

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



SMOORE

GLOBAL OFFERING

Sole Sponsor, Joint Global Coordinator and Joint Bookrunner



CITIC
SECURITIES

Joint Global Coordinators and Joint Bookrunners



CICC
中金公司



國泰君安國際
GUOTAI JUNAN INTERNATIONAL

Joint Bookrunner

Daiwa
Capital Markets

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



Smoore International Holdings Limited

思摩爾國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 574,352,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 68,924,000 Shares (subject to reallocation)
Number of International Offer Shares	: 505,428,000 Shares (subject to reallocation and the Over-allotment Option)
Maximum Offer Price	: HK\$12.40 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	: US\$0.01 per Share
Stock code	: 6969

Sole Sponsor, Joint Global Coordinator and Joint Bookrunner



Joint Global Coordinators and Joint Bookrunners



Joint Bookrunner



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any of the other documents referred to above.

The Offer Price is expected to be determined by agreement between the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and our Company on or about Friday, July 3, 2020 and, in any event, not later than Monday, July 6, 2020. The Offer Price will be not more than HK\$12.40 per Offer Share and is currently expected to be not less than HK\$9.60 per Offer Share, unless otherwise announced. If, for any reason, the Offer Price is not agreed by Monday, July 6, 2020 between the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and our Company, the Global Offering will not proceed and will lapse.

The Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) may, with the consent of our Company, reduce the indicative Offer Price range stated in this prospectus and/or reduce the number of Offer Shares being offered pursuant to the Global Offering at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction of the indicative Offer Price range and/or the number of Offer Shares will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the section headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus. The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. See "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except that Offer Shares may be offered, sold or delivered to QIBs in reliance on an exemption from registration under the U.S. Securities Act provided by, and in accordance with the restrictions of, Rule 144A or another exemption from the registration requirements of the U.S. Securities Act. The Offer Shares may be offered, sold or delivered outside the United States in offshore transactions in accordance with Regulation S.

June 29, 2020

EXPECTED TIMETABLE⁽¹⁾

Latest time for completing electronic applications

under **HK eIPO White Form** service through one of the below ways⁽²⁾:

- (1) the **IPO App**, which can be downloaded by
searching “**IPO App**” in App Store or Google Play
or downloaded at www.hkeipo.hk/IPOApp
or www.tricorglobal.com/IPOApp

- (2) the designated website www.hkeipo.hk 11:30 a.m. on Friday, July 3, 2020

Application lists open⁽³⁾ 11:45 a.m. on Friday, July 3, 2020

Latest time for (a) lodging **WHITE** and **YELLOW** Application Forms,

(b) completing payment for **HK eIPO White Form** applications

by effecting internet banking transfer(s) or PPS payment

transfer(s) and (c) giving **electronic application instructions** to

HKSCC⁽⁴⁾ 12:00 noon on Friday, July 3, 2020

Application lists close⁽³⁾ 12:00 noon on Friday, July 3, 2020

Expected Price Determination Date⁽⁵⁾ Friday, July 3, 2020

- (1) Announcement of the Offer Price, the level of indications of
interest in the International Offering, the level of applications
in the Hong Kong Public Offering and the basis of allocation
of the Hong Kong Offer Shares under the Hong Kong Public
Offering to be published in the South China Morning Post
(in English) and the Hong Kong Economic Times (in Chinese)
on or before⁽¹⁰⁾ Thursday, July 9, 2020

- (2) An announcement of results of allocations in the Hong Kong
Public Offering (with successful applicants’ identification
document numbers, where appropriate) to be available through
a variety of channels, including the website of
the Hong Kong Stock Exchange at www.hkexnews.hk and
the Company’s website at www.smooreholdings.com⁽⁶⁾
(see “How to Apply for Hong Kong Offer Shares —
11. Publication of Results” in this prospectus) from⁽¹⁰⁾ Thursday, July 9, 2020

Results of allocations in the Hong Kong Public Offering

will be available in the “Allotment Result” function

in the **IPO App** or at www.tricor.com.hk/ipo/result

(alternatively: www.hkeipo.hk/IPOResult); with

a “search by ID” function from⁽¹⁰⁾ Thursday, July 9, 2020

EXPECTED TIMETABLE⁽¹⁾

Share certificates in respect of wholly or partially successful applications to be dispatched or deposited into CCASS on or before⁽⁷⁾⁽⁹⁾⁽¹⁰⁾ Thursday, July 9, 2020

HK eIPO White Form e-Auto Refund payment instructions/refund cheques in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications to be dispatched on or before⁽⁸⁾⁽⁹⁾⁽¹⁰⁾ Thursday, July 9, 2020

Dealings in the Shares on the Stock Exchange expected to commence at 9:00 a.m. on⁽¹⁰⁾ Friday, July 10, 2020

Notes:

- (1) All times refer to Hong Kong local time, except as otherwise stated.
- (2) You will not be permitted to submit your application through the **IPO App** or the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the **IPO App** or the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, July 3, 2020, the application lists will not open or close on that day. See “How to Apply for Hong Kong Offer Shares — 10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists” in this prospectus.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed “How to Apply for Hong Kong Offer Shares — 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS — Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
- (5) The Price Determination Date is expected to be on or around Friday, July 3, 2020 and, in any event, not later than Monday, July 6, 2020. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and us by Monday, July 6, 2020, the Global Offering will not proceed and will lapse.
- (6) None of the website or any of the information contained on the website forms part of this prospectus.
- (7) Share certificates will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination” in this prospectus has not been exercised. Investors who trade Shares on the basis of publicly available allocation details or prior to the receipt of Share certificates or the Share certificates becoming valid do so entirely at their own risk.
- (8) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first — named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before encashment of the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may invalidate or delay encashment of the refund cheque.

EXPECTED TIMETABLE⁽¹⁾

- (9) Applicants who have applied on **WHITE** Application Forms or **HK eIPO White Form** service for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by the Application Form may collect any refund cheques and/or Share certificates in person from our Company's Hong Kong Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, July 9, 2020 or such other date as notified by our Company in the newspapers as the date of dispatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques. Applicants being individuals who are eligible for personal collection may not authorize any other person to collect on their behalf. Applicants being corporations which are eligible for personal collection must attend through their authorized representatives bearing letters of authorization from their corporation stamped with the corporation's chop. Both individuals and authorized representatives of corporations must produce evidence of identity acceptable to our Hong Kong Share Registrar at the time of collection.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares may collect their refund cheques, if any, in person but may not collect their Share certificates as such Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit to their or the designated CCASS Participants' stock account as stated in their Application Forms. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who have applied for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed "How to Apply for Hong Kong Offer Shares — 14. Dispatch/Collection of Share Certificates and Refund Monies — Personal Collection — (iv) If you apply via Electronic Application Instructions to HKSCC" in this prospectus for details.

Applicants who have applied through the **HK eIPO White Form** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to the bank account in the form of e-Auto Refund payment instructions. Applicants who have applied through the **HK eIPO White Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund cheques by ordinary post at their own risk.

Applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected Share certificates and/or refund cheques will be dispatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

Further information is set out in the sections headed "How to Apply for Hong Kong Offer Shares — 13. Refund of Application Monies" and "How to Apply for Hong Kong Offer Shares — 14. Dispatch/Collection of Share Certificates and Refund Monies" in this prospectus.

- (10) In case a typhoon warning signal no. 8 or above, a black rainstorm warning signal and/or Extreme Conditions is/are in force in any days between Monday, June 29, 2020 to Friday, July 10, 2020, then the day of (i) announcement of results of allocations in the Hong Kong Public Offering; (ii) dispatch of Share certificates and refund cheques/**HK eIPO White Form** e-Auto Refund payment instructions; and (iii) dealings in the Shares on the Stock Exchange may be postponed and an announcement may be made in such event.

The above expected timetable is a summary only. For details of the structure of the Global Offering, including its conditions, and the procedures for applications for Hong Kong Offer Shares, see the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares," respectively.

If the Global Offering does not become unconditional or is terminated in accordance with its terms, the Global Offering will not proceed. In such a case, the Company will make an announcement as soon as practicable thereafter.

CONTENTS

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by us solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of making, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners and the Joint Lead Managers, the Underwriters, any of our or their respective directors or any other person or party involved in the Global Offering.

	<i>Page</i>
Expected Timetable	i
Contents	iv
Summary	1
Definitions	29
Glossary	45
Forward-looking Statements	48
Risk Factors	50
Waivers from Compliance with the Listing Rules and Exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance	91
Information about this Prospectus and the Global Offering	97
Directors and Parties Involved in the Global Offering	101

CONTENTS

	<i>Page</i>
Corporate Information	105
Industry Overview	108
Regulatory Overview	126
Our History and Development	152
Business	181
Relationship with our Controlling Shareholders	264
Continuing Connected Transactions	270
Directors and Senior Management	273
Substantial Shareholders	285
Share Capital	287
Financial Information	291
Our Cornerstone Investors	356
Future Plans and Use of Proceeds	364
Underwriting	373
Structure of the Global Offering	384
How to Apply for Hong Kong Offer Shares	394
Appendix I — Accountants' Report	I-1
Appendix II — Unaudited Pro Forma Financial Information	II-1
Appendix III — Summary of the Constitution of Our Company and Cayman Companies Law	III-1
Appendix IV — Statutory and General Information	IV-1
Appendix V — Documents Delivered to the Registrar of Companies and Available for Inspection	V-1

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by and should be read in conjunction with, the full prospectus. You should read the whole document before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set forth in the section headed “Risk Factors” of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

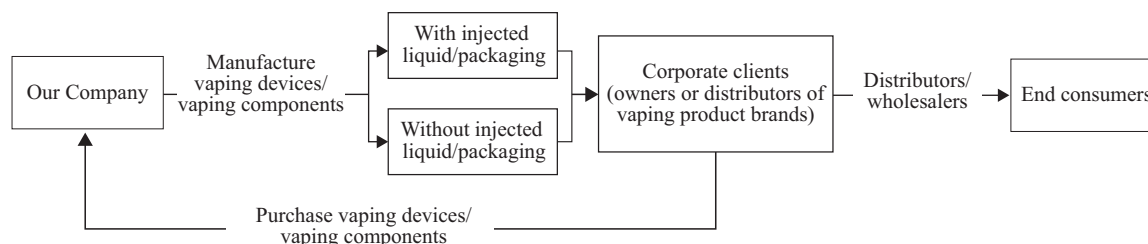
We are a global leader in offering vaping technology solutions, including manufacturing vaping devices and vaping components for HNB products on an ODM basis, with advanced R&D technology, strong manufacturing capacity, wide-spectrum product portfolio and diverse customer base. According to Frost & Sullivan, we were the world’s largest vaping device manufacturer in terms of revenue, accounting for 16.5% of the total market share, in 2019. Through our innovative and pioneering vaping technology solutions, we operate two principal business segments: (i) research, design and manufacturing of closed system vaping devices and vaping components for a number of global leading tobacco companies and independent vaping companies, such as Japan Tobacco, British American Tobacco, Reynolds Asia Pacific, RELX and NJOY, and (ii) research, design, manufacturing and sale of self-branded open system vaping devices, or APV, for retail clients.

OUR BUSINESS MODEL

We operate our business through two different business segments, namely the corporate client oriented business and the retail client oriented business.

Corporate Client Oriented Business

The business process of our corporate client oriented business segment is illustrated as follows:

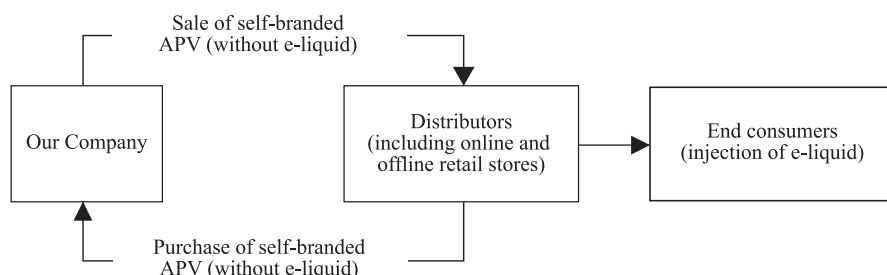


Under the corporate client oriented business segment, we engage in the research and development of vaping technology and manufacture of closed system vaping devices and vaping components pursuant to specifications provided by our corporate clients.

SUMMARY

Retail Client Oriented Business

Our retail client oriented business is mainly for the sales of our self-branded APV, the business process of which is illustrated as follows:



Under our retail client oriented business segment, we engage in the research, design, manufacturing and sale of APV, APV components (such as coils) and accessories under our own brands, including “Vapresso,” “Renova” and “Revenant Vape.” All of our self-branded APV are open system vaping devices. We sell our self-branded APV to distributors for resale to end consumers subsequently. We did not operate any retail stores or online platforms for the sale of our self-branded APV directly to end consumers as of the Latest Practicable Date.

OUR PRODUCTS

Through over ten years of endeavors, our research, development and manufacturing of vaping devices have established a strong reputation in the vaping field. Vaping refers to the practice of inhaling and exhaling the vapor produced by an electronic vaping device. Our vaping products are categorized into three types: (i) closed system vaping devices, (ii) vaping components, and (iii) open system vaping devices.

Closed System Vaping Devices

Closed system vaping devices refer to vaping devices consisting of (i) cartridges, which include atomizers and e-liquid, which is sourced from suppliers and not produced by us, and (ii) batteries. A cartridge usually can last around three to 12 days, depending on different consumption habits of users. A closed system vaping device is either rechargeable or disposable. The convenience to carry, a variety of personalities and the ease to operate raise the penetration rate of the closed system vaping devices.

Vaping Components

We manufacture vaping components (cartridges and batteries) for HNB products. HNB products refer to a device that uses a battery-powered heating system to generate nicotine-containing vapor by heating tobacco. Seeing the growth trend of HNB market, we started to work with Japan Tobacco, a global tobacco company and one of our key customers, in May 2017 to tap into the HNB market through the manufacturing of vaping components for HNB products. Unlike traditional HNB products, we manufacture vaping components for HNB products, which do not heat tobacco directly. Instead, they generate vapor that goes through and heat a tobacco capsule that contains nicotine.

In addition, with our ceramic heating technology, we also manufacture vaping components (cartridges and batteries) for vaping devices that can be used for medical or recreational CBD and THC vaping.

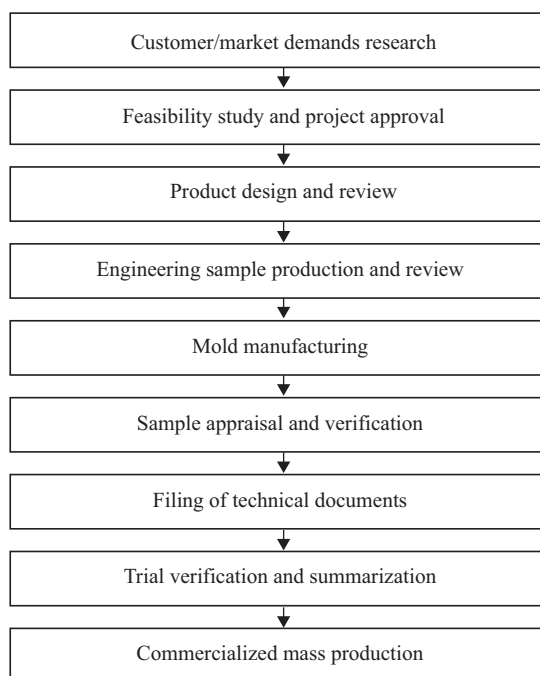
SUMMARY

Open System Vaping Devices

Open system vaping devices refer to vaping devices consisting of (i) tanks, which include coils and (ii) mods, which include batteries. Open system vaping devices allow end consumers to refill e-liquid by themselves. Users have great freedom in mixing different coils, mods and e-liquid to create more personalized experience.

Product Launch and Production Process

Our process of launching and producing new products begins with our R&D team conducting extensive research on market demands and assessing the feasibility of the proposed new product. Upon the project's internal approval, our R&D team will proceed to design the new product. After completing the design of the new product, we will manufacture the mold, evaluate the sample, file technical documents and conduct trial verification. The last step of our product launch and production process is the mass production of the new product at our production facilities. The below chart illustrates the typical steps of our product launch and production process:



As of the Latest Practicable Date, we operated ten production bases in China, all of which were leased. In order to further elevate our manufacturing capabilities, we plan to establish new production bases in Jiangmen and Shenzhen, Guangdong province. See “Future Plans and Use of Proceeds — Use of Proceeds.”

EVOLVING REGULATORY LANDSCAPE

We operate in an industry with evolving regulatory changes. While vaping devices may provide end consumers with enhanced experiences, the health risks associated with such usage remain unclear and have been under scrutiny. In particular, in 2016, the WHO recommended that governments should consider prohibiting the use of e-cigarettes in indoor areas to protect non-users from involuntary exposure to second-hand aerosols, issuing warnings about the potential health risks of e-cigarettes and imposing higher taxes on e-cigarettes. Since then, regulatory authorities have published and/or considered different levels and aspects of regulations to mitigate the potential health risks from the usage of vaping devices.

Summary of Material Laws, Regulations, Executive Orders and Policies

The following table illustrates the material laws, regulations, executive orders and policies in relation to the tobacco products of the e-cigarette and vaping device industry recently promulgated or proposed by the relevant authorities in our major markets during the Track Record Period as well as the revenue contribution of the affected products sold in such major markets as a percentage of our total revenue for the years indicated:

Principal Sale Jurisdictions ⁽¹⁾	Material Laws, Regulations, Executive Orders and Policies	Relevant Products, Potential Impact and Compliance Status	Revenue Contribution ⁽²⁾ (%)			
			2016	2017	2018	2019
U.S. ⁽³⁾	<ul style="list-style-type: none">Premarket tobacco application (“PMTA”) filings requirements for electronic nicotine delivery systems (“ENDS”) products, including devices, components, and/or parts that deliver aerosolized e-liquid when inhaled: <ol style="list-style-type: none">Existing ENDS Products<p>ENDS products that were first distributed in the U.S. market between February 15, 2007 and August 8, 2016: a PMTA is required for Existing ENDS Products and is required to be submitted to the FDA by September 9, 2020, the currently effective deadline.</p>New ENDS Products<p>ENDS products that were not distributed or on sale in the U.S. prior to or as of August 8, 2016: a PMTA is required for New ENDS Products before introducing them into the U.S. market.</p>	(i) closed system vaping devices (under our corporate client oriented sales), and (ii) open system vaping devices (our self-branded APV under retail client oriented sales).	54.4	40.0	28.0	27.8

As of the Latest Practicable Date, to the best knowledge of our Directors, two of our top five customers had filed PMTAs for products manufactured by us and those PMTAs were accepted by the FDA. Our other corporate clients in the U.S. are expected to file the PMTAs for products manufactured by us before the September 9, 2020 deadline.

The gross profit of the aforementioned products sold to the U.S., including sales forwarded through Hong Kong, accounted for approximately 46.1%, 28.7%, 22.8% and 32.2% of our total gross profit in 2016, 2017, 2018 and 2019, respectively.

SUMMARY

Principal Sale Jurisdictions ⁽¹⁾	Material Laws, Regulations, Executive Orders and Policies	Relevant Products, Potential Impact and Compliance Status	Revenue Contribution ⁽²⁾ (%)			
			2016	2017	2018	2019
	<ul style="list-style-type: none"> Flavor bans 1. FDA enforcement policy Starting on February 6, 2020, the FDA has prioritized for immediate enforcement against: (i) flavored, cartridge-based ENDS products (other than tobacco- or menthol-flavored ENDS products), and (ii) any flavored ENDS products (including tobacco and menthol flavors) that are targeted at minors. 2. State flavor bans Several states in the U.S. have imposed temporary emergency flavor bans on ENDS products, and a few of these bans have been enjoined by courts while several have become permanent. Flavor bans are not the same as a total ban on e-cigarettes, and none of the states in the U.S. have imposed a total ban on e-cigarettes. 	<p>(i) 36.4% of our closed system vaping devices sold to the U.S. market in 2019 are flavored cartridge-based ENDS products, accounting for 9.4% of our total revenue for the same year. These closed system vaping devices were primarily sold to three of our top five customers in 2019, namely SVI Global Tech Limited, Customer H and Customer A. Specifically, sales of closed system vaping devices with the banned flavored cartridges to SVI Global Tech Limited, Customer H and Customer A amounted to 7.0%, 2.1% and 0.2%, respectively, of our total revenue in 2019. In early 2020, the three customers changed their product mix to comply with the promulgation of flavor bans starting from February 2020. After the change, sales to SVI Global Tech Limited, Customer H and Customer A still grew by 4.0%, 637.0% and 107.0% in the two months ended April 30, 2020, respectively, as compared to that of the same period in 2019.</p> <p>(ii) Our self-branded APVs are not affected by the flavor bans. The flavor bans are mainly aimed at ENDS products that are sold with pre-filled non-tobacco-flavored or non-menthol-flavored cartridges, and our self-branded APVs do not contain any pre-filled cartridges.</p> <p>To the best knowledge of our Directors, we were not aware of any material non-compliance with the flavor bans as of the Latest Practicable Date.</p> <p>According to Frost & Sullivan, despite the promulgation of flavor bans starting from February 2020, the U.S. e-cigarette market size by revenue is still expected to grow at a CAGR of approximately 25.5% from 2019 to 2024. Furthermore, based on our unaudited management account, our sales of ENDS products in the U.S. market increased by approximately 101.5% in the four months ended April 30, 2020 as compared to the same period in 2019.</p> <p>However, these bans may curb consumer interest in and use of vaping devices, which may adversely affect the vaping industry and our operational and financial performance as a whole.</p>				

