and birthday parties for employees
- Provide weekly benefits for daily-paid employees
- Provide staff dormitory

We also organize various types of recreational activities for our employees, including:

Flower gifting at Chinese Valentine's Day

Women's Day celebration

Mother's Day celebration

"Glory trip (千里臻行)" — Hiking activity
for outstanding employees

Mid-Autumn Festival celebration

Dragon Boat Festival celebration

Improving the Growth Platform

We are committed to stimulating the potential of our employees and accelerating their growth. We have set up different learning channels for employees to improve their professional knowledge and skills for the better working performance and the mutual development of organization and talents. The training methods are mainly comprised of internal training and supplemented by external training. Upon understanding the opinions and expectations of our employees on training and development through questionnaires and interviews, we then formulate a three-level internal training plan:

1. Group level: The Human Resources Administration Center initiates a training survey based on the Group's strategy and talent training requirements. Then, they collect opinions on annual training requirements, and formulate and implement the annual training plan of the Group.

    - including: Induction training for new employees, talent development training, training for capabilities in conducting key businesses, management skills training, general skills training, etc.

2. Business unit level: Each business unit formulates a business unit-level training plan according to the specific strategy and business development requirements.

    - including: Internal skills upgrading training for professional positions, induction training for new employees, etc.

3. Factory level: Each factory formulates a factory-level training plan in accordance with its own strategies and business development requirements.

    - including: On-the-job training for front-line employees, training for professional knowledge and skills, induction training for new employees, etc.

In order to ensure the rapid integration of new employees into the Group's teams, we arrange on-the-job coachings for each new employee and assign them to the dedicated mentors and the human resources department to understand their working situation. We expect the above measures to help new employees adapt to the new working environment. In addition, in order to cultivate young talents who are determined to join the atomization technology market, we have launched an internship training program for young generation. The program aims to help interns discover their own strengths to lay a foundation for a long-term career path. Therefore, we provide participants with hands-on job training, one-on-one mentoring and boot camps, and conduct regular reviews to ensure that they benefit from their internship.

We also invite undergraduate, master and doctoral students from world-renowned universities to participate in our half-year Model Student (Bachelor and Master) and Magic Student (PhD) campus recruitment and cultivation program. This project provides college graduates with industry-related professional knowledge, including training courses such as induction training, occupational general skills, professional skills and knowledge. We arrange professional mentors to provide guidance and to formulate clear on-the-job training plans for him/her, and conduct monthly performance reviews to ensure that the participants are able to lay a good foundation for personal development.

We also carry out school-enterprise cooperation with more than 20 technical colleges and universities, and specially set up "Smoore Orientation Training Class" to carry out skills training and comprehensive quality training in advance in school, providing theoretical study and enterprise internship, improving the occupational and technical capabilities of college students, enhancing professional competitiveness, so as to help college graduates to expand their career development channels, seize career development opportunities, and quickly realize their own value.

We are committed to building a future-oriented talent supply chain to reserve outstanding talents at all levels and to satisfy the sustainable development needs of the Company. We have designed the "Garuda" (大鵬金翅鳥) series of talent development projects, commenced four-level talent training, reserved outstanding talents, invited internal and external management experts, to improve our management capabilities in a systematically manner. We carry out coordination with superiors to draft personal development plans for talents, indicating that outstanding talents accelerate career development.

Compliance with Labor Standards

The Group strictly complies with human rights principles in accordance with Global Reporting Initiative (GRI) and all relevant laws and regulations prohibiting the employment of child labor and forced labor. We also check the applicant's identity documents during the interview to confirm that such applicant has reached the legal working age. We employ our employees based on the principles of fairness and openness, and require all employees, including formal employees and interns, to sign labor contracts or internship agreements, allowing them to clearly understand the regulations on the calculation of overtime wages, rest allowance and other regulations, and to prevent any forced labor from happening. If employees need to work overtime due to the working requirements, they shall first obtain the approval from the head of the department to ensure that the reasons for working overtime are acceptable and that there is no case of forced labor. The Group has also formulated clear regulations on the calculation of overtime wages and rest allowance to protect the legitimate rights and interests of our employees. The recruitment process or employment will be terminated immediately if it is discovered that we have employed employees with false information or identities.

Health and Safety

We treat the health, safety and wellbeing in the workplace with utmost care. Therefore, in order to enhance the corporate governance in terms of the occupational safety and health of our employees, we regularly organize health and safety inspections to identify, mitigate and eliminate existing and potential dangers. To enhance the occupational safety awareness of our employees, we have formulated the following measures:

- Strictly require all employees to abide by safety rules to ensure that they understand the evacuation routes, fire extinguisher locations of the relevant buildings, and the operation of certain equipment

- Organize safety trainings for all employees to enhance their awareness of occupational safety

- Conduct regular fire and other emergency drills to strengthen the employees' abilities to respond to emergencies

- Provide corresponding appropriate safety operation training for employees in specific positions, and ensure that they have obtained valid qualification certificates before performing electrical work

- Provide various personal protective devices and equipment, and set up safety facilities such as micro-fire stations in the premises, to guarantee the safety of employees.

In addition, we have also formulated a safety production reward and punishment mechanism to raise employees' attention to occupational safety and health. We reward employees who actively stop illegal operations or prevent major accidents, to praise their performance and encourage other employees to follow the suit. Meanwhile, we impose penalties on employees and their leaders who cause safety accidents or delay rectification during the work process, to ensure the cooperation with employees to improve working environment and enhance the level of safety production management. During the past three years, including the reporting year, we did not have any work-related fatalities. During the Reporting Period, we recorded a total of approximately 300 working days lost due to work-related injuries.

RESPONSE TO COVID-19

Since the COVID-19 epidemic broke out, we actively undertook social responsibilities and were committed to epidemic prevention in strict accordance with epidemic control requirements of the national and local government. We also encourage our staff to get vaccinated as soon as possible and work together to protect the health of the overall community. In order to protect the health of our employees, we have formulated a series of countermeasures to prevent the spread of the virus.

We had established the COVID-19 prevention center last year to assist in the implementation of epidemic prevention measures. The COVID-19 prevention center mainly consists of our vice president, human resource and administrative management center heads and the heads of operation of each manufacturing base, who are mainly responsible for:

- supervising the work on epidemic prevention and control
- formulating epidemic emergency plans
- assisting each manufacturing base to set up an epidemic prevention team

To keep our employees safe from the threat of the COVID-19 virus, we have taken timely response measures, such as flexible adjustment of work arrangements, ensuring the adequacy of epidemic prevention supplies, hiring professionals to conduct comprehensive disinfection in the factory area and set up temporary quarantine facilities. We have successfully achieved the goal of zero infection for all employees in 2021 once again. In addition, we have adopted the following preventive and control measures in various aspects, and prudently carried out the resumption control work.

1. Access management:

— All personnel entering our office or factory area are required to measure their body temperature and disinfect their hands

— Visitors must make appointments in advance and register upon arrival. We have a designated reception area to measure their body temperature and confirm whether they have worn masks and disinfected their hands to reduce the risk of virus transmission.

2. Meal arrangements:
   — All personnel must measure their body temperature and disinfect their hands before entering the dining hall.

   — Employees should be arranged to dine at different times and avoid face-to-face meals. Employees should also be arranged to dine in different areas to ensure a safe distance for meals.

3. Electronic approval system:
   — Online approval policy has been implemented for payment-related purchase applications to prevent viruses from spreading through documents and ensure smooth document delivery. The physical documents are kept by each department and submitted together when appropriate and safe.

4. Employee recruitment:
   — Personnel from non-key epidemic areas were arranged for interviews and recruitment as usual. They would be formally on board after conducting quarantine and observation in accordance with the requirements of local governments and the actual operating conditions of the Group. Personnel who have lived in, contacted, passed through or stayed in the epidemic area would be interviewed and hired after the quarantine is lifted according to government requirements.

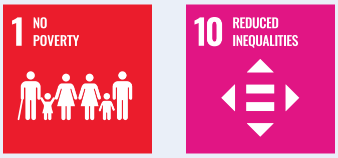
   — Employees are required to complete the online epidemic prevention information declaration before getting on board, and can only enter the premises after on-site audit on the day of entry.

5. Improving hygiene:
   — Designated personnel are assigned for regular disinfection and inspection of office areas, factories, dormitories and canteens on a daily basis.

   — All personnel should maintain proper social distancing when communicating, and must wear masks in all places and on their way to and from work.

6. Reducing travel and face-to-face meetings:
   — Use emails and teleconferences instead of face-to-face meetings to reduce employee contact with customers, where feasible.

LOVE — CREATING A SUSTAINABLE COMMUNITY



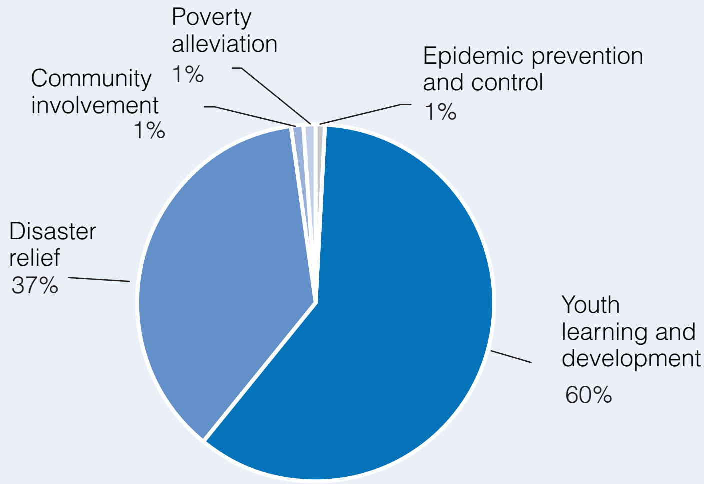
The Group encourages each of our "caring dream chasers" to lend a helping hand to those in need and to create a healthier and more sustainable future for our customers and the communities. Social investment is undoubtedly one of the elements of sustainable development. We will continue to lead our employees to drive action with dreams and spread love in the world.

Vision: Creating value for society

The Group realizes our vision of "Creating value for society" by supporting the community. We actively practice social responsibilities and strive to invest a lot of resources in more variety of social aspects. In order to listen to the needs, concerns and expectations of people from different sectors, we work closely with various charities. During the Reporting Period, we have also participated in various community investment activities, the scope of contribution of which includes youth learning and development, flood and disaster relief, community involvement, poverty alleviation, epidemic prevention and control, etc. In the exploration journey in the field of atomization technology, we look forward to strengthening the connection with our society and making progress together by promoting the culture of mutual help and love.

ESG Summary	
Invested a total of more than RMB **11,300,000**	Worked voluntarily for more than **500** hours

Community investment by major category



Epidemic Prevention and Control Work

The global COVID-19 epidemic is still raging in 2021. In order to fight the epidemic together with all sectors of society, during the Reporting Period, we donated 30,000 medical masks to the anti-epidemic vaccination campaign in the local community to encourage the public to get vaccinated as soon as possible. The Group also donated air conditioners to the hospital in the local community to support the epidemic prevention action.

