Smoore International Holdings Limited
思 摩 爾 國 際 控 股 有 限 公 司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 6969)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

The board (the "**Board**") of directors (the "**Directors**") of Smoore International Holdings Limited (the "**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2023 (the "**Review Period**"). Deloitte Touche Tohmatsu, certified public accountants, the independent auditor of the Company has reviewed the unaudited condensed consolidated interim financial information for the six months ended 30 June 2023 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. In addition, these interim results have also been reviewed by the Audit Committee of the Company (the "**Audit Committee**").

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2023	2022	Changes
	RMB'000	*RMB'000*	%
	Unaudited	Unaudited	
Revenue	**5,122,862**	5,653,321	(9.4)
Gross profit	**1,855,370**	2,705,607	(31.4)
Profit before tax	**796,170**	1,675,965	(52.5)
Gross profit margin	**36.2%**	47.9%	(11.7 pp)
Profit for the period	**717,342**	1,384,690	(48.2)
Total comprehensive income for the period	**734,356**	1,384,101	(46.9)
*Adjusted total comprehensive income for the period ("**Adjusted net profit**")	**758,457**	1,436,304	(47.2)
Adjusted net profit margin	**14.8%**	25.4%	(10.6 pp)

* *The adjustment process of adjusted net profit*

	For the six months ended 30 June		
	2023	2022	Changes
	RMB'000	*RMB'000*	%
	Unaudited	Unaudited	
Total comprehensive income for the period before adjustment	**734,356**	1,384,101	(46.9)
Less:			
Share-based payment expenses related to pre-IPO share option scheme	**(24,101)**	(52,203)	
Adjusted net profit	**758,457**	1,436,304	(47.2)

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

	30 June 2023	31 December 2022	Changes
	RMB'000	*RMB'000*	%
	Unaudited	Audited	
Total assets	**24,082,037**	24,359,317	(1.1)
Total equity	**20,820,313**	20,377,208	2.2
Cash and cash equivalents	**12,605,378**	9,762,933	29.1
Asset-liability ratio (%)	**13.5**	16.3	(2.8 pp)
Current ratio (%)	**639.3**	534.9	104.4 pp
Trade and bills receivables turnover days (days)	**70.2**	70.8	(0.8)
Inventory turnover days (days)	**43.8**	37.1	17.9
Trade and bills payables turnover days (days)	**57.3**	52.4	9.4

Notes:

1. Asset liability ratio = total liabilities/total assets

2. Current ratio = current assets/current liabilities

3. Trade and bills receivables turnover days = average balance of trade and bills receivables/revenue × 180

4. Inventory turnover days = average balance of inventory/cost of sales × 180

5. Trade and bills payables turnover days = average balance of trade and bills payables/cost of sales × 180

6. Average balance = (beginning balance for the period + ending balance for the period)/2

MANAGEMENT DISCUSSION AND ANALYSIS

PRINCIPAL BUSINESS OF THE GROUP

The Group is a global leader in offering atomization technology solutions. During the Review Period, through our innovative and leading-edge atomization technology solutions, we mainly operated three business segments: (1) research, design and manufacturing of closed system vaping devices, vaping components, heat-not-burn devices and components, and atomization products for special purpose for a number of global leading tobacco companies, independent electronic vaping and other corporate clients, and (2) research, design, manufacturing and sale of open system vaping devices, or advanced personal vaporizers ("**APV**"), for retail clients; and (3) new business such as inhalation therapy to provide patients with inhaled drug delivery products on a basis of atomization technology.

The electronic vaping industry around the globe has been developing rapidly. During the Review Period, the major markets exhibited a number of different characteristics.

In the Mainland China market, with the implementation of "Regulations on the Administration of Electronic Cigarettes" ("**Administrative Measures**") (《電子煙管理辦法》) and the National Standards for Electronic Cigarettes ("**National Standards**"), the sale of flavored e-cigarettes other than tobacco flavors and refillable e-cigarettes are explicitly banned. Consumers need some time to adapt and get used to tobacco-flavored e-cigarettes. Since 1 November 2022, e-cigarattes brand owners and wholesalers in the Mainland China market have been subject to a consumption tax, which also has a certain impact on demand and hence on the short-term sales of the products.

In the United States market, the accumulating effect of high inflation has impacted the purchasing power of consumers. Despite the Food and Drug Administration's ("**FDA**") persistent efforts to combat and prevent non-compliant disposable e-cigarettes from entering the United States market, and the issuance of import alerts to some manufacturers during the Review Period, it has not been able to stem the rapid growth of disposable e-cigarettes such as those with fruit and candy flavors. According to a report by the Centers for Disease Control and Prevention ("**CDC**") on 22 June 2023, the market share of disposable e-cigarettes in the U.S. have risen from 24.7% in January 2020 to 51.8% in December 2022.

The European market and other markets have been also impacted by high inflation to varying degrees, along with the ongoing conflicts in the European region, prompting consumers to choose more cost-effective products.

BUSINESS REVIEW

Research and Development ("R&D")

We believe science and technology are the core driving forces for corporate development. We are committed to building world-leading atomization technology platforms, and realizing the extensive application of atomization technology in various fields in order to meet the needs of human beings for a healthy and better life. During the Review Period, the total amount of R&D expenses of the Group was RMB614,724,000, representing an increase of 1.8% compared to the same period last year.

In the first half of 2023, despite various challenges from the external environment, we believe in the bright future of atomization technology, and are dedicated to expand the fields for atomization technology to apply to. The Group has identified four strategic areas, namely electronic vaping products for nicotine delivery ("**Electronic Vaping Products**"), heat-not-burn products for nicotine delivery ("**Heat-not-burn Products**"), atomization products for special purpose, and inhalation therapy, and has taken the market- and product-oriented approach in enhancing the efficiency of R&D and accordingly commercializing our R&D outcome successively.

In the field of Electronic Vaping Products, the Group launched FEELM Max, an upgraded ceramic coil technology platform, to the overseas market during the Review Period, which achieves more puffs, better taste and a lower mouthfeel residue than its mainstream counterpart while meeting the requirement on compliance, and quickly gained the recognition of many customers and users, and succeeded in achieving substantial sales. The Group's TOPOWER battery technology, which was unveiled overseas, brings three major technological innovations of "no charging, no degradation, and high density" to disposable products that allow more puffs.

In the field of Heat-not-burn Products, the Group has successfully accumulated a variety of technologies and developed a mix of differentiated products.