SUMMARY

Principal Sale Jurisdictions ⁽¹⁾	Material Laws, Regulations, Executive Orders and Policies	Relevant Products, Potential Impact and Compliance Status	Revenue Contribution ⁽²⁾ (%)		
			2016	2017	2018
China	<p>The above PMTA filings requirements and flavor bans do not apply to non-ENDS products, which do not contain nicotine or e-liquid.</p> <ul style="list-style-type: none"> Prohibition on the sale of e-cigarettes through the internet to protect juveniles On October 30, 2019, the State Administration for Market Regulation and the State Tobacco Monopoly Administration jointly issued the Announcement on Further Protecting Juveniles from E-cigarettes (the “October 2019 Announcement”): <ol style="list-style-type: none"> E-cigarette producers and sellers are urged to shut down their online sales websites or application programs and withdraw online advertisements of e-cigarettes. E-commerce platform operators are urged to close e-cigarette online shops and take e-cigarette products off shelves. 	<p>(i) Our vaping components for HNB products are classified as non-ENDS products since they do not contain e-liquid with nicotine and we do not sell these vaping components to the U.S. market.</p> <p>(ii) Our vaping components for vaping devices that can be used for medical or recreational CBD and THC vaping are classified as non-ENDS products.</p> <p>(i) closed system vaping devices (under our corporate client oriented sales), and (ii) open system vaping devices (our self-branded APV under retail client oriented sales).</p> <p>We did not operate any online platforms in China for the sale of our products as of the Latest Practicable Date. Therefore, we were in compliance with the October 2019 Announcement as of the Latest Practicable Date. However, some of our products may have been sold online by our corporate clients prior to the promulgation of the October 2019 Announcement.</p> <p>Based on our unaudited management account, despite the prohibition of online sales, sales of our products to customers in China increased by approximately 8.9% in the four months ended April 30, 2020 as compared to the same period in 2019.</p>	17.0	12.0	11.9
					20.9
Hong Kong	<ul style="list-style-type: none"> Smoking (Public Health) (Amendment) Bill 2019 The Hong Kong government introduced the Smoking (Public Health) (Amendment) Bill 2019 (the “Bill”) in February 2019, proposing to amend the Smoking (Public Health) Ordinance (Cap. 371) to ban the import, manufacture, sale, distribution and advertisement of alternative smoking products, including vaping products and items that are designed for use as a component or accessory. The Bill exempts vaping products that are articles in transit or in air transshipment cargos, provided that the products are not removed from the vessel, aircraft or specified cargo transshipment area. However, the Bill does not exempt vaping products being transported by vehicles on land. <p>On June 2, 2020, the Bills Committee held its last meeting before the end of the current session of the Legislative Council on July 15, 2020. The Bill will not complete the legislative process before the end of the current session of the Legislative Council and will not become law. However, the Hong Kong government may decide to reintroduce and enact the Bill in its current or an amended form in the future.</p>	<p>(i) closed system vaping devices (under our corporate client oriented sales), (ii) open system vaping devices (our self-branded APV under retail client oriented sales), and (iii) vaping components for HNB devices.</p> <p>Revenue generated from Hong Kong is on re-export or transshipment basis and, to our best knowledge, none of our products are distributed or sold in Hong Kong.</p> <p>If the Bill is enacted in its current or an amended form in the future, to ensure our compliance, we will communicate with our customers regarding alternative transshipment options and are confident that there will be alternative ways of having their orders shipped overseas (such as through airports in Shenzhen, Guangzhou and Shanghai) with immaterial disruption to our operations.</p>	8.6	15.3	15.9
					26.4

SUMMARY

Principal Sale Jurisdictions ⁽¹⁾	Material Laws, Regulations, Executive Orders and Policies	Relevant Products, Potential Impact and Compliance Status	Revenue Contribution ⁽²⁾ (%)		
			2016	2017	2018
Japan	<ul style="list-style-type: none"> Tobacco Business Act Prohibits any individual or company (other than Japan Tobacco) from manufacturing any tobacco products (including HNB devices containing tobacco leaves), and requires sellers or distributors of tobacco products to obtain a license from the Minister of Finance. Safety Act The Safety Act also applies to vaping components for HNB devices. 	<p>Vaping components for HNB devices, which comprised over 99.0% of the products we sold to Japan during the Track Record Period.</p> <p>To the best knowledge of our Directors, we were not aware of any material non-compliance with the Tobacco Business Act and the Safety Act during the Track Record Period and up to the Latest Practicable Date.</p>	—*	9.8	12.9
E.U. and U.K. ⁽⁴⁾	<ul style="list-style-type: none"> Directive 2014/40/EU Regulates vaping devices principally on five main aspects, including (i) the information to be provided by the manufacturer and/or distributor, (ii) the advertising and promotion, (iii) safety issues and warnings, (iv) products presentation and (v) provisional measures in case of suspected risk. 	<p>(i) closed system vaping devices (under our corporate client oriented sales), and (ii) open system vaping devices (our self-branded APV under retail client oriented sales).</p> <p>To the best knowledge of our Directors, we were not aware of any material non-compliance with Directive 2014/40/EU during the Track Record Period and up to the Latest Practicable Date</p>	4.0	8.9	8.1
					10.0

* less than 0.1%

Notes:

- (1) During the Track Record Period, in addition to our major markets listed above, we also sold our closed system vaping devices, self-branded APV and vaping components to other countries, such as Israel, Korea, Malaysia and Canada, in aggregate accounting for less than 3% of our total revenue in 2019, which we consider are immaterial to our historical and future business and financial performance.
- (2) The percentage of revenue contribution demonstrates the portion of our business that was affected by the relevant regulations in the respective years. The percentage of revenue contribution in 2019 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. also includes sales forwarded through Hong Kong.
- (4) Prior to its withdrawal from the E.U. at the end of January 2020.

SUMMARY

FDA and CDC Recommendation

Recently, there have been some reports on the potential adverse health effects associated with vaping devices. In particular, the FDA and the CDC issued a joint statement on August 30, 2019 linking a number of cases of severe respiratory illnesses to the use of vaping devices. On November 8, 2019, the CDC announced that it has preliminarily linked the cases of severe respiratory illness to the presence of Vitamin E acetate, which has been found in some THC-containing vaping cartridges for non-ENDS vaping devices that were mostly obtained from the black market. However, evidence is not sufficient to rule out the contribution of other chemicals of concern, including chemicals in either THC or non-THC products. In January 2020, after further research, the FDA and CDC recommended that people should not use THC-containing vaping products, especially those from informal sources. Moreover, the FDA and CDC recommended that youths, pregnant women and adults who do not currently use tobacco products should never use e-cigarettes. On February 25, 2020, the CDC issued a final update, stating that the number of cases of severe respiratory illnesses has declined to single digits as of February 9, 2020. The CDC also reconfirmed that (i) Vitamin E acetate, which has been found in some THC-containing vaping cartridges for non-ENDS vaping devices that were mostly obtained from the black market, was strongly linked to and the primary cause of the severe respiratory illnesses, and (ii) THC-containing vaping products from informal sources were linked to most cases of severe respiratory illnesses. Reports such as these may prompt further regulatory actions by governments.

Monitoring and Mitigating Risks Arising from the Evolving Regulatory Environment

To monitor the constantly evolving regulatory environment, our legal department is responsible for the monitoring of global regulatory development and changes which are relevant to our business activities. We also have screening procedures for the initiation of business cooperation with new customers and/or other business partners. The purpose of the screening procedure is to review the compliance with local laws and regulations in jurisdictions where these new customers are incorporated or conduct business activities. The legal department also cooperates closely with local law firms in each major jurisdiction where we market our products. The local law firms are mainly responsible for providing legal advices on the compliance matters of local laws and regulations and timely updates on the changes or potential changes of relevant local laws and regulations which may have any impact on our business. We will continue to monitor developments and changes of relevant laws and regulations after the Listing.

In terms of the PMTA requirements in the U.S., to reduce the risk of our PMTAs being delayed or rejected by the FDA, we have hired a law firm for literature review and a consulting firm in the U.S. with expertise in the requirements of PMTAs and knowledge of the concerns of the FDA to assist us with and review our PMTAs. In addition, we have established a communication and reporting system to facilitate the exchange of information internally and externally and to help solve any issues that may arise during the process in a timely manner. In terms of internal personnel arrangement, we have established a specific team, which includes members with experience in filing applications with the FDA, to carry out the preparation of PMTAs. This team will also assist the PMTA preparations of our customers to the extent possible.

SUMMARY

Moreover, in response to potential future laws and regulations in Hong Kong that may affect our current transshipment arrangements, we have conducted a preliminary survey of other airports through which we can transship more of our products. We will communicate with our customers regarding alternative transshipment options should the need arise and are confident that there will be alternative ways of having their orders shipped overseas (such as through airports in Shenzhen, Guangzhou and Shanghai) with immaterial disruption to our operations.

In addition, we plan to take the following actions or measures to manage and mitigate the risks arising from changes of laws and regulations:

1. continue to monitor laws and regulations in each major jurisdiction to identify any changes and potential changes of laws and regulations in time as well as to make sure our business activities comply with relevant laws and regulations;
2. continue to diversify our revenue in terms of countries and regions, in particular, those with established laws and regulations which allow us to conduct our business activity on a normal basis;
3. continue to diversify our product portfolio to explore the applications of vaping technology in other industries, e.g. health care and pharmaceutical industry; and
4. continue to reduce our reliance on labor by improving the level of production automation, which will help to mitigate the risk of changes in manufacturing and labor laws and regulations and allow us to more easily move our operations to other locations in the event that local laws and regulations become disadvantageous to us.

We have expended some resources to comply with the regulatory developments described above, particularly the PMTA requirement. See “Regulatory Overview,” “Business — Regulatory Environment” and “Business — Licenses, Regulatory Approvals and Compliance Record” for details. As of the Latest Practicable Date, certain of the regulatory developments described above had increased our compliance cost or affected our product offering strategy in the relevant markets, but had not resulted in any material adverse impact on our operations, financial performance, cooperation with our major customers and business expansion. Assuming that the percentage of revenue contribution from each of the major markets listed above remains the same for 2020 and there is no further change to the legislative regimes in relation to e-cigarettes and vaping devices in the relevant jurisdictions, the proportion of our business that will be affected by the regulatory developments will be similar to that in 2019. We will continue to monitor regulatory developments and adopt measures to ensure compliance with the new regulations.

RESEARCH AND DEVELOPMENT

Our strong R&D capabilities are critical to the building and maintaining of our market leading position globally. We leverage our R&D platform to market our key technology and expand our brand awareness. Aiming at keeping abreast of the industry advancement, we employ a dedicated product design, research and development team and build research centers focusing on improvement of product safety and vaping experience. We not only focus on scientific research but also its

SUMMARY

practical application to our products. Our R&D platform consists of three separate departments, namely the basic research centers, the technology center and the technology industrial center, each focusing on different aspects of the research areas. Based on our strategic plans and the industry trends, our three basic research centers explore and advance the fundamental knowledge and generate new ideas, which form the basis of progress and development in our vaping technology. On the foundation of the research results, our technology center subsequently applies these scientific theories to conduct new technology development and project incubation. After a new technology is developed, our technology industrial center will apply and test such technology for the mass production of our products. By integrating the different functions of these three departments, we are able to bolster the development in our core technology and respond to market demands in a timely manner.

With our business strategies to meet the evolving customer demands, our R&D team focuses on different research areas and has achieved various milestones. Our R&D development path has gradually evolved along with the industry trends and the enhancement in our R&D capabilities — from product application to product structure, and further to core vaping technology. In particular, in 2016, we launched our second generation heating technology “FEELM,” which combines metal films with ceramic conductors to achieve improvements in material and structural science. The metal film design of “FEELM” creates a wide heated surface that applies temperature, ensuring instant vapor generation. “FEELM” has been adopted widely by many of our corporate clients and exported to the U.S., South Korea, Germany, France, Belgium, New Zealand, South Africa and other countries. In September 2018, “FEELM” won the “Golden Leaf Award” from Tobacco Reporter and Vapor Voice Magazine. In addition, in October 2019, we became the only company since 2013 among the top five vaping device manufacturers in terms of revenue in 2018 to be awarded the “China Patent Excellence Award” by the National Intellectual Property Administration, PRC for our patent relating to the manufacturing technique and application of porous ceramic. The “China Patent Excellence Award” is one of China’s most prestigious awards for patents. The selection criteria for the award include patent quality, technology advancement, application and protection measures, social benefits as well as development prospects. In November 2019, we also received the “Laboratory Accreditation Certificate” from the China National Accreditation Service for Conformity Assessment for the safety and quality of our laboratories. The scope of the accreditation encompasses our laboratories’ ability to conduct chemical analysis, physical performance testing, and product quality testing, among others. Our ability to build up our own technology brands serves as an entry barrier to other competitors and also helps maintain our leading position in the vaping industry. Furthermore, leveraging our strong R&D capabilities, we are able to maintain a pool of high quality design and R&D technology patents in the field of vaping technology. As of the Latest Practicable Date, over 1,600 patents had been applied for in China and overseas, of which more than 700 patents had been granted.

SALES AND DISTRIBUTION

We sell and market our products directly through our sales and marketing team. As of the Latest Practicable Date, we had a sales and marketing team of 190 personnel. Most of our customers are located in overseas markets and a majority of our sales are exported to more than 50 overseas countries, primarily including the U.S., Japan and European countries. We have

SUMMARY

established a worldwide sales network and generate sales revenue from different regions and countries around the world. The table below sets out the breakdown of our revenue by our customers' place of incorporation, each expressed as an absolute amount and as a percentage of our total revenue, for the years indicated.

	Year ended December 31,							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
U.S. ⁽¹⁾	354,613	50.1	668,766	42.7	1,386,966	40.4	1,661,981	21.8
China	120,203	17.0	187,115	12.0	407,686	11.9	1,588,703	20.9
Hong Kong ⁽²⁾	60,597	8.6	240,255	15.3	546,987	15.9	2,010,165	26.4
Japan	66	—*	153,749	9.8	443,356	12.9	605,003	7.9
Switzerland	127,156	18.0	110,860	7.2	174,520	5.1	606,957	8.0
U.K.	8,138	1.2	22,519	1.4	66,264	1.9	508,675	6.7
France	8,567	1.2	62,587	4.0	93,646	2.7	146,291	1.9
Israel	7,667	1.1	6,365	0.4	342	—*	13,113	0.2
Korea	122	—*	4,528	0.3	22,651	0.7	97,035	1.3
Malaysia	1,223	0.2	3,685	0.2	2,690	0.1	44,956	0.6
Canada	1,042	0.1	5,795	0.4	15,774	0.5	33,030	0.4
Germany	1,154	0.2	7,823	0.5	29,244	0.9	16,916	0.2
Others ⁽³⁾	16,706	2.3	91,143	5.8	243,583	7.0	277,776	3.7
Total	707,254	100.0	1,565,190	100.0	3,433,709	100.0	7,610,601	100.0

* less than 0.1%

Notes:

- (1) To the best knowledge of our Directors, our revenue from products shipped directly or indirectly to the U.S. amounted to approximately RMB391.5 million, RMB781.3 million, RMB1,797.8 million and RMB3,539.4 million in 2016, 2017, 2018 and 2019, respectively, accounting for approximately 55.4%, 49.9%, 52.4% and 46.5% of our total revenue for the respective years.
- (2) Revenue generated from Hong Kong is on re-export or transshipment basis and, to our best knowledge, none of our products are distributed or sold in Hong Kong. Our customers incorporated in Hong Kong are mainly responsible for transshipment or trading companies for our overseas customers. Based on the revenue derived from customers incorporated in Hong Kong in 2019, approximately 93.4% of the products were forwarded to the U.S. As for all of the products that are exported through Hong Kong, including products sold to customers incorporated in Hong Kong and in other countries, a majority of them were forwarded to the U.S. and Japan during the Track Record Period.
- (3) None of the countries categorized under others contributed more than 2% of our total revenue of any year during the Track Record Period. Our export sales are on EXW, FOB or FCA basis. To our best knowledge, we were not aware of any countries categorized under others had imposed a total ban on e-cigarettes during the period that we conducted business with customers incorporated in these countries.

Pricing Strategies

For products sold to our corporate clients under ODM model, the selling price is on a cost-plus basis. In setting our selling prices, we take into consideration, among others, production costs, expected profit margins, market analysis of retail price, design and manufacturing complexity, size of the orders placed and expected level of sales.

SUMMARY

For products sold to distributors of our self-branded APV under the retail client oriented sales and a portion of vaping components under the corporate client oriented sales, we focus on the control of final selling price to end consumers. We generally sell our products to distributors at around 34% to 43% of the retail price recommended by us. The prices at which we sell our products to the distributors are determined on a cost-plus basis. We will offer different levels of discounts to distributors based on their distributorship types and sales network coverage on a case-by-case basis. We provide guidance regarding price range as well as product promotional discount policies and programs to our distributors according to their tier. Our distributors should follow our guidance and formulate the final selling price based on their operational performance.

OUR CUSTOMERS AND SUPPLIERS

The majority of our customers are internationally recognized leading tobacco companies, including top global tobacco companies, independent vaping companies, and distributors for our self-branded APV and a portion of vaping components. Our top five customers in 2016, 2017, 2018 and 2019 accounted for 73.7%, 65.6%, 55.3% and 63.0% of our total revenue in the respective years. Our largest customer in 2016, 2017, 2018 and 2019 accounted for 30.5%, 25.4%, 20.7% and 15.7% of our total revenue in the respective years.

Most of our suppliers are raw material suppliers in China. We carefully select our suppliers to secure principal raw materials used in our production process. As of the Latest Practicable Date, our top five suppliers during the Track Record Period had collaborated with us for approximately five years on average. Our top five suppliers in 2016, 2017, 2018 and 2019 accounted for 32.9%, 36.1%, 30.8% and 25.5% of our total purchase cost in the respective years. Our largest supplier in 2016, 2017, 2018 and 2019 accounted for 9.6%, 10.1%, 11.0% and 6.7% of our total purchase cost in the respective years.

STRENGTHS

Our success is attributable to the following competitive strengths: (i) world's largest vaping technology solution provider, (ii) advanced R&D-manufacturing integration technology platform, (iii) scalable production capability and established supplier relationships, (iv) customer network with global leading tobacco companies and independent vaping companies and wide-spectrum product portfolio, and (v) experienced management team and talent pool.

STRATEGIES

Our mission is to build the world's leading vaping technology platform to bolster the innovation and development of vaping technology with a wide range of applications. Specifically, we plan to pursue the following strategies to achieve our objectives: (i) strengthen R&D capabilities to maintain our leading position and support our long-term business growth; (ii) increase production capacity and operational and production efficiency; (iii) penetrate existing customers and attract new customers to increase our market shares in different areas; and (iv) seek strategic mergers and acquisitions and suitable business cooperation.

SUMMARY

COMPETITION

The global vaping market is large and competitive. According to Frost & Sullivan, there are more than 1,200 vaping device manufacturers globally. Though the top five players accounted for 30.5% of the entire market share in terms of revenue, the top ten players accounted for less than half of the entire market share in terms of revenue in 2019, and most of the vaping device manufacturers are small to medium-sized enterprises.

We compete against other vaping device manufacturers, including open system vaping device brand companies for the market share of our self-branded APV. We also face competition from providers of conventional tobacco products and other alternative products for traditional cigarette. In addition, we may in the future face competition from new entrants. We anticipate that more established companies, including traditional tobacco companies that possess large existing customer bases, substantial financial resources, sophisticated technological capabilities and established distribution channels may also enter the market in the future.

RISK FACTORS

Our business and the Global Offering involve certain risks, some of which are set out in the section headed “Risk Factors.” You should read that section in its entirety carefully before you decide to invest in the Offer Shares. Some of the major risks we face include:

- Our business and the industry in which we operate are subject to inherent risks and uncertainties, including, among others, developments in regulatory landscape, medical discovery and market acceptance of vaping devices.
- The FDA’s requirement to submit PMTAs may materially and adversely affect our business.
- Flavor bans imposed in several states in the U.S. may materially and adversely affect our business.
- Changes in existing laws and regulations and the imposition of new laws, regulations and any other entry barriers in relation to the vaping industry may increase our cost. We could be adversely affected as a result of our sales to customers located in relevant countries or regions that are subject to prohibition laws and regulations promulgated by local authorities.
- If the medical profession determines that the usage of vaping devices poses long-term health risks, the market demands for vaping devices may decline significantly, which may materially and adversely affect our business, financial conditions and results of operations.
- We derive a majority of our revenue from our top five customers, and the loss of, or a significant reduction in, sales to any of these customers could materially and adversely affect our business, financial conditions and results of operations.

SUMMARY

- Our success depends on our customers' ability to successfully market and sell their products manufactured by us, and changes in the global social, political and economic landscape may materially affect our business.

SUMMARY OF FINANCIAL INFORMATION

Summary of Consolidated Statements of Profit or Loss and Other Comprehensive Income

	Year ended December 31,							
	2016		2017		2018		2019	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Revenue	707,254	100.0	1,565,190	100.0	3,433,709	100.0	7,610,601	100.0
Cost of sales	(535,303)	(75.7)	(1,145,888)	(73.2)	(2,243,204)	(65.3)	(4,258,249)	(56.0)
Gross profit	171,951	24.3	419,302	26.8	1,190,505	34.7	3,352,352	44.0
Profit before tax	129,647	18.3	226,584	14.5	868,630	25.3	2,567,051	33.7
Profit and total comprehensive income for the year	106,200	15.0	188,980	12.1	733,952	21.4	2,173,789	28.6

Revenue

The table below sets out the breakdown of our revenue by business segment, each expressed as an absolute amount and as a percentage of our total revenue, for the years indicated.

	Year ended December 31,							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Corporate client oriented sales	509,978	72.1	1,003,696	64.1	2,491,990	72.6	6,568,661	86.3
— Vaping devices	503,233	71.1	691,644	44.2	1,124,168	32.8	4,477,005	58.8
— With ceramic heating technology	—	—	—	—	415,171	12.1	3,594,713	47.2
— Without ceramic heating technology	503,233	71.1	691,644	44.2	708,997	20.7	882,292	11.6
— Vaping components	6,745	1.0	312,052	19.9	1,367,822	39.8	2,091,656	27.5
Retail client oriented sales	197,276	27.9	561,494	35.9	941,719	27.4	1,041,940	13.7
Total	707,254	100.0	1,565,190	100.0	3,433,709	100.0	7,610,601	100.0

Our revenue increased significantly by 121.3% from RMB707.3 million in 2016 to RMB1,565.2 million in 2017, and further by 119.4% to RMB3,433.7 million in 2018, primarily due to (i) the increase in our sales benefited from new product offerings introduced by our corporate clients, and (ii) a broader corporate client and APV distributor base. Our revenue increased significantly by 121.6% from RMB3,433.7 million in 2018 to RMB7,610.6 million in 2019, primarily due to an increase in the orders we received from our existing and new corporate clients for vaping devices with our ceramic heating technology, which received positive market feedback. In sum, the significant growth of our revenue during the Track Record Period was the combined result of multiple factors. The global vaping device market grew from US\$3.1 billion in 2016 to US\$6.7 billion in 2019, representing an increase of 116.1%, and is expected to continue increasing in the future. Such market growth has been mainly a result of technological advancement, which has improved vaping experiences, increased functionality and enhanced safety,

SUMMARY

as well as consumers' increased familiarity with and access to information regarding vaping devices. The rapidly growing market generates more purchase demands from our corporate clients and distributors, who in turn placed more orders with us. In addition, due to our well-perceived industry reputation and award-winning heating technology, we were able to attract new customers who are well-known industry players. See "Industry Overview — Vaping Device Market Overview."