In addition, we took action to care for front-line employees that make contributions in fighting against the epidemic. During the Reporting Period, the Group cooperated with the Shenzhen Women and Children's Development Foundation to donate fruits and supplies (including food and beverages, etc.) to the staff and the medical personnel at the epidemic prevention frontline. So as to give them warmth, care and thank them for sticking to fulfilling their responsibilities and protecting the health and safety of the public.

Flood and Disaster Relief

As "caring dream chasers", we continue to listen to and pay attention to social needs, and enthusiastically participate in social welfare and donation activities. In 2021, Henan suffered from an extremely rare and catastrophic flood, causing large-scale casualties and property damage in the local area. After understanding the local situation, the Group launched an emergency support operation and donated HK$5 million to Henan for flood and disaster relief in Henan. We will continue to pay attention to social trends, practice corporate social responsibility, and contribute to flood and disaster relief.

Youth Learning and Development Support

The Group is constantly seeking methods to promote the development of education in China. From July to August 2021, we have successively participated in different types of educational development activities, hoping that students and teenagers can develop their strengths during their growth. The Group signed a "Directed Donation Agreement" (《定向捐贈協議書》) with the local Charity Federation, and donated RMB200,000 through the local Charity Federation to assist schools in discovering and nurturing talents. In addition, we also signed a "Directed Donation Agreement" (《定向捐贈協議書》) with the local Charity Federation, and donated RMB1.6 million through the local Charity Federation for the laboratory and tennis court of the Junior High School, to provide more different learning experience for the students. In order to support the needs of young people in entrepreneurship and employment, we also donated RMB5 million to relevant Charity Federation to provide the youth with more development opportunities.

Poverty Alleviation

During the Reporting Period, we have prepared the 2021 Chinese New Year Farmer-helping Love and Caring Activities to send holiday blessings to families in need. We arranged our employees to visit Jianghai District in Jiangmen City to purchase peach blossoms from the East Peach Blossom Plantation Base, and delivered festive New Year items to 50 families of women and children in need in Jianghai District, including New Year gift bags, peach blossoms, etc., hoping to send warmth to the underprivileged citizens and help solving the problem of obsolete peach blossoms for flower farmers. In addition, we also carried out pairing assistance activities in Dahua County, Guangxi Province. In October 2021, we arranged poverty alleviation representatives to visit Guangxi for on-site investigation and caring activities, and sign the "Pairing Assistance Framework Agreement" (《結對幫扶框架協議》) to improve the development and living condition of poverty-stricken areas.

Community Involvement

During the Review Period, the Group provided protective supplies, such as face masks, drinking water, and mosquito repellent liquid, etc., for staff participated in community services for several times. In addition, we also care about the health of the elderly, and donated several medical equipments to the community nursing home in December 2021.

KEY PERFORMANCE INDICATORS OVERVIEW

Environmental KPIs[1,2,3,4,5,6]	2021	2020	Unit
Air emissions			
Nitrogen Oxides (NO_X)	**192.8**	57.4	kg
Sulphur Oxides (SO_X)	**0.9**	0.4	kg
Particulate Matter (PM)	**12.4**	3.2	kg
GHG emissions			
Total GHG emissions	**74,524.8**	64,707.1	Tonnes of CO_2e
• Direct emissions (Scope 1)	**405.0**	177.6	Tonnes of CO_2e
• Indirect emissions (Scope 2)	**74,119.8**	64,529.5	Tonnes of CO_2e
GHG emissions intensity	**54.2**	64.6	Kg $CO2_e$/RMB'0 000 000
Use of Resources			
Total energy consumption	**122,019.5**	77,393.2	MWh
• Purchased electricity[7]	**121,487.8**	77,123.8	MWh
• Diesel	**162.9**	27.8	MWh
• Petrol	**368.8**	241.6	MWh
Energy consumption intensity	**88.7**	77.3	MWh/RMB'0 000 000
Total packaging material used	**14,426.9**	10,578.4	Tonnes
• Plastic	**2,433.6**	1,501.8	Tonnes
• Paper	**11,672.3**	8,867.8	Tonnes
• Metal	**321.0**	208.8	Tonnes
Packaging material intensity	**10.5**	10.6	Tonnes/RMB'0 000 000
Total water consumption	**805,660.0**	646,835.6	m^3
Water consumption intensity	**585.7**	646.2	m^3/RMB'0 000 000
Waste			
Amount of non-hazardous waste produced[8]	**2,583.8**	716.6	Tonnes
• Plastic	**89.3**	391.6	Tonnes
• Metal	**44.9**	100.2	Tonnes
• Paper	**246.4**	157.6	Tonnes
• Other industrial waste	**109.1**	67.2	Tonnes
• Domestic waste	**2,094.1**	Not disclosed	Tonnes
Non-hazardous waste intensity	**1.9**	0.7	Tonnes/RMB'0 000 000
Total hazardous waste produced[9]	**209.4**	120.4	Tonnes
Hazardous waste intensity	**0.15**	0.12	Tonnes/RMB'0 000 000

Social KPIs[10]	2021	2020
Total number of employees		
By gender		
Male	**8,098**	6,380
Female	**8,165**	7,893
By employment type		
Full-time	**16,263**	14,273
Part-time	**0**	0
By age group		
20 or below	**529**	533
21–40	**14,050**	12,367
41–50	**1,526**	1,288
51 or above	**128**	85
By geographical locations		
Mainland China	**16,241**	14,266
Hong Kong	**9**	7
US and Europe	**13**	0
Average monthly employee turnover rate[11]		
By gender		
Male	**5.6%**	4.7 %
Female	**5.1%**	4.4 %
By age group		
20 or below	**6.5%**	4.5 %
21–40	**5.4%**	4.6 %
41–50	**3.9%**	4.1 %
51 or above	**2.0%**	2.6 %
By geographical locations		
Mainland China	**5.4%**	4.6 %
Hong Kong	**0.8%**	2.2 %
US and Europe	**0.6%**	0 %
Employee training statistics[12]		
Total training hour (hours)	**3,462,649**	1,059,088
Average training hour per employee (hours)	**76.06**	27.93
Percentage of trained employees	**98%**	97%

Social KPIs[10]	2021	2020
Average training hours and percentage of trained employees		
By gender		
Male	**78.9 (56%)**	26.8 (44%)
Female	**72.7 (44%)**	28.9 (56%)
By employee category		
Senior management	**41.5 (2%)**	39.5 (1%)
Middle management	**25.5 (6%)**	35.3 (3%)
General and technical staff	**77.3 (92%)**	27.8 (96%)

Remarks:

1. The environmental KPIs data include 15 production bases operated by Smoore (2020: 11).

2. Our reporting on air and greenhouse gases (GHG) emissions mainly base on the requirements in "How to prepare an ESG report" published by the Stock Exchange of Hong Kong Limited and "GHG Protocol Corporate Accounting and Reporting Standard (revised edition)" published by the World Business Council for Sustainable Development and World Resources Institute. Operational control approach is adopted when defining organizational boundary for the purpose of GHG accounting and reporting.

3. GHG emissions is presented in carbon dioxide equivalent (CO_2e). Our scope 1 direct emissions cover GHG emissions directly produced by businesses owned or controlled by the Group, while scope 2 indirect emissions cover GHG emissions of indirect energy resulted from electricity (purchased) internally consumed by the Group.

4. Our total energy consumption includes purchased electricity and non-renewable fuels consumed and the relevant conversion factors reference from "Technical Note: Conversion of fuel data to MWh" published by CDP.

5. Environmental data intensity is calculated by dividing the total GHG emissions, resource consumption and total amount of waste produced by the annual total revenue of the Group.

6. Our emissions factors used in the GHG emission calculations are referenced from the latest version of "How to prepare an ESG report" published by the Stock Exchange of Hong Kong Limited.

7. During the Reporting Period, the Group's self-developed next-generation automated production lines were put into full production to further enhance our production efficiency. Therefore, our purchased electricity consumption increased by about 58% from 2020 to 2021. However, our production volume in 2021 also increased by about 60% as compared to 2020. In conclusion, the increase of purchased electricity consumption was lower than that of the production volume.

8. During the Reporting Period, the data for domestic waste was added to the statistics for non-hazardous waste. Therefore, it cannot be directly compared with data from last year.

9. There was an increase in total hazardous waste produced in 2021 as the production volume of the Group increased by about 60%.

10. The social KPIs data covers the production and operation scope of the whole Group. Unless otherwise stated, our reporting on social KPIs mainly make reference to the calculation methodologies stated in "How to prepare an ESG report" published by the Stock Exchange of Hong Kong Limited.

11. Average monthly employee turnover rate is calculated by averaging the monthly turnover rates during the Reporting Period. The turnover rate in each month is calculated by the number of employees who left in a specific month/(total number of employees at the beginning of that month + total number of employees at the end of that month)/2 *100%.

12. Aside from the percentage of trained employees, the calculation of other training data included employees who resigned during the Reporting Period; therefore, the employee training data of 2020 were restated.

APPENDIX 1: HKEX ESG REPORTING GUIDE CONTENT INDEX

Subject Areas, Aspects, General Disclosure and KPIs		*Chapter/Disclosure*	*Page*
A. Environmental			
Aspect A1: Emissions			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste (e.g. per unit of production volume, per facility).	Atomization — Embracing a Greener Future	P.95-99
KPI A1.1	The types of emissions and respective emissions data.	Key Performance Indicators Overview	P.111
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Key Performance Indicators Overview	P.111
KPI A1.3	Total hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).	Key Performance Indicators Overview	P.111
KPI A1.4	Total non-hazardous waste produced (in tonnes) and where appropriate, intensity (e.g. per unit of production volume, per facility).	Key Performance Indicators Overview	P.111
KPI A1.5	Description of emission target(s) set and steps taken to achieve them.	Atomization — Embracing a Greener Future	P.96
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Atomization — Embracing a Greener Future	P.96
Aspect A2: Use of Resources			
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Atomization — Embracing a Greener Future	P.95-99
KPI A2.1	Direct and/or indirect energy (such as electricity, gas or oil) consumption by type in total (in MWh) and intensity (e.g. per unit of production, per facility).	Key Performance Indicators Overview	P.111
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production, per facility).	Key Performance Indicators Overview	P.111
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Atomization — Embracing a Greener Future	P.96-97
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	Atomization — Embracing a Greener Future	P.97
KPI A2.5	Total packaging material used for finished products (in tonnes), and if applicable, with reference to per unit produced.	Key Performance Indicators Overview	P.111

Subject Areas, Aspects, General Disclosure and KPIs		*Chapter/Disclosure*	*Page*
A. Environmental			
Aspect A3: The Environment and Natural Resources			
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Atomization — Embracing a Greener Future	P.95-99
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Atomization — Embracing a Greener Future	P.95-99
Aspect A4: Climate Change			
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Atomization — Embracing a Greener Future	P.99
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Atomization — Embracing a Greener Future	P.99
B. Social			
Employment and Labour Practices			
Aspect B1: Employment			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Aspiration — Nurturing Teams of Talents	P.100-107
KPI B1.1	Total workforce by gender, employment type (for example, full- or parttime), age group and geographical region.	Key Performance Indicators Overview	P.112
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Key Performance Indicators Overview	P.112
Aspect B2: Health and Safety			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Aspiration — Nurturing Teams of Talents	P.105-107
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	Aspiration — Nurturing Teams of Talents	P.106
KPI B2.2	Lost days due to work injury.	Aspiration — Nurturing Teams of Talents	P.106
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Aspiration — Nurturing Teams of Talents	P.105-107