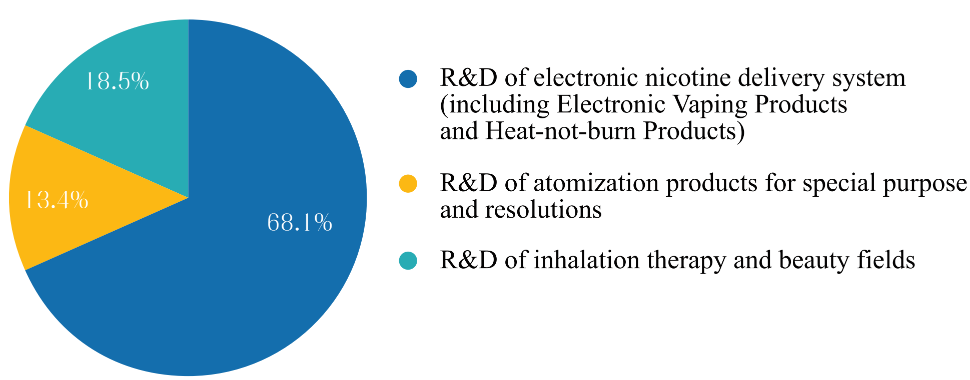
The Group is committed to realizing the application of atomization technology in more areas. During the Review Period, the Group continued to increase its investment in the field of inhalation therapy and focus on providing patients with drug-device combination solutions for respiratory related diseases. In the first half of 2023, various product development projects were advancing in an orderly manner as planned.

As at the end of June 2023, the number of R&D staff of the Group exceeded 1,400, which represents more than 40% of the total number of non-manufacturing staff of the Group. In terms of research institutes, the Group reformed the organizational structure of its research centers during the Review Period to strengthen the synergy among the research centers to improve the efficiency of R&D. Meanwhile, the Group continued to establish extensive and in-depth co-operation with a number of universities and research institutes around the world.

While maintaining its technological leadership, the Group continues to build up a global intellectual property protection system to continuously strengthen its intellectual property barriers for core technologies and to protect its own products brands and technology brands. During the Review Period, the Group filed 1,154 new patent applications worldwide, including 684 patents for invention. As of 30 June 2023, the Group had filed, accumulatively, a total of 6,816 patents worldwide, including 3,379 patents for invention.

The Group's total R&D expenditure amounted to RMB614,724,000, representing an increase of 1.8% over the corresponding period of the previous year and an increase as a percentage of revenue from 10.7% in the corresponding period of the previous year to 12.0% in the Review Period. Among them, R&D expenditure on electronic nicotine delivery systems (including Electronic Vaping Products and Heat-not-burn Products) accounted for approximately 68.1% of the total expenditure (in contrast with 82.4% in the corresponding period of the previous year), R&D expenditure on atomization products for special purpose and solutions accounted for approximately 13.4% of the total expenditure (in contrast with 13.3% in the corresponding period of the previous year), R&D expenditure on inhalation therapy and beauty fields accounted for 18.5% of the total expenditure (in contrast with 4.3% in the corresponding period of the previous year).

R&D Expenses from January to June in 2023



Production and Operation

We believe that in the process of value creation for customers, in addition to adhering to technology leadership, good products may not exist without leading manufacturing capability. In pursuit of manufacturing leadership, the Group adheres to an independent development mode to continuously improve the level of automation and intelligence of production. Benefiting from the Group's long-term experience and deep understanding of technology, products and processes, the Group has been successful in establishing a professional R&D team for automated production lines. During the Review Period, the Group continued to improve the efficiency of production operation management to maintain its leading edge in the industry.

In addition, in order to respond to the fast shifting market demand for certain disposable Electronic Vaping Products, the Group flexibly adjusted its production and operation strategy. During the Review Period, the Group replaced the relatively rigid large-scale production with agile modular production, so as to realize the production of multiple products in the same production system and the same production line, meet the varied and customized needs of different customers, and significantly increase the production efficiency and product delivery capabilities of the Group. At the same time, during the Review Period, the Group promoted product platformization and material standardization for certain disposable Electronic Vaping Products, and worked to lower manufacturing costs by standardizing the production of key components and packaging materials. The above measures have successfully supported the Group's launch of a number of new disposable Electronic Vaping Products in major overseas markets, laying a solid foundation for its rapid sales growth.

Sales and Marketing

During the Review Period, the Group achieved revenue of RMB5,122,862,000, which decreased by 9.4% as compared with the same period last year. Among which the revenue from corporate client oriented sales decreased by 12.2% as compared to the same period last year, the proportion of total revenue decreased from 90.1% in the same period last year to 87.3% in the Review Period; the revenue from retail client oriented sales increased by 15.8%, the proportion of total revenue increased from 9.9% in the same period last year to 12.7% in the Review Period.

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

In the United States market, adhering to our customer-first business philosophy, we have helped one of our major customers maintain its top ranked market share in the United States in the category of pod-based products and achieve further market share gains through measures such as improving the level of production intelligence and optimizing the cost structure. During the Review Period, the Group's sales of pod-based products in the United States achieved solid growth thanks to proactive marketing strategies of clients and recent strengthening of FDA enforcement against non-compliant products. During the Review Period, the Group continued to step up its overseas marketing and promotion to enhance the influence of its brand by participating in renowned international exhibitions in the atomization industry. Leveraging on its leading technologies, the Group won a number of important awards including "Outstanding Contribution to the Industry" (行業突出貢獻) and "Best Manufacturer" (最佳製造商) at various electronic vaping exhibitions. During the Review Period, revenue from the Group's atomization products for special purpose business declined to a certain extent as compared to the corresponding period of the previous year, which was mainly due to the pace of customers' product rollout and inventory. The Group has further approached the market by establishing overseas local warehouses and setting up overseas subsidiaries to enhance the efficiency of product delivery. In the future, the Group will continue to introduce more diversified products on the basis of strengthening channel construction to drive sales growth in this category. Considering the products transshipped through Hong Kong, revenue of approximately RMB2,060,375,000 was realized in the United States market, representing an increase of 27.7% over the corresponding period of the previous year, and its percentage of total revenue increased from 28.6% in the corresponding period of the previous year to

40.2% in the Review Period. Currently, the presence of a large number of disposable synthetic nicotine products in the United States market has had a negative impact on the sales of our customers' pod-based products.

In the Mainland China market, with the successive introduction of Administrative Measures, National Standards and related supporting measures, the China market has entered an era of orderly management, which is beneficial to the long-term healthy development of the industry. The relevant market players are required to apply for licenses, product reviews, etc. under the Administrative Measures, National Standards and related supporting regulations to lay the foundation for subsequent compliance operations. During the Review Period, the substantial decrease in revenue in the Mainland China market was mainly due to two reasons. Firstly, the implementation of the Administrative Measures and National Standards has resulted in fewer choices on flavor and, therefore, an overall reduction in market demand while consumers adjust to the tobacco flavour. Based on sales data of the Group from January to September 2022, sales from flavored e-cigarettes other than tobacco flavor accounted for more than 90% of the Group's sales revenue in the Mainland China market. Secondly, brand owners that produce and sell electronic cigarettes in Mainland China or outsource production to others, or companies engaged in the wholesale business of electronic cigarettes in Mainland China were subject to a consumption tax of its related sales revenue, which increased the purchase cost of consumers and further affected demand. Although the Group's sales in the PRC market showed a quarter-over-quarter positive trend during the Review Period, with sales revenue in the PRC market in the second quarter achieving a certain level of growth as compared to that of the first quarter, there was still a significant decline compared to the high base in the first half of 2022. Excluding export sales from PRC traders, the Group's sales revenue in the Mainland China market amounted to approximately RMB62,087,000, representing a significant decrease of 96.3% as compared to the corresponding period of the previous year, and as a percentage of the total revenue, it dropped from 30.0% in the corresponding period of the previous year to 1.2% in the Review Period.