Sales volume and average selling prices

Set forth below are the sales volume and the average selling prices by product categories for the years indicated:

		Year ended December 31,							
		2016		2017		2018		2019	
	Sales volume ⁽¹⁾	Average selling prices	Sales volume ⁽¹⁾	Average selling prices	Sales volume ⁽¹⁾	Average selling prices	Sales volume ⁽¹⁾	Average selling prices	
	'000 equivalent unit	RMB/ equivalent unit	'000 equivalent unit	RMB/ equivalent unit	'000 equivalent unit	RMB/ equivalent unit	'000 equivalent unit	RMB/ equivalent unit	
Corporate client oriented sales									
— Vaping devices	144,842	3.5	190,626	3.6	198,950	5.7	512,271	8.7	
— Vaping components .	633	10.7	69,581	4.5	293,900	4.7	280,387	7.5	
Retail client oriented sales .	1,237	159.5	4,753	118.1	8,645	108.9	12,730	81.8	

Note:

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

For our corporate client oriented sales, the average selling prices of our vaping devices amounted to RMB3.5, RMB3.6, RMB5.7 and RMB8.7 per equivalent unit in 2016, 2017, 2018 and 2019, respectively, and the average selling prices of our vaping components amounted to RMB10.7, RMB4.5, RMB4.7 and RMB7.5 per equivalent unit in 2016, 2017, 2018 and 2019, respectively. The average selling prices of our vaping devices under corporate client oriented sales increased in 2018 and 2019 primarily as a result of the increase in sales of vaping devices equipped with our ceramic heating technology. The average selling prices of our vaping components under corporate client oriented sales decreased from 2016 to 2017, primarily because we began to sell vaping components for HNB products, which had lower prices in 2017. The average selling prices of our vaping components under corporate client oriented sales remained relatively stable in 2017 and 2018. The increasing trend of the average selling prices of vaping components under corporate client oriented sales in 2019 was mainly because we introduced a new series of HNB products with higher average selling prices. For our retail client oriented sales, the average selling prices of our self-branded APV amounted to RMB159.5, RMB118.1, RMB108.9 and RMB81.8 per equivalent

SUMMARY

unit in 2016, 2017, 2018 and 2019, respectively. The decreasing trend in the average selling prices of our self-branded APV during the Track Record Period was primarily attributed to the change in our product mix with more smaller sized APV products offered to suit customers' preferences.

Cost of sales

The following table sets forth the breakdown of our cost of sales, expressed as an absolute amount and as a percentage of our total cost of sales, for the years indicated.

	Year ended December 31,							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Cost of raw materials	403,459	75.4	863,146	75.3	1,644,252	73.3	3,049,348	71.6
— Metal components	126,941	23.7	320,785	28.0	647,896	28.9	818,719	19.2
— Electronic materials	70,233	13.1	147,883	12.9	331,603	14.8	928,725	21.8
— Plastic materials	21,439	4.0	85,304	7.4	237,942	10.6	675,996	15.9
— Packaging materials	81,952	15.3	109,657	9.6	175,573	7.8	374,886	8.8
— Others	102,894	19.3	199,517	17.4	251,238	11.2	251,022	5.9
Labor cost	70,779	13.2	156,833	13.7	334,096	14.9	625,462	14.7
Production overhead	56,860	10.6	114,035	10.0	239,281	10.7	499,548	11.7
Tax and surcharge	4,205	0.8	11,874	1.0	25,575	1.1	83,891	2.0
Total	535,303	100.0	1,145,888	100.0	2,243,204	100.0	4,258,249	100.0

Our cost of sales increased by 114.1% from RMB535.3 million in 2016 to RMB1,145.9 million in 2017, by 95.8% to RMB2,243.2 million in 2018, and further by 89.8% to RMB4,258.2 million in 2019. The increases during the Track Record Period were primarily driven by the rapid increase in the sales volumes of our products.

Gross profit and gross profit margin

The following table sets forth the breakdown of gross profit and gross profit margin by business segment for the years indicated.

	Year ended December 31,							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Corporate client oriented sales	104,557	20.5	210,597	21.0	868,652	34.9	2,991,020	45.5
— Vaping devices	102,837	20.4	109,046	15.8	291,705	25.9	2,109,559	47.1
— With ceramic heating technology	—	—	—	—	154,388	37.2	1,814,122	50.5
— Without ceramic heating technology	102,837	20.4	109,046	15.8	137,317	19.4	295,437	33.5
— Vaping components	1,720	25.5	101,551	32.5	576,947	42.2	881,461	42.1
Retail client oriented sales	67,394	34.2	208,705	37.2	321,853	34.2	361,332	34.7
Total	171,951	24.3	419,302	26.8	1,190,505	34.7	3,352,352	44.0

Our gross profit margin increased from 24.3% in 2016 to 26.8% in 2017, primarily due to the increased revenue contribution from self-branded APV, which generally have a higher gross profit margin than products sold to corporate clients. The relatively higher gross profit margin of our self-branded APV was primarily due to a change in our product mix. Our gross profit margin increased

SUMMARY

from 26.8% in 2017 to 34.7% in 2018, and further to 44.0% in 2019, primarily due to an increase in the sales of high-margin vaping devices equipped with ceramic heating technology to corporate clients. The reason for the growing demand for our high-margin products with ceramic heating technology during the Track Record Period was because our number of customers and products equipped with such technology increased over time and, with the increase in product sales, our customers gradually recognized the advantages of such technology on improving user experience. The demand of these high-margin products further increased as we began to promote “FEELM” as a ceramic heating technology brand in 2018. Moreover, in 2018 and 2019, we were able to procure customers that are large-scale tobacco companies and independent brands. We recorded solid performance for sales of relatively high-margin products to these large companies and brands, which generally experienced relatively high business growth in 2019.

See “Financial Information — Principal Components of Consolidated Statements of Profit and Loss and Comprehensive Income.”

Non-HKFRSs Measure

	Year ended December 31,			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Profit and total comprehensive income				
for the year	106,200	188,980	733,952	2,173,789
Listing expenses	—	—	808	26,299
Share-based payment expenses	—	—	—	61,268
Loss on fair value changes of Convertible				
Promissory Notes	—	—	—	3,635
Loss on fair value changes of convertible				
preferred shares	—	—	—	400
Adjusted net profit ⁽¹⁾	106,200	188,980	734,760	2,265,391

Note:

- (1) We derive adjusted net profit from profit and total comprehensive income for the year by adding back listing expenses, share-based payment expenses, loss on fair value changes of Convertible Promissory Notes and loss on fair value changes of convertible preferred shares.

Our management considers that the listing expenses, share-based payment expenses and loss on fair value changes of convertible preferred shares will not recur after the Listing since listing expenses and share-based payment expenses are one-off expenses relating to our Listing and pre-IPO process, and the convertible preferred shares, including those converted pursuant to the Convertible Promissory Notes, will be reclassified and re-designated to our ordinary shares prior to the completion of the Capitalization Issue and Global Offering. In addition, our management considers the loss on fair value changes of Convertible Promissory Notes and loss on fair value changes of convertible preferred shares to be non-cash items. Due to the non-recurring and non-cash nature of the abovementioned items, our management does not track such items as key operating or financial metric internally when reviewing our performance since these items do not

SUMMARY

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 from year to year.

However, the term of adjusted net profit is not defined under HKFRSs. Item excluded from adjusted net profit is significant component in understanding and assessing our operating and financial performance. In light of the foregoing limitations for this non-HKFRSs measure, when assessing our operating and financial performance, you should not consider adjusted net profit in isolation or as a substitute for our profit and total comprehensive income for the year, operating profit or any other operating performance measure that is calculated in accordance with HKFRSs. See “Financial Information — Non-HKFRSs Measure.”

Summary of Consolidated Statements of Financial Position

	As of December 31,			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	536,582	1,077,808	2,429,252	3,301,903
Total equity	260,211	410,451	968,958	734,673
Total liabilities	276,371	667,357	1,460,294	2,567,230
Net current assets	163,295	238,500	592,651	120,497
Net assets	260,211	410,451	968,958	734,673

Our net current assets increased from RMB163.3 million as of December 31, 2016 to RMB238.5 million as of December 31, 2017, and further to RMB592.7 million as of December 31, 2018, but later decreased to RMB120.5 million as of December 31, 2019, primarily due to (i) the increase of Convertible Promissory Notes amounting to RMB367.8 million, (ii) an increase of other payables and accrued expenses of RMB272.8 million, and (iii) a decrease in bank balances and cash of RMB210.6 million, partially offset by (i) an increase in trade and bills receivables of RMB306.1 million, (ii) an increase in inventories of RMB156.5million, and (iii) a decrease in trade payables of RMB129.4 million.

Our net assets increased from RMB260.2 million as of December 31, 2016 to RMB969.0 million as of December 31, 2018, but later decreased to RMB734.7 million as of December 31, 2019, primarily due to (i) effect of Reorganization of RMB1,153.1 million (which includes spending RMB57.7 million and RMB1,095.4 million to acquire equity interests in SBI Limited and Smoore Shenzhen, respectively), (ii) dividend payments of RMB1,142.0 million, and (iii) issuance of convertible preferred shares of RMB232.0 million, partially offset by (i) increase in profit for the year of RMB1,439.8 million, and (ii) recognition of equity-settled share-based payments of RMB61.3 million. The acquisition of equity interests in Smoore Shenzhen relating to the effect of Reorganization and the issuance of convertible preferred shares represented deemed distributions to the existing Shareholders.

SUMMARY

Summary of Consolidated Statements of Cash Flows

	Year ended December 31,			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Operating cash flows before movements				
in working capital	130,686	258,719	896,549	2,721,344
Changes in working capital	10,599	211,246	108,314	(115,294)
Cash generated from operations	141,285	469,965	1,004,863	2,606,050
PRC enterprise income tax paid	(12,009)	(31,143)	(44,884)	(421,699)
Net cash from operating activities	129,276	438,822	959,979	2,184,351
Net cash used in investing activities	(80,142)	(140,368)	(127,853)	(489,460)
Net cash from (used in) financing activities	25,830	(58,536)	(215,001)	(1,899,820)
Net increase (decrease) in cash and cash equivalents	74,964	239,918	617,125	(204,929)
Cash and cash equivalents at the beginning of the year	25,102	104,387	333,242	941,964
Effect of foreign exchange rate changes	4,321	(11,063)	(8,403)	(5,641)
Cash and cash equivalents at the end of the year	104,387	333,242	941,964	731,394

SUMMARY OF KEY FINANCIAL RATIOS

The following table sets forth a summary of our key financial ratios as of the dates or for the years indicated. For further details of our key financial ratios, see “Financial Information — Key Financial Ratios.”

Key Financial Ratios ⁽¹⁾	As of/for the year ended December 31,			
	2016	2017	2018	2019
Profitability ratios:				
1. Gross profit margin ⁽²⁾	24.3%	26.8%	34.7%	44.0%
2. Net profit margin ⁽³⁾	15.0%	12.1%	21.4%	28.6%
3. Return on equity ⁽⁴⁾	55.9%	56.4%	106.4%	255.2%
4. Return on total assets ⁽⁵⁾	26.6%	23.4%	41.9%	75.9%
Liquidity ratios:				
1. Current ratio ⁽⁶⁾	1.6	1.4	1.5	1.1
2. Quick ratio ⁽⁷⁾	1.1	1.1	1.2	0.8

Notes:

(1) The financial ratios are not a measure of performance under the HKFRS.

(2) Calculated as: gross profit/revenue × 100%.

SUMMARY

- (3) Calculated as: profit and total comprehensive income for the year/revenue \times 100%.
- (4) Calculated as: profit and total comprehensive income for the year/average total equity \times 100%.
- (5) Calculated as: profit and total comprehensive income for the year/average total assets \times 100%.
- (6) Calculated as: current assets/current liabilities.
- (7) Calculated as: (current assets – inventories)/current liabilities.

PRE-IPO INVESTMENTS

On October 25, 2019, CCG China, Dora Medical, EVOLUT CAPITAL, Hero Might, Islandwide and Sagittarius acquired from Mr. Chen, through an entity controlled by him, 131.248, 222.113, 80.768, 100.960 and 302.880 Series A-1 Preferred Shares and 530.381 ordinary shares of our Company for US\$6,499,989.03, US\$11,000,030.97, US\$3,999,993.25, US\$4,999,991.57, US\$14,999,974.70 and US\$26,266,843.57, respectively, which were determined based on arm's length negotiation.

Prior to the Capitalization Issue on the Listing Date, all Series A-1 Preferred Shares will be re-classified and re-designated as ordinary shares of our Company on a one-to-one basis. Upon completion of the Capitalization Issue and the Global Offering (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), each of CCG China, Dora Medical, EVOLUT CAPITAL, Hero Might, Islandwide and Sagittarius will hold 10,499,840, 17,769,040, 6,461,440, 8,076,800, 24,230,400 and 42,430,480 ordinary shares, respectively, representing approximately 0.18%, 0.31%, 0.11%, 0.14%, 0.42% and 0.74% of the total issued capital of our Company.

On October 30, 2019, we issued Convertible Promissory Notes for a principal amount of US\$28,000,012.90, US\$9,499,984.76 and US\$14,099,986.88, respectively, to Nall Technology, On Ride and Osborne. On April 30, 2020, pursuant to the Convertible Promissory Notes and the conversion notices issued by the Pre-IPO CN Investors, all the principal amount of the Convertible Promissory Notes held by each of Nall Technology, On Ride and Osborne was converted into 713.300, 242.012 and 359.197 Series A-2 Preferred Shares, respectively. Prior to the Capitalization Issue on the Listing Date, all Series A-2 Preferred Shares will be re-classified and re-designated as ordinary shares of our Company on a one-to-one basis. Upon completion of the Capitalization Issue and the Global Offering (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), each of Nall Technology, On Ride and Osborne will directly hold 57,064,000, 19,360,960 and 28,735,760 ordinary shares of the Company, representing approximately 0.99%, 0.34% and 0.50% of our total issued share capital, respectively.

For the background information of CCG China, Dora Medical, EVOLUT CAPITAL, Hero Might, Islandwide, Sagittarius, Nall Technology, On Ride and Osborne, please see the section headed “Our History and Development — Pre-IPO Investments — Background of the Pre-IPO Investors” in this prospectus.

SUMMARY

OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Capitalization Issue and the Global Offering (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), (i) BVI 1, an investment holding company wholly owned by Mr. Chen, will be interested in approximately 34.64% of our total issued share capital, (ii) BVI 2, an investment holding company wholly owned by Mr. Xiong, will be interested in approximately 5.26% of our total issued share capital, and (iii) EVE BVI, an investment holding company wholly owned by EVE Asia, which is in turn wholly-owned by EVE Energy, will be interested in approximately 33.11% of our total issued share capital. As of the Latest Practicable Date, EVE Energy was ultimately controlled by Dr. Liu Jincheng and Ms. Luo Jinhong (駱錦紅) (spouse of Dr. Liu Jincheng) and together they owned 36.94% equity interest in EVE Energy. By virtue of the Concert Party Agreement, Mr. Chen, Mr. Xiong and their respective wholly-owned investment holding companies, namely BVI 1 and BVI 2, will be considered as a group of Controlling Shareholders under the Listing Rules, and EVE BVI, EVE Asia and EVE Energy are also a group of Controlling Shareholders within the meaning of the Listing Rules. For more details, please see the section headed “Relationship with Our Controlling Shareholders” in this prospectus.

PREVIOUS LISTING ON THE NEEQ AND THE DELISTING

Smoore Shenzhen was converted into a joint stock company on July 28, 2015 with a share capital of RMB60,000,000 through conversion of its total net assets as of May 31, 2015 in the amount RMB94,941,847.99, and the remaining RMB34,941,847.99 was credited to the capital reserves of Smoore Shenzhen. On December 14, 2015, 60,000,000 shares, being the then entire share capital of Smoore Shenzhen, became listed on the NEEQ under stock code 834742. With a view to achieving our overall strategic objective to develop an international financing platform and maximize our shareholders’ value, we voluntarily delisted Smoore Shenzhen from the NEEQ on June 5, 2019. We subsequently decided to apply for the Listing of our Shares on the Main Board of the Stock Exchange as we believe the listing would allow us to (i) gain direct access to the international capital markets for financing to fund our operations and further expansion and (ii) build on our reputation internationally, further enhance our bargaining power in our business dealings with our customers and attract higher profile international customers and strategic investors.

CONNECTED TRANSACTIONS

We have entered into, and are expected to continue after the Listing, the procurement framework agreement with EVE Energy, which is a Controlling Shareholder of our Company and hence our connected person upon Listing. The transactions under the procurement framework agreement constitute non-exempt continuing connected transactions under the Listing Rules upon Listing. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, waivers in relation to such continuing connected transactions between us and EVE Energy under Chapter 14A of the Listing Rules from strict compliance with the announcement and independent shareholders’ approval requirements (as applicable).

SUMMARY

Our Directors (including independent non-executive Directors) are of the view that the transactions contemplated under the procurement framework agreement have been and will continue to be conducted on normal commercial terms that are fair and reasonable and are in the interests of our Company and the Shareholders as a whole and carried out in the ordinary and usual course of the business of our Group. For more details, please see the section headed “Continuing Connected Transactions” in this prospectus.

RECENT DEVELOPMENTS

Awards

In February 2020, we were awarded the iF Design Award by iF International Forum Design GmbH for our disposable paper e-cigarette design, which makes the e-cigarette more eco-friendly and hygienic. Our disposable paper e-cigarette uses eco-friendly paper material instead of plastic and significantly improves its degradability. The multi-layer paper design is also more hygienic as it allows the outermost layer of the mouthpiece to be torn off when being reused or being passed to another user. We believe that the above award is a testament to our R&D prowess.

Political Developments

China has been in a trade war with the U.S. since 2018, but on January 15, 2020, China and the U.S. signed the phase one trade deal, which will cut U.S. tariffs and boost China’s purchases of U.S. products. In the same month, the U.S. also reversed its label on China as a currency manipulator. However, the agreement will still leave in place tariffs on US\$250 billion worth of Chinese products. Our products that are being exported to the U.S. have been subject to an additional 25% tariff. These products include products being forwarded to the U.S. through Hong Kong since the country of origin for those products is China. Our products exported to the U.S. are still subject to the additional tariff even after the phase one trade deal was signed since the tariff list on which our products are included was not affected by the phase one trade deal. To the best knowledge of our Directors, our revenue from products shipped directly or indirectly to the U.S. amounted to approximately RMB391.5 million, RMB781.3 million, RMB1,797.8 million and RMB3,539.4 million in 2016, 2017, 2018 and 2019, respectively, accounting for approximately 55.4%, 49.9%, 52.4% and 46.5% of our total revenue for the respective years.

Although, for our products that are exported to the U.S., our customers are responsible for declaring and paying the tariffs, we have voluntarily lowered prices for some vaping components by approximately 3.3% in October 2018 in support of our customers. As a result, our revenue and gross profit was negatively affected by approximately RMB7.8 million in the two months ended December 31, 2018 and approximately RMB48.5 million in 2019. In particular, revenue and gross profit of vaping components sold to the U.S. would have been RMB227.0 million and RMB117.2 million, respectively, in the two months ended December 31, 2018 and RMB1,422.3 million and RMB735.6 million, respectively, in 2019, but after the price adjustment, our revenue and gross profit of vaping components sold to the U.S. decreased to RMB219.2 million and RMB109.4 million, respectively, in the two months ended December 31, 2018 and RMB1,373.7 million and RMB687.1 million, respectively, in 2019. Nevertheless, despite the trade war, our sales volume to the U.S. did not decrease due to our technologically superior products. To the best knowledge of

SUMMARY

our Directors, the current trade war between China and the U.S. had not caused any material adverse impact on our business, financial conditions and results of operations during the Track Record Period and up to the date of this prospectus.

COVID-19 Outbreak

In December 2019, a novel strain of coronavirus, or COVID-19, was reported to have surfaced in Wuhan, China. COVID-19 now affects other cities in China and many countries globally. The Chinese central government and local governments in Wuhan and other cities in China have introduced various temporary measures to contain the COVID-19 outbreak, such as extension of the Lunar New Year holiday and travel restrictions, which have impacted and continue to impact national and local economies to different degrees.

Our operations have experienced a short-term impact mainly due to production delays caused by the extension of the Lunar New Year holiday, mandatory quarantines of our employees upon returning to work and difficulties in recruiting new employees. In light of such circumstances, our production capacity for the first quarter of 2020 was approximately one-third lower than our planned production capacity, which had an adverse effect on our revenue. We gradually resumed production and operation starting from February 17, 2020 and resumed full production and operation in mid-March 2020. Unless the COVID-19 outbreak worsens, we do not expect to experience any significant reduction in our production capacity going forward.

The demand from end consumers for our self-branded APV under our retail client oriented sales has also been affected by the COVID-19 outbreak. Our retail client oriented sales revenue and sales volume decreased by approximately 40.5% and 33.6%, respectively, in the four months ended April 30, 2020 as compared to that of the same period in 2019. The primary reason for the decrease was the interruption of production due to the impact of the COVID-19 outbreak. The impact on the sales channels of our distributors also led to such decrease, as a number of vaping shops and tobacco shops had reduced business hours or had closed temporarily in the four months ended April 30, 2020 and end consumers had to rely more on online stores to purchase our self-branded APV. Further, compared with our closed system vaping device, the average selling price of our self-branded APV is higher, which made them more susceptible to having decreased consumer demand during the COVID-19 outbreak. In contrast, our corporate client oriented sales revenue and sales volume increased by approximately 20.3% and 12.4%, respectively, in the four months ended April 30, 2020 as compared to that of the same period in 2019 despite of the aforementioned negative impact on production. As a result, our total revenue grew by approximately 7.8% in the four months ended April 30, 2020 as compared to that of the same period in 2019. These figures for the four months ended April 30, 2020 were based on our unaudited management accounts.