Subject Areas, Aspects, General Disclosure and KPIs		*Chapter/Disclosure*	*Page*
B. Social			
Employment and Labour Practices			
Aspect B3: Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Aspiration — Nurturing Teams of Talents	P.104-105
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management, etc.).	Key Performance Indicators Overview	P.112-113
KPI B3.2	The average training hours completed per employee by gender and employee category.	Key Performance Indicators Overview	P.112-113
Aspect B4: Labour Standards			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Aspiration — Nurturing Teams of Talents	P.105
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Aspiration — Nurturing Teams of Talents	P.105
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	N/A. During the Reporting Period, there was no non-compliance relating to preventing child and forced labour.	N/A
Operating Practices			
Aspect B5: Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Innovation — Creating High-quality Products	P.91-92
KPI B5.1	Number of suppliers by geographical region.	Innovation — Creating High-quality Products	P.91
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Innovation — Creating High-quality Products	P.91-92
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Innovation — Creating High-quality Products	P.91-92
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Innovation — Creating High-quality Products	P.91-92

Subject Areas, Aspects, General Disclosure and KPIs		*Chapter/Disclosure*	*Page*
B. Social			
Operating Practices			
Aspect B6: Product Responsibility			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Innovation — Creating High-quality Products Commitment — Marketing Responsibly	P.87-99
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Commitment — Marketing Responsibly	P.94
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Commitment — Marketing Responsibly	P.94
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Innovation — Creating High-quality Products	P.90
KPI B6.4	Description of quality assurance process and recall procedures.	Commitment — Marketing Responsibly	P.93-95
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Commitment — Marketing Responsibly	P.95
Aspect B7: Anti-corruption			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Our Approach to Sustainable Development	P.85
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	During the Reporting Period, a former employee was convicted of bribery by the Shenzhen Bao'an District People's Court and has been sentenced to one year in prison.	N/A
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Our Approach to Sustainable Development	P.85
KPI B7.3	Description of anti-corruption training provided to directors and staff.	Our Approach to Sustainable Development	P.85
Aspect B8: Community Investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Love — Creating a Sustainable Community	P.108-110
KPI B8.1	Focus areas of contribution (such as education, environmental issues, labour demands, health, culture, sport).	Love — Creating a Sustainable Community	P.108
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Love — Creating a Sustainable Community	P.108

APPENDIX 2: MAJOR LAWS, REGULATIONS, ADMINISTRATIVE ORDERS AND POLICIES RELATED TO THE GROUP

Subject Areas and Aspects	Major sales jurisdictions	Major laws, regulations, administrative orders and policies related to the Group	Relevant compliance situation
A. Environment			
Aspect A1: Emissions	China	Environmental Protection Law of the People's Republic of China Environmental Impact Assessment Law of the People's Republic of China Water Pollution Prevention and Control Law of the People's Republic of China Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste Atmospheric Pollution Prevention and Control Law of the People's Republic of China Law of the People's Republic of China on Prevention and Control of Pollution from Environmental Noise Soil Pollution Prevention and Control Law of the People's Republic of China Standardization Law of the People's Republic of China Regulation on the Administration of Permitting of Pollutant Discharges	During the Reporting Period, the Group was not aware of any violation of laws and regulations related to environmental protection that had a material impact on us. For details of our compliance with relevant environmental laws and regulations, please refer to the "Atomization — Embracing a Greener Future" section of this Report.
Aspect A2: Chemicals	China	Regulations on the Safe Management of Hazardous Chemicals National Catalogue of Hazardous Substances (2015 edition) Regulation on Work Safety Permits, the Measures for the Administration of Registration of Hazardous Chemicals Administrative Measures for Licenses for Purchase and Road Transport of Highly Toxic Chemicals	
B. Society			
Aspect B1: Employment	China	Labour Law of the People's Republic of China Labor Contract Law of the People's Republic of China Social Insurance Law of the People's Republic of China Regulations on Management of Housing Provident Fund of the People's Republic of China	During the Reporting Period, the Group was not aware of any violation of laws and regulations related to employment that had a material impact on us. For details of our compliance with relevant environmental laws and regulations, please refer to the "Aspiration — Nurturing Teams of Talents" section of this Report.
Aspect B2: Health and Safety	China	Work Safety Law of the People's Republic of China Fire Prevention Law of the People's Republic of China Special Equipment Safety Law of the People's Republic of China Law of the People's Republic of China on the Prevention and Control of Occupational Diseases Provisions on the Administration of Occupational Health at Workplaces	During the Reporting Period, the Group was not aware of any violation of laws and regulations related to health and safety that had a material impact on us. For details of our compliance with relevant environmental laws and regulations, please refer to the "Aspiration — Nurturing Teams of Talents" section of this Report.
Aspect B4: Labour Standards	China	Labour Law of the People's Republic of China Provisions on the Prohibitions of Using Child Labour	During the Reporting Period, the Group was not aware of any violation of laws and regulations related to labour standards that had a material impact on us. For details of our compliance with relevant environmental laws and regulations, please refer to the "Aspiration — Nurturing Teams of Talents" section of this Report.

Subject Areas and Aspects	Major sales jurisdictions	Major laws, regulations, administrative orders and policies related to the Group	Relevant compliance situation
Aspect B6: Product Responsibly	China	Patent Law of the People's Republic of China Trademark Law of the People's Republic of China Copyright Law of the People's Republic of China Law of the People's Republic of China on the Protection of Juveniles Product Quality Law of the PRC Administrative Measures for Electronic Cigarette Tobacco Monopoly Law of the People's Republic of China Implementation Regulation of the Tobacco Monopoly Law of the People's Republic of China (2021 amendment) Public Solicitation of Opinions on the National Standard for Electronic Cigarettes (Second Draft for Comments)	During the Reporting Period, the Group was not aware of any violation of laws and regulations related to product liability that had a material impact on us. For details of our compliance with relevant environmental laws and regulations, please refer to the "Innovation — Creating High-quality Products" of this Report.
	United States	Tobacco Products Regulations Uniform Commercial Code Pro-Children Act of 2001 Child Health Insurance Program Act Model Uniform Products Liability Act The Consumer Safety Act Consumer Product Safety Improvement Act Comprehensive Smokeless Tobacco Health Education Act Enforcement Action Plan for Promotion and Advertising Restrictions, Office of Compliance & Enforcement, Center for Tobacco Products, U.S. Food and Drug Administration Federal Cigarette Labeling and Advertising Act Required Warnings for Cigarette Packages and Advertisements, 21 C.F.R. Part 1141(effective January 14, 2022) Federal Cigarette Labeling and Advertising Act US Privacy Act of 1974 Federal Food, Drug and Cosmetic Act Premarket Tobacco Product Applications and Recordkeeping Requirements 21 C.F.R. California Business and Professions Code, Division 8.5, Stop Tobacco Access to Kids Enforcement Act [22950-22964] California Health and Safety Code, Division 103, Disease Prevention and Health Promotion, Chapter 1, Part 3, Tobacco Control [104350-104559.5] California Health and Safety Code, Division 104, Environmental Health, Part 15, Miscellaneous Requirements, Chapter 9, Electronic Cigarettes [119406]	

Subject Areas and Aspects	Major sales jurisdictions	Major laws, regulations, administrative orders and policies related to the Group	Relevant compliance situation
	Japan	Product Liability Act Civil Code Consumer Product Safety Act Product Safety of Consumer products Tobacco Business Act Japanese juvenile law Act Prohibiting Smoking by Minors Electrical Appliances and Materials Safety Act Health Service Bureau (HSB) Notification 0225 Number 2 Health Promotion Act Industrial Safety and Health Act Ministry of Finance Notification No. 109, Guidelines on Advertisements Concerning Tobacco Tobacco Business Act Implementation The Act on the Protection of Personal Information Guidelines for Smoking Prohibition in the Workplace	
	European Union	Directive 1999/34/EC Council Directive 85/374/EEC Directive 2014/40/EU, Tobacco Products Directive Charter of Fundamental Rights Treaty on European Union Commission Implementing Decision (EU) 2016/586 Commission Implementing Decision (EU) 2015/1735 Commission Implementing Regulation (EU) 2020/2151 Commission Implementing Decision (EU) 2015/1842 Directive 2003/33/EC Commission Delegated Directive 2014/109/EU General Data Protection Regulation Directive 2001/95/EC, General Product Safety (GPSD) Directive 2006/66/EC, Battery Regulation Directive 2001/83/EC, Community Code relating to Medicinal Products for Human Use (amendment on 26 May 2021) Directive 2011/65/EU, Restriction of the Use of Certain Hazardous Substances and the amendments up to 2021 Directive 2014/30/EU, Electromagnetic Compatibility (EMC) Directive Regulation (EC) No 1907/2006, Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) and the amendments up to 2021	
Aspect B7: Anti-Corruption	China	Anti-Unfair Competition Law of the People's Republic China Criminal Law of the People's Republic of China	For details of our compliance with relevant environmental laws and regulations, please refer to the "Aspiration — Nurturing Teams of Talents" section and the Appendix 1 of this Report.
	United States	Foreign Corrupt Practices Act	
	Japan	Guidelines for Preventing Bribery of Foreign Public Officials	

The Chinese version of relevant laws, regulations, administrative orders and policies applicable to the United States, Japan and the European Union is for identification purposes only.

Deloitte. 德勤

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

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 126 to 202, which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021, 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.

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 year. 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 revenue recognition as a key audit matter due to its financial significance to the consolidated financial statements. The Group recognises 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 Group and its customers. For the year ended 31 December 2021, the Group recognised revenue of RMB13,755,242,000. Details of the accounting policies for revenue recognition and an analysis of revenue are disclosed in notes 3 and 5, 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.

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.

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.