In the European and other markets, the Group realized revenue of approximately RMB2,351,548,000 in the first half of 2023, which increased by 32.0% compared with the same period last year, and its proportion of total revenue increased to 45.9% in the Review Period from 31.5% for the same period of the previous year. The Group launched FEELM Max, an upgraded ceramic coil technology platform, which quickly gained the recognition of many customers and users, successfully yielding substantial sales. In addition, during the Review Period, the Group introduced non-rechargeable TOPOWER battery technology for products that allow more puffs, which has been applied to the Group's disposable products to enhance the consistency of taste, reduce the hassle of charging, and bring better user experience to consumers.

During the Review Period, the Group's disposable products achieved revenue of RMB1,500,359,000, representing a significant increase of 369.0% as compared with the first half of 2022.

For the retail client oriented business, thanks to the Group's strong R&D capabilities and our precise insights on users, the Group launched upgraded products LUXE XR MAX and XROS 3 NANO on top of the existing popular LUXE X and XROS series during the Review Period, which helped the Group continue to increase its share in the open system vaping product market. On the marketing front, the

Group further stepped up its marketing promotions and market development efforts, and introduced upgraded products quickly to more retail terminals by continuously building overseas marketing team and enhancing the end channel establishment. During the Review Period, revenue of RMB648,852,000 was realized from the retail client oriented business, representing an increase of 15.8% over the corresponding period of the previous year. Among them, the revenue from European and other markets was approximately RMB493,923,000, representing a year-on-year increase of 15.5%; the revenue from U.S. was approximately RMB154,929,000, representing an increase of 16.7% compared to the same period last year. In addition, new products VAPORESSO COSS and VAPORESSO ECO NANO were also unveiled at European exhibitions during the Review Period. These new products are equipped with functions such as automatic e-liquid refilling, automatic charging and longer battery lifespan, with economical and environmentally friendly features and a longer lifespan.

FUTURE PROSPECTS AND STRATEGIES

The Group is committed to building the world's leading atomization technology platform and is confident in the long-term growth of the global atomization market. In the future, we will continue to focus on "atomization technology" as our core business, and proactively lay out our business in the fields of Electronic Vaping Products, Heat-not-burn Products, atomization products for special purpose, and inhalation therapy, so as to provide comprehensive atomization technology solutions to our customers and users.

In the field of electronic vaping, Sullivan report shows that the global market for electronic vaping equipment will reach approximately US$23,413.9 million in 2027 based on ex-factory prices, with a projected compound growth rate of 18.5% between 2022 and 2027. In recent years, major countries have been promulgating laws and regulations governing the electronic vaping industry. The Group believes that the promulgation and implementation of the relevant laws and regulations will be conducive to the sustainable development of the industry as well as the development and growth of compliant enterprises. The Group will continue to proactively develop a comprehensive product portfolio to further increase its market share with new technologies that are safer with better tastes and more responsive to consumer needs. In respect of pod-based products, the Group will continue to support its customers' product iteration needs on the basis of technological innovation to help them increase their market share. In respect of disposable products, the Group will continue to focus on building highly-differentiated innovative products, and build a promptly responsive framework and efficient operation model to capture the market of disposable products rapidly with its leading product technologies, flexible sales models, better market insights, stringent cost control, and precise channel selection. In terms of APV products, the Group will continue to strengthen its user insights and channel control capabilities to increase the on-shelf availability rate of its products and achieve healthy growth in this category.

In the area of Heat-not-burn Products, the Sullivan report indicates that the global market size for heat-not-burn products will reach approximately US$16,600 million in 2027 based on ex-factory prices, with a projected compounded growth rate of 18.5% from 2022 to 2027. The Group has successfully developed a portfolio made of a number of new heating technology solutions for its Heat-not-burn Products and expects to be able to provide customers and consumers with competitive differentiated products to meet the diversified needs of different customers.

In the field of atomization products for special purpose, the Sullivan report indicates that the global market for atomization products for special purpose will reach approximately US$2,784.6 million in 2027 based on ex-factory prices, with a projected compounded growth rate of 18.4% from 2022 to 2027. On the basis of achieving technological differentiation and developing leading products, the Group will continue to expand its product range, enhance its localized channel capabilities and improve the speed of product delivery through overseas warehouses. In this regard, the Group is confident that it will continue to increase its market share in this area, which will gradually become one of the key business pillars of the Group.

In the field of inhalation therapy, we are committed to providing patients with inhaled medication mainly for the treatment of respiratory diseases. According to a latest report in 2023 released by Market Research Future, an international market research firm, the global market for pulmonary drugs and drug delivery devices is expected to reach approximately US$56.0 billion in 2022 and approximately US$93.3 billion in 2030, representing a promising market outlook. The wholly-owned subsidiary of the Group established in the United States has completed the construction of a management team responsible for various processes. Team members are well versed in the rules and regulations of the whole process of research and development, production and regulation of inhalation drugs in Europe and the United States, and are capable of integrating the resources of upstream and downstream supply chains on a global scale.

In terms of research and development, the Group will further strengthen its insight on market and continue to launch innovative products to meet market demand. In terms of research and development management, we will continue to enhance the efficiency of research and development and further improve the conversion rate of outcomes of research and development.

In terms of market development and sales, the Group will continue to enhance its market insight and capabilities on channel selection, as well as improve the efficiency in delivering to local customers through an efficient operational model and enhanced organizational flexibility, in order to keep satisfying the rapidly changing market demands.

In terms of production and operations, we will keep enhancing our production and operation management level, further enhance our ability to serve our customers and respond to their requests for production agility and on-time delivery in a timely manner. We will continue to improve our cost control and risk resistance in the supply of core materials by optimizing supply chain management. In order to improve our social responsibility performance and improve our environment, social and governance performance to create more value for society, we will also work with our customers and suppliers to develop more environmentally friendly materials, products, and production processes.

In the future, the Group will launch differentiated products that can stand out in core areas. Apart from that, the Group will also continue to expand the application of atomization technology and strive to create greater value for our customers and consumers with our leading technology and innovative products, by which we are able to bring sustainable returns to our shareholders with healthy growth in business.

FINANCIAL REVIEW

During the Review Period, the total revenue of the Group was RMB5,122,862,000, representing a decrease of 9.4% from RMB5,653,321,000 over the same period last year. The Group's gross profit margin decreased from 47.9% in the same period last year to 36.2% during the Review Period. The Group's total comprehensive income for the period decreased from RMB1,384,101,000 in the same period last year to RMB734,356,000 in the Review Period. The Adjusted net profit for the Review Period was RMB758,457,000, representing a decrease of 47.2% over the same period last year. The decrease in the Group's net profit in the Review Period was primarily due to the reasons including the decrease in sales revenue from corporate clients and the decrease in gross profit margin.