Although, as of the date of this prospectus, we had not experienced and do not expect any material adverse impact on our ability to manufacture or deliver our products under existing contracts, our short-term liquidity requirements or our long-term commercial prospects, we cannot assure you that the COVID-19 outbreak will not further escalate and cause additional disruptions to our business operations as well as those of our suppliers and customers. If that transpires, our business, financial conditions and results of operations may be materially and adversely affected. See “Risk Factors — Risks Relating to Our Business and Industry — Our business could be materially and adversely affected by the COVID-19 outbreak.” In the worst case scenario, if our

SUMMARY

production activities are suspended and we cease to bring in any new sales, we estimate that our existing bank balances and cash of approximately RMB1,051.0 million as of April 30, 2020, cash flow from collection of payments and 5% of the estimated net proceeds from the Global Offering that is intended to be used for funding our working capital and other general corporate purposes can support 22 months of our routine business, operation and R&D activities. This estimation is based on the assumptions that (i) we pay off all our existing current liabilities in the first three months; (ii) our cash outflow per month is approximately RMB60.0 million starting from the fourth month; (iii) we lay off production workers and continue to pay rental for leased properties; and (iv) we temporarily cease our expansion plans.

We have employed various measures to mitigate the impact of the COVID-19 outbreak including, for example, establishing a group-level contingency plan, which includes recruitment management measures, and timely communication with our customers and suppliers, etc. As of the Latest Practicable Date, our production capacity had returned to normal. To further minimize the impact of the COVID-19 outbreak, we have established a COVID-19 prevention unit and COVID-19 prevention teams with relevant protocols including a variety of containment measures. We have also been providing sufficient personal protective equipment to our employees and conducting periodic sanitization at our premises. Since we resumed business operations after the extended Lunar New Year holiday and up to the Latest Practicable Date, we had monitored our employees and had not received any notification that any of our employees has been diagnosed with COVID-19.

The PRC government has also taken various measures to manage cases, reduce potential spread and impact of infection, as well as various incentive policies to boost the economy, such as cutting taxes, increasing government investment, increasing the amount of the currency issued and cutting interest rates. The combination of fiscal and monetary incentives would ease the negative impact of the COVID-19 outbreak. Therefore, we believe that although the Chinese economy is under pressure in the short term, the impact is likely to ease after the outbreak has been effectively controlled. See “Business — COVID-19 Outbreak.”

Material Transfer and Research Agreement with AIM ImmunoTech, Inc. to Research COVID-19 Treatment

In April 2020, we entered into a material transfer and research agreement with AIM ImmunoTech, Inc. (“AIM”) to research the efficacy of using our inhalation delivery device to administer AIM’s flagship drug, Ampligen, for COVID-19 treatments. We believe that this easy-to-use, self-administered therapeutic treatment has the potential to be an effective treatment approach for COVID-19. We and AIM hypothesize that, when administered deep into the lungs at the first signs of COVID-19 infection via our inhalation delivery device, which is designed to carefully distribute different sized particles of Ampligen, the drug would initiate a therapeutic toll-like receptor 3 response throughout the upper and lower respiratory system that could effectively stop the COVID-19 infection. We and AIM will work together to test this hypothesis. This research project is consistent with our strategy to explore and expand into the healthcare sector. See “Business — Strategies — Penetrate existing customers and attract new customers to increase our market shares in different areas.”

SUMMARY

Share-based Payment Expenses and Loss on Fair Value Changes of Convertible Preferred Shares

Subsequent to the Track Record Period and prior to the Listing, we may incur share-based payment expenses and retain accumulated losses due to loss on fair value changes of convertible preferred shares. We expect that the share-based payment expenses and the loss on fair value changes of convertible preferred shares will adversely affect our financial results in 2020.

NO MATERIAL ADVERSE CHANGE

The COVID-19 outbreak and subsequent quarantine measures imposed by the PRC government as well as the travel restrictions imposed by other countries in early 2020 have had a substantial impact on the global economy and the market sentiment of the e-cigarette market. In addition, our operations since January 2020 have been adversely affected, as most of our operations are located in China. However, we do not consider such negative effects to be material as we are still able to manufacture or deliver our products under existing contracts, and the outbreak has had no material impact on our short-term liquidity requirements or our long-term commercial prospects. Our Directors are still assessing the financial impact that the COVID-19 will have on our future consolidated financial statements.

After due and careful consideration, our Directors confirm that, up to the date of this prospectus, there has not been any material adverse change in our financial or trading position or prospects since December 31, 2019, and there is no event since December 31, 2019 which would materially affect the information shown in Accountants' Report in Appendix I.

LISTING EXPENSES

During the Track Record Period, we incurred listing expenses of RMB32.3 million (HK\$35.3 million), of which RMB27.1 million (HK\$29.6 million) was recognized as listing expenses in our consolidated statements of profit or loss and other comprehensive income and RMB5.2 million (HK\$5.7 million) was recognized as deferred issue costs under other receivables, deposits and prepayments in our consolidated statements of financial position. We expect to incur additional listing expenses of RMB210.1 million (HK\$229.8 million) after December 31, 2019 (assuming that the Global Offering is conducted at the mid-point of the Offer Price range), of which RMB35.6 million (HK\$39.0 million) is expected to be recognized as listing expenses in 2020 and RMB174.5 million (HK\$190.8 million) is expected to be recognized as a deduction in equity directly. The listing expenses amounted to 4.2% of our estimated gross proceeds of HK\$6,317.9 million from the Global Offering, assuming an Offer Price of HK\$11.00 per Offer Share (being the mid-point of the Offer Price range). Our Directors do not expect such expenses to have a material adverse impact on our financial results in 2020.

SUMMARY

GLOBAL OFFERING STATISTICS

	Based on Minimum Indicative Offer Price of HK\$9.60 per Share	Based on Maximum Indicative Offer Price of HK\$12.40 per Share
Our Company's market capitalization upon completion of the Global Offering ⁽¹⁾	HK\$55,138 million	HK\$71,220 million
Unaudited pro forma adjusted net tangible assets per ordinary Share ⁽²⁾	HK\$1.08	HK\$1.36

Notes:

- (1) The calculation of the market capitalization is based on 5,743,512,720 Shares expected to be in issue immediately upon completion of the Capitalization Issue and the Global Offering (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).
- (2) The unaudited pro forma adjusted net tangible asset value per Share has been arrived at after adjustments referred to in the section headed "Unaudited Pro Forma Financial Information" in Appendix II and on the basis of 5,571,314,480 Shares in issue at the respective Offer Price of HK\$9.60 and HK\$12.40, assuming that the Shares issued pursuant to the Global Offering were issued on December 31, 2019 (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).

FUTURE PLANS AND USE OF PROCEEDS

We estimate the net proceeds of the Global Offering which we will receive, assuming an Offer Price of HK\$11.00 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$6,052.6 million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering.

SUMMARY

We intend to use the net proceed of the Global Offering for the following purposes:

Amount (HK\$ in Million)	Approximate % of Total Estimated Net Proceeds	Intended Use
3,026.3	50%	Expand our production capacity, including the establishment of industrial parks in Jiangmen and Shenzhen, Guangdong province
1,513.1	25%	Implement automated production and assembly lines at our new production bases, upgrade our group-level ERP system and upgrade our existing factories
1,210.5	20%	Invest in research and development, including building a group-level research center in Shenzhen, developing new heating technology and paying for product certification expenses
302.7	5%	Provide funding for our working capital and other general corporate purposes

See “Future Plans and Use of Proceeds — Use of Proceeds” for further details.

DIVIDENDS

We have adopted a general annual dividend policy of declaring and paying dividends on an annual basis of no less than 30% of our total net profit attributable to us for any particular year. Assuming the Listing occurs in 2020, 2020 will be the first year for which our total net profit attributable to us will be used for the purposes of declaring and paying dividends in accordance with the aforementioned general annual dividend policy. The declaration of dividends is subject to the discretion of our Directors, and, if necessary, the approval of our Shareholders. See “Financial Information — Dividend Policy.”

We declared dividends of RMB4.2 million, RMB38.7 million, RMB175.1 million and RMB1,142.0 million in 2016, 2017, 2018 and 2019, respectively. As of December 31, 2019, we had completed the payment of the declared dividends.

HISTORICAL NON-COMPLIANCES

Except for non-compliance incidents disclosed below, we are advised by our PRC Legal Advisers that, during the Track Record Period, we had complied with relevant PRC laws and regulations in all material respects:

- **Registration of lease agreements.** As of the Latest Practicable Date, we had not completed the administrative filings of 31 lease agreements relating to our leased properties. These leased properties had an aggregate GFA of approximately 157,575 sq.m.

SUMMARY

- ***Contributions to social insurance and housing provident funds.*** During the Track Record Period, we failed to make contributions to the social insurance and housing provident funds in full amount as required by the relevant PRC laws and regulations.
- ***Environmental impact assessment.*** We commenced (i) the construction of our manufacturing facilities without preparing the required environmental impact assessment documents and without obtaining the approval or filing of the relevant authorities, and (ii) the production of our manufacturing facilities after their renovation and expansion without undergoing the inspection and acceptance procedures. As a result of the above non-compliance incidents, on June 17, 2019 and August 1, 2019, respectively, the Ministry of Ecology and Environment of Dongguan ordered one of our PRC subsidiaries Smoore Dongguan to rectify the non-compliance incident within six months from the date of the receipt of the rectify notice and to pay (i) a fine of RMB100,000 amounting to 1% of the overall investment amount of the construction project, and (ii) a fine of RMB200,000.

To address these historical incidents of non-compliance, we implemented a number of corrective measures. For details, see “Business — Legal and Compliance.”

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s) or, where the context so requires, any of them
“Articles” or “Articles of Association”	the articles of association of our Company conditionally adopted on June 15, 2020 with effect from the Listing Date, a summary of which is set out in Appendix III
“Board” or “Board of Directors”	the board of directors of our Company
“British American Tobacco”	Nicoventures Trading Limited, a member of the British American Tobacco group of companies and a customer of our Company
“business day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business
“BVI”	the British Virgin Islands
“BVI 1”	SMR & Alon Limited, a business company incorporated in the BVI on July 19, 2019, which is wholly-owned by Mr. Chen and a Controlling Shareholder
“BVI 2”	Andy Xiong Holding Limited, a business company incorporated in the BVI on August 12, 2019, which is wholly-owned by Mr. Xiong and a Controlling Shareholder
“BVI 3”	ASULIKE TOUZI LIMITED, a business company incorporated in the BVI on August 12, 2019, and wholly-owned by Mr. Wang
“BVI 4”	Aletech Holding Limited, a business company incorporated in the BVI on August 12, 2019, and wholly-owned by Mr. Qiu
“BVI 5”	Joe&Ethan Limited, a business company incorporated in the BVI on August 12, 2019, and wholly-owned by Mr. Lai
“BVI 6”	SMJL C&H Limited, a business company incorporated in the BVI on August 12, 2019, and wholly-owned by Mr. Luo

DEFINITIONS

“BVI 7”	Fancy Kev Ltd, a business company incorporated in the BVI on August 12, 2019, and wholly-owned by Mr. Liu
“Capitalization Issue”	the issue of 5,169,096,105.491 Shares to be made upon capitalization of certain sums standing to the credit of the share premium account of our Company as referred to in the paragraph headed “A. Further Information About Our Group — 3. Resolutions in Writing of the Shareholders of Our Company Passed on June 15, 2020” in Appendix IV to this prospectus
“Cayman Companies Law” or “Companies Law”	the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CCG China”	CCG China Dancing L.P., a limited partnership established in the Cayman Islands on March 20, 2018, being one of our Pre-IPO Investors
“CDC”	Centers for Disease Control and Prevention
“Changsha Smoore”	Changsha Smoore Electronic Technology Co., Ltd.* (長沙思摩爾電子科技有限公司), a company established in the PRC on November 6, 2019, and a wholly-owned subsidiary of our Company
“China” or “the PRC”	the People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, Macau and Taiwan

DEFINITIONS

“Companies Ordinance” or “Hong Kong Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Smooore International Holdings Limited (思摩爾國際控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on July 22, 2019
“Concert Party Agreement”	the acting-in-concert agreement entered into between Mr. Chen and Mr. Xiong on March 24, 2017 and as amended and restated on December 11, 2019. For details, please see the section headed “Our History and Development” in this prospectus
“Controlling Shareholder(s)”	has the meaning ascribed to it in the Listing Rules and unless the context requires otherwise, refers to the controlling shareholders of our Company, namely Mr. Chen, Mr. Xiong, BVI 1, BVI 2, EVE Energy, EVE Asia and EVE BVI, and a Controlling Shareholder shall mean each or any one of them
“Conversion Shares”	Shares of the Company issued or issuable pursuant to the Convertible Promissory Notes, which include both ordinary shares in the share capital of our Company with a par value of US\$0.01 each and the Series A-2 Preferred Shares
“Convertible Promissory Notes”	the convertible promissory notes issued by the Company to the Pre-IPO CN Investors on October 30, 2019
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Deed of Indemnity”	the deed of indemnity dated June 15, 2020 and entered into by Mr. Chen and Mr. Xiong, our Controlling Shareholders, in favor of our Company (for itself and as trustee for its subsidiaries), further information of which is set out in the paragraph headed “E. Other Information — 1. Estate duty, tax and other indemnities” in Appendix IV to this prospectus
“Deed of Non-competition”	the deed of non-competition dated February 14, 2020 and entered into by and among EVE Energy, EVE Asia and EVE BVI, our Controlling Shareholders, in favor of our Company (for itself and as trustee for its subsidiaries), further information of which is set out in the section headed “Relationship with Our Controlling Shareholders — Deed of Non-competition” in this prospectus
“Director(s)”	the director(s) of our Company

DEFINITIONS

“Dora Medical”	Dora Medical HK Limited, a limited liability company incorporated in Hong Kong on January 21, 2019, being one of our Pre-IPO Investors
“E.U.”	European Union
“EVE Asia”	EVE Asia Co., Limited (億緯亞洲有限公司), a company incorporated in Hong Kong on January 4, 2013, a wholly-owned subsidiary of EVE Energy and a Controlling Shareholder
“EVE BVI”	EVE BATTERY INVESTMENT LTD., a limited liability company incorporated in the BVI on August 13, 2019, which is a wholly-owned subsidiary of EVE Asia which is in turn wholly-owned by EVE Energy and a Controlling Shareholder
“EVE Energy”	EVE Energy Co., Ltd. (惠州億緯鋰能股份有限公司), a company established in the PRC in December 2001, listed on the Shenzhen Stock Exchange with stock code 300014, a Controlling Shareholder and one of our suppliers
“EVOLUT CAPITAL”	EVOLUT CAPITAL FUND SPC, a segregated portfolio company with limited liability incorporated in the Cayman Islands on August 12, 2019, being one of our Pre-IPO Investors
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the government of Hong Kong
“FDA”	United States Food and Drug Administration
“Founding Shareholder(s)”	Mr. Chen, Mr. Xiong, Mr. Wang, Mr. Qiu, Mr. Lai, Mr. Liu and Mr. Luo, and a Founding Shareholder shall mean each or any one of them
“GAC”	General Administration of Customs of the PRC (中華人民共和國海關總署)
“GBP”	Great British Pound
“Global Offering”	the Hong Kong Public Offering and the International Offering

DEFINITIONS

“Grantees”	the 558 grantees of the Pre-IPO Share Options, including the Grantees who are our Directors and their associates and directors/general managers of our subsidiaries, a Grantee who is a member of our senior management team and other Grantees who are our employees
“ GREEN Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider designated by our Company
“Group,” “our Group,” “we,” “our” or “us”	our Company and our subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)
“Hero Might”	Hero Might Investments Limited, a limited liability company incorporated in the BVI on April 11, 2014, being one of our Pre-IPO Investors
“HK\$” or “Hong Kong dollars” or “HK dollars” or “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“ HK eIPO White Form ”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name, submitted through the IPO App or the designated website at www.hkeipo.hk
“ HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company as specified in the IPO App and on the designated website at www.hkeipo.hk
“HKFRS”	Hong Kong Financial Reporting Standards, which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Hong Kong Offer Shares”	the 68,924,000 Shares being initially offered for subscription in the Hong Kong Public Offering (subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus)
“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price on the terms and conditions described in this prospectus and the Application Forms
“Hong Kong Share Registrar”	Tricor Investor Services Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting — Hong Kong Underwriters — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated June 26, 2020, relating to the Hong Kong Public Offering and entered into by, among others, the Joint Global Coordinators, the Hong Kong Underwriters and our Company as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — The Hong Kong Public Offering” in this prospectus
“independent third party(ies)”	person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, is/are third party(ies) independent of our Company and our connected persons as defined under the Listing Rules
“Industry Report”	the industry report issued by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., the industry consultant
“International Offer Shares”	the 505,428,000 Shares being initially offered in the International Offering together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option, subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus

DEFINITIONS

“International Offering”	the offer of the International Offer Shares by the International Underwriters at the Offer Price outside the United States in offshore transactions in accordance with Regulation S and in the United States to QIBs only in reliance on Rule 144A or any other available exemption from registration under the U.S. Securities Act, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Underwriters”	the group of underwriters, led by the Joint Global Coordinators, that is expected to enter into the International Underwriting Agreement to underwrite the International Offering
“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering, which is expected to be entered into by, among others, the Joint Global Coordinators, the International Underwriters and our Company on or about July 3, 2020, as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — The International Offering” in this prospectus
“IPO App”	the mobile application for HK eIPO White Form service which can be downloaded by searching “ IPO App ” in App Store or Google Play or downloaded at <u>www.hkeipo.hk/IPOApp</u> or <u>www.tricorglobal.com/IPOApp</u>
“Islandwide”	Islandwide Holdings Limited, a limited liability company incorporated in the BVI on July 2, 2008, being one of our Pre-IPO Investors
“Japan Tobacco”	Japan Tobacco Inc. (including some of its group companies), a tobacco company and a customer of our Company
“Jiangmen Moore”	Jiangmen Moore Technology Co., Ltd.* (江門摩爾科技有限公司) (formerly known as 江門市尚維芯電子科技有限公司), a company established in the PRC on November 15, 2018, and a wholly-owned subsidiary of our Company
“Jiangmen Smoore”	Jiangmen Smoore Technology Co., Ltd.* (江門思摩爾科技有限公司), a company established in the PRC on November 13, 2019, and a wholly-owned subsidiary of our Company
“Joint Bookrunners” or “Joint Lead Managers”	CLSA Limited, China International Capital Corporation Hong Kong Securities Limited, Guotai Junan Securities (Hong Kong) Limited and Daiwa Capital Markets Hong Kong Limited

DEFINITIONS

“Joint Global Coordinators”	CLSA Limited, China International Capital Corporation Hong Kong Securities Limited and Guotai Junan Securities (Hong Kong) Limited
“JPY”	Japanese Yen
“Latest Practicable Date”	June 20, 2020, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about July 10, 2020, on which the Shares are listed on the Stock Exchange and from which dealings in the Shares are permitted to commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“Logic”	Logic Technology Development LLC., a customer of our Company
“Macau”	the Macau Special Administrative Region of the PRC
“Maike Brothers”	Shenzhen Maike Brothers Technology Co., Ltd.* (深圳市麥克兄弟科技有限公司), a company established in the PRC on April 1, 2014, and a wholly-owned subsidiary of our Company
“Maike Electronics”	Dongguan Maike Electronics Technology Co., Ltd.* (東莞市麥克電子科技有限公司), a company established in the PRC on September 16, 2013, and a wholly-owned subsidiary of our Company
“Maike Technology”	Dongguan Maike New Material Technology Co., Ltd.* (東莞市麥克新材料科技有限公司), a company established in the PRC on May 17, 2019, and a wholly-owned subsidiary of our Company
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange

DEFINITIONS

“Member of the Group”	the Company and/or any subsidiary or associated company of the Company
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company conditionally adopted on June 15, 2020 with effect from the Listing Date, a summary of which is set out in Appendix III to this prospectus
“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Chen”	Mr. Chen Zhiping (陳志平), an executive Director, the chief executive officer and the chairman of the Board of our Group, a Founding Shareholder and a Controlling Shareholder
“Mr. Lai”	Mr. Lai Baosheng (賴寶生), a Founding Shareholder
“Mr. Liu”	Mr. Liu Pingkun (劉平昆), a Founding Shareholder
“Mr. Luo”	Mr. Luo Chunhua (羅春華), a general manger of the operation department of our Group and a Founding Shareholder
“Mr. Qiu”	Mr. Qiu Lingyun (邱凌雲), the Board secretary of our Group and a Founding Shareholder
“Mr. Wang”	Mr. Wang Jianliang (汪建良), a Founding Shareholder
“Mr. Xiong”	Mr. Xiong Shaoming (熊少明), an executive Director and the vice general manager of our Group, a Founding Shareholder and a Controlling Shareholder
“Nall Technology”	Nall Technology Holdings LP, a limited partnership established in the Cayman Islands on June 13, 2019, being one of our Pre-IPO Investors
“NASDAQ”	the NASDAQ Stock Market in the United States
“NDRC”	National Development and Reform Commission (中華人民共和國發展和改革委員會)
“NEEQ”	National Equities Exchange and Quotations (全國中小企業股份轉讓系統), a PRC over-the-counter system for trading shares of public companies
“NJOY”	NJOY LLC., a customer of our Company

DEFINITIONS

“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%) of not more than HK\$12.40 and expected to be not less than HK\$9.60, at which Hong Kong Offer Shares are to be subscribed and to be determined in the manner further described in the section headed “Structure of the Global Offering — Pricing and Allocation” in this prospectus
“Offer Share(s)”	the Hong Kong Offer Shares and the International Offer Shares together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option
“On Ride”	On Ride Investments Limited, a limited liability company incorporated in the BVI on March 15, 2004, being one of our Pre-IPO Investors
“Option(s)”	the share option(s) granted/to be granted pursuant to the terms and conditions of the Share Option Schemes
“Option Price”	in respect of any Option the price determined by the Board and notified to an Option-holder
“Option-holder”	a person holding an Option (and, where relevant, includes his personal representatives)
“Osborne”	Osborne Investment Limited, a business company incorporated in the BVI on March 26, 2018, being one of our Pre-IPO Investors
“Other Onshore Shareholders”	shareholders (other than the Founding Shareholders and EVE Energy) of Smoore Shenzhen immediately prior to the Reorganization
“Other Offshore Shareholders”	Shareholders (other than the Principal Holding Companies and EVE BVI) of our Company, being the 52 BVI limited liability companies established, individually or collectively, by the Other Onshore Beneficial Owners. For more details, please refer to notes (1)–(4) to “Our History and Development — Development of Our Group Structure and the Reorganization — The Reorganization — (2) Offshore shareholding restructuring” in this prospectus