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 Chow Tsz Ki.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	2021 RMB'000	2020 RMB'000
Revenue	5	**13,755,242**	10,009,937
Cost of sales		**(6,378,203)**	(4,714,124)
Gross profit		**7,377,039**	5,295,813
Other income	6(a)	**499,068**	195,376
Other gains and losses	6(b)	**93,186**	19,317
Loss on fair value changes of convertible promissory notes		**—**	(38,487)
Loss on fair value changes of convertible preferred shares		**—**	(1,019,109)
Distribution and selling expenses		**(192,916)**	(144,171)
Administrative expenses		**(863,701)**	(682,681)
Research and development expenses		**(670,629)**	(419,806)
Finance costs	7	**(25,046)**	(15,369)
Impairment loss recognised on trade receivables under expected credit loss model, net		**(7,659)**	(129)
Listing expenses		**—**	(72,988)
Profit before tax		**6,209,342**	3,117,766
Income tax expense	8	**(922,375)**	(717,845)
Profit for the year	9	**5,286,967**	2,399,921
Other comprehensive income:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**24**	—
Other comprehensive income for the year		**24**	—
Total comprehensive income for the year		**5,286,991**	2,399,921
Earnings per share	12		
Basic (RMB cents)		**88.54**	44.49
Diluted (RMB cents)		**85.40**	42.17

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	2021 RMB'000	2020 RMB'000
Non-current assets			
Property, plant and equipment	13	2,107,839	1,116,212
Intangible assets	14	66,399	88,158
Deposits paid for acquisition of property, plant and equipment		1,154,085	82,668
Deferred tax assets	16	15,778	11,616
Long-term bank deposits	15(a)	1,516,030	1,006,044
Rental deposits	19	25,403	28,523
		4,885,534	2,333,221
Current assets			
Inventories	17	560,070	438,830
Trade and bills receivables	18	2,409,254	2,217,590
Other receivables, deposits and prepayments	19	335,245	226,366
Financial assets at fair value through profit or loss ("**FVTPL**")		6,385	—
Restricted bank deposits		12,412	—
Short-term bank deposits over three months	15(b)	3,235,648	—
Bank balances and cash	15(c)	11,426,758	9,557,802
		17,985,772	12,440,588
Current liabilities			
Trade payables	20	826,800	702,324
Other payables and accrued expenses	21	1,434,129	748,773
Tax payables		294,972	284,755
Contract liabilities	22	250,183	253,788
Lease liabilities	23	145,513	118,014
Deferred income	24	5,138	786
Advances drawn on bills receivables discounted with recourse	25	437,505	—
		3,394,240	2,108,440
Net current assets		14,591,532	10,332,148
Total assets less current liabilities		19,477,066	12,665,369

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	2021 RMB'000	2020 RMB'000
Non-current liabilities			
Lease liabilities	23	**174,562**	212,644
Deferred income	24	**5,084**	1,943
Deferred tax liability	16	**51,061**	51,061
		230,707	265,648
Net assets		**19,246,359**	12,399,721
Capital and reserves			
Share capital	26	**419,451**	410,068
Reserves		**18,826,908**	11,989,653
Total equity		**19,246,359**	12,399,721

The consolidated financial statements on pages 126 to 202 were approved and authorised for issue by the Board of Directors on 30 March 2022 and are signed on its behalf by:

Chen Zhiping
Executive Director

Wang Guisheng
Executive Director and Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital RMB'000	Share premium RMB'000	Translation reserve RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Shares held under share award scheme RMB'000 (Note iii)	Statutory reserve RMB'000 (Note i)	Other reserve RMB'000 (Note ii)	Retained profits RMB'000	Total RMB'000
At 1 January 2020	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 share-based payment expenses	—	—	—	362,923	—	—	—	—	—	362,923
Capitalisation issue (note 26)	361,542	(361,542)	—	—	—	—	—	—	—	—
Issuance of shares upon listing (note 26)	46,190	7,344,033	—	—	—	—	—	—	—	7,390,223
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	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
Profit for the year	—	—	—	—	—	—	—	—	5,286,967	5,286,967
Other comprehensive income for the year	—	—	24	—	—	—	—	—	—	24
Recognition of share-based payment expenses	—	—	—	270,996	2,809	—	—	—	—	273,805
Issuance of shares (note 26)	3,877	3,716,867	—	—	—	—	—	—	—	3,720,744
Expense on issue cost	—	(15,170)	—	—	—	—	—	—	—	(15,170)
Exercise of share options	5,506	229,702	—	(202,879)	—	—	—	—	—	32,329
Purchase of shares under share award scheme	—	—	—	—	—	(82,156)	—	—	—	(82,156)
Transfer to statutory reserve	—	—	—	—	—	—	6,778	—	(6,778)	—
Dividends recognised as distribution (note 11)	—	(2,369,905)	—	—	—	—	—	—	—	(2,369,905)
At 31 December 2021	419,451	10,139,476	24	406,466	2,809	(82,156)	42,597	(1,194,032)	9,511,724	19,246,359

* Less than RMB1,000

Notes:

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

(ii) Other reserve represents i) the difference between the share capital and share premium of Smoore Shenzhen Technology Co,. Ltd# (深圳麥克韋爾科技有限公司) ("Smoore Shenzhen"), a subsidiary of the Company, and cash considerations for the acquisition of 95% and 5% interest in Smoore Shenzhen by Smoore (Hong Kong) Limited ("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 at the date of issuance as part of the group reorganisation in prior year.

(iii) During the year, the Company's subsidiary Giant Bliss International Limited ("Giant Bliss") repurchased the Company's shares through the Stock Exchange as follows:

Year Ended	Month of repurchase	No. of ordinary shares of USD0.01 each	Price per share Lowest HK$	Price per share Highest HK$	Aggregate consideration paid HK$000	Aggregate consideration paid RMB'000
2021	September 2021	1,412,700	34.60	35.50	49,584	41,189
2021	November 2021	1,449,000	34.30	34.55	49,863	40,967

The above ordinary shares were repurchased for the purpose of the Restricted Share Award Scheme disclosed in note 27(iii).

English name is for identification purpose only

CONSOLIDATED STATEMENT OF CASH FLOWS

	2021 RMB'000	2020 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**6,209,342**	3,117,766
Adjustments for:		
Depreciation of property, plant and equipment	**83,502**	53,281
Amortisation of intangible assets	**4,237**	2,926
Finance costs	**25,046**	15,369
Loss on disposal/write-off of property, plant and equipment other than right-of-use assets for buildings	**126**	7,480
Interest income	**(424,232)**	(85,346)
Allowance (reversal of allowance) for inventories, net	**719**	(12,764)
Impairment loss recognised on trade receivables, net	**7,659**	129
Impairment loss recognised in respect of intangible assets	**17,847**	—
Fair value loss on convertible promissory notes	**—**	38,487
Fair value loss on convertible preferred shares	**—**	1,019,109
Share-based payment expenses	**273,805**	362,923
Gain on termination of leases	**(6,004)**	(2,252)
Gain on fair value changes of financial assets at FVTPL	**(133,950)**	(43,785)
Unrealised exchange loss, net	**45,593**	41,660
Release of deferred income	**(6,803)**	(1,772)
Operating cash flows before movements in working capital	**6,096,887**	4,513,211
Decrease in inventories	**122,308**	297,338
Increase in trade and bills receivables	**(2,204,787)**	(1,626,964)
Increase in other receivables, deposits and prepayment	**(81,000)**	(562)
Increase in trade payables	**128,214**	268,691
Increase in other payables	**383,385**	168,197
Decrease in contract liabilities	**(1,791)**	(110,425)
Net settlement of forward foreign exchange contracts	**61,436**	19,511
Net cash generated from operations	**4,504,652**	3,528,997
PRC Enterprise Income Tax paid	**(916,320)**	(474,129)
NET CASH FROM OPERATING ACTIVITIES	**3,588,332**	3,054,868
INVESTING ACTIVITIES		
Interest received	**290,677**	78,159
Proceeds from disposal of property, plant and equipment	**57,843**	825
Withdrawal of short-term bank deposits with variable interest rate	**8,352,129**	4,037,947
Withdrawal of long-term bank deposits	**540,000**	—
Refund of rental deposits upon termination of leases	**6,574**	7,188
Government grants received	**14,296**	1,141
Payment for acquisition of property, plant and equipment	**(1,958,677)**	(339,234)
Payments for rental deposits	**(20,649)**	(7,223)
Purchase of intangible assets	**(13,715)**	(7,994)
Development costs paid	**(5,690)**	(39,813)
Placement of short-term bank deposits with variable interest rate	**(8,286,000)**	(4,011,971)
Placement of short-term bank deposits over three months	**(3,190,000)**	—
Placement of long-term bank deposits	**(1,000,000)**	(1,000,000)
Placement of restricted bank deposits	**(12,412)**	—
NET CASH USED IN INVESTING ACTIVITIES	**(5,225,624)**	(1,280,975)

	2021 RMB'000	2020 RMB'000
FINANCING ACTIVITIES		
Dividends paid	(2,369,904)	—
Interest paid	(25,046)	(15,369)
Repayment of lease liabilities	(141,435)	(101,130)
Issue of shares of the Company	3,720,744	7,390,223
Transaction cost attributable to issuance of share	(15,170)	—
Purchase of shares under share award scheme	(82,156)	—
Proceeds from issue of shares upon exercise of share options	28,507	13,485
Payment of issue costs	(4,250)	(149,581)
Advances drawn on bills receivables discounted with recourse	2,411,128	—
Repayment of advances drawn on bills receivables discounted with recourse	—	(79,536)
NET CASH FROM FINANCING ACTIVITIES	3,522,418	7,058,092
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,885,126	8,831,985
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	9,557,802	731,394
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(16,170)	(5,577)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	11,426,758	9,557,802

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. 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 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 periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories.

The application of the amendments to HKFRSs in the current year has 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.

2. 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[3]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[3]
Amendments to HKAS 8	Definition of Accounting Estimates[3]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3]
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 April 2021.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after 1 January 2023.
4 Effective for annual periods beginning on or after a date to be determined.

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

Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

HKAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

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

Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies (Continued)

HKFRS Practice Statement 2 *Making Materiality Judgements* (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group and the disclosures of the Group's significant accounting policies.

Amendments to HKAS 8 Definition of Accounting Estimates

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty — that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group's consolidated financial statements.

Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 *Income taxes* ("HKAS 12") so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

As disclosed in note 3 to the consolidated financial statements, for leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

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

Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Continued)

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. As at 31 December 2021, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to RMB304,454,000 and RMB320,075,000 respectively. The Group is still in the process of assessing the full impact of the application of the amendments.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies

Basis of preparation of consolidated financial statements

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.

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* ("HKFRS 16"), 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*.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

Basis of preparation of consolidated financial statements (Continued)

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.

Significant accounting policies

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.

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.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

Significant accounting policies (Continued)

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.

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.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

Significant accounting policies (Continued)

Leases

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 of HKFRS 16 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 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 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; and
- any initial direct costs incurred by the Group.

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.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("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.

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.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Lease modifications (Continued)

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.

When the modified contract contains one or more additional lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component. The associated non-lease components are included in the respective lease components.

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.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

Significant accounting policies (Continued)

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.

Termination benefits

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

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.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

Significant accounting policies (Continued)

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.

Share-based payments

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 option 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 option reserve.

When share options are exercised, the amount previously recognised in share option 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 option reserve will be transferred to retained profits.

Share awarded to employees

For share award scheme, the fair value of services received, determined by reference to the fair value of awarded shares granted at the grant date, is expensed on a straight-line basis over the vesting period, with a corresponding increase in share award reserve. The cost of acquisition of the Company's shares held for the share award scheme is recorded as shares held under share award scheme. At the time when the awarded shares are vested, the amount previously recognised in share award reserve and the amount of the relevant treasury shares will be transferred to retained profits.