1. Revenue — categorized by business types

	For the six months ended 30 June				
	2023		2022		Changes
	RMB'000	***%***	*RMB'000*	*%*	*%*
Corporate client oriented sales	**4,474,010**	**87.3**	5,092,905	90.1	(12.2)
Retail client oriented sales	**648,852**	**12.7**	560,416	9.9	15.8
Total	**5,122,862**	**100.0**	5,653,321	100.0	(9.4)

(1) ***Corporate client oriented sales***

During the Review Period, revenue from sales to corporate clients amounted to RMB4,474,010,000 (the corresponding period in 2022: RMB5,092,905,000), representing a decrease of 12.2% as compared to the corresponding period of the previous year, after taking into account the impact of the export sales revenue of Chinese traders and the transhipment revenue through Hong Kong: (i) revenue from Mainland China amounted to approximately RMB62,087,000 (the corresponding period last year: RMB1,698,480,000), representing a significant decrease of approximately 96.3% as compared with the corresponding period of the previous year; (ii) revenue from the United States market amounted to approximately RMB2,060,375,000 (the corresponding period last year: RMB1,612,821,000), representing an increase of approximately 27.7% as compared with the corresponding period of the previous year; and (iii) revenue from the European and other countries and regions amounted to approximately RMB2,351,548,000 (the corresponding period last year: RMB1,781,604,000), representing a year-on-year increase of approximately 32.0% as compared with the corresponding period of the previous year.

(2) *Retail client oriented sales*

The Group's products for retail customers are mainly self-branded APV products and related ancillary products. During the Review Period, revenue from retail customers amounted to RMB648,852,000 (the corresponding period in 2022: RMB560,416,000), representing an increase of 15.8% as compared with the corresponding period of the previous year, after taking into account the contribution of the export sales revenue of Chinese traders and the transhipment revenue in the Hong Kong market: revenue from Europe and other countries and regions amounted to approximately RMB493,923,000 (the corresponding period in 2022: RMB427,609,000), representing an increase of approximately 15.5% as compared with the corresponding period of the previous year, while revenue from the United States amounted to approximately RMB154,929,000 (the corresponding period in 2022: RMB132,807,000), representing an increase of 16.7% as compared with the corresponding period of the previous year.

Revenue — categorized by customers' places of incorporation

	For the six months ended 30 June				
	2023		2022		Changes
	RMB'000	***%***	*RMB'000*	*%*	*%*
U.S.	**488,923**	**9.5**	606,139	10.7	(19.3)
Mainland China*	**393,207**	**7.7**	2,126,870	37.6	(81.5)
Hong Kong, China**	**2,058,603**	**40.2**	1,269,989	22.5	62.1
Europe and other countries and regions	**2,182,129**	**42.6**	1,650,323	29.2	32.2
Total	**5,122,862**	**100.0**	5,653,321	100.0	(9.4)

* *To our knowledge, certain clients in Mainland China are export trading companies. Those goods they purchase from the Group will be exported to overseas markets ultimately. Excluding effects of such clients, revenue generated by the Group from Mainland China during the Review Period was approximately RMB62,087,000 (the corresponding period in last year: approximately RMB1,698,480,000), accounting for 1.2% (the corresponding period in last year: 30.0%) of total revenue.*

** *Revenue generated from Hong Kong is on a re-export or transshipment basis and, to our knowledge, none of our products are distributed or sold in Hong Kong. Our clients incorporated in Hong Kong are mainly responsible for the transshipment for our overseas clients or trading companies. During the Review Period, revenue from products sold to the United States via Hong Kong amounted to approximately RMB1,726,382,000 (the corresponding period in last year: approximately RMB1,139,490,000), representing 83.9% of revenue from Hong Kong, China (the corresponding period in last year: 89.7%).*

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

	For the six months ended 30 June				
	2023		2022		Changes
	RMB'000	*%*	*RMB'000*	*%*	*%*
Corporate client oriented sales	**4,474,010**	**87.3**	5,092,905	90.1	(12.2)
— U.S.	**2,060,375**	**40.2**	1,612,821	28.6	27.7
— Mainland China	**62,087**	**1.2**	1,698,480	30.0	(96.3)
— European and other countries and regions	**2,351,548**	**45.9**	1,781,604	31.5	32.0
Retail client oriented sales	**648,852**	**12.7**	560,416	9.9	15.8
— U.S.	**154,929**	**3.0**	132,807	2.3	16.7
— European and other countries and regions	**493,923**	**9.7**	427,609	7.6	15.5
Total revenue	**5,122,862**	**100.0**	5,653,321	100.0	(9.4)

2. Gross Profit and Cost of Sales

During the Review Period, the Group's gross profit was RMB1,855,370,000 (the corresponding period in 2022: RMB2,705,607,000), representing a decrease of 31.4% as compared to the corresponding period of the previous year, and the gross profit margin decreased from 47.9% in the corresponding period of the previous year to 36.2% in the Review Period. The decrease in gross profit margin was mainly attributable to (1) the decrease in revenue from the Mainland China market, which had relatively higher gross profit margins and accounted for a lower portion of the Group's overall business during the Review Period; and (2) the greater growth in revenue from disposable Electronic Vaping Products, which had comparatively lower gross profit margins and accounted for a higher portion of the Group's overall business during the Review Period.

Cost of Sales

	For the six months ended 30 June				
	2023		2022		Changes
	RMB'000	*%*	*RMB'000*	*%*	*%*
Cost of raw materials	**2,548,503**	**78.0**	2,058,810	69.8	23.8
Labor cost	**332,953**	**10.2**	513,747	17.4	(35.2)
Production overhead	**365,123**	**11.2**	324,496	11.0	12.5
Tax and surcharge	**20,913**	**0.6**	50,661	1.8	(58.7)
Total	**3,267,492**	**100.0**	2,947,714	100.0	10.8

The Group's cost of raw materials as a percentage of total costs during the Review Period increased from 69.8% in the corresponding period of the previous year to 78.0% in the Review Period, which was mainly attributable to the increase in revenue from comparatively lower gross profit margin disposable Electronic Vaping Products and the greater proportion of material costs of disposable Electronic Vaping Products in the total costs, which increased the proportion of raw material costs in the total costs; and the decrease in labor costs as a percentage of total costs from 17.4% in the corresponding period of the previous year to 10.2% in the Review Period was mainly attributable to the increase in the level of production operation management of the Group and the reduction in the number of frontline production staff during the Review Period, which led to a significant reduction in labor costs during the Review Period. The production overhead as a percentage of total costs increased from 11.0% in the corresponding period of the previous year to 11.2% in the Review Period, which was mainly due to increased proportion of production overheads related to disposable products.