DEFINITIONS

“Over-allotment Option”	the option expected to be granted by our Company to the International Underwriters, exercisable by Stabilizing Manager (for itself and on behalf of the International Underwriters) pursuant to the International Underwriting Agreement, pursuant to which our Company may be required to allot and issue up to an aggregate of 86,152,000 additional Shares at the Offer Price to cover over-allocations in the International Offering, if any, further details of which are described in the section headed “Structure of the Global Offering” in this prospectus
“PBOC”	People’s Bank of China (中國人民銀行)
“Person”	an individual, firm, corporation, partnership, association, limited liability company, trust or any other entity
“Post-IPO Share Option Scheme”	the share option scheme conditionally approved and adopted by resolutions passed by our Shareholders on June 15, 2020, the principal terms of which are summarized in the paragraphs under “D. Share Option Schemes — 2. Post-IPO Share Option Scheme” in Appendix IV to this prospectus
“PRC Government” or “State”	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them
“PRC Company Law”	the Company Law of the PRC (中華人民共和國公司法), enacted by the Standing Committee of the Eighth National People’s Congress on December 29, 1993 and effective on July 1, 1994, and subsequently amended on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013 and October 26, 2018, as amended, supplemented or otherwise modified from time to time
“PRC Legal Advisers”	DeHeng Law Offices (Shenzhen), the legal advisers to our Company as to the laws of the PRC
“Pre-IPO CN Investors”	Nall Technology, On Ride and Osborne
“Pre-IPO (Equity) Investors”	CCG China, Dora Medical, EVOLUT CAPITAL, Hero Might, Islandwide and Sagittarius
“Pre-IPO Investors”	the Pre-IPO CN Investors and the Pre-IPO (Equity) Investors

DEFINITIONS

“Pre-IPO Share Options”	Option(s) granted under the Pre-IPO Share Option Scheme
“Pre-IPO Share Option Scheme”	the share option scheme approved and adopted by resolutions passed by our Shareholders on September 30, 2019, the principal terms of which are summarized in the paragraphs under “D. Share Option Schemes — 1. Pre-IPO Share Option Scheme” in Appendix IV to this prospectus
“Price Determination Agreement”	the agreement to be entered into by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and our Company on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or about July 3, 2020, on which the Offer Price will be determined, or such later time as the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and our Company may agree, but in any event, not later than July 6, 2020
“Principal Holding Companies”	BVI 1, BVI 2, BVI 3, BVI 4, BVI 5, BVI 6 and BVI 7
“prospectus”	this prospectus being issued in connection with the Hong Kong Public Offering
“QIB”	a qualified institutional buyer within the meaning of Rule 144A
“Regulation S”	Regulation S under the U.S. Securities Act
“RELX”	Relx Inc., a customer of our Company
“Reorganization”	the reorganization of the Group, details of which are set out in the section headed “Our History and Development” in this prospectus
“Reynolds Asia-Pacific”	Reynolds Asia-Pacific Limited, a customer of our Company
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administration, including local branches, when applicable

DEFINITIONS

“SAFE Circular No. 37”	the Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Round-trip Investments by Domestic Residents through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) promulgated by SAFE with effect from July 4, 2014
“Sagittarius”	Sagittarius Glory Limited, a limited liability company incorporated in the BVI on September 20, 2019, being one of our Pre-IPO Investors
“SAT”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SBI Limited”	Smile Baby Investment Limited, a business company incorporated in the BVI on September 18, 2018, and a wholly-owned subsidiary of our Company
“Series A-1 Preferred Shares”	the series A-1 convertible preferred shares of par value of US\$0.01 each in the share capital of the Company, of which 837.969 were in issue as of the Latest Practicable Date and held by certain Pre-IPO (Equity) Investors, which will be re-classified and re-designated as ordinary shares of the Company prior to the Capitalization Issue on the Listing Date
“Series A-2 Preferred Shares”	the series A-2 convertible preferred shares of par value of US\$0.01 each in the share capital of the Company, of which 1,314.509 were in issue as of the Latest Practicable Date, which will be re-classified and re-designated as ordinary shares of the Company prior to the Capitalization Issue on the Listing Date
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Shareholder(s)”	holder(s) of Shares

DEFINITIONS

“Shareholders Agreement”	the shareholders agreement dated April 30, 2020, entered into by and among the Company, Smoore BVI, SBI Limited, Smoore HK, Smoore Shenzhen, the Founding Shareholders, the Principal Holding Companies, EVE BVI, EVE Asia, EVE Energy, and the Pre-IPO Investors, which amended, restated and replaced the shareholders and noteholders agreement entered into by and among the parties thereto on October 30, 2019
“Share Option Schemes”	the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme
“Shares”	the ordinary shares, Series A-1 Preferred Shares and Series A-2 Preferred Shares in the share capital of our Company with a par value of US\$0.01 each, or any one of them, as the context so requires
“Shenzhen Maishi”	Shenzhen Maishi Technology Co., Ltd.* (深圳麥時科技有限公司), a company established in the PRC on August 8, 2019, and a wholly-owned subsidiary of our Company
“Shenzhen Vaporesso”	Shenzhen Vaporesso Technology Co., Ltd.* (深圳市韋普萊思科技有限公司), a company established in the PRC on May 29, 2018, and a wholly-owned subsidiary of our Company
“Smoore BVI”	Smoore Group Limited, a business company incorporated in the BVI on July 23, 2019, and a wholly-owned subsidiary of our Company
“Smoore Dongguan”	Dongguan Smoore New Material Technology Co., Ltd.* (東莞市思摩爾新材料科技有限公司), a company established in the PRC on April 10, 2018, and a wholly-owned subsidiary of our Company
“Smoore HK”	SMOORE (HONGKONG) LIMITED (思摩爾(香港)有限公司), a company incorporated in Hong Kong on August 21, 2019, and a wholly-owned subsidiary of our Company
“Smoore Industry”	SMOORE INDUSTRY LIMITED (思摩爾實業有限公司), a company incorporated in Hong Kong on March 12, 2014, and a wholly-owned subsidiary of our Company

DEFINITIONS

“Smoore Shenzhen”	Shenzhen Smoore Technology Co., Ltd. (深圳麥克韋爾科技有限公司) (formerly known as 深圳麥克韋爾股份有限公司 and 深圳市麥克韋爾科技有限公司), a company established in the PRC on September 21, 2009, and a wholly-owned subsidiary of our Company
“Sole Sponsor”	CLSA Capital Markets Limited
“State Council”	the PRC State Council (中華人民共和國國務院)
“Stabilizing Manager”	CLSA Limited
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into on or about the Price Determination Date between the Stabilizing Manager (or its affiliates acting on its behalf) and BVI 1, pursuant to which BVI 1 will agree to lend up to 86,152,000 Shares to the Stabilizing Manager on terms set forth therein
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SVR”	SVR INC, a company established in the United States on May 9, 2016, and a wholly-owned subsidiary of our Company
“Track Record Period”	the years ended December 31, 2016, 2017, 2018 and 2019
“U.K.” or “United Kingdom”	The United Kingdom of Great Britain and Northern Ireland
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.S.” or “United States”	the United States of America
“US\$,” “USD” or “U.S. dollars”	United States dollars, the lawful currency for the time being of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended and supplemented or otherwise modified from time to time, and the rules and regulations promulgated thereunder
“VAT”	value-added tax; all amounts are exclusive of VAT in this prospectus except where indicated otherwise

DEFINITIONS

“Warranting Shareholders”	collectively, Mr. Chen, Mr. Xiong, BVI 1 and BVI 2
“ WHITE Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicants’ own names
“WHO”	World Health Organization
“ YELLOW Application Form(s)”	the form of application for the Hong Kong Offer Shares for use by the public who require such Hong Kong Offer Shares to be deposited directly into CCASS
“%”	per cent.

* *For identification purposes only*

In this prospectus, the terms “associate(s),” “close associate(s),” “connected person(s),” “connected transaction(s),” “core connected person(s),” “controlling shareholder(s),” “subsidiary(ies)” and “substantial shareholder(s)” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

GLOSSARY

This glossary contains terms used in this prospectus in connection with us. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“APV”	advanced personal vaporizers, which is a type of vaping device that has certain advanced functionalities
“atomizer” or “coil”	the heating system of a vaping device that converts e-liquid into vapor
“CAGR”	compound annual growth rate
“CBD”	cannabidiol, an active ingredient in cannabis derived from the hemp plant
“e-cigarette(s)”	electronic cigarette(s), a battery-powered device that is typically designed to resemble a traditional cigarette and that emits vaporized e-liquid when the user inhales it
“e-liquid”	a solution converted into vapor by the atomizer or coil
“ENDS”	electronic nicotine delivery systems, which are devices that heat e-liquid to create vapor (including our closed system vaping devices and open system vaping devices)
“Existing ENDS Product(s)”	ENDS product(s) that were first distributed in the U.S. market between February 15, 2007 and August 8, 2016
“equivalent unit(s)”	the equivalent unit for our corporate client oriented sales is calculated by converting all of the parts of vaping devices at respective ratios into cartridges. The equivalent unit for our retail client oriented sales is calculated by converting all of the parts of APV at respective ratios into a full set APV. The respective ratios are determined based on the manufacturing time needed
“ERP system”	enterprise resource planning system
“EXW”	ex-works, a trade term which means that the seller makes the goods available at their place of business. Under this term, the buyer bears all the costs of delivery and risks once the seller has informed the buyer that they have identified and set aside the goods for the contract

GLOSSARY

“FCA”	free-carrier, a trade term which means that the seller is required to assume the cost of delivery to the specified location and to bear the risks until the goods are delivered to such specified location
“FOB”	free on board, a trade term which means that the seller bears all costs and risks up to the point the goods are loaded on board the vessel designated by the buyer in a manner customary at the particular port. From that point forward, the buyer bears the costs and risks
“GDP”	gross domestic product
“GFA”	gross floor area
“HNB”	heat-not-burn, which is a device that uses a battery-powered heating system to generate nicotine-containing vapor by heating tobacco
“Net X days”	a credit term used in business to signify that the full amount a client owes is payable within X days starting from the end of the month in which the invoice is raised
“New ENDS Product(s)”	ENDS product(s) that were not distributed or on sale in the U.S. prior to or as of August 8, 2016
“non-ENDS”	non-electronic nicotine delivery systems, which primarily refers to closed system and open system vaping devices used for cannabis consumption purposes (including our vaping components for HNB products and vaping components for vaping devices that can be used for medical or recreational CBD and THC vaping)
“OA X days”	a credit term used in business to signify that the full amount a client owes is payable within X days after the delivery date
“ODM”	original design manufacturer, which is a company that designs and manufactures products, as specified, that are eventually marketed under the customer’s brand
“OEM”	original equipment manufacturer, which is a company that manufactures products, in whole or in part, in accordance with the designs and specifications of the customer, and the products are marketed under the customer’s brand

GLOSSARY

“PMTA(s)”	premarket tobacco application(s)
“R&D”	research and development
“sq.m.”	square meters
“THC”	tetrahydrocannabinol, the main psychoactive compound in cannabis
“vaping device(s)”	device(s) used to vaporize substances for inhalation, which include(s) components such as an atomizer and accessories
“vapor”	aerosol, steam, or any other substance generated by a vaping device

FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements and information relating to our Company and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words “aim,” “anticipate,” “believe,” “could,” “estimate,” “expect,” “going forward,” “intend,” “may,” “ought to,” “plan,” “project,” “seek,” “should,” “will,” “would” and the negative of these words and other similar expressions, as they relate to the Group or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our business strategies and plans to achieve these strategies;
- general economic, political and business conditions in the markets in which we operate;
- changes to the regulatory environment and general outlook in the industry and markets in which we operate;
- the effects of the global financial markets and economic crisis;
- our ability to reduce costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances

FORWARD-LOOKING STATEMENTS

discussed in this prospectus might not occur in the way we expect or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to the cautionary statements in this section.

In this prospectus, statements of or references to our intentions or those of the Directors are made as of the date of this prospectus. Any such information may change in light of future developments.

RISK FACTORS

You should carefully consider all of the information set out in this prospectus before making an investment in the Shares, including the risks and uncertainties described below in respect of our business and our industry and the Global Offering. You should pay particular attention to the fact that we are a company incorporated in the Cayman Islands and that our principal operations are conducted in China and are governed by a legal and regulatory environment that in some respects differs from what prevails in other countries. Our business could be affected materially and adversely by any of these risks.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Our business and the industry in which we operate are subject to inherent risks and uncertainties, including, among others, developments in regulatory landscape, medical discovery and market acceptance of vaping devices.

Our business and the vaping industry are subject to inherent risks, challenges and uncertainties, including but not limited to the following:

- the regulatory landscape in the jurisdictions to which we market our products are constantly evolving, and there may be further restrictions, bans or requirements with respect to e-cigarettes and vaping devices that may increase our cost of compliance or prevent us from marketing our products to certain jurisdictions. For example, our closed system vaping devices and open system vaping devices marketed in the U.S. are subject to PMTA requirements, and a large portion of our closed system vaping devices sold in the U.S. are subject to flavor bans in several states. Moreover, Hong Kong may, in the future, enact law to prohibit the import, manufacture, sale, distribution and advertisement of vaping products. All of the changes in the regulatory landscape may materially and adversely affect our business and financial performance, including revenue, gross profit and profit margin, as well as future growth.

For details regarding the changing regulatory landscape, see “— The FDA’s requirement to file PMTAs may materially and adversely affect our business,” “— Flavor bans imposed in several states in the U.S. may materially and adversely affect our business,” “— Changes in existing laws and regulations and the imposition of new laws, regulations and any other entry barriers in relation to the vaping industry may increase our cost. We could be adversely affected as a result of our sales to customers located in relevant countries or regions that are subject to prohibition laws and regulations promulgated by local authorities,” “Regulatory Overview — Laws and Regulations in the United States,” “Regulatory Overview — Laws and Regulations in the EU,” and “Business — Regulatory Environment;”

- we may face unforeseen capital requirements caused by the changing industry requirements or consumer demands;
- demands for our vaping devices may decline significantly due to the decrease in market acceptance for vaping devices;

RISK FACTORS

- we may not be able to establish business relationships with customers or compete with other more established competitors as, for an evolving industry, customers generally prefer to choose more established suppliers as opposed to those that are less established;
- we may not be able to adjust our procurement and/or production in time to meet the changes in market demands; and
- future changes in our industry may not be consistent with our prediction. Therefore, our industrial prospects, research and development focus and business plans may not be effective in helping sustain our competitive position in the vaping industry.

If we fail to cope with the challenges and compete with other industry players in such uncertain and evolving vaping industry, our future prospects, business, financial conditions and results of operations may be materially and adversely affected.

The FDA's requirement to file PMTAs may materially and adversely affect our business.

In the U.S., our largest market, the FDA has set up a series of entrance requirements in relation to the vaping industry. Specifically, the FDA requires PMTAs to be submitted before any New ENDS Products are introduced to the market. The FDA also required PMTAs to be submitted before August 8, 2022 for Existing ENDS Products. However, on July 12, 2019, the United States District Court for the District of Maryland ordered the FDA to move forward the deadlines for submitting PMTAs to May 12, 2020 for Existing ENDS Products. On April 22, 2020, due to the COVID-19 outbreak, the court granted an order to extend the deadline to September 9, 2020. Further, on January 2, 2020, the FDA published a new industry guidance setting forth a modified enforcement policy with an intention to prioritize enforcement actions against all ENDS products for which a PMTA has not been submitted to the FDA by May 12, 2020. The FDA, however, amended this guidance on April 30, 2020 to reflect the new September 9, 2020 deadline. As of the Latest Practicable Date, we had yet to submit any PMTAs but were in the process of preparing PMTAs for two of our self-branded APV based on the evaluation of PMTA requirements and previous sales performance, and we intend to submit them to the FDA before the September 9, 2020 deadline. These two self-branded APV are the Existing ENDS Products requiring PMTA filings that we currently intend to continue to sell and market in the U.S. These self-branded APV aggregately accounted for 0.4%, 1.1%, 0.7% and 0.7% of our total revenue in 2016, 2017, 2018 and 2019, respectively.

Certain of our corporate clients are also in the process of submitting PMTAs for their vaping devices as required by the FDA and we are providing assistance to their filings to the extent possible. In general, quality and safety of the product are the main concerns of the FDA when deciding if a product is appropriate for the protection of the public health. Our corporate clients and us, as applicants, must be able to present robust and accurate supporting evidence to the FDA in this regard. See "Business — Licenses, Regulatory Approvals and Compliance Record" for details regarding the FDA's requirements for PMTA. Though our corporate clients and we are in the process of submitting PMTAs for their vaping devices and our self-branded APV, respectively, to the FDA before the deadline, we cannot assure you that our corporate clients and we will be able to submit PMTAs for all of the products required in time, or if the FDA will accept or approve our or

RISK FACTORS

our corporate clients' PMTAs. To the best knowledge of our Directors, our revenue from sales of ENDS products in the U.S. that require PMTA filings under the current regulatory scheme, including our self-branded APV and closed system vaping devices, amounted to RMB384.7 million, RMB625.8 million, RMB962.6 million and RMB2,117.1 million in 2016, 2017, 2018 and 2019, respectively, accounting for 54.4%, 40.0%, 28.0% and 27.8% of our total revenue for the respective years. In the event that the PMTA filings required for such ENDS products are not submitted before the deadline or do not receive approval from the FDA, our business will be adversely affected. Moreover, we cannot assure you that the FDA will not announce new entrance requirements and higher-qualification required entrance thresholds. Such requirements could further limit our ability to sell our products in the U.S. or obtain the required approvals, or they may significantly increase our compliance and operation costs, all of which could have a material adverse impact on our business, financial conditions and results of operations. For details, see "Regulatory Overview — Laws and Regulations in the United States — Laws and Regulations Relating to ENDS Products — PMTA Requirement for ENDS Products."

Flavor bans imposed in several states in the U.S. may materially and adversely affect our business.

Starting in September 2019, the governors of several states announced temporary emergency flavor bans for ENDS products. As announced, these bans, in their various forms, prohibited sales and possession of all non-tobacco-flavored ENDS products (although some states excluded menthol flavors). These temporary emergency flavor bans were imposed by the governors of New York, Michigan, Massachusetts, Washington, Oregon, Montana and Rhode Island. The bans were subsequently temporarily enjoined by courts in New York, Michigan, Oregon and Montana. As of the Latest Practicable Date, (i) Massachusetts, New Jersey, and New York legislatively enacted permanent statutory flavor bans, but New York's ban excluded flavored vaping products for which FDA issues a marketing order through the PMTA process; (ii) Rhode Island created a permanent administrative rule banning the sale of flavored vaping products; and (iii) Montana and Washington emergency flavor bans expired per their terms.

The FDA also issued a guidance which states that, starting on February 6, 2020, the FDA would prioritize for immediate enforcement against the following groups of unauthorized ENDS products: (i) "flavored, cartridge-based ENDS products (other than tobacco- or menthol-flavored ENDS products)" and (ii) ENDS products of any flavor (including tobacco and menthol flavors) for which the manufacturer has failed to take adequate measures to prevent minors' access or which is targeted to minors or whose marketing is likely to promote the use of ENDS by minors.

A large portion of our closed system vaping devices is affected by the flavor bans, as 36.4% of our closed system vaping devices sold to the U.S. market in 2019 are flavored cartridge-based ENDS products, accounting for 9.4% of our total revenue for the same year. These closed system vaping devices were primarily sold to three of our top five customers in 2019, namely SVI Global Tech Limited, Customer H and Customer A. Specifically, sales of closed system vaping devices with the banned flavored cartridges to SVI Global Tech Limited, Customer H and Customer A amounted to 7.0%, 2.1% and 0.2%, respectively, of our total revenue in 2019. In early 2020, the three customers changed their product mix to comply with the promulgation of flavor bans starting

RISK FACTORS

from February 2020. After the change, total sales to SVI Global Tech Limited, Customer H and Customer A still grew by 4.0%, 637.0% and 107.0% in the two months ended April 30, 2020, respectively, as compared to that of the same period in 2019. Our self-branded APVs are not affected by the flavor bans or the FDA's enforcement policy. The flavor bans or the FDA's enforcement policy are mainly aimed at ENDS products that are sold with pre-filled non-tobacco-flavored or non-menthol-flavored cartridges, and our self-branded APVs do not contain any pre-filled cartridges. However, bans may curb consumer interest in and use of vaping devices from young people, which may adversely affect the vaping industry and our operational and financial performance as a whole. We cannot predict whether the temporary emergency flavor bans will be lifted, whether the FDA's prioritized enforcement against flavored ENDS products will become a flavor ban imposed at the federal level, or whether more temporary emergency flavor bans will evolve into permanent prohibitions on non-tobacco-flavored ENDS products, nor can we estimate the degree of impact these temporary emergency flavor bans may have on us and the vaping industry in general. If more of these temporary emergency flavor bans evolve into permanent prohibitions on non-tobacco-flavored ENDS products, they could have a material adverse effect on our business, financial conditions and results of operations.

Further, we cannot assure you that further flavor bans at the state or federal level will not be imposed. Such flavor bans could limit our ability to sell our products in the U.S. or obtain the required approvals, or they may significantly increase our compliance and operation costs, all of which could have a material adverse impact on our business, financial conditions and results of operations. For details, see "Regulatory Overview — Laws and Regulations in the United States — Laws and Regulations Relating to ENDS Products — State Flavor Ban."

Changes in existing laws and regulations and the imposition of new laws, regulations and any other entry barriers in relation to the vaping industry may increase our cost. We could be adversely affected as a result of our sales to customers located in relevant countries or regions that are subject to prohibition laws and regulations promulgated by local authorities.

As vaping devices have become more and more popular in recent years, many governments are now considering imposing more stringent laws and regulations to regulate this rising substitute for conventional tobacco. In addition, the WHO has recommended that governments should consider prohibiting the use of e-cigarettes in indoor areas to protect non-users from involuntary exposure to second-hand aerosols, issuing warnings about the potential health risks of e-cigarettes and imposing higher taxes on e-cigarettes. Therefore, it is expected that various limitations may be imposed on the vaping industry, such as prohibition of usage in public spaces or imposition of additional tax, both of which may adversely affect the development of the vaping industry and, in turn, a vaping technology solution provider like us.