At the end of each reporting period, the Group revisits its estimate of the number of awarded shares that are expected to ultimately 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 award reserve.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

Significant accounting policies (Continued)

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.

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 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.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

Significant accounting policies (Continued)

Taxation (Continued)

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 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 other than construction in progress, are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Property, plant and equipment 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.

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets for land use rights" within "property, plant and equipment" in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

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.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

Significant accounting policies (Continued)

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.

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.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

Significant accounting policies (Continued)

Impairment on property, plant and equipment and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment 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.

The recoverable amount of property, plant and equipment 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 testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash- generating units.

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.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

Significant accounting policies (Continued)

Impairment on property, plant and equipment and intangible assets (Continued)

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. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

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.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

Significant accounting policies (Continued)

Financial instruments (Continued)

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 *Revenue from Contracts with Customers* ("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.

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.

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.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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 from the next reporting period. 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.

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 of financial assets subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit losses ("**ECL**") model on financial assets (including trade and bills receivables, other receivables and rental deposits, short-term bank deposits over three months, long-term bank deposits, restricted bank deposits and bank balances), which are subject to impairment assessment under HKFRS 9. 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.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets subject to impairment assessment under HKFRS 9 (Continued)

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 the 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.

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.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets subject to impairment assessment under HKFRS 9 (Continued)

(i) Significant increase in credit risk (Continued)

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.

(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.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets subject to impairment assessment under HKFRS 9 (Continued)

(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.

(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.

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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.

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.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

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

3. Basis of Preparation of Consolidated Financial Statements and Significant Accounting Policies (Continued)

Significant accounting policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities at amortised cost

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

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.

4. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 3, 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 certain degree of estimation and uncertainty as the provision of ECL is sensitive to changes in estimates including internal credit ratings and corresponding default rate. At each reporting date, the credit ratings are reassessed and forward-looking information are considered.

The information about the ECL and the Group's trade receivables are disclosed in note 29(b).

4. Key Sources of Estimation Uncertainty (Continued)

(ii) Deferred tax liabilities

The Group provides deferred tax liabilities in relation to the earnings expected to be distributed from the PRC subsidiaries of the Company. Deferred tax liabilities have not been provided on certain 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 from those subsidiaries 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.

5. 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 (the "**delivery**"). Following the delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility 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 the delivery.

The Group has one operating segment based on information reported to the chief operating decision maker (the "**CODM**"), of the Group, being the executive directors of the Company for the purpose of resource allocation and performance assessment, which is the consolidated results of the Group. No analysis of segment assets or segment liabilities is presented as such information is not regularly provided to the CODM.

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

	2021 **RMB'000**	2020 RMB'000
Vaping devices and components, other than APV	**12,593,523**	9,162,803
APV	**1,161,719**	847,134
Total revenue that recognised at a point in time	**13,755,242**	10,009,937

5. Revenue and Segment Information (Continued)

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

	2021 RMB'000	2020 RMB'000
Segment revenue	**13,755,242**	10,009,937
Segment profit	**6,190,729**	4,244,009
Unallocated income	**33,851**	30,851
Unallocated expenses	**(15,238)**	(26,510)
Listing expenses	**–**	(72,988)
Loss on fair value changes of convertible promissory notes	**–**	(38,487)
Loss on fair value changes of convertible preferred shares	**–**	(1,019,109)
Profit before tax	**6,209,342**	3,117,766

The accounting policies of the operating segment is the same as the Group's accounting policies described in note 3. 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.

5. Revenue and Segment Information (Continued)

Geographical information

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

	2021 RMB'000	2020 RMB'000
The PRC (excluding Hong Kong)	**5,530,301**	2,709,058
Hong Kong, China (note)	**3,776,229**	3,632,582
United States of America	**1,677,274**	1,450,052
United Kingdom	**1,527,295**	867,598
France	**243,984**	413,351
Japan	**199,490**	312,309
Switzerland	**151,155**	170,274
Others	**649,514**	454,713
	13,755,242	10,009,937

Note: Revenue generated from Hong Kong in 2021 and 2020 are on re-export or transshipment basis and none of the Group's products are distributed or sold in Hong Kong.

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

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:

	2021 RMB'000	2020 RMB'000
Customer A	**4,722,995**	3,477,093
Customer B	**3,739,263**	1,840,706

6. OTHER INCOME AND OTHER GAINS AND LOSSES

(a) Other income

	2021 RMB'000	2020 RMB'000
Interest income from bank deposits	**422,783**	84,203
Interest income from rental deposits	**1,449**	1,143
Government grants (Note)	**54,161**	45,569
Compensation income from customers	**4,457**	14,712
Income from technical consultation services	**3,545**	11,062
Others	**12,673**	38,687
	499,068	195,376

Note: Except for the government grants as described in note 24, 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.

(b) Other gains and losses

	2021 RMB'000	2020 RMB'000
Net foreign exchange losses	**(38,087)**	(38,853)
Gain arising on forward foreign exchange contracts	**67,821**	18,103
Gain arising on short-term bank deposits with variable interest rate	**66,129**	25,682
Gain on early termination of leases	**6,004**	2,252
Loss on disposal/write off of property, plant and equipment	**(126)**	(7,480)
Others	**(8,555)**	19,613
	93,186	19,317

7. Finance Costs

	2021 RMB'000	2020 RMB'000
Interest expense on lease liabilities	**15,467**	15,369
Interest expense on bills receivables discounted with recourse	**9,579**	—
	25,046	15,369

8. Income Tax Expense

	2021 RMB'000	2020 RMB'000
Current tax:		
— PRC Enterprise Income Tax ("**EIT**")	**915,851**	619,956
— Hong Kong Profits Tax	**9,933**	40,694
	925,784	660,650
Underprovision in prior years		
— PRC EIT	**753**	3,946
	926,537	664,596
Deferred tax (note 16)	**(4,162)**	53,249
	922,375	717,845

Hong Kong

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, the first Hong Kong dollars ("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 of the qualifying group entity 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.

8. Income Tax Expense (Continued)

PRC

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% except for Smoore Shenzhen, Jiangmen Moore Technology Co., Ltd# (江門摩爾科技有限公司) ("Moore Jiangmen") and Shenzhen Maishi Technology Co., Ltd# (深圳麥時科技有限公司) ("Maishi Technology"), three major operating subsidiaries in the PRC. Smoore Shenzhen was qualified as High Technology and New Enterprise in November 2015 which was subsequently renewed in November 2018 and December 2021, and therefore Smoore Shenzhen is entitled to a preferential income tax rate of 15% for the years ended 31 December 2020 and 2021. Moore Jiangmen and Maishi Technology were qualified as High Technology and New Enterprise in December 2021, and therefore Moore Jiangmen and Maishi Technology are entitled to a preferential income tax rate of 15% for the year ended 31 December 2021 (2020: 25%). The qualification as a High and New Technology Enterprise is subject to review by the relevant tax authority in the PRC for every three years.

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

English name is for identification purpose only

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:

	2021 RMB'000	2020 RMB'000
Profit before tax	**6,209,342**	3,117,766
Income tax expense calculated at 15% (Note i)	**931,401**	467,665
Tax effect of expense not deductible for tax purpose	**68,803**	237,418
Tax effect of income not taxable for tax purpose	**(2,557)**	(8,263)
Tax effect of tax losses not recognised	**9,656**	4,164
Utilisation of tax losses previously not recognised	**(176)**	(1,098)
Effect of different tax rates of subsidiaries operating in the PRC and Hong Kong	**4,524**	9,310
Tax relief related to additional tax deduction on research and development costs incurred (Note ii)	**(95,330)**	(46,567)
Underprovision in prior years	**753**	3,946
Withholding tax on distributed profits of a PRC subsidiary	**—**	51,061
Others	**5,301**	209
	922,375	717,845

Notes:

(i) The PRC EIT rate of Smoore Shenzhen, Moore Jiangmen and Maishi Technology that accounts for substantial operation of the Group is 15%.

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

9. PROFIT FOR THE YEAR

	2021 RMB'000	2020 RMB'000
Profit before tax has been arrived at after charging (crediting):		
Directors' remuneration: (note 10)	**61,471**	96,602
Other staff costs:		
— Salaries, bonus and other benefits	**2,356,706**	1,475,574
— Retirement benefit scheme contributions	**214,195**	40,007
— Share-based payment expense	**224,362**	274,933
	2,856,734	1,887,116
Less: amounts capitalised as cost of inventories manufactured	**(1,389,966)**	(1,034,115)
amounts capitalised in intangible assets	**(5,475)**	(24,706)
	1,461,293	828,295
Depreciation of right-of-use assets for buildings and land use rights	**140,197**	109,561
Depreciation of property, plant and equipment other than right-of-use assets	**168,492**	103,593
Amortisation of intangible assets	**23,317**	18,445
	332,006	231,599
Less: amounts capitalised as cost of inventories manufactured	**(244,267)**	(175,392)
	87,739	56,207
Expenses related to short-term leases	**20,971**	4,472
Auditor's remuneration	**4,030**	4,450
Cost of inventories recognised as expense	**6,378,203**	4,714,124
Allowance (reversal of allowance) for inventories, net	**719**	(12,764)
Impairment loss recognised on intangible assets included in		
— cost of sales	**17,847**	—

10. 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	Salaries, bonus and other allowances	Retirement benefit scheme contributions	Share-based payment expense	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended 31 December 2021					
Executive directors:					
— Mr. Chen (note i)	**—**	**5,290**	**47**	**43,638**	**48,975**
— Mr. Xiong Shaoming	**—**	**2,427**	**49**	**961**	**3,437**
— Mr. Wang Guisheng	**—**	**3,266**	**49**	**4,844**	**8,159**
Non-executive director:					
— Dr. Liu Jincheng	**—**	**—**	**—**	**—**	**—**
Independent non-executive directors:					
— Mr. Zhong Shan	**300**	**—**	**—**	**—**	**300**
— Mr. Yim Siu Wing	**300**	**—**	**—**	**—**	**300**
— Dr. Liu Jie	**300**	**—**	**—**	**—**	**300**
	900	**10,983**	**145**	**49,443**	**61,471**
For the year ended 31 December 2020					
Executive directors:					
— Mr. Chen	—	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	163	—	—	—	163
— Mr. Yim Siu Wing	163	—	—	—	163
— Dr. Liu Jie	163	—	—	—	163
	489	7,995	128	87,990	96,602

Note:

(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.

10. 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 the years ended 31 December 2021 and 2020.

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

During the years ended 31 December 2021 and 2020, 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 27.

(b) Employees' emoluments

The five highest paid employees of the Group during the year included one director (2020: two directors) of the Company, details of his emolument is set out above. Details of the remuneration of the remaining four (2020: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2021 RMB'000	2020 RMB'000
Salaries, bonus and other allowances	**9,168**	2,728
Retirement benefit scheme contributions	**147**	127
Share-based payment expense	**58,643**	82,495
	67,958	85,350

10. 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	
	2021	2020
HK$10,500,001 to HK$11,000,000	**1**	—
HK$15,500,001 to HK$16,000,000	**1**	—
HK$16,000,001 to HK$16,500,000	**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
HK$39,000,001 to HK$39,500,000	**1**	—

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.