3. Distribution and Selling Expenses

The Group's distribution and selling expenses increased from RMB176,728,000 in the same period last year to RMB208,656,000 during the Review Period, representing an increase of 18.1%. The percentage of distribution and selling expenses to revenue rose from 3.1% in the same period last year to 4.1% in the Review Period. The increase in distribution and selling expenses as a percentage of revenue was mainly due to the Group's continued efforts in building up localized marketing team, and enhancing the establishment of overseas channel during the Review Period. Among which:

(1) Staff salaries and benefits increased by 54.7% from RMB70,117,000 in the corresponding period of the previous year to RMB108,439,000 in the Review Period, and staff remuneration and benefits as a percentage of revenue increased from 1.2% in the corresponding period of the previous year to 2.1% in the Review Period. The increase in staff remuneration and benefits was mainly attributable to the Group's continued efforts in building up localized marketing team with increased marketing staff remuneration during the Review Period.

(2) Market development expenses increased from RMB40,968,000 in the corresponding period of the previous year to RMB44,988,000 in the Review Period, representing an increase of 9.8%, and market development expenses as a percentage of revenue increased from 0.7% in the corresponding period of the previous year to 0.9% in the Review Period. The increase in marketing development expenses was mainly attributable to the increase in the Group's related marketing expenses for stepping up product promotion, organizing brand marketing events, and holding exhibitions during the Review Period.

(3) Travelling expenses increased from RMB11,607,000 for the corresponding period of the previous year to RMB16,647,000 for the Review Period, representing an increase of 43.4%, and travelling expenses as a percentage of revenue increased from 0.2% in the corresponding period of the previous year to 0.3% in the Review Period. The increase in travelling expenses was mainly attributable to the increase in travelling expenses of sales and marketing personnel as a result of the Group's further efforts on development of overseas market and promotion during the Review Period.

(4) Other expenses decreased by 28.6% from RMB54,036,000 for the corresponding period of the previous year to RMB38,582,000 for the Review Period, representing a slight decrease in percentage of revenue from 1.0% for the corresponding period of the previous year to 0.8% for the Review Period.

4. Administrative Expenses

The Group's administrative expenses for the Review Period decreased by 20.7% from RMB587,777,000 for the corresponding period of the previous year to RMB465,940,000 for the Review Period. Administrative expenses as a percentage of revenue decreased from 10.4% for the corresponding period of the previous year to 9.1% for the Review Period. The Group kept stepping up in building information system and management system, which continuously improved the management efficiency. Among them:

(1) Staff salaries and benefits decreased from RMB339,198,000 for the corresponding period of the previous year to RMB289,043,000 for the Review Period, representing a decrease of 14.8%, and as its percentage of revenue decreased from 6.0% for the corresponding period of the previous year to 5.6% for the Review Period. The decrease in staff remuneration and benefits was mainly attributable to the decrease of management remuneration expenses brought by the increase of management efficiency of the Group during the Review Period.

(2) Professional fees decreased by 61.1% from RMB101,835,000 for the corresponding period of the previous year to RMB39,646,000 for the Review Period, and its percentage of revenue decreased from 1.8% for the corresponding period of the previous year to 0.8% for the Review Period. The decrease in professional fees was mainly attributable to the decrease of the Group's spending on legal advice, recruitment service and management consultancy services during the Review Period as compared to the corresponding period of the previous year.

(3) Depreciation and amortization expenses decreased by 4.1% from RMB44,125,000 in the corresponding period of the previous year to RMB42,304,000 in the Review Period.

5. Research and Development Expenses

The Group's R&D expenditure increased by 1.8% from RMB604,120,000 for the corresponding period of the previous year to RMB614,724,000 in the Review Period. As a percentage of revenue, R&D expenditure increased from 10.7% in the corresponding period of the previous year to 12.0% in the Review Period. The increase in R&D expenditure as a percentage of revenue was mainly attributable to the Group's increased investment in the field of atomization in medical applications during the Review Period. Among them:

(1) Staff salaries and benefits increased by 0.3% from RMB385,413,000 for the corresponding period of the previous year to RMB386,633,000 in the Review Period. As a percentage of revenue, it increased from 6.8% in the corresponding period of the previous year to 7.5% in the Review Period.

(2) Development costs decreased by 14.8% from RMB155,897,000 in the corresponding period of the previous year to RMB132,772,000 in the Review Period. As a percentage of revenue, it decreased from 2.8% in the corresponding period of the previous year to 2.6% in the Review Period. The main reason for the decrease is that the proportion of spending on outsourced R&D activities out of total R&D expenditure decreased during the Review Period.

(3) Depreciation and amortization expenses increased by 59.0% from RMB26,463,000 in the corresponding period of the previous year to RMB42,086,000 in the Review Period. As a percentage of revenue, it increased from 0.5% in the corresponding period of the previous year to 0.8% in the Review Period. The increase in depreciation and amortization expenses was mainly due to the increase in depreciation of R&D equipment acquired by the Group.

6. Other Income and Expenses

During the Review Period, the total other income of the Group was RMB240,379,000, representing a decrease of 2.1% from RMB245,563,000 in the same period last year, of which:

	For the six months ended 30 June		
	2023	2022	Changes
Items	***RMB'000***	*RMB'000*	*%*
Interest income from bank deposits	**193,437**	204,657	(5.5)
Government grants	**35,096**	36,094	(2.8)
Compensation income from customers	**5,549**	2,498	122.1
Interest income from rental deposits	**882**	852	3.5
Others	**5,415**	1,462	270.4
Total	**240,379**	245,563	(2.1)

7. Other Gains and Losses

During the Review Period, the total other losses of the Group were RMB117,000, compared with total other gains of RMB106,185,000 in the same period last year, of which:

	For the six months ended 30 June		
	2023	2022	Changes
Items	***RMB'000***	*RMB'000*	*%*
Net foreign exchange gain	**37,100**	69,946	(47.0)
Loss arising on forward foreign exchange contracts*	**(86,810)**	(8,960)	868.9
Gain arising on short-term bank deposits with variable interest rate	**52,638**	48,345	8.9
Gain on early termination of lease	**1,178**	250	371.2
Loss on disposal/write off of property, plant and equipment and intangible assets	**(4,502)**	(2,244)	100.6
Others	**279**	(1,152)	N/A
Total	**(117)**	106,185	N/A

* During the Review Period, the Group recorded a higher loss arising on forward foreign exchange contracts. Please refer to the Exposure to Foreign Exchange Risk section on Page 19 of this announcement for more information.

8. Finance Costs

The finance costs of the Group primarily include interest expenses on lease liabilities and interest expenses arising from discounted bills receivables. During the Review Period, the finance costs of the Group were RMB10,980,000, representing a decrease of 25.3% from RMB14,690,000 in the same period last year. The decrease in the finance costs of the Group was primarily due to the decrease in interest expenses as a result of a decrease in the discounted bills receivables during the Review Period.

9. Income Tax Expense

During the Review Period, the Group's income tax expense was RMB78,828,000, representing a decrease of 72.9% from RMB291,275,000 in the same period last year. The main reason for the decrease in income tax was the decrease in taxable profit, preferencial tax rate enjoyed by certain entities of the Group and the tax impact from an incentive tax policy in the PRC which allows additional tax deduction for qualified R&D expenses.