For example, the usage of vaping devices has been prohibited in enclosed spaces in Portugal since 2018, and Indonesia has imposed a 57% excise tax on the sales of vaping devices since July 1, 2018. In addition, the European Commission is now considering a potential harmonized taxation to be imposed on vaping devices given that approximately a quarter of its member countries have imposed specific taxes on vaping devices, which will greatly affect our sales to customers in Europe, one of our major markets. Furthermore, vaping devices must be registered with the

RISK FACTORS

Pharmacy and Poisons Board of Hong Kong for sale or distribution and can only be legally possessed or sold by licensed medicine dealers, and it is illegal to use vaping devices in non-smoking areas.

In China, one of our major markets, there are no specific national laws, regulations, rules or standards for the sale of e-cigarettes, save for the prohibition on the sale of e-cigarettes to juveniles and sale through the internet. On October 30, 2019, the State Administration for Market Regulation and the State Tobacco Monopoly Administration jointly issued the Announcement on Further Protecting Juveniles from E-cigarettes (《關於進一步保護未成年人免受電子煙侵害的通告》) (the “**October 2019 Announcement**”), to further strengthen the protection of the physical and mental health of juveniles and prevent juveniles from buying e-cigarettes through the internet and smoking e-cigarettes. The announcement urged (i) e-cigarette producers and sellers to shut down their online sales websites or application programs in time and to withdraw the advertisements of e-cigarettes published on the internet; and (ii) e-commerce platform operators to close e-cigarettes online shops in time and take e-cigarette products off shelves. We did not operate any online platforms in China for the sale of our products as of the Latest Practicable Date. However, some of our products may have been sold online by our corporate clients prior to the promulgation of the October 2019 Announcement. The October 2019 Announcement, as well as any new laws which regulate the sale of vaping devices, may adversely affect demands from our corporate clients and, if so, our business may be adversely affected. In addition, some cities, such as Shenzhen, Hangzhou and Nanning, have banned the use of e-cigarettes in public places, which include public transportation, indoor workspace, etc. Such prohibition may also affect the demand of our products. Further, our sale of e-cigarettes in China is also subject to relevant PRC laws and regulations that are generally applicable to the sale of goods, such as the Contract Law of the PRC (《中華人民共和國合同法》) and the Product Quality Law of the PRC (《中華人民共和國產品質量法》). See “Regulatory Overview — Laws and Regulations Relating to Company’s Products.”

In addition, in Hong Kong, where we transport our products to be forwarded to various overseas markets, the Hong Kong government introduced the Smoking (Public Health) (Amendment) Bill 2019 (the “**Bill**”) to the Legislative Council in February 2019, proposing to amend the Smoking (Public Health) Ordinance (Cap. 371) to ban the import, manufacture, sale, distribution and advertisement of alternative smoking products, including items that are designed for use as a component or accessory, and vaping products fall under alternative smoking products. The Bill exempts vaping products that are articles in transit or in air transshipment cargos, provided that the products are not removed from the vessel, aircraft or specified cargo transshipment area. However, the Bill does not exempt vaping products being transported by vehicles on land. On June 2, 2020, the Bills Committee held its last meeting before the end of the current session of the Legislative Council on July 15, 2020. The Bill will not complete the legislative process before the end of the current session of the Legislative Council and will not become law. If the Hong Kong government decides to continue with its proposals either in the current or an amended form, a new bill will have to be reintroduced in the next session of the Legislative Council and go through the entire legislative process again. While we do not sell our products in Hong Kong, a large portion of our products are being forwarded overseas through Hong Kong, and we transport all of these products to Hong Kong by ground transportation. If the Bill is reintroduced into the legislative

RISK FACTORS

process and enacted in its current or similar form, we will have to seek alternative ways of transporting our products through Hong Kong or export our products without going through Hong Kong. Moreover, if the current exemptions for articles in transit or air transshipment cargos are removed in the final form, then we will also need to find alternative ways to forward our products overseas without going through Hong Kong. As a result, we may incur significant amounts of additional costs, which may have a material adverse effect on our business, financial conditions and results of operations.

We cannot assure you that the government authorities will not impose more restrictions with respect to vaping devices in the future. We may not be able to comply with any or all changes in existing laws and regulations or any new laws and regulations, and the associated compliance cost may also increase accordingly. All of the above may affect the market demands for vaping devices, and thus adversely affect our business, financial conditions and results of operations.

If the medical profession determines that the usage of vaping devices poses long-term health risks, the market demands for vaping devices may decline significantly, which may materially and adversely affect our business, financial conditions and results of operations.

Since vaping devices were only introduced to the market in the last decade, the medical profession is still in the course of studying the long-term health effects of their use. Therefore, currently there remain uncertainties regarding whether vaping devices are sufficiently safe for their intended use. In addition, the WHO insisted that there is no corroborating evidence to prove that the use of vaping devices supports smoking cessation, and suggested to improve relevant laws and regulations to monitor the sale of vaping device, such as those that outlaw marketing strategies targeting teenagers and the non-smoking population.

Furthermore, negative propagandas on health consequence generated by vaping devices may also adversely affect the market demands from end consumers. For example, the FDA and the CDC issued a joint statement on August 30, 2019 linking a number of cases of respiratory illnesses to e-cigarette product use. On November 8, 2019, the CDC announced that it had preliminarily linked the cases of severe respiratory illness to the presence of Vitamin E acetate, which has been found in some THC-containing vaping cartridges for non-ENDS vaping devices that were mostly obtained from the black market. However, evidence is not sufficient to rule out the contribution of other chemicals of concern, including chemicals in either THC or non-THC products. In January 2020, after further research, the FDA and CDC recommended that people should not use THC-containing vaping products, especially those from informal sources, and that youths, pregnant women and adults who do not currently use tobacco products should never use vaping products. On February 25, 2020, the CDC issued a final update, stating that the number of cases of severe respiratory illnesses has declined to single digits as of February 9, 2020. The CDC also reconfirmed that (i) Vitamin E acetate, which has been found in some THC-containing vaping cartridges for non-ENDS vaping devices that were mostly obtained from the black market, was strongly linked to and the primary cause of the severe respiratory illnesses, and (ii) THC-containing vaping products from informal sources were linked to most cases of severe respiratory illnesses. Furthermore, recently there is claim that vapers suffer a greater risk of more serious COVID-19 complications though FDA said that whether the exposure of lungs to toxic chemicals through e-cigarette use will

RISK FACTORS

increase the risk of COVID-19 is still unknown. The actual cause for these illnesses is still under research, but if the medical profession concludes that vaping device usage poses long-term health risks or is linked to these diseases, the health awareness of end consumers may increase and the market demands may significantly decline, which would have a material adverse effect on our business, financial conditions and results of operations.

We derive a majority of our revenue from our top five customers, and the loss of, or a significant reduction in, sales to any of these customers could materially and adversely affect our business, financial conditions and results of operations.

A majority of our revenue was derived from our top five customers. Our top five customers in 2016, 2017, 2018 and 2019 accounted for 73.7%, 65.6%, 55.3% and 63.0% of our total revenue for the respective years. Our largest customer in 2016, 2017, 2018 and 2019 accounted for 30.5%, 25.4%, 20.7% and 15.7% of our total revenue for the respective years.

Despite our long-term business relationships with our major customers, we cannot assure you that we will be able to accurately forecast their actual demands. We form our business and future expansion plans based on our estimation of the demands from the market and our customers. However, the actual demands may fall short of our estimation, due to, among others, changes in our customers' business models, strategies or financial conditions, changes in local policies regarding vaping device importation, or changes in the local market conditions and economic development. In addition, any adverse changes in our relationships with our major customers or in the key commercial arrangements with them, such as purchase price, could materially and adversely affect our business, financial conditions and results of operations.

If any of our top five customers or major customers significantly reduces its purchase volume or ceases to place orders with us, or if we misjudge the market demands, we may not be able to identify new customers in a timely manner and conduct our sales on comparable terms or seek alternative ways to make up for the decrease in our sales, which in turn could have a material adverse effect on our business, financial conditions, results of operations and prospects.

Our business could be materially and adversely affected by the COVID-19 outbreak.

In December 2019, a novel strain of coronavirus was reported to have surfaced in Wuhan, China. COVID-19 now affects other cities in China and many countries globally. The Chinese central government and local governments in Wuhan and other cities in China have introduced various temporary measures to contain the COVID-19 outbreak, such as extension of the Lunar New Year holiday and travel restrictions, which have impacted and may continue to impact national and local economy to different degrees. Our operations have experienced a short-term impact mainly due to production delays caused by the extension of the Lunar New Year holiday, mandatory quarantines of our employees upon returning to work and difficulties in recruiting new employees. In light of such circumstances, our production capacity for the first quarter of 2020 was approximately one-third lower than our planned production capacity, which had an adverse effect on our revenue.

RISK FACTORS

The demand from end consumers for our self-branded APV under our retail client oriented sales has also been affected by the COVID-19 outbreak. Our retail client oriented sales revenue and sales volume decreased by approximately 40.5% and 33.6%, respectively, in the four months ended April 30, 2020 as compared to that of the same period in 2019 based on our unaudited management accounts, primarily due to the interruption of production and, to a lesser extent, the impact on the sales channels of our distributors as well as the higher price of our self-branded APV. A number of vaping shops and tobacco shops had reduced the business hours or had closed temporarily in the four months ended April 30, 2020, and end consumers had to rely more on online stores to purchase our self-branded APV. See “Business — COVID-19 Outbreak.” We cannot assure you that this impact on the sales of and sales channels for our products will not persist.

In addition, our business operations could be disrupted if any of our employees is suspected of contracting the COVID-19 or any other epidemic disease, since our employees could be quarantined and/or our offices be shut down for disinfection. Our business may be further impacted if our suppliers, customers or other business partners in China or in other countries are significantly affected by the COVID-19 outbreak. The full extent to which the COVID-19 outbreak will affect our business cannot be predicted at this stage, and actual effects will depend on many factors beyond our control. If the COVID-19 outbreak persists or further escalates, there will likely be a material adverse effect on our business, financial conditions and results of operations.

Our success depends on our customers’ ability to successfully market and sell their products manufactured by us, and changes in the global social, political and economic landscape may materially affect our business.

During the Track Record Period, a majority of our revenue was generated from sales to corporate clients. Therefore, our business performance largely relies on our customers’ ability to market and sell the vaping devices manufactured by us. We cannot assure you that our customers will continue to strengthen their sales and marketing efforts, and will not make any maladjustment on their sales and marketing strategies. Any maladjustment on their sales and marketing strategies will affect their sales, and in turn bring adverse impact on our business.

In addition, since vaping devices are not necessities, the demands for vaping devices are largely dependent on the local social, political and economic conditions in the countries which our vaping devices are sold. If there is any material adverse change in the local social, political and economic conditions, including change in local government policies, rules or regulations, riots, natural disasters or other acts of god, or sudden downturns in the economy or consumer demands, our business, financial conditions and results of operations may be adversely affected.

The loss of, or a significant reduction in, sales to our distributors could materially and adversely affect our business, financial conditions and results of operations.

We distribute our self-branded APV and a portion of vaping components through distributors. As of December 31, 2019, we had 260 distributors globally, mainly in the U.S., France and the U.K. Revenue generated through our distributorship model accounted for 27.0%, 44.5%, 50.5% and 31.0% of our total revenue in 2016, 2017, 2018 and 2019, respectively. Our relationships with some of our distributors were only established for a relatively short period of time. We cannot

RISK FACTORS

guarantee that we can continue to maintain our existing relationships with them. In addition, though we try to reduce our reliance on a limited number of distributors, we cannot assure you that we can successfully attract new distributors to broaden our distributor base. Therefore, we may continue to rely on certain existing distributors for revenue generation, particularly in light of our rapid business expansion. If we experience any reduction, delay or cancellation of orders from one or more of our key distributors, there will be a decline in a significant portion of our business. Any loss of sales to any of our key distributors could also have a material adverse effect on our business, financial conditions and results of operations.

We have limited control on our distributors, and we cannot assure you that our distributors will continuously operate their distribution business in compliance with relevant laws and regulations or their obligations under the applicable distribution agreement.

We have been dedicated to maintaining a high-quality distributor group. However, despite our strictly formulated selection criteria and continuous distributor management efforts, we have limited control on our distributors and we cannot assure you that our distributors will continuously operate their distribution business in compliance with relevant laws, regulations or our distributorship agreements. If our distributors improperly use our technology brands, products or intellectual property rights, it could damage our reputation and brand image, undermine customers' confidence in us and reduce their long-term demands for our products, which in turn will cause a material adverse effect on our business, financial conditions and results of operations. Moreover, as the regulations and policies governing and regulating vaping devices vary across different countries and regions, our distributors may not be able to comply with them in a timely manner, or at all. Additionally, the distributors largely determine the inventory levels of the retail stores they operate based on their estimation, and such inventory levels might not correspond to actual market demands and could lead to under-stocking or over-stocking in the retail stores they operate. Therefore, although we try to monitor inventory levels in these retail stores to the extent we can, we cannot assure you that there will not be under-stocking or over-stocking in these stores. Under-stocking can lead to missed sales opportunities, while over-stocking could result in inventory depreciation and decreased shelf space for stocks that are in higher demands. These results could adversely affect our business, financial conditions and results of operations.

Our historical revenue and profit margin may not be indicative of our future revenue and profit margin.

During the Track Record Period, we had experienced rapid growth in our revenue and profit margin. Our revenue increased significantly by 121.3% from RMB707.3 million in 2016 to RMB1,565.2 million in 2017, by 119.4% to RMB3,433.7 million in 2018, and further by 121.6% to RMB7,610.6 million in 2019. Our gross profit was RMB172.0 million, RMB419.3 million, RMB1,190.5 million and RMB3,352.4 million in 2016, 2017, 2018 and 2019, respectively. Our gross profit margin was 24.3%, 26.8%, 34.7% and 44.0% during the respective years.

Nevertheless, our historical financial information is a mere analysis of our past performance and does not have any implication on or may not necessarily reflect our financial performance in the future. Our business and financial prospect will depend on our capability to secure new business

RISK FACTORS

opportunities and to control our costs. Gross profit margin of our products may fluctuate case by case due to factors such as our relationships with our customers, technical complexity in the design and manufacturing of our vaping devices, and delivery schedule required by our customers. There is no assurance that the revenue or profit margin of our products in the future will remain at a level comparable to those recorded during the Track Record Period. If we fail to secure new businesses or control our cost, or fail to maintain our profit margin at a level comparable to that recorded during the Track Record Period, our financial conditions may be adversely affected.

The selling prices of our products are subject to fluctuation due to a number of factors, many of which are outside of our control, and price cuts may materially and adversely affect our profit and profit margin.

The final selling prices of our products sold by our customers, including corporate clients and retail clients, to end consumers may fluctuate due to a number of factors, many of which are outside of our control. For example, such selling prices may fall if consumer demand for the products manufactured by us decreases due to failure to successfully market and sell those products.

The retail prices of our cartridges, which was a major source of revenue for closed system vaping devices in major markets (including the U.S., E.U. and China), ranged from US\$2.8 to US\$7.0 in 2019, and the ex-factory whole sale prices as a percentage of retail prices generally ranged from approximately 20% to 40%. The retail prices of our self-branded APV in 2019 ranged from approximately US\$20 to US\$100, and the ex-factory whole sale prices as a percentage of retail prices generally ranged from approximately 35% to 40%. If our customers are forced to cut down such retail prices, they may in turn ask for lower ex-factory whole sale prices from us. As a result, our profit and profit margin may be materially and adversely affected. See “Business — Our Business Model,” and “Financial Information — Principal Components of Consolidated Statements of Profit and Loss and Comprehensive Income — Revenue — Sales volume and average selling prices.”

We may not be successful in implementing our future business plans and strategies, and if we are unable to execute them effectively and efficiently, our business, financial conditions, results of operations and growth prospects may be materially and adversely affected.

We strive to achieve sustainable growth and further strengthen our competitiveness in the global vaping industry by implementing our business strategies. See “Business — Strategies” for details. Nonetheless, our business plans and strategies are based on assumptions of future events which may entail certain risks and are inherently subject to uncertainties. These assumptions may not be correct, which could affect the commercial viability of our business plans and strategies. As such, there can be no assurance that our business plans and strategies will be implemented successfully as scheduled or at all.

For example, in response to the increasing demands, we plan to seek additional manufacturing facilities, such as our new Jiangmen industrial park, and we may undertake further expansion plans based on our future business needs. However, the success of our future expansion plans depends on a number of factors that are beyond our control, such as the construction progress of the third-party constructors, changes in local laws and regulations and government policies, the availability of low-

RISK FACTORS

cost skilled labor and changes in consumer demands. In addition, the integration of new facilities into our existing operation may be subject to unforeseeable delays, which may, among other things, increase our operation costs, strain our production capacity, cause delays in delivery of customer orders and decrease our production efficiency. Accordingly, we may not be able to achieve the expected expansion of our operations or manage our growth in a timely or cost-effective manner.

If we fail to implement our business plans and strategies effectively and efficiently, we may be unable to expand our operations, manage our growth, take advantage of market opportunities or remain competitive in the industry. Furthermore, even if we implement our business plans and strategies effectively and efficiently, there may be other unexpected events or factors that prevent us from achieving the desirable and profitable results. Our business, financial conditions, results of operations and growth prospects may be materially and adversely affected if our future business plans and strategies fail to achieve positive results.

If we fail to derive the desired benefits from our product research and development efforts, or respond to technological changes and evolving industry standards in an efficient and timely manner, we may not be able to effectively compete with our competitors.

Through our strong research and development capabilities, we are able to achieve our business success and maintain leading position in the vaping industry. However, rapid changes in our industry still place high requirements on our product research and development, and there can be no assurance that we will continue to be successful in responding to these technological changes and evolving industry standards. New products or technologies may render our existing products or technologies less competitive. Furthermore, to guide our future development steps, we formulate our research and development direction based on our existing prediction on future technological and production tendency. We cannot assure you that our prediction will be consistent with the actual changes in the vaping industry as there are many uncertainties in the technology, regulations and consumer preference. Thus, even if we appropriately implement our original research and development plans, our research and development efforts may not derive our expected results and desired benefits.

If we fail to derive the desired benefits from our product research and development efforts, or respond to technological changes and evolving industry standards in an efficient and timely manner, we may not be able to continue to effectively serve our customers' demands, and our business, financial conditions and results of operations may be materially and adversely affected.

Failure to successfully execute our equipment upgrade and capacity expansion plans may have a material adverse effect on our business, financial conditions and results of operations.

Our future success will depend, to a large extent, on our ability to increase our production output and enhance our production efficiency. We have continued to upgrade our current manufacturing equipment, install additional manufacturing equipment and seek additional manufacturing facilities, such as our new Jiangmen industrial park, to expand our production capacity and enhance our production efficiency. See "Business — Production — Production Expansion Plan." If we fail to achieve these objectives, we may not be able to attain the desired

RISK FACTORS

level of economies of scale in our operations or reduce our marginal manufacturing costs to the level necessary to maintain our pricing and other competitive advantages and achieve our business expansion plan.

Our equipment upgrade and capacity expansion require and will continue to require substantial capital investment, significant engineering efforts, timely delivery of manufacturing equipment and substantial management attention, and are subject to the following risks and uncertainties:

- negative effect on the working capital available to us;
- the need to finance our equipment upgrade and capacity expansion through bank or other borrowings, which may not be available on commercially reasonable terms or at all;
- delay in or denial of government approvals, permits or documents of similar nature necessary and required for our expansion;
- increase in depreciation charges associated with our new equipment and interest expenses associated with our future borrowings for planned upgrade or expansion;
- cost overruns, construction delays, manufacturing equipment problems, including delays in equipment delivery or delivery of equipment that does not meet our specifications, and other operating difficulties;
- failure to improve our operational and financial systems and risk monitoring and management system in line with our upgrade or expansion;
- decrease in the prices of our products, which fail to cover our increased production cost;
- failure to maintain or establish relationships with our existing or prospective customers and suppliers to match our increased production output;
- the failure of our new equipment to perform as expected and lower our manufacturing cost; and
- insufficient management resources to properly oversee and manage our planned capacity expansion.

Any of the abovementioned or similar risks or uncertainties could significantly delay or constrain our ability to execute our equipment upgrade and capacity expansion as planned, which may in turn hinder our ability to achieve economies of scale and satisfactory utilization rates. As a result, our business, financial conditions and results of operations may be materially and adversely affected.

RISK FACTORS

We may not be able to continue to successfully expand our product offerings. Failure to keep pace with changes in consumer demands for product design and quality, or failure to launch commercially viable products or failure to do so in a timely manner, may have a material adverse effect on our business, financial conditions and results of operations.

To enhance our growth and meet customer demands, we plan to continue to expand and diversify our product offerings. Expanding into new product categories requires substantial capital investment for research and development resources in new technologies and product designs, and new manufacturing facilities and equipment. In particular, developing new and technologically advanced products is a complex process, which requires high levels of innovation, skilled research and development personnel as well as accurate anticipation of technological and market trends. We may not be able to develop the core technologies necessary to manufacture our new products, license these technologies from third parties, or remain competitive in our research and development. Therefore, we cannot assure you that we will be able to identify, develop and manufacture new products successfully, if at all, or on a timely basis. Even if we are able to develop and introduce new vaping devices to the market, they may fail to meet consumer demands and gain market acceptance. Hence, if we fail to successfully develop or sell our new products, our business, financial conditions and results of operations may be materially and adversely affected.

We face risks associated with the sale of our products internationally, as tighter import and export controls, additional trade restrictions and tariffs could materially and adversely affect our business, financial conditions and results of operation.

During the Track Record Period, approximately 80% of our total revenue was generated from overseas markets, primarily including the U.S., Japan and Europe. Our export businesses are subject to various security and customs inspection, tariffs, embargoes and other trade restrictions in the countries of destination as well as at transshipment points. Therefore, the sales of our products to overseas markets expose us to a number of risks, including foreign exchange rate fluctuations, increased security inspection standards, increased transportation costs, inexperience in local market conditions, and failure to obtain or maintain qualifications for our products overseas.