11. Dividends

	2021 **RMB'000**	2020 RMB'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2021 Interim — HK21 cents per share	**1,048,371**	—
2020 Final — HK27 cents per share	**1,321,534**	—
	2,369,905	—

During the year, a final dividend of HK27 cents per share in respect of the year ended 31 December 2020 (2020: nil) was declared and paid to owners of the Company by deduction of the share premium of the Company. The aggregate amount of the final dividend paid in the year amounted to HK$1,610,840,000 (equivalent to approximately RMB1,321,533,000) (2020: nil). An interim dividend of HK21 cents per share in respect of the six months period ended 30 June 2021 (2020: nil) was declared and paid to the owners of the Company. The aggregate amount of the interim dividend paid in the year amounted to HK$1,262,033,000 (equivalent to approximately RMB1,048,371,000) (2020: nil).

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2021 of HK18 cents per share, in an aggregate amount of approximately HK$1,081,860,000, has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

12. Earnings Per Share

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

	2021 RMB'000	2020 RMB'000
Earnings:		
Earnings for the purpose of basic and diluted earnings per share	**5,286,967**	2,399,921

	'000	'000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating earnings per share	**5,971,560**	5,394,565
Effect of dilutive potential ordinary shares:		
Share options/Award shares	**219,586**	292,312
Over-allotment option	**–**	4,155
	6,191,146	5,691,032

The computation of diluted earnings per share does not assume the exercise of certain of the company's share options as the averaged adjusted exercise prices of the share options exceeded the average market price for the year ended 31 December 2021.

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.

13. Property, Plant and Equipment

	Right-of-use assets for buildings RMB'000 (Note)	Right-of-use assets for land use rights RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST										
At 1 January 2020	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
Additions	224,207	–	34,343	213,268	166,604	58,328	53,042	349	694,474	1,444,615
Disposals/written-off/ termination of leases	(142,018)	–	–	(3,430)	(42,789)	(1,522)	(3,936)	(5)	(9,927)	(203,627)
Transfer	–	–	–	–	126,943	–	–	–	(126,943)	–
At 31 December 2021	598,303	54,487	56,499	551,256	562,788	108,452	160,524	7,924	653,049	2,753,282
DEPRECIATION										
At 1 January 2020	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
Provided for the year	139,107	1,090	848	82,324	49,515	11,068	23,546	1,191	–	308,689
Eliminated on disposals/ written-off/termination of leases	(55,688)	–	–	–	(2,344)	(905)	(387)	(4)	–	(59,328)
At 31 December 2021	293,849	2,361	848	172,370	97,436	26,986	47,779	3,814	–	645,443
CARRYING VALUES										
At 31 December 2021	304,454	52,126	55,651	378,886	465,352	81,466	112,745	4,110	653,049	2,107,839
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

Note: During the year ended 31 December 2021, certain lease contracts for factories and dormitories in the PRC were early terminated by certain subsidiaries of the Group and entered by other subsidiaries of the Group with the lessors in order to align with the business strategic development of the Group. The corresponding early termination and addition of leases arising from this arrangement during the year amounted to RMB78,368,000 and RMB84,685,000 respectively.

13. 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)

	2021 **RMB'000**	2020 RMB'000
Expense relating to short-term leases	**20,971**	4,472
Total cash outflow for leases	**177,873**	120,971
Additions to right-of-use assets	**224,207**	95,296

The Group leases various properties to operate its business. Lease contracts are entered into for fixed term of 1 year to 10 years (2020: 1 year to 10 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.

Restrictions or covenants on leases

In addition, lease liabilities of RMB320,075,000 are recognised with related right-of-use assets of RMB304,454,000 as at 31 December 2021 (2020: lease liabilities of RMB330,658,000 and related right-of-use assets of RMB305,684,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

14. INTANGIBLE ASSETS

	Development costs RMB'000	Technology know-how RMB'000	Software RMB'000	Total RMB'000
COST				
At 1 January 2020	—	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
Additions	5,690	—	13,715	19,405
At 31 December 2021	5,690	107,074	32,343	145,107
AMORTISATION AND IMPAIRMENT				
At 1 January 2020	—	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
Provided for the year	—	18,767	4,550	23,317
Impairment loss recognised in profit and loss	—	17,847	—	17,847
At 31 December 2021	—	68,156	10,552	78,708
CARRYING VALUES				
At 31 December 2021	5,690	38,918	21,791	66,399
At 31 December 2020	—	75,532	12,626	88,158

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 software 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.

An impairment loss of RMB17,847,000 (2020: nil) is recognised for certain technology know-how.

15. Long-term Bank Deposits, Short-term Bank Deposits Over Three Months 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 at the end of the reporting period. The deposits carry interest at 3.50% (2020: 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) Short-term bank deposits over three months

As at 31 December 2021, the Group's short-term bank deposits over three months carry fixed interest rates from 1.7% to 2.3% (2020: nil) per annum.

(c) Bank balances and cash

As at 31 December 2021, the Group's bank balances carry interests at prevailing market rates which range from 0% to 0.3% (2020: 0% to 0.3%) per annum and the bank deposits with maturity dates of three months or less carry fixed interest rates from 2.0% to 3.3% (2020: 2.4% to 3.3%) 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.

	2021 RMB'000	2020 RMB'000
US dollars ("US$")	**35,770**	8,388
HK$	**41,796**	1,667
GBP	**373**	123
Indonesian Rupiah ("IDR")	**145**	—
	78,084	10,178

16. Deferred Tax Assets/Liabilities

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

	2021 RMB'000	2020 RMB'000
Deferred tax assets	**15,778**	11,616
Deferred tax liability	**(51,061)**	(51,061)
	(35,283)	(39,445)

16. Deferred Tax Assets/Liabilities (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	Impairment loss of intangible assets RMB'000	Undistributed earnings of a subsidiary RMB'000	Total RMB'000
At 1 January 2020	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)
(Charge) credit to profit or loss	(2,338)	1,859	179	4,462	—	4,162
At 31 December 2021	3,905	4,033	3,378	4,462	(51,061)	(35,283)

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 2021, 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 RMB9,432,523,000 (2020: RMB4,219,247,000), 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 2021, the Group had unused tax losses of RMB94,506,000 (2020: RMB31,305,000) 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:

	2021 RMB'000	2020 RMB'000
2024	**2,774**	3,544
2025	**27,360**	27,761
2026	**64,372**	—
	94,506	31,305

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

17. Inventories

	2021 RMB'000	2020 RMB'000
Raw materials	238,953	167,667
Work in progress	163,029	169,304
Finished goods	158,088	101,859
	560,070	438,830

18. Trade and Bills Receivables

	2021 RMB'000	2020 RMB'000
Trade receivables from contracts with customers	1,703,163	1,422,109
Less: allowance for credit losses	(16,562)	(8,903)
	1,686,601	1,413,206
Bills receivables	722,653	804,384
	2,409,254	2,217,590

The Group allows a credit period of 0 to 75 days (2020: 0 to 75 days) to its trade customers.

As at 1 January 2020, trade receivables from contracts with customers amounted to RMB659,006,000.

18. Trade and Bills Receivables (Continued)

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

	2021 RMB'000	2020 RMB'000
Trade receivables		
Within 30 days	998,721	836,092
31 to 60 days	438,734	423,510
61 to 90 days	248,221	150,207
Over 90 days	925	3,397
	1,686,601	1,413,206

The maturity dates of bills receivables are within two months as at 31 December 2021 (2020: three months).

As at 31 December 2021, included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB35,125,000 (2020: RMB13,588,000), which are past due at the end of the 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 2021, RMB438,000 (2020: RMB1,268,000) 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 29(b).

As of 22 March 2022, RMB2,356,188,000 of trade and bills receivables as of 31 December 2021 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.

	2021 RMB'000	2020 RMB'000
US$	1,221,678	1,012,876

19. Other Receivables, Deposits and Prepayments

	2021 RMB'000	2020 RMB'000
Value added tax recoverable	**129,499**	114,663
Prepayments	**116,553**	43,335
Rental deposits	**38,076**	32,408
Other receivables	**76,520**	64,483
	360,648	254,889
Less: rental deposits (non-current portion)	**(25,403)**	(28,523)
	335,245	226,366

Details of impairment assessment of other receivables are set out in note 29(b).

20. Trade Payables

	2021 RMB'000	2020 RMB'000
Trade payables		
— third parties	**764,060**	649,032
— a related party	**62,740**	53,292
	826,800	702,324

The Group is normally granted credit terms of 30 to 60 days (2020: 30 to 60 days).

20. Trade Payables (Continued)

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:

	2021 RMB'000	2020 RMB'000
Within 30 days	**763,272**	644,595
31–60 days	**61,708**	51,195
61–90 days	**1,737**	3,821
Over 90 days	**83**	2,713
	826,800	702,324

21. Other Payables and Accrued Expenses

	2021 RMB'000	2020 RMB'000
Accrued staff costs and benefits	**764,945**	505,308
Other payables	**476,070**	91,776
Accrued expenses	**133,254**	82,237
Other tax payables	**59,860**	32,070
Accrued listing expenses and issue costs	**—**	37,382
	1,434,129	748,773

22. Contract Liabilities

Contract liabilities are recognised when the Group receives amounts 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 10% to 100% of total consideration from certain customers when they enter into contracts with the Group.

Revenue recognised during the years ended 31 December 2020 and 2021 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 2021 that related to performance obligations that were satisfied in prior years (2020: nil).

As at 1 January 2020, contract liabilities amounted to RMB386,003,000.

23. Lease Liabilities

	2021 RMB'000	2020 RMB'000
Lease liabilities payable:		
— Within one year	**145,513**	118,014
— More than one year but not exceeding two years	**93,487**	105,009
— More than two years but not exceeding five years	**55,268**	78,698
— More than five years	**25,807**	28,937
	320,075	330,658
Less: Amounts due for settlement within twelve months shown under current liabilities	**(145,513)**	(118,014)
Amounts due for settlement after twelve months shown under non-current liabilities	**174,562**	212,644

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 2021, the incremental borrowing rate applied range from 4.75% to 4.90% (2020: from 4.75% to 4.90%). 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.

24. Deferred Income

	2021 RMB'000	2020 RMB'000
Balance at beginning of the year	**2,729**	3,360
Government grants received	**14,296**	1,141
Released to profit or loss	**(6,803)**	(1,772)
Balance at end of the year	**10,222**	2,729
Less: Amount to be recognised as income within one year included in current liabilities	**(5,138)**	(786)
Amount to be recognised as income after one year included in non-current liabilities	**5,084**	1,943

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.

25. Transfers of Financial Assets

The following were the Group's financial assets as at the end of the reporting period 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.