10. Total Comprehensive Income for the Period

The Group's total comprehensive income for the Review Period was RMB734,356,000, representing a decrease of 46.9% from RMB1,384,101,000 in the same period last year. The Adjusted net profit was RMB758,457,000, representing a decrease of 47.2% from RMB1,436,304,000 in the same period last year. The main reason for such decrease was the decrease in revenue and gross profit margin.

11. Liquidity and Financial Resources

As at 30 June 2023, the net current assets of the Group amounted to RMB15,368,706,000 (31 December 2022: RMB15,609,816,000). As at 30 June 2023, the Group's bank balances and cash amounted to RMB12,605,378,000 (31 December 2022: RMB9,762,933,000), which mainly consisted of RMB12,357,096,000 denominated in RMB, RMB147,452,000 in USD and RMB97,144,000 in HKD (31 December 2022: mainly comprised of RMB9,505,643,000 denominated in RMB, RMB161,679,000 denominated in USD and RMB93,849,000 denominated in HKD). As at 30 June 2023, the Group's current ratio was 639.3% (31 December 2022: 534.9%).

Treasury management policy

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

Borrowings

As at 30 June 2023, the Group did not have any bank borrowings (31 December 2022: nil). As of 30 June 2023, the banking facilities secured by the Group were RMB3,860.0 million, of which RMB20.5 million had been used for the issuance of letter of credit, RMB200.2 million has been used for issuance of payable bills, RMB6.4 million has been pledged for forward foreign exchange contracts and RMB1.0 million has been used for the issuance of letter of guarantee.

Gearing Ratio

As at 30 June 2023, the gearing ratio (total liabilities divided by total equity) was 15.7% (31 December 2022: 19.5%).

12. Pledge of Assets

As of 30 June 2023, the Group did not have any pledges on its assets (31 December 2022: nil).

13. Exposure to Foreign Exchange Risk

During the six months ended 30 June 2023, the Group recorded a net foreign exchange gain of RMB37,100,000 (the same period in 2022: a net foreign exchange gain of RMB69,946,000). Meanwhile, the Group recorded a loss of RMB86,810,000 from forward foreign exchange contracts (the same period in 2022: a forward foreign exchange contracts loss of RMB8,960,000) during the Review Period.

The functional currency of the Group is RMB and the sales of the Group are mainly settled in USD and RMB. During the Review Period, approximately 60% of the Group's revenue was settled in USD and approximately 40% was settled in RMB. Most of the material, labor, and various expenditures paid by the Group were settled in RMB. The foreign exchange risk of the Group mainly refers to the risks of foreign exchange gains or loss arisen from the net amount of monetary funds denominated in USD, trade and bills receivables denominated in USD deducted by trade payables denominated in USD ("**USD exposure**") as a result of changes in the exchange rate between USD and RMB. The Group adheres to risk neutrality to hedge foreign exchange risks in terms of foreign exchange management. During the Review Period, for one hand, due to the rapid appreciation of USD against RMB, the average exchange rate for converting USD sales proceeds into RMB increased accordingly compared with the corresponding period last year, which resulted in a positive impact on revenue and profit. On the other hand, the Group usually calculated the USD exposure of current month at the beginning of each month and entered into a forward foreign exchange contract with commercial banks at the beginning of each month, which would be settled at the end of each month. Due to the rapid appreciation of USD against RMB during the Review Period, the book exchange rate at the end of each month generally exceeded the exchange rate locked in forward foreign exchange contracts at the beginning of each month, resulting in a higher amount of loss arising on forward foreign exchange contracts.

Sensitivity Analysis

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

Based on the amounts of assets and liabilities of the Group denominated in USD as of 30 June 2023, if the exchange rate of USD against RMB rises by 10%, the Group's total comprehensive income will increase by RMB165,690,000 (31 December 2022: RMB198,847,000). Otherwise, if the exchange rate of USD against RMB drops by 10%, the Group's total comprehensive income will decrease by RMB165,690,000 (31 December 2022: RMB198,847,000).

14. Employment, Training and Development

As of 30 June 2023, the Group has 15,462, 6, and 1,307 employees in Mainland China, Hong Kong, and overseas countries respectively. The Group provides comprehensive and attractive remunerations, retirement plans, share option schemes and benefits for its employees and also awards discretionary bonuses to its employees based on their work performance. The Group is required to contribute to the China Social Security Schemes. Both the Group and its employees in Mainland China are required to make contributions to pension insurance, medical insurance, and unemployment insurance according to the rate set out in relevant laws and regulations of China. The Group has adopted the provident fund scheme for employees in Hong Kong in accordance with Mandatory Provident Fund Scheme Ordinance. The Group also pays corresponding pension insurance, pension scheme, medical insurance, etc. for its employees in accordance with the laws and regulations of overseas countries where it operates. In addition, the Group also offers other incentives to motivate the personal growth and career development of employees. For instance, the Group continues to provide training to employees for improving their understanding in technology, product knowledge and industry quality standards. All new employees of the Group are required to participate in induction training courses and various training courses are also available to all employees, etc.

During the Review Period, the total staff costs (including management and administration staff) accounted for 24.3% of the revenue of the Group (the same period in 2022: 26.0%). The decrease in total staff costs as a percentage of revenue was mainly due to the fact that the Group continued to improve the level of production operation management and the decrease of the amount of front-line production personnel, resulting in decrease of staff cost during the Review Period.

15. Capital Expenditures

For the six months ended 30 June 2023, the Group's total investment in property, plant and equipment and intangible assets amounted to RMB560,670,000 (the corresponding period of the previous year: RMB1,549,959,000), which was mainly used to support the investment in building Jiangmen Industrial Park, properties for overseas research institutions, and equipment.

16. Capital Commitments

As at 30 June 2023, the Group had contracted capital commitment of RMB404,273,000 (31 December 2022: RMB625,062,000) for procurement of property, plant and equipment, which will be financed with net proceeds from the Listing and generated from operations.

17. Material Acquisitions and Disposal

During the six months ended 30 June 2023, the Group did not carry out any material acquisitions or disposals of any subsidiaries, associates or joint ventures.

18. Significant Investments

During the six months ended 30 June 2023, the Group did not have any significant investments.

19. Contingent Liabilities

As at 30 June 2023, the Group did not have any material contingent liabilities.