Furthermore, we cannot predict whether overseas countries or regions would subject us to any additional tariffs and trade restrictions or in which type. Therefore, we have difficulties in mitigating the potential negative effect in advance. To comply with various commercial and legal requirements overseas, including unanticipated changes in prevailing economic conditions and regulatory environment as well as trade barriers on import, export or tariffs, will also increase our operation cost. For example, the trade war and imposition of tariffs between the U.S. and China have caused uncertainties to the global market, and have adversely affected our operation and profitability during the Track Record Period. Due to the trade war, all of our products that are being exported to the U.S. have been subject to an additional 25% tariff. These products include products being forwarded to the U.S. through Hong Kong since the country of origin for those products is China. Our products exported to the U.S. are still subject to the additional tariff even after the phase one trade deal was signed since the tariff list on which our products are included was not affected by the phase one trade deal. To the best knowledge of our Directors, our revenue from products shipped directly or indirectly to the U.S. amounted to approximately RMB391.5

RISK FACTORS

million, RMB781.3 million, RMB1,797.8 million and RMB3,539.4 million in 2016, 2017, 2018 and 2019, respectively, accounting for approximately 55.4%, 49.9%, 52.4% and 46.5% of our total revenue for the respective years. Although, for our products that are exported to the U.S., our customers are responsible for declaring and paying the tariffs, we have voluntarily lowered prices for some vaping components by approximately 3.3% in October 2018 in support of our customers. The impact on our revenue and gross profit was approximately RMB7.8 million in the two months ended December 31, 2018 and approximately RMB48.5 million in 2019. In particular, gross profit margin for these vaping components was 1.6% lower than what it could have been in each of the two periods had we sold these vaping components at their normal prices. The adverse impact on our gross profit and gross profit margin each year going forward will likely be comparable to that in 2019, assuming that we continue to sell these vaping components at the lowered prices. Moreover, there can be no assurance that our business arrangements with our customers in the future will not require us to pay the additional 25% tariff. In the event that we are required to pay the additional 25% tariff, our business, financial conditions and results of operations may be further adversely affected. Though in January 2020, China and the U.S. signed the phase one trade deal, which will cut U.S. tariffs and boost China's purchases of U.S. products, and the U.S. also reversed its label on China as a currency manipulator, the agreement will still leave in place tariffs on US\$250 billion worth of Chinese products and our products remained subject to the additional 25% tariff. If we fail to respond to these rapid changes and challenges timely and effectively, our business, financial conditions and results of operations may be materially and adversely affected.

Unsatisfactory performance of or defects in our products may harm our reputation, subject us to significant product liability litigations and have a material adverse effect on our business, financial conditions and results of operations.

Our products may contain defects that are not detected until after they are shipped or inspected by our customers. Our failure to maintain the consistency and quality throughout our production process could result in substandard quality or performance of our products, and product defects could cause significant damage to our market reputation and reduce our sales and market share. If we deliver any defective products, or if there is a perception that our products are of substandard quality, we may incur substantial costs associated with returns or replacements of our products, our credibility and market reputation could be harmed and our sales and market share may be adversely affected. Further, we may, as a result of defective products, encounter additional compliance issues that could subject us to administrative proceedings and unfavorable results such as production rectification. Such proceedings and unfavorable results could have a material adverse effect on our business, financial conditions and results of operations.

In addition, as our customers sell our products to the end consumers in their respective markets, we are also exposed to potential product liability claims, including class action lawsuits, from end consumers of our products in the relevant jurisdiction in the event that the use of our products results in any health or safety issue or damage. Although we sell some of our products through our customers, including our distributors, and therefore have no direct sales to the end consumers, we may nevertheless be liable for defects in our products as a result of general laws on product liability. During the Track Record Period, two product liability claims were brought against us in the U.S. Both claims involved personal injury allegedly caused by defective batteries in our

RISK FACTORS

products. One of the disputes was settled and we had paid the settlement amount of approximately US\$145,000 in full. The other claim was dismissed due to lack of prosecution. Except for the abovementioned claims, during the Track Record Period and up to the Latest Practicable Date, we did not, due to material product quality issues, (i) receive fines, product recall orders or other penalties from the PRC Government or other regulatory bodies or (ii) receive any products return requests or complaints from our customers that have a material adverse effect on our business, financial conditions and results of operations. For details, see “Business — Quality Control — Warranty and After Sales Services.”

We cannot assure you that a product liability claim will not be brought against us in the future or that we will not see increasing litigation over our products as the regulatory regimes surrounding these products develop, and we cannot assure you as to the outcome of any legal proceedings. Successful product liability claims against us could result in substantial amount of damages payable by us. Further, product liability claims against us, whether or not successful, are costly and time-consuming to defend. These disputes may lead to legal or other proceedings, which may bring negative publicity that could severely damage our reputation and affect the marketability of our products, and could result in substantial costs and diversion of our resources and management’s attention. All of the above impact would in turn materially and adversely affect our business, financial conditions and results of operations.

We have purchased product liability insurance for claims of personal injury and property damage caused by our products. See “Business — Insurance.” However, there can be no assurances that we will be able to maintain our product liability insurance on acceptable terms, and our insurance coverage may not be sufficient to cover any or all of our potential losses in product liability claims. If we cannot maintain our product liability insurance on reasonable terms or our insurance does not or cannot sufficiently compensate for the losses we sustain in the event of a lawsuit, our business, financial conditions and results of operations would be adversely affected.

Misuse of our products by end consumers may lead to potential adverse health effects, subjecting us to complaints, product liability litigations and negative publicity.

We are unable to control how end consumers choose to use our products. For example, we cannot prevent end consumers from using our products to inhale chemicals obtained from informal sources. Misuse of our products by end consumers may significantly and adversely affect the health of end consumers, subjecting us to consumer complaints and product liability litigations. Regardless of whether these complaints or product liability litigations hold merit, they may be costly and time-consuming to resolve, bring negative publicity that could damage our reputation and result in higher scrutiny by the government or stricter regulation, all of which could materially and adversely affect our business, financial conditions and results of operations.

RISK FACTORS

Fluctuation in the price, availability and quality of raw materials or labor could cause production delays and increase in our costs of sales.

In line with our continual business growth, we expect that our cost of raw materials and labor cost will increase in an absolute amount and as a percentage of our total cost of sales. In addition, as our contract price is based on our estimated cost plus a markup margin at the time when we provide the fee quote to our customers, any fluctuation in the cost of raw materials and labor cost after such time will also affect our profitability.

Our cost of raw materials amounted to RMB403.5 million, RMB863.1 million, RMB1,644.3 million and RMB3,049.3 million, respectively, representing 75.4%, 75.3%, 73.3% and 71.6% of our total cost of sales in 2016, 2017, 2018 and 2019, respectively. While we monitor the price of raw materials and adjust our price quotations accordingly, we may not be able to directly pass on any increase in the price of raw materials to our customers in time or at all. Furthermore, shortage of raw materials or any defect in raw materials will affect our production output and product quality. All of these events may have a material adverse effect on our business, financial conditions and results of operations.

Further, the manufacturing of vaping devices is labor intensive. Our labor cost amounted to RMB70.8 million, RMB156.8 million, RMB334.1 million and RMB625.5 million, respectively, representing 13.2%, 13.7%, 14.9% and 14.7% of our total cost of sales in 2016, 2017, 2018 and 2019, respectively. Any labor shortage, work stoppage or slowdowns at our production bases may significantly disrupt our business operations or delay our expansion plan. We may have difficulties in hiring or retaining sufficient and qualified employees. In addition, average wages in China are expected to continue to rise, which we anticipate will have an upward pressure on our labor costs and employees' salaries and benefits, which in turn will negatively affect our profit margins. Any failure to attract qualified employees at reasonable cost and in a timely manner, and any future disputes with our employees may materially and adversely affect our business, financial conditions and results of operations.

Any disruption of our current production facilities could reduce or restrict our sales and materially and adversely affect our business, financial conditions and results of operations.

As of the Latest Practicable Date, we operated ten production bases in China, and greatly depend on these production bases for the continual operation of our business. Nevertheless, natural disasters or other unanticipated catastrophic events, including storms, fires, explosions, earthquakes, terrorist attacks and wars, as well as changes in governmental planning for the land where our production bases are located could significantly impair our ability to manufacture our products and operate our business. Catastrophic events could also destroy the inventories stored in our production bases. The occurrence of any catastrophic event could result in the temporary or long-term closure of our production bases, and severely disrupt our business operations.

In addition, an aggregate GFA of approximately 143,776 sq.m. of our production bases were leased properties as of the Latest Practicable Date. Though such leases are renewable upon expiration, our ability to renew existing leases upon their expiration is crucial to our production

RISK FACTORS

activities, operations and profitability. If we are unable to negotiate for a renewal of the relevant leases, we may be forced to relocate our production bases and it may be difficult and costly to replace or relocate our facilities and equipment on a timely basis.

If we experience any unanticipated catastrophic events that force us to shut down our production bases or if we are unable to renew our current leases, our production will be severely disrupted, which may in turn materially and adversely affect our business, financial conditions and results of operations.

We are subject to various regulatory and customer-imposed guidelines and may not be successful in maintaining an effective quality control system.

We are subject to a variety of laws and regulations in the jurisdictions where our products are sold and guidelines imposed by our customers relating to production safety, health and environmental conditions. For example, we are required to comply with specific guidelines based on the product safety standards and restricted and hazardous materials laws and regulations that are applicable in the jurisdictions where our products are sold. To comply with them, we need to implement and maintain an effective quality control system to perform various inspections over the course of our entire manufacturing process. Although we have been in full compliance with our customers' quality control requirements during the Track Record Period, we cannot assure you that our quality control system will continue to be effective. Any significant failure or deterioration of our quality control system in respect of, among other things, our production process and product inspection, may seriously damage our product quality. Decline in product quality will affect our reputation in the market and among our existing or prospective customers, which may lead to reduced orders or loss of customers, and will severely harm our business, financial conditions and results of operations.

Our failure to manage inventory at optimal levels could adversely affect our business, financial conditions and results of operations.

Maintaining an optimal level of inventory is critical to the success of our business. As of December 31, 2016, 2017, 2018 and 2019, we had inventory balances of RMB127.2 million, RMB171.3 million, RMB391.5 million and RMB548.0 million, respectively. Our inventory turnover days were 74.8 days, 47.5 days, 45.8 days and 40.3 days in 2016, 2017, 2018 and 2019, respectively. We plan our inventory levels based on our internal assessment and forecasts of market demands. However, our internal assessment and forecasts are subject to a variety of factors which are beyond our control such as fluctuating market demands. We cannot assure you that we can accurately predict the demands for our products to avoid the under-stocking or over-stocking of our inventory. Any unexpected change in demands for our products may result in us having out-of-stock or over-stocked items, which will have a direct impact on our sales and pricing strategies. Further, we cannot assure you that we will be able to manage our inventory level effectively. If there is a sudden decrease in the market demands for our products or if our new products do not successfully meet customer preferences, we may experience slow movement of our inventories. We

RISK FACTORS

may not be able to utilize or sell our inventories swiftly, and may face the risk of inventory obsolescence. If we fail to manage our inventory at an optimal level, our business, financial conditions and results of operations may be adversely affected.

Our intellectual property rights are critical to our success and infringement of our intellectual property right by any third party may materially and adversely affect our business, financial conditions and results of operations.

Product design, research and development is critical to our business. We rely on a combination of trademark, trade secret and other intellectual property laws as well as confidentiality agreements with our employees, suppliers and customers to protect our product design, trade secrets and other intellectual property rights. As of the Latest Practicable Date, we had (i) 532 patents registered in China and 227 patents registered in other countries or regions, (ii) 439 pending patent applications in China and 360 pending patent applications in other countries or regions, (iii) 83 trademarks registered in China and Hong Kong and 140 trademarks registered in other countries or regions, and (iv) 32 pending trademarks applications in China and Hong Kong and 109 pending trademarks applications in other countries or regions. The expected timeframes to register each of the pending patents and trademarks depend on various factors. In China, design patent applications can take six to eight months, while utility patent applications can take one to three years; in the U.S., design patent applications can take one to two years, while utility patent applications can take two to four years; in Europe, design patent applications generally can take up to three months, while utility patent applications can take two to four years. Trademark applications in China and the U.S. can take around 12 to 18 months, while trademark applications in Europe can take around four to six months. If we fail to register a substantial amount of these patents and trademarks, our business operations may be materially and adversely affected.

In addition, preventing any unauthorized use of our intellectual property is difficult and costly and the steps we take may be inadequate to prevent the misappropriation of our intellectual property. In the event that we resort to litigation to enforce our intellectual property rights, such litigation could result in substantial costs and a diversion of our managerial and financial resources. We can provide no assurance that we will prevail in such litigation. Any failure in protecting or enforcing our intellectual property rights could have a material adverse effect on our business, financial conditions and results of operations.

We may be subject to intellectual property infringement claims from third parties, which may be expensive to defend and may disrupt our business and operations.

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate trademarks, patents, copyrights, know-how or other intellectual property rights held by third parties. We may be from time to time subject to legal proceedings and claims relating to the intellectual property rights of others. In addition, there may be third-party trademarks, patents, copyrights, know-how or other intellectual property rights that are infringed by our products or other aspects of our business without our awareness. Our employees may unknowingly use intellectual property owned by others in their work for us. Holders of such intellectual property rights may seek to enforce such intellectual property rights against us in

RISK FACTORS

various jurisdictions. If any third-party infringement claims are brought against us, we may be forced to divert management's time and other resources from our business and operations to defend against these claims, regardless of their merits.

Additionally, the application and interpretation of intellectual property right laws and the procedures and standards for granting trademarks, patents, copyrights, know-how or other intellectual property rights are evolving and may be uncertain, and we cannot assure you that courts or regulatory authorities would agree with our analysis. If we were found to have violated the intellectual property rights of others, we may be subject to liability for our infringement activities or may be prohibited from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives of our own. As a result, our business, financial conditions and results of operations may be materially and adversely affected.

Our business relies on the proper operation of our information technology systems, any malfunction of which for extended periods could materially and adversely affect our business, financial conditions and results of operations.

Our business relies on the proper functioning of our information technology systems. We use our information technology systems to retrieve and analyze operational data, including procurement, sales, inventory, logistics and production, as well as financial information effectively and efficiently. We also use our information technology systems to assist us in planning and managing our production, budgeting, human resources, inventory, sales and financial reporting. As a result, our information technology system is critical for our daily operations. Although we did not experience any information technology system breakdown during the Track Record Period, we cannot assure you that our information technology systems will always operate without interruption.

Any malfunction to a particular part of our information technology systems may adversely affect our operations and our results of operations. In addition, we need to constantly upgrade and improve our information technology systems to keep up with the continuous growth of our operations and business. We may not always be successful in installing, running or implementing new software or advanced information technology systems as required by our business development. All of these may have a material and adverse impact on our business, financial conditions and results of operations.

Our success and ability to operate efficiently are dependent on our key management personnel, and loss of service of our key personnel or any failure to attract and retain necessary talents may materially and adversely affect our business, financial conditions and results of operations.

The talent, experience and leadership of our key management team are critical to the success of our business. Our senior management team has extensive experience and expertise in the vaping industry and has made significant contributions to the growth and success of our business. For example, Mr. Chen, our chairman and chief executive officer, has accumulated over ten years of experience in the vaping industry and is experienced in business management. Also, Mr. Luo Chunhua, our general manager of operation department, and Mr. Pan Weidong, our general manager

RISK FACTORS

of technology center, each has around ten years of experience in business and R&D. Therefore, any unexpected loss of services of one or more of these individuals could have a material adverse effect on us.

Our future success also depends substantially on our ability to recruit, train and retain qualified management, engineers and other qualified personnel. For example, our business is dependent on talented engineers to research and develop new vaping technologies. The departure of any of these individuals could have an adverse effect on our business and prospects. Competition for talent in the vaping industry is intense and qualified individuals can be difficult to recruit. Consequently, we may not be able to easily or quickly replace lost personnel and we may incur additional expenses to recruit, train and retain new hires. A significant increase in employee turnover rate or a significant increase in labor costs due to competition for talents or unfavorable changes in labor and healthcare laws could have a material adverse effect on our business, financial conditions and results of operations.

We grant credit terms to our customers and our working capital and cash flow position may be adversely affected if our customers fail to settle or delay in making their payments.

We allow a credit period of 0 to 60 days to our trade customers, depending on the past payment history and the length of business relationship with the relevant customers. Therefore, our financial position and profitability are dependent on the creditworthiness of our customers. As of December 31, 2016, 2017, 2018 and 2019, our trade and bills receivables amounted to RMB108.5 million, RMB139.4 million, RMB352.9 million and RMB659.0 million, respectively. In 2016, 2017, 2018 and 2019, our trade and bills receivables turnover days were 41.1 days, 28.9 days, 26.2 days and 24.3 days, respectively. Though our trade and bills receivables turnover days were within the range of credit period granted to our customers, there is no assurance that we will not encounter doubtful or bad debts due to a slow-down of industry growth, individual customer's deteriorating financial condition or otherwise in the future. If we experience any unexpected delay or difficulty in collecting receivables from our customers, our business, financial conditions, including working capital and cash flow position, and results of operations may be materially and adversely affected.

Certain components of our other income, including government grants and compensation income from customers, are of a non-recurring nature, and the loss of these components of other income could materially and adversely affect our business, financial conditions and results of operations.

We received government grants of RMB2.5 million, RMB3.2 million, RMB4.6 million and RMB16.5 million in 2016, 2017, 2018 and 2019, respectively, and compensation income from customers was nil, nil, RMB7.8 million and RMB24.1 million in 2016, 2017, 2018 and 2019, respectively. See "Financial Information — Principal Components of Consolidated Statements of Profit and Loss and Comprehensive Income — Other Income." These components of our other income are of a non-recurring nature and there is no assurance that we would continue to enjoy government grants or receive compensation income from customers at the historical levels, or at all.

RISK FACTORS

If there is any change, suspension or termination of government grants or we cease to receive compensation income from customers, our business, financial conditions and results of operations could be materially and adversely affected.

We may require additional funding to finance our operations, which may not be available on terms acceptable to us or at all, and if we are able to raise funds, the value of your investment in us may be negatively impacted.

Though we believe that our current cash and cash equivalents and the anticipated cash flows from operations will be sufficient to meet our anticipated cash needs for the next 12 months, we may require additional cash resources to finance our continued growth or other future developments, including any investments or acquisitions we may decide to pursue. To the extent that our funding requirements exceed our financial resources, we will be required to seek additional financing or to defer planned expenditures. There is no assurance that we can obtain additional funds on terms acceptable to us, or at all. In addition, our ability to raise additional funds in the future is subject to a variety of uncertainties, including, but not limited to:

- our future financial conditions, results of operations and cash flows;
- general market conditions for capital raising and debt financing activities; and
- economic, political and other conditions in China and elsewhere.

Furthermore, if we raise additional funds through equity or equity-linked financings, your equity interest in us may be diluted. Alternatively, if we raise additional funds by incurring debt obligations, we may be subject to various covenants under the relevant debt instruments that may, among other things, restrict our ability to pay dividends or obtain additional financing. Servicing such debt obligations could also be burdensome to our operations. If we fail to service such debt obligations or are unable to comply with any of these covenants, we could be in default under such debt obligations and our liquidity and financial conditions could be materially and adversely affected.

We may be forced to relocate due to title defects of our leased properties, or we may be liable for failure to register our lease agreements, which may result in a disruption of our operations and subject us to penalties.

As of the Latest Practicable Date, due to the inconsistency with land planning purposes and historical issues, our leased properties with a total GFA of approximately 88,816 sq.m. were leased from lessors who had not obtained relevant construction documents from the relevant government authorities, and hence were unable to provide sufficient or valid ownership certificates or other ownership documents. These leased properties are used for our production facilities, warehouses, office premises, dormitories and canteens, and are crucial to our business operations. We may face the risks of returning the illegally occupied land or demolition of the building, and the associated lease agreements may be deemed to be invalid by the court. If any of our lease agreements are terminated or voided as a result of challenges from the government, or if there is any dispute or claim in relation to the titles of the properties that we occupy, including any litigation involving

RISK FACTORS

allegations of illegal or unauthorized use of these properties, we would need to seek alternative premises and incur relocation costs. Any relocation could disrupt our operations and adversely affect our business, financial conditions, results of operations and growth prospects.

In addition, as of the Latest Practicable Date, we had not completed the administrative filings of 31 lease agreements with an aggregate GFA of approximately 157,575 sq.m. According to applicable PRC administrative regulations, the lessor and the lessee of a lease agreement are required to file the lease agreement with relevant government authorities within 30 days after the execution of the lease agreement. If the filing is not made, the government authorities may require that the filing be made within a stated period of time, failing which, they may impose a fine ranging from RMB1,000 to RMB10,000 for each agreement that has not been properly filed. It is not clear under PRC laws if the fine will be borne by the lessor or lessee. According to applicable PRC administrative regulations, lessors of the related lease agreements need to provide us with certain documents (such as their business licenses or identification information) in order to complete the administrative filing. There can be no assurance that the lessors of our leased properties will be cooperative in the process of completing the filings. If we fail to complete the administrative filings within the period specified by the relevant government authorities, and the relevant authorities determine that we shall be liable for failing to complete the administrative filings of all the relevant lease agreements, we might be subject to a fine ranging from RMB31,000 to RMB310,000.

We may be liable for commencing the production of our manufacturing facilities after their renovation and expansion without undergoing the inspection and acceptance procedures.

During the Track Record Period, we commenced (i) the construction of our manufacturing facilities without preparing the required environmental impact assessment documents and without obtaining the approval or filing of the relevant government authorities; and (ii) the production of our manufacturing facilities after their renovation and expansion without undergoing the inspection and acceptance procedures. As advised by our PRC Legal Advisers, according to the PRC Environmental Impact Assessment Law (《中華人民共和國環境影響評價法》) and the Regulations on Environmental Protection Management of Construction Projects (《建設項目環境保護管理條例》), (i) commencing the construction of our manufacturing facilities without preparing the required environmental impact assessment documents and without obtaining the approval of the relevant government authorities could subject us to a fine ranging from 1% to 5% of the overall investment amount for such construction project depending on the materiality and consequences of such violations, and we may be ordered to restore the construction site to its original state; and (ii) commencing the production of our manufacturing facilities after their renovation and expansion without undergoing the inspection and acceptance procedures could subject us to an order to make correction within a specified time limit and a fine ranging from RMB200,000 to RMB1.0 million. If we are found not to have rectified such non-compliance within the specified time limit, we may be subject to a fine of RMB1.0 million to RMB2.0 million. If the construction project causes significant environmental pollution or ecological damage, the production or usage shall be suspended, or the project shall be closed down upon the approval by the relevant government authorities.