	2021 RMB'000	2020 RMB'000
Carrying amount of bills receivables discounted to bank with full recourse	437,505	—
Carrying amount of associated liabilities	(437,505)	—
Net position	–	—

26. Share Capital

	Number of shares	Share Capital US$'000
Ordinary shares of US$0.01 each		
Authorised:		
At 1 January 2020	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 and 31 December 2021	10,000,000,000	100,000

26. Share Capital (Continued)

	Number of shares	Amount US$'000	Equivalent amount of ordinary shares RMB'000
Issued and fully paid:			
At 1 January 2020	62,462.031	—*	4
Automatic conversion of Preferred Shares upon IPO (Note i)	2,152.478	—*	—*
Capitalisation issue (Note ii)	5,169,096,105.491	51,691	361,542
Issuance of ordinary share (Note iii)	574,352,000.000	5,744	40,172
Issuance of shares on exercise of over-allotment option (Note iv)	86,152,000.000	862	6,018
Exercise of share options (Note 27)	35,486,000.000	355	2,332
At 31 December 2020	5,865,150,720.000	58,652	410,068
Issuance of ordinary share (Note v)	60,000,000.000	600	3,877
Exercise of share options (Note 27)	85,075,500.000	851	5,506
At 31 December 2021	6,010,226,220.000	60,103	419,451

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

Notes:

(i) 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.

(ii) 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.

(iii) 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.

(iv) On 31 July 2020, the over-allotment option was fully exercised and the Company issued additional of 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.

26. Share Capital (Continued)

Notes: (Continued)

(v) 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 of the Vendor to not less than six placees at HK$74.40 per share (the "Placing"), and the Vendor agreed to subscribe for 60,000,000 new shares of the Company at HK$74.40 per share (the "Subscription").

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

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

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

27. Share-Based Payment Transactions

(i) The Pre-IPO share option scheme

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

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 2021, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO share option scheme was 191,327,500 (2020: 278,244,500), representing 3.2% of the shares of the Company in issue at that day (2020: 4.7% (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.

27. Share-Based Payment Transactions (Continued)

(i) The Pre-IPO share option scheme (Continued)

For the year ended 31 December 2021

The following table discloses movements of the Pre-IPO share option scheme:

	Outstanding at 1 January 2020	Granted during the year	Exercised during the year	Lapsed during the year (Note)	Outstanding at 31 December 2020	Exercised during the year	Lapsed during the year (Note)	Outstanding at 31 December 2021
Share options granted on 30 September 2019:								
Lot I	82,806,000	—	(35,486,000)	(221,000)	47,099,000	(46,860,000)	—	239,000
Lot II	35,839,000	—	—	(393,000)	35,446,000	(31,509,500)	(46,000)	3,890,500
Lot III	38,577,000	—	—	(631,000)	37,946,000	—	(49,000)	37,897,000
Lot IV	34,930,000	—	—	(513,000)	34,417,000	—	(50,000)	34,367,000
Lot V	10,767,000	—	—	(504,000)	10,263,000	—	(46,000)	10,217,000
Share options granted on 1 May 2020:								
Lot I	—	16,037,000	—	—	16,037,000	(37,000)	—	16,000,000
Lot II	—	23,417,500	—	(402,500)	23,015,000	(6,669,000)	(145,000)	16,201,000
Lot III	—	29,712,500	—	(1,145,500)	28,567,000	—	(669,000)	27,898,000
Lot IV	—	25,590,500	—	(749,000)	24,841,500	—	(418,500)	24,423,000
Lot V	—	21,355,500	—	(742,500)	20,613,000	—	(418,000)	20,195,000
Total	202,919,000	116,113,000	(35,486,000)	(5,301,500)	278,244,500	(85,075,500)	(1,841,500)	191,327,500

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

Out of the outstanding share options of 191,327,500 (2020: 278,244,500), 36,330,500 (2020: 63,136,000) options were exercisable as at 31 December 2021 with an exercise price of RMB0.38 (2020: RMB0.38) per share.

27. Share-Based Payment Transactions (Continued)

(i) The Pre-IPO share option scheme (Continued)

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

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

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise was HK$53.50 (2020: HK$51.15).

27. Share-Based Payment Transactions (Continued)

(i) The Pre-IPO share option scheme (Continued)

Details of specific categories of options are as follows: (Continued)

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 RMB155,622,000 (2020: RMB362,923,000) in relation to Pre-IPO share options granted by the Company.

27. Share-Based Payment Transactions (Continued)

(ii) The Post-IPO share option scheme

On 15 June 2020, a share option scheme (the "Post-IPO share option scheme") was adopted by the shareholders of the Company for the purpose of incentivising and retaining directors, senior management and other employees for their contribution to the Group. Under the Post-IPO share option scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

At 31 December 2021, the number of shares in respect of which options had been granted and remained outstanding under the Post-IPO share option scheme was 38,078,000 (2020: nil), representing 0.6% (2020: nil) of the shares of the Company in issue at that day. The total number of shares in respect of which options may be granted under the Post-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.

The following table discloses movements of the Post-IPO share option scheme held by directors and employees during the year ended 31 December 2021:

	Granted during the year ended 31 December 2021	Lapsed during the year (Note)	Outstanding at 31 December 2021
Share options granted on 1 April 2021:			
Lot I	7,072,668	(297,667)	6,775,001
Lot II	7,072,668	(297,667)	6,775,001
Lot III	7,072,664	(297,666)	6,774,998
Lot IV	5,170,000	(295,000)	4,875,000
Share options granted on 9 July 2021:			
Lot I	921,000	(100,000)	821,000
Lot II	921,000	(100,000)	821,000
Lot III	921,000	(100,000)	821,000
Lot IV	907,000	(100,000)	807,000
Share options granted on 30 September 2021:			
Lot I	2,495,750	(31,250)	2,464,500
Lot II	2,495,750	(31,250)	2,464,500
Lot III	2,495,750	(31,250)	2,464,500
Lot IV	2,245,750	(31,250)	2,214,500
Total	39,791,000	(1,713,000)	38,078,000

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

27. Share-Based Payment Transactions (Continued)

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

Under the Post-IPO share option scheme, no options were exercisable as at 31 December 2021.

Details of specific categories of options are as follows:

Granted on 1 April 2021:

Types	Vesting period	Exercisable period	Grant date fair value per option HK$
Lot I	01.04.2021 – 31.03.2022	01.04.2022 – 31.03.2031	10.1504
Lot II	01.04.2021 – 31.03.2023	01.04.2023 – 31.03.2031	11.3630
Lot III	01.04.2021 – 31.03.2024	01.04.2024 – 31.03.2031	12.3951
Lot IV	01.04.2021 – 31.03.2025	01.04.2025 – 31.03.2031	13.2697
Fair value of share options granted			HK$308,428,060

Granted on 9 July 2021:

Types	Vesting period	Exercisable period	Grant date fair value per option HK$
Lot I	09.07.2021 – 08.07.2022	09.07.2022 – 08.07.2031	12.0530
Lot II	09.07.2021 – 08.07.2023	09.07.2023 – 08.07.2031	14.2180
Lot III	09.07.2021 – 08.07.2024	09.07.2024 – 08.07.2031	16.0390
Lot IV	09.07.2021 – 08.07.2025	09.07.2025 – 08.07.2031	17.4710
Fair value of share options granted			HK$54,813,707

Granted on 30 September 2021:

Types	Vesting period	Exercisable period	Grant date fair value per option HK$
Lot I	30.09.2021 – 29.09.2022	30.09.2022 – 29.09.2031	10.6580
Lot II	30.09.2021 – 29.09.2023	30.09.2023 – 29.09.2031	12.5610
Lot III	30.09.2021 – 29.09.2024	30.09.2024 – 29.09.2031	14.1650
Lot IV	30.09.2021 – 29.09.2025	30.09.2025 – 29.09.2031	15.4310
Fair value of share options granted			HK$127,955,286

27. Share-Based Payment Transactions (Continued)

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

Details of specific categories of options are as follows: (Continued)

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 30 September 2021	Share options granted on 9 July 2021	Share options granted on 1 April 2021
Weighted average share price	HK$36.30	HK$42.08	HK$51.05
Exercise price	HK$36.30	HK$42.08	HK$51.05
Expected volatility	47.92%	48.47%	27.43%
Risk-free rate	1.36%	1.19%	1.42%
Expected dividend yield	0.58%	0.65%	1.17%

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 RMB115,374,000 (2020: nil) in relation to the Post-IPO share options granted by the Company.

(iii) Share Award Scheme

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

The Group has set up Giant Bliss (the "Trust") to administrate and hold the Company's shares before they are vested and transferred to the Eligible Participants. The vested shares are transferred to Eligible Participants at no cost except that the expenses attributable or payable in respect of the transfer of such shares of the Company shall be borne by the Eligible Participants.

On 24 December 2021, the Company granted a total of 4,797,300 awarded shares to certain Eligible Participants under the Restricted Share Award Scheme. The fair value of the share awarded was determined based on the market value of the Company's shares at the grant dates. The vesting period under the Restricted Share Award Scheme ranges from three months to four years.

27. Share-Based Payment Transactions (Continued)

(iii) Share Award Scheme (Continued)

At 31 December 2021, the number of shares which had been granted and remained outstanding under the Restricted Share Award Scheme was 4,797,300 (2020: nil), representing 0.1% (2020: nil) of the shares of the Company in issue at that day. The total number of shares awarded which may be granted under the Restricted Share Award Scheme shall not exceed 5% of the total issued share capital of the Company. The total number of shares which may be subject to an award or awards to a Eligible Participant shall not in aggregate exceed 1% of the total number of issued shares.

The following table discloses movements of the Restricted Share Award Scheme held by directors and employees during the years ended 31 December 2021:

	Granted during the year and outstanding at 31 December 2021
Shares granted on 24 December 2021:	4,797,300

No share granted was exercisable under the Restricted Share Award Scheme as at 31 December 2021.

During the year, the Group recognised the total expense of RMB2,809,000 in relation to the Restricted Share Award Scheme shares granted by the Company.

28. 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 maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of net debts, which include lease liabilities disclosed in note 23 and advances drawn on bills receivables discounted disclosed in note 25, 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.

29. Financial Instruments

a. Categories of financial instruments

	2021 RMB'000	2020 RMB'000
Financial assets		
Amortised cost	18,714,698	12,878,327
FVTPL		
— Forward foreign exchange contracts	6,385	—
	18,721,083	12,878,327
Financial liabilities		
Amortised cost	1,740,375	831,482
Lease liabilities	320,075	330,658
	2,060,450	1,162,140

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, other receivables, financial assets at FVTPL, long-term bank deposits, short-term bank deposits over three months, restricted bank deposits, bank balances and cash, trade payables, other payables, advances drawn on bills receivables discounted with recourse and lease liabilities. Details of the financial instruments are disclosed in the respective notes.

The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. 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.

29. 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 2021 and 2020 are as follows.

	Assets		Liabilities	
	2021 RMB'000	2020 RMB'000	**2021 RMB'000**	2020 RMB'000
US$	**1,259,026**	1,037,000	**55,545**	42,516
HK$	**41,951**	1,835	**615**	32,587
GBP	**849**	154	**—**	—
IDR	**145**	—	**12,908**	—
	1,301,971	1,038,989	**69,068**	75,103

Sensitivity analysis

The above GBP and IDR 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% (2020: 10%) increase and decrease in the relevant foreign currencies, against the functional currency of the respective group entities. 10% (2020: 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% (2020: 10%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit where the relevant foreign currencies strengthens 10% (2020: 10%) against the functional currency. For a 10% (2020: 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.