20. Future Plans for Material Investments or Capital Expenditures

Save as disclosed below, the Company has no other plans for material investments or capital expenditures:

(1) the investment plan disclosed under the section "Future Plans for Material Investments or Capital Expenditures" in the 2021 annual report of the Group;

(2) the section "Future Plans and Use of Proceeds" in the Prospectus; and

(3) 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.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	For the six months ended 30 June **2023** *RMB'000* **(unaudited)**	2022 *RMB'000* (unaudited)
Revenue	*4*	**5,122,862**	5,653,321
Cost of sales		**(3,267,492)**	(2,947,714)
Gross profit		**1,855,370**	2,705,607
Other income and expenses		**240,379**	245,563
Distribution and selling expenses		**(208,656)**	(176,728)
Administrative expenses		**(465,940)**	(587,777)
Research and development expenses		**(614,724)**	(604,120)
Finance costs		**(10,980)**	(14,690)
Other gains and losses	*5*	**(117)**	106,185
Impairment loss recognised on trade receivables, net		**838**	1,925
Profit before tax		**796,170**	1,675,965
Income tax expense	*6*	**(78,828)**	(291,275)
Profit for the period	*7*	**717,342**	1,384,690
Other comprehensive income (expense):			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**17,014**	(589)
Other comprehensive income (expense) for the period		**17,014**	(589)
Total comprehensive income for the period		**734,356**	1,384,101
Earnings per share	*9*		
Basic (RMB cents)		**11.81**	23.08
Diluted (RMB cents)		**11.63**	22.38

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	At 30 June 2023 RMB'000 (unaudited)	At 31 December 2022 RMB'000 (audited)
Non-current assets			
Property, plant and equipment		**4,581,113**	4,274,994
Intangible assets		**78,732**	79,011
Deposits paid for acquisition of property, plant and equipment		**162,480**	222,998
Deferred tax assets		**19,053**	16,417
Long-term bank deposits		**1,000,000**	544,690
Rental deposits		**22,034**	22,434
		5,863,412	5,160,544
Current assets			
Inventories		**748,601**	840,602
Trade and bills receivables	*10*	**1,693,651**	2,301,628
Other receivables, deposits and prepayments		**770,593**	860,856
Restricted bank deposits		**1,138**	1,138
Short-term bank deposits over three months		**2,399,264**	5,431,616
Bank balances and cash		**12,605,378**	9,762,933
		18,218,625	19,198,773
Current liabilities			
Trade and bills payables	*11*	**930,917**	1,150,234
Other payables and accrued expenses		**1,442,970**	1,821,680
Tax payables		**31,438**	64,759
Contract liabilities		**295,899**	288,966
Lease liabilities		**145,878**	156,872
Deferred income		**2,817**	4,702
Advances drawn on bills receivables discounted with recourse		**—**	101,744
		2,849,919	3,588,957
Net current assets		**15,368,706**	15,609,816
Total assets less current liabilities		**21,232,118**	20,770,360

	At 30 June 2023 *RMB'000* (unaudited)	At 31 December 2022 *RMB'000* (audited)
Non-current liabilities		
Lease liabilities	**319,465**	299,938
Deferred income	**4,401**	5,275
Deferred tax liability	**87,939**	87,939
	411,805	393,152
Net assets	**20,820,313**	20,377,208
Capital and reserves		
Share capital	**424,248**	424,043
Reserves	**20,396,065**	19,953,165
Total equity	**20,820,313**	20,377,208

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES *(NOTE)*	**1,072,440**	(333,257)
INVESTING ACTIVITIES		
Payment for acquisition of property, plant and equipment	**(469,305)**	(651,851)
Purchase of intangible assets	**(14,777)**	(11,320)
Placement of short-term deposits with variable interests	**(7,000,000)**	(3,000,000)
Withdrawal of short-term deposits with variable interests	**7,052,638**	3,048,345
Withdrawal of restricted bank deposits	**—**	4,000
Placement of long-term bank deposits	**(1,000,000)**	—
Placement of short-term bank deposits over three months	**(804,335)**	(500,000)
Withdrawal of short-term bank deposits over three months	**4,400,000**	3,277,884
Payments for rental deposits	**(4,498)**	(9,710)
Refund of rental deposits upon termination of leases	**5,158**	5,218
Interest received	**138,243**	142,281
Proceeds from disposal of property, plant and equipment	**328**	3,990
NET CASH FROM INVESTING ACTIVITIES	**2,303,452**	2,308,837
FINANCING ACTIVITIES		
Dividends paid	**(439,155)**	(915,901)
Proceeds from issue of shares upon exercise of share options	**1,108**	41
Repayment of lease liabilities	**(88,963)**	(81,746)
Interest paid	**(10,980)**	(15,330)
Advances drawn on bills receivables discounted with recourse *(Note)*	**—**	1,716,867
Payment on repurchase and cancellation of shares	**—**	(161,787)
Purchase of shares under share award scheme	**—**	(81,207)
NET CASH (USED IN)/FROM FINANCING ACTIVITIES	**(537,990)**	460,937

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**2,837,902**	2,436,517
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**9,762,933**	11,426,758
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**4,543**	12,334
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	**12,605,378**	13,875,609

Note: During the six months ended 30 June 2022, the Group received bills receivables of RMB1,701,318,000 and transferred bills receivables of RMB1,716,867,000 to banks by discounting the bills receivables on a full recourse basis. Without discounting the bills receivables, the cash collection upon maturity of the bills receivables would be included in cash flows from operating activities in the condensed consolidated statement of cash flows. The Group has discounted the bills receivables and the relevant cash flows have been included in cash flows from financing activities and subsequent settlement by customers to bank directly would be accounted for as non-cash transactions. There is no such transactions during the six months ended 30 June 2023.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

2. BASIS OF PREPARATION

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

3. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**") and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2023 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2022.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Definition of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

In July 2023, the HKICPA issued the Amendments to HKAS 12 to add the exception to recognising and disclosing information about deferred tax assets and liabilities that are related to tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (the "**Pillar Two legislation**"). The Amendments require that entities shall apply the Amendments immediately upon issuance.

Except as described below, the application of the new and amendments to HKFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Impacts and changes in accounting policies on application of Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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 (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

The Group applies HKAS 12 requirements to the lease liabilities and the related assets separately. The Group recognises a deferred tax asset related to lease liabilities 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 taxable temporary differences.

As disclosed in the Group's annual financial statements for the year ended 31 December 2022, the Group previously applied the HKAS 12 requirements to assets and liabilities arising from a single transaction as a whole and temporary differences relating to the relevant assets and liabilities were assessed on a net basis. Upon the application of the amendments, the Group assessed the relevant assets and liabilities separately. In accordance with the transition provision:

i. The Group has applied the new accounting policy retrospectively to leasing transactions that occurred on or after 1 January 2022;

ii. The Group also, as at 1 January 2022, recognised 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 difference associated with right-of-use-assets and lease liabilities.

The application of the amendments has had no material impact on the Group's financial position and performance, except that the Group recognised the related deferred tax assets of RMB80,019,000 and deferred tax liabilities of RMB76,114,000 on a gross basis but it has no impact on the retained earnings at the earliest period presented.