	2021 RMB'000	2020 RMB'000
US$	**102,299**	84,460
HK$	**3,514**	(3,080)

29. 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 short-term bank deposits over three months, long-term bank deposits, restricted bank deposits, advances drawn on bills receivables discounted with recourse, 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

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group.

The Group's credit risk is primarily attributable to its trade receivables. In order to minimize 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 the 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 2021, the Group had concentration risk as 59% (2020: 63%) of the total gross trade receivables was due from the Group's largest debtor, and 95% (2020: 94%) 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.

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.

29. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Bill receivables

In order to minimize 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 and rental deposits

For other receivables and rental deposits, 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, restricted bank deposits, short-term bank deposits over three months and bank balances

The long-term bank deposits, restricted bank deposits, short-term bank deposits over three months and bank balances are determined to have low credit risk. The credit risk on long-term bank deposits, restricted bank deposits, short-term bank deposits over three months and bank balances are limited because majority of the counterparties are reputable banks and the risk of default is low.

29. 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
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

29. 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 2021 RMB'000	Gross carrying amounts 2020 RMB'000
Financial assets at amortised cost						
Long-term bank deposits	15(a)	(Note ii)	N/A	12-month ECL — not credit-impaired	**1,516,030**	1,006,044
Short-term bank deposits over three months	15(b)	(Note ii)	N/A	12-month ECL — not credit-impaired	**3,235,648**	—
Bank balances	15(c)	(Note ii)	N/A	12-month ECL — not credit-impaired	**11,426,758**	9,557,802
Restricted bank deposits		(Note ii)	N/A	12-month ECL — not credit-impaired	**12,412**	—
Trade receivables	18	N/A	Group A	Lifetime ECL — not credit-impaired	**58,793**	37,180
			Group B	Lifetime ECL — not credit-impaired	**1,570,844**	1,362,005
			Group C	Lifetime ECL — not credit-impaired	**70,667**	20,165
			Group D	Lifetime ECL — credit-impaired	**2,859**	2,759
Bills receivables	18	(Note ii)	N/A	12-month ECL — not credit-impaired	**722,653**	804,384
Other receivables and rental deposits	19	N/A	(Note i)	12-month ECL — not credit-impaired	**114,596**	96,891

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 2021, the gross carrying amount of rental deposits amounted to approximately RMB38,076,000 (2020: RMB32,408,000) 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 A1 to Caa2 quoted from the rating scale of an international credit rating agency.

For trade receivables which are not credit-impaired, lifetime ECL of approximately RMB13,703,000 (2020: RMB6,144,000) were made as at 31 December 2021 for average loss rates range from 0.1% to 9.5% (2020: from 0.1% to 4.3%).

29. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

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 2020	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
New financial assets originated	13,703	100	13,803
Impairment losses reversed	(6,144)	—	(6,144)
As at 31 December 2021	13,703	2,859	16,562

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.

29. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

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 2021								
Trade payables	—	563,591	263,209	—	—	—	826,800	826,800
Other payables	—	476,070	—	—	—	—	476,070	476,070
Lease liabilities	4.75–4.90	14,220	27,450	115,323	161,261	27,761	346,015	320,075
Advances drawn on bills receivables discounted with recourse	2.24	172,151	266,252	—	—	—	438,403	437,505
		1,226,032	556,911	115,323	161,261	27,761	2,087,288	2,060,450
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	4.75–4.90	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

29. 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 that are measured at fair value on a recurring basis

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

Financial assets	Fair values as at 31 December 2021 RMB'000	Fair values as at 31 December 2020 RMB'000	Fair value hierarchy	Valuation technique and key inputs
Financial assets at FVTPL — forward foreign exchange contracts	**6,385**	—	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.

There is no transfer between different levels of the fair value hierarchy during the year ended 31 December 2021.

(ii) Fair value of the Group's 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.

30. 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	Advances 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 2020	–	–	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
Financing cash flows	(2,369,904)	(9,579)	2,411,128	–	–	(156,902)	(4,250)	(129,507)
Repayment of advance drawn on bills receivables (Note)	–	–	(1,973,623)	–	–	–	–	(1,973,623)
Dividend declared (note 11)	2,369,905	–	–	–	–	–	–	2,369,905
Recognition of lease liabilities	–	–	–	–	–	221,627	–	221,627
Early termination of leases	–	–	–	–	–	(90,687)	–	(90,687)
Interest expenses	–	9,579	–	–	–	15,467	–	25,046
Foreign exchange translation	–	–	–	–	–	(88)	15	(73)
At 31 December 2021	1	–	437,505	–	–	320,075	–	757,581

Note: During the year, advances drawn on discounted bills with recourse of RMB1,973,623 (2020: nil) have been settled by the issuers of the bills to the relevant financial institutions directly.

31. Commitments

	2021 RMB'000	2020 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**390,128**	70,272

The Group has commitment for future minimum lease payments in respect of short term leases as follows:

	2021 RMB'000	2020 RMB'000
Within one year	**9,133**	3,156

32. 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 9 and 10.

33. Related Party Transactions

(a) Other than as disclosed elsewhere in these consolidated financial statements, the Group entered into the following transactions with the related party:

Name of related party	Name of transactions	2021 RMB'000	2020 RMB'000
EVE Energy Co. Ltd, shareholder of the Company and controlled by a non-executive director of the Company	Purchase of raw material	**230,500**	180,764

(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:

	2021 RMB'000	2020 RMB'000
Salaries and other benefits	**17,011**	11,351
Retirement benefit schemes contributions	**260**	255
Share-based payment expenses	**62,311**	119,984
	79,582	131,590

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

34. Statement of Financial Position and Reserves of the Company

	2021 RMB'000	2020 RMB'000
Non-current assets		
Investments in subsidiaries	**1,117,643**	843,842
Amounts due from subsidiaries	**8,242,458**	4,390,699
	9,360,101	5,234,541
Current assets		
Other receivables, deposits and prepayments	**–**	3,229
Bank balances and cash	**265,623**	2,767,983
	265,623	2,771,212
Current liabilities		
Other payables and accrued expenses	**977**	44,804
Amounts due to subsidiaries	**14,612**	14,612
	15,589	59,416
Net current assets	**250,034**	2,711,796
Total assets less current liabilities	**9,610,135**	7,946,337
Net assets	**9,610,135**	7,946,337
Capital and reserves		
Share capital (note 26)	**419,451**	410,068
Reserves (note)	**9,190,684**	7,536,269
Total equity	**9,610,135**	7,946,337

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

Note:

Movement in the Company's reserves:

	Share premium RMB'000	Share option reserve RMB'000	Share award reserve RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2020	—	61,268	—	(232,032)	(21,787)	(192,551)
Loss and total comprehensive expense for the year	—	—	—	—	(1,126,243)	(1,126,243)
Recognition of share-based payment expenses	—	362,923	—	—	—	362,923
Capitalisation issue (note 26)	(361,542)	—	—	—	—	(361,542)
Issuance of shares upon listing (note 26)	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
Profit and total comprehensive income for the year	—	—	—	—	21,995	21,995
Issuance of shares (note 26)	3,716,867	—	—	—	—	3,716,867
Recognition of share-based payment expenses	—	270,996	2,809	—	—	273,805
Transaction costs attributable to issuance of shares	(15,170)	—	—	—	—	(15,170)
Exercise of share options	229,702	(202,879)	—	—	—	26,823
Dividends recognised as distribution (note 11)	(2,369,905)	—	—	—	—	(2,369,905)
At 31 December 2021	10,139,476	406,466	2,809	(232,032)	(1,126,035)	9,190,684

35. 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/ operation	Issued and fully paid capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			2021	2020	
Smoore Group Limited	British Virgin Islands ("BVI")	US$100	**100%**	100%	Investment holding
Smoore HK	Hong Kong	HK$10,000	**100%**	100%	Investment holding, research, development, manufacturing 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
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%	Research, development and manufacturing of vaping devices
Smoore Industry Limited	Hong Kong	HK$200,000	**100%**	100%	Export sales of vaping devices
SVR Inc.	United States	US$75,000	**100%**	100%	Inactive
Moore Jiangmen	The PRC	RMB350,000,000	**100%**	100%	Research, development and manufacturing and sale of vaping devices

35. Particulars of Subsidiaries of the Company (Continued)

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

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid capital/ registered capital	Attributable equity interest held by the Company 2021	2020	Principal activities
東莞市麥克新材料科技有限公司	The PRC	RMB500,000	**100%**	100%	Manufacturing, research, development and sales of new material and vaping devices
Maishi Technology	The PRC	RMB20,000,000	**100%**	100%	Manufacturing, research, development and sales of vaping devices and HNB devices
長沙思摩爾電子科技有限公司	The PRC	RMB500,000	**100%**	100%	Research and development
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%**	100%	Research and development
深圳摩爾霧化健康醫療科技有限公司	The PRC	RMB10,000,000	**100%**	100%	Manufacturing, research, development and sales of vaping devices
江門思摩爾新材料有限公司	The PRC	RMB1,000,000	**100%**	100%	Research, development and manufacturing of vaping devices
Fortified Vision Limited	Israel	NIS10,000	**100%**	N/A	Research and development
東莞思維爾科技有限公司	The PRC	RMB1,000,000	**100%**	N/A	Manufacturing of vaping devices
海南摩爾兄弟科技有限公司	The PRC	RMB10,000,000	**100%**	N/A	Research and development
PT Smoore Technology Indonesia	Indonesia	USD20,000,000	**100%**	N/A	Research, development and manufacturing of vaping devices
Giant Bliss	BVI	—	**100%**	N/A	Trustee
Verdewell International Holding Limited	Cayman	—	**100%**	N/A	Investment holding

35. Particulars of Subsidiaries of the Company (Continued)

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

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			2021	2020	
Verdewell Group Limited	BVI	—	100%	N/A	Investment holding
Verdewell Hong Kong Limited	Hong Kong	—	100%	N/A	Investment holding and export sales of vaping devices
深圳沃德韋科技有限公司	The PRC	RMB1,000,000	100%	N/A	Research and development, manufacturing and sales 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.

36. Subsequent Event

The Group has the following subsequent events:

On 11 March 2022, the State Tobacco Monopoly Administration announced the Administrative Measures for E-cigarette ("Administrative Measures") stipulating that e-cigarette products shall comply with mandatory national standards and shall be sold on the market after technical review; the production, wholesale and retail of e-cigarette shall acquire relevant tobacco monopoly licenses; it is prohibited to sell flavored e-cigarettes other than tobacco-flavored and e-cigarettes that can be added into atomization by consumer; and electronic cigarette products only for export shall comply with the laws, regulations and standards of the destination country or region, etc. The Administrative Measures will be implemented from 1 May 2022.

The Group will apply for the relevant licenses in accordance with the Administrative Measures, and ensure the relevant business complies with the Administrative Measures.