4. REVENUE AND SEGMENT INFORMATION

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

Revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Following the delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 0 to 90 days upon 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 period is as follows:

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Vaping devices and components, other than APV	**4,474,010**	5,092,905
APV	**648,852**	560,416
Total revenue that recognised at a point in time	**5,122,862**	5,653,321

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

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Segment revenue	**5,122,862**	5,653,321
Segment profit	**802,075**	1,649,741
Unallocated (loss) income	**(3,670)**	28,765
Unallocated expenses	**(2,235)**	(2,541)
Profit before tax	**796,170**	1,675,965

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

Geographical information

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

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Hong Kong, China *(Note)*	**2,058,603**	1,269,989
United Kingdom	**1,293,476**	1,110,892
United States of America	**488,923**	606,139
The PRC (excluding Hong Kong)	**393,207**	2,126,870
Japan	**201,806**	78,632
France	**159,735**	139,218
Croatia	**74,026**	35,876
Belgium	**73,751**	24,627
Others	**379,335**	261,078
	5,122,862	5,653,321

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

5. OTHER GAINS AND LOSSES

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Net foreign exchange gain	**37,100**	69,946
Loss arising on forward foreign exchange contracts	**(86,810)**	(8,960)
Gain arising on short-term bank deposits with variable interest rate	**52,638**	48,345
Gain on early termination of leases	**1,178**	250
Loss on disposal/write off of property, plant and equipment and intangible assets	**(4,502)**	(2,244)
Others	**279**	(1,152)
	(117)	106,185

6. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
PRC Enterprise Income Tax ("**EIT**")	**67,889**	290,849
Hong Kong Profits Tax	**11,094**	—
The U.S. Federal Tax and State Tax	**2,481**	—
	81,464	290,849
Deferred tax	**(2,636)**	426
	78,828	291,275

7. PROFIT FOR THE PERIOD

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging:		
Depreciation of right-of-use assets for buildings and land use rights	**112,542**	98,282
Depreciation of property, plant and equipment	**204,395**	131,674
Amortisation of intangible asset	**15,065**	8,529
	332,002	238,485
Less: amounts capitalised as cost of inventories manufactured	**(216,997)**	(148,768)
	115,005	89,717
(Reversal)/allowance for inventories included in cost of sales	**(785)**	1,176
Government grants	**35,096**	36,094

8. DIVIDENDS

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Dividends recognised as distribution during the period	**439,328**	915,901

During the current interim period, a final dividend of HK8 cents per share in respect of the year ended 31 December 2022 (six months ended 30 June 2022: HK18 cents) was declared and paid to owners of the Company. The aggregate amount of the final dividend paid in the interim period amounted to HK$485,942,000 (equivalent to approximately RMB439,155,000) (six months ended 30 June 2022: HK$1,079,181,000 (equivalent to approximately RMB915,901,000)).

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK5 cents per share amounting to approximately HK$306,647,000 in aggregate (six months ended 30 June 2022: HK$608,493,000) will be paid to owners of the Company whose names appear in the register of members of the Company on 12 September 2023.

9. EARNINGS PER SHARE

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

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Earnings:		
Earnings for the purpose of basic and diluted earnings per share	**717,342**	1,384,690
	'000	*'000*
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating earnings per share	**6,073,784**	5,999,590
Effect of dilutive potential ordinary shares:		
Share options/award shares	**96,303**	186,569
	6,170,087	6,186,159

10. TRADE AND BILLS RECEIVABLES

	At 30 June 2023 RMB'000 (unaudited)	At 31 December 2022 RMB'000 (audited)
Trade receivables from contracts with customers	**1,705,334**	2,212,365
Less: Allowance for credit losses	**(11,683)**	(12,481)
	1,693,651	2,199,884
Bills receivables	**—**	101,744
	1,693,651	2,301,628

The Group allows a credit period of 0 to 90 days (six months ended 30 June 2022: 0 to 75 days) to its trade customers.

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

	At 30 June 2023 RMB'000 (unaudited)	At 31 December 2022 RMB'000 (audited)
Trade receivables		
Within 30 days	**676,064**	940,087
31 to 60 days	**527,202**	675,017
61 to 90 days	**366,024**	415,547
Over 90 days	**124,361**	169,233
	1,693,651	2,199,884

As at 30 June 2023, all bills receivables have been settled (31 December 2022: bills receivables of RMB101,744,000 are with a maturity period of less than three months).

11. TRADE AND BILLS PAYABLES

	At 30 June 2023 RMB'000 (unaudited)	At 31 December 2022 RMB'000 (audited)
Trade payables	**730,677**	1,120,490
Bills payables	**200,240**	29,744
	930,917	1,150,234

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

	At 30 June 2023 RMB'000 (unaudited)	At 31 December 2022 RMB'000 (audited)
Within 30 days	**611,639**	773,679
31–60 days	**97,523**	246,012
61–90 days	**12,541**	100,599
Over 90 days	**8,974**	200
	730,677	1,120,490

OTHER INFORMATION

CORPORATE GOVERNANCE

Compliance with the Code Provisions of the Corporate Governance Code

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

For the six months ended 30 June 2023, the Company had applied the principles and complied with all code provisions (except as stated below) and (where applicable) the recommended best practices of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). In respect of code provision C.2.1 of the CG Code, the positions of the chairman of the Board and the chief executive officer are held by the same individual, namely, Mr. Chen Zhiping. The Board of Directors is of the view that this is the most appropriate arrangement in the interest of the Shareholders as a whole at present, and will not impair the balance of power between the Board of Directors and the Company's management, which is mainly in view of the following considerations:

(1) The decision of the Board of Directors requires the approval of a majority of Directors. Currently, the Board of Directors of the Company consists of eight Directors, including 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. Therefore, the Board of Directors believes that there are sufficient checks and balances within the Board of Directors;

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

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

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

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

AUDIT COMMITTEE

The Audit Committee currently consists of three independent non-executive Directors, namely Mr. Zhong Shan, Mr. Yim Siu Wing, Simon and Dr. Wang Gao. Mr. Zhong Shan is the chairman of the Audit Committee. His expertise in accounting, auditing and finance enables him to lead the Audit Committee.

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

The Audit Committee has reviewed, with the management and the independent auditor of the Company, the Group's unaudited condensed consolidated interim financial information for the six months ended 30 June 2023, the interim report, the accounting principles and practices adopted by the Group and has discussed the risk management, internal controls and financial reporting matters.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set forth in the Appendix 10 to the Listing Rules as a code of conduct of the Company for Directors' securities transactions (the "**Securities Trading Code**"). Having made specific enquiry on this matter, all Directors confirmed that they have strictly complied with the relevant provisions of the Securities Trading Code for the six months ended 30 June 2023.

INTERIM DIVIDEND

The Board resolved to declare an interim dividend of HK5 cents per share for the six months ended 30 June 2023 (six months ended 30 June 2022: HK10 cents per share), to be paid to the shareholders of the Company as appearing on the register of members of the Company on 12 September 2023. The interim dividend is expected to be distributed on 26 September 2023.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 8 September 2023 to 12 September 2023, both dates inclusive, during which period no transfer of shares will be registered. In order to establish the identity of the Shareholders who are entitled to the interim dividend, all transfer forms, accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on 7 September 2023.

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

During the Review Period, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

REVIEW OF ACCOUNTS

Deloitte Touche Tohmatsu, the independent auditor of the Company, has reviewed the unaudited condensed consolidated interim financial information for the six months ended 30 June 2023 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

EVENTS AFTER THE REVIEW PERIOD

There are no material events that are required to be disclosed by the Company after 30 June 2023.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement has been published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.smooreholdings.com. The interim report for the six months ended 30 June 2023 containing all the information required to be disclosed by the Listing Rules will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 21 August 2023

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