RISK FACTORS

We face risks relating to our labor dispatch arrangements.

During the Track Record Period, we had recruited dispatched employees by signing labor dispatch service agreements with third-party employment agents. These dispatched employees entered into labor contracts with the employment agents and not with us. According to the Interim Provision on Labor Dispatch (《勞務派遣暫行規定》) promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, the number of dispatched employees engaged by any company may not exceed 10% of the total number of its employees, including both directly hired employees and dispatched employees, and dispatched employees can be used only for temporary, ancillary or substitutable positions.

During the Track Record Period, we did not fully comply with the Interim Provision on Labor Dispatch. See “Business — Employees” for details. Nevertheless, we had rectified such non-compliance by February 2019. In addition, we had not received any notifications or administrative penalties in respect of labor dispatch from the relevant government authorities. Our PRC Legal Advisers are of the opinion that the risk of us being penalized in respect of labor dispatch is remote. However, if we are ordered to make corrections and fail to do so within the prescribed time, the maximum penalty amount shall be based on the number of dispatched employee which is in excess of the regulatory threshold and at the discretion of the competent authorities.

We may be required to make additional contributions of social insurance fund and/or housing provident fund and late payments and fines under PRC national laws and regulations.

Under relevant PRC laws and regulations, we are required to make social insurance fund and housing provident fund contributions for our employees. During the Track Record Period, we did not make the social insurance fund and housing provident fund contributions in full for employees of our subsidiaries. In 2016, 2017, 2018 and 2019, our provisions for social insurance fund and housing provident fund contributions amounted to RMB14.4 million, RMB26.2 million, RMB39.1 million and RMB74.5 million, respectively. As advised by our PRC Legal Advisers, in respect of the outstanding social insurance contributions, the relevant PRC authorities may demand us to pay the outstanding social insurance funds within a stipulated deadline and we may be liable for a late payment fee equal to 0.05% of the outstanding amount for each day of delay; if we fail to make such payments, we may be liable for a fine of one to three times the amount of the outstanding contributions. In respect of the outstanding housing provident fund contributions, we may be demanded by the relevant PRC authorities to pay the underpaid amount to the housing provident fund within a prescribed time limit, failing which we may be subject to the compulsory enforcement by the People’s Court. Our PRC Legal Advisers are of the opinion that the risk of us being fined is remote provided that we pay the unpaid amount for social insurance and housing provident funds in full amount in a timely manner after receiving notices to rectify such non-compliance from the relevant PRC authorities. As of the Latest Practicable Date, except as disclosed in “Business — Legal and Compliance,” we had not received any notification from the relevant authorities demanding payment of the outstanding contributions to the social insurance and the housing provident funds or fine in relation thereto. See “Business — Legal and Compliance” for details.

RISK FACTORS

However, we cannot assure you that we will not be subject to any order to rectify the non-compliance in the future, nor can we assure you that there are no, or will not be any, employee complaints regarding payment of the outstanding amount of the social insurance and housing provident funds contributions against us, or that we will not receive any claims in respect of the outstanding amount of the social insurance and housing provident funds contributions under national laws and regulations proceed granted. In addition, we may incur additional expenses to comply with such laws and regulations promulgated by the PRC Government or relevant local authorities.

We may be involved in legal or other proceedings arising out of our operations from time to time and may expose us to liabilities, divert our management's attention and harm our reputation.

During the ordinary course of our business operations, we may be involved in legal disputes or regulatory and other proceedings relating to, including but not limited to, contractual disputes, product liability claims and employees' claims. Especially, for contractual disputes, we cannot assure you that the venue and governing law agreed in relevant contracts are always favorable to us. Any such legal disputes or proceedings may subject us to substantial liabilities and may have a material and adverse effect on our reputation, business, financial conditions and results of operations.

If we, our Directors or senior management become involved in material or protracted legal proceedings or other legal disputes in the future, we may incur substantial legal expenses and our management may need to devote significant time and attention to handle such proceedings and disputes, thereby diverting their attention from our business operations. In addition, the outcome of such proceedings or disputes may be uncertain and could result in settlement or outcomes which may adversely affect our business, financial conditions and results of operations.

Our manufacturing operations are subject to a variety of health and safety laws and regulations.

We are subject to a variety of health and safety laws and regulations imposed by the PRC Government. Compliance with existing and future health and safety laws and regulations could subject us to costs or liabilities, including monetary damages and fines, impact our production capabilities, result in suspension of our business operations, and impact our overall financial performance. Although we had not experienced any violations of health or safety laws and regulations during the Track Record Period and up to the Latest Practicable Date, we cannot assure you that such event will not happen in the future. If we are held liable for damages in the event of any injury or violation of applicable health or safety laws or regulations, we may also be subject to adverse publicity and our business, financial conditions and results of operations could be materially and adversely affected.

RISK FACTORS

We may not successfully mitigate our exposures to foreign exchange and interest rate.

We undertake certain transactions denominated in foreign currencies instead of RMB, our functional currency. In addition to RMB, the majority of our cash and cash equivalents are denominated in U.S. dollars. The value of U.S. dollars against RMB and other foreign currencies is generally affected by, among others, changes in the worldwide economic and political conditions. There can be no assurance that the U.S. dollars will be stable. Any appreciation of RMB against U.S. dollars may, to some extent, adversely affect our financial conditions.

Furthermore, certain effects are generally associated with exchange rate fluctuations. For example, decrease in the value of local currency of our vaping device export destinations may adversely affect our export volumes, and vice versa. Also, foreign exchange movements might negatively affect the relative purchasing power of consumers, which will result in a decline in our sales. Currently, we do not have a foreign exchange hedging policy. Although we seek to manage our currency risks to minimize any negative effects caused by exchange rate fluctuations, there can be no assurance that we will be able to do so successfully. Our business, financial conditions and results of operations could nevertheless be adversely affected, particularly if any such exchange rate movements persist.

In addition, we are exposed to cash flow interest rate risk in relation to variable-rate financial assets at fair value through profit or loss and bank balances due to the fluctuation of the prevailing market interest rate. If the interest rate moves in the different direction as we expect in the future, our financial decisions may adversely affect our cash flows and financial position. Though we have implemented and will continue to implement internal control measures to evaluate and monitor our exposure to interest rate, there is no assurance that we may successfully mitigate such risk in the future.

Our business, financial conditions, results of operations and prospects may be adversely affected by fair value changes and credit risk associated with our financial assets at fair value through profit or loss.

During the Track Record Period, we purchased low-risk financial assets at fair value through profit or loss for cash management purposes, which mainly included structured bank deposits and wealth management products. As of December 31, 2016, 2017, 2018 and 2019, our financial assets at fair value through profit or loss amounted to RMB41.6 million, RMB93.1 million, nil and nil, respectively. The values of financial assets at fair value through profit or loss are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss and included in our other gains and losses, and therefore directly affects our results of operations. In 2016, 2017, 2018 and 2019, our gains on financial assets at fair value through profit or loss were nil, RMB0.5 million, RMB10.1 million and RMB6.2 million, respectively. We did not incur any fair value losses for financial assets at fair value through profit or loss during the Track Record Period. However, we cannot assure you that we will not incur any such fair value losses in the future. If we incur such fair value losses, our business, financial conditions, results of operations and prospects may be adversely affected.

RISK FACTORS

Furthermore, we are exposed to credit risk in connection to our structured bank deposits and wealth management products. While we manage the credit risk by only placing bank deposits with reputable banks, purchasing principal protected wealth management products with our own funds and making short-term investments less than one year, there is no guarantee that the counterparties to the financial instruments will meet their contractual obligations. If the counterparties become insolvent or fail to make payment when due, we may lose some or all of our investments, and our business, financial conditions and results of operations may be adversely affected as a result.

Fair value changes in our financial instruments issued to investors and related valuation uncertainty may materially affect our business, financial conditions and results of operations.

During the Track Record Period, we raised RMB364.2 million from our investors through the issuance of Convertible Promissory Notes in 2019. For a summary of the terms of the Convertible Promissory Notes, see “History and Development — Pre-IPO Investments — Issue of Convertible Promissory Notes to Pre-IPO CN Investors.” We also issued convertible preferred shares in 2019. For a summary of the terms of the convertible preferred shares, see “History and Development — Pre-IPO Investments — Equity investments by Pre-IPO (Equity) Investors.” The Convertible Promissory Notes and convertible preferred shares were measured at fair value through profit or loss. The discounted cash flow method was used to determine our underlying equity value, while the binomial pricing model, equity allocation model and the Black-Scholes model were adopted to determine the fair value of our Convertible Promissory Notes and convertible preferred shares, respectively.

Our convertible preferred shares, including those converted pursuant to the Convertible Promissory Notes, will be reclassified and re-designated to our ordinary shares prior to the completion of the Capitalization Issue and Global Offering. To the extent we need to revalue the convertible preferred shares prior to the completion of the Capitalization Issue and Global Offering, any change in fair value of these convertible preferred shares and related valuation uncertainty due to the use of unobservable inputs could materially and adversely affect our business, financial conditions and results of operations. In 2019, we incurred losses on fair value changes of Convertible Promissory Notes of RMB3.6 million and fair value changes of convertible preferred shares of RMB0.4 million, respectively. See Notes 26 and 27 to the Accountants’ Report in Appendix I to this prospectus for details. We may incur additional losses on the fair value changes of the convertible preferred shares from December 31, 2019 due to the reclassification and re-designation of convertible preferred shares into our ordinary shares prior to the completion of the Capitalization Issue and Global Offering.

Preferential tax treatment currently available to us in the PRC could be discontinued or reduced.

Under the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the “EIT Law”) and its relevant regulations, PRC companies are typically subject to an income tax rate of 25% under the EIT Law. Smoore Shenzhen, a major operating subsidiary in the PRC, was qualified as high and new technology enterprise and is entitled to a preferential income tax rate of 15% during the Track Record Period. We shall, in accordance with the requirements of the tax

RISK FACTORS

authority and other relevant authorities, retain and submit our financial statements together with details of our research and development activities and other technological innovation activities for future reference to enjoy the preferential tax treatment.

We cannot assure you that we will continue to qualify for such preferential tax treatment, or that the policies providing for the preferential tax treatment will continue to be effective. As advised by our PRC Legal Advisers, if we fail to provide materials retained for future reference referred to in the preceding paragraph, we will not be entitled to enjoy the preferential tax treatment, as well as other benefits conferred under the accreditations. Our income tax expense was RMB23.6 million, RMB38.7 million, RMB137.2 million and RMB403.1 million in 2016, 2017, 2018 and 2019, respectively. See Note 9 of the Accountant's Report included in Appendix I to this prospectus. If we were not entitled to preferential tax treatment, our income tax rate would be 25%, and our income tax expense would have increased by approximately RMB15.3 million, RMB25.0 million, RMB87.6 million and RMB244.2 million in 2016, 2017, 2018 and 2019, respectively. As a result, our net profit would decrease by the difference between the current tax expense and the tax expense that we would incur if our income tax rate is 25% for the same years.

It is uncertain whether we will be able to recover value-added taxes imposed by the Chinese tax authority.

We had value-added tax recoverable of RMB32.6 million, RMB67.7 million, RMB113.4 million and RMB172.0 million as of December 31, 2016, 2017, 2018 and 2019, respectively. The amount of input value-added taxes and output value-added taxes are determined by the applicable value-added tax rate in effect during the period when the purchases from our suppliers or sales to our customers are made. While the deductible value-added tax may enable us to reduce future tax payment, our deductible value-added tax may also pose risk to us as its recoverability is dependent on the then applicable value-added tax rate in effect.

There is no assurance that the deductible value-added tax can be recovered. If there is a lack of payment from customers or an adjustment of applicable value-added tax rate in effect, the output value-added tax may be in shortfall in the future, and we may have to write down the deductible value-added tax, which may significantly affect our business, financial conditions and results of operations.

In addition, export sales are exempted under VAT rules and an exporter who incurs VAT on purchase or manufacture of goods should be able to claim a refund from Chinese tax authorities. However, a reduction in the VAT export refund rate of some goods may cause exporters to bear part of the VAT they incurred in conjunction with the exported goods. Efforts by the Chinese government to increase tax revenues could result in revisions to tax laws or their interpretation, which could increase our VAT and various tax liabilities.

RISK FACTORS

We may need to provide provision of impairment loss for our intangible assets, which could negatively affect our business, financial conditions and results of operations.

Our intangible assets primarily include (i) development costs, (ii) technology know-how and (iii) software acquired from third parties. As of December 31, 2019, the aggregate carrying value of these intangible assets amounted to RMB58.8 million, accounting for 1.8% of our total assets as of the same date. If any of these intangible assets is determined to be impaired in the future, we would be required to write down the carrying value or record a provision of impairment loss for these intangible assets in our financial statements during the period in which the relevant intangible assets determined to be impaired, and this would negatively affect our business, financial conditions and results of operations.

Our future expansion plan may result in over-capacity or significant increases in depreciation, amortization and operational expenses.

As a component of our strategies, we intend to invest a total of approximately HK\$4,056.8 million in capital expenditure over the next three to four years to establish new production bases. Moreover, we intend to expend approximately HK\$2,253.8 million in capital expenditure to build a group-level research center as well as install automated production and assembly lines, IT infrastructure and equipment that are necessary for the growth and expansion of our business operations. See “Future Plans and Use of Proceeds — Use of Proceeds.” The above expansion plan may result in significant increases in depreciation, amortization and operational expenses arising from certain of our production machinery and equipment, and our revenue and profit may not increase in proportion to our increased production capacity and expansion. We expect the depreciation, amortization and operational expenses resulting from our business expansion, including depreciation over land and buildings, decorations, fixtures, equipment and IT systems, to be approximately RMB489.5 million, RMB1,303.7 million, RMB2,589.1 million and RMB3,260.6 million in 2022, 2023, 2024 and 2025, respectively. Operational expenses are calculated based on the proportion of the cost of manufacturing, management, sales and research and development incurred by our factories in 2019 as a percentage of our revenue in the same year. For calculation method of depreciation, see “Future Plans and Use of Proceeds — Use of Proceeds.” We also cannot assure you that the above expansion plans will not result in over-capacity due to unforeseeable changes in the market demands, which may in turn materially and adversely affect our business, financial conditions and results of operations.

Our insurance coverage may not be adequate to cover all the risks relating to our business and operations.

As of the Latest Practicable Date, we had obtained and maintained insurance policies that we believe are customary for businesses of our size and type and in line with the standard commercial practice in China. For more details on our insurance policies, see “Business — Insurance.” However, there are types of losses we may incur that cannot be insured against or that we believe are not commercially reasonable to insure such as loss of reputation. If we were held liable for

RISK FACTORS

uninsured losses or amounts and claims for insured losses exceeding the limits of our insurance coverage, our business, financial conditions and results of operations may be materially and adversely affected.

We are subject to risks in relation to transportation services.

Our export sales are on EXW, FOB or FCA basis, meaning that the risk of the goods and their title pass to our customers when (i) if on EXW basis, the products are delivered to freight forwarders at our facilities, (ii) if on FOB basis, loaded on board at the port of shipment, and (iii) if on FCA basis, the products are delivered to a designated place nominated by the buyer (such as a local warehouse).

Transportation disruptions may occur due to various reasons that are beyond our control, including transportation bottlenecks, legislation, typhoon, flood, earthquakes and other natural disasters and labor strikes, which could lead to delayed or lost deliveries. For example, if the Smoking (Public Health) (Amendment) Bill 2019 is reintroduced into the legislative process and enacted in Hong Kong, and our customers and we are unable to find alternative ways of transshipment, our business with certain customers may be materially and adversely affected. In addition, our products may face the risk of theft or damage due to any poor handling by us or the logistics companies. If our products are not delivered on time, or are damaged or lost during delivery, we may have to pay compensation to the relevant parties and could lose certain customers as well as suffer harm to our reputation, business, financial conditions and results of operations.

We face risks of health epidemics and other natural disasters, which could severely disrupt our business operations.

Our business could be affected by the outbreak of H1N1, or the swine flu, avian influenza, severe acute respiratory syndrome, or SARS, or another epidemic. Beginning in 2013, there were reports of outbreaks of highly pathogenic avian flu, caused by the H7N9 virus, in various parts of China. An outbreak of avian flu in the human population could result in a widespread health crisis that could adversely affect the economy and financial markets of China. Additionally, any recurrence of SARS, similar to the occurrence in 2003 which affected China, Hong Kong, Taiwan, Singapore, Vietnam and certain other countries and regions, would also have similar adverse effects. Such disruptions could adversely affect our business operations and earnings.

Our operations are also vulnerable to natural disasters or other catastrophic events, including wars, terrorist attacks, snowstorms, earthquakes, typhoons, fire, floods, power failures and shortages, water shortages, hardware failures, computer viruses, and similar events which may or may not be foreseeable or otherwise within our control. If any natural disaster or catastrophic event were to strike in the future in China, especially in the areas where our operations are located, we might suffer losses as a result of business interruptions and our business, financial conditions and results of operations might be materially and adversely affected.

RISK FACTORS

RISKS RELATING TO DOING BUSINESS IN CHINA

The economic, political and social conditions in China, as well as government policies, laws and regulations, could affect our business, financial conditions and results of operations.

Substantially all our business operations are in China and substantially all our revenue is derived from our operations in China. Accordingly, our results of operations and prospects are, to a significant degree, subject to economic, political and legal developments in China. The economy of China differs from the economies of most developed countries in many respects, including the extent of government involvement, its level of development, its growth rate and its control over foreign exchange. China's economy has been transitioning from a planned economy to a more market-oriented economy. In recent years, the PRC Government has implemented measures emphasizing market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises. However, a portion of productive assets in China is still owned by the PRC Government. The PRC Government continues to play a significant role in regulating industrial development. It also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policies and providing preferential treatments to particular industries or companies. All these factors could affect the economic conditions in China and, in turn, our business.

While the Chinese economy has experienced significant growth in the last few decades, growth has been uneven across both geographic regions and the various sectors of the economy, growth rates have begun to decelerate, and growth may not continue. Any severe or prolonged slowdown in the Chinese or global economy may have a negative impact on our business, financial conditions and results of operations. Economic conditions in China are sensitive to global economic conditions. The global macroeconomic environment is facing challenges, including the end of quantitative easing and start of interest rate hikes by the U.S. Federal Reserve, the economic slowdown in the Eurozone since 2014 and the withdrawal of the U.K. from the E.U. at the end of January 2020. The Chinese economy has shown slower growth since 2012 compared to the previous decade and the trend may continue. There have also been concerns over unrest in North Korea, Ukraine and the Middle East, which have resulted in volatility in financial and other markets in recent years. The concerns over the trade and economic policies of the United States government, which have contributed to, among other things, tensions between the United States and China. In particular, the imposition of tariffs on Chinese products by the United States may result in a decrease in China's exports and a slowdown of the Chinese economy, which would in turn reduce domestic consumption. There have also been concerns about the economic effect of the tensions in the relationship between China and surrounding Asian countries. Should any of these situations occur, our business and financial conditions will be negatively impacted. Additionally, continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet liquidity needs.

RISK FACTORS

Uncertainties with respect to the PRC legal system could limit the legal protections available to you and us.

Our operating subsidiaries are incorporated under the laws of the PRC. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. In 1979, the PRC Government began to promulgate a comprehensive system of laws and regulations governing economic matters in general, such as foreign investment, corporate organization and governance, commerce, taxation and trade. As substantially all our businesses are conducted in China, our operations are principally governed by PRC laws and regulations. However, since the PRC legal system continues to evolve rapidly, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit legal protections available to us. Furthermore, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other countries. In addition, we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

PRC regulations of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of the Global Offering to make loans or additional capital contributions to our PRC subsidiaries.

In utilizing the proceeds from the Global Offering or any further offering, as an offshore holding company of our PRC subsidiaries, we may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries. Any loans provided by us to our PRC subsidiaries are subject to PRC regulations. For example, loans by us to our PRC subsidiaries in China to finance their activities cannot exceed statutory limits and must be registered or filed on record. We may also decide to finance our PRC subsidiaries through capital contributions. These capital contributions must be filed with the local counterpart of the MOFCOM. We cannot assure you that we will be able to accomplish these government registrations or filing procedures on a timely basis, if at all, with respect to future loans or capital contributions by us to our subsidiaries or any of their respective subsidiaries. If we fail to receive such registrations or approvals or fail to complete such filing procedures, our ability to use the proceeds of the Global Offering and to capitalize our operations in China may be negatively affected, which could adversely and materially affect our liquidity and our ability to fund and expand our business.

We rely on dividends paid by our subsidiaries for our cash needs, and any limitation on the ability of our subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business.

We conduct all our business through our consolidated subsidiaries incorporated in China. We rely on dividends paid by these consolidated subsidiaries for our cash needs, including the funds necessary to pay any dividends and other cash distributions to our Shareholders, to service any debt

RISK FACTORS

we may incur and to pay our operating expenses. The payment of dividends by entities established in China is subject to limitations. Regulations in China currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China. Each of our PRC subsidiaries is also required to set aside at least 10% of its after-tax profit based on PRC laws and regulations each year to its general reserves or statutory capital reserve fund until the aggregate amount of such reserves reaches 50% of its respective registered capital. Our statutory reserves are not distributable as loans, advances or cash dividends. We anticipate that in the foreseeable future our PRC subsidiaries will need to continue to set aside 10% of their respective after-tax profits to their statutory reserves. Furthermore, if any of our subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Any limitations on the ability of our subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

In addition, under the EIT Law, the Regulation on the Implementation of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》), the Notice of the State Administration of Taxation on Negotiated Reduction of Dividends and Interest Rates (《國家稅務總局關於下發協定股息稅率情況一覽表的通知》), or Notice 112, which was issued on January 29, 2008 and amended on February 29, 2008, the Arrangement between the Mainland of China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排(國稅函[2006]第884號)》) (the “**China-Hong Kong Tax Arrangement**”), which became effective on December 8, 2006, and the Announcement of the State Administration of Taxation on Issues Concerning “Beneficial Owners” in Tax Treaties (《國家稅務總局關於稅收協定中“受益所有人”有關問題的公告》) (the “**Announcement 9**”), which became effective on April 1, 2018, dividends from our PRC subsidiaries paid to us through our indirectly wholly-owned subsidiary incorporated in Hong Kong, which holds our PRC subsidiaries, may be subject to a withholding tax at a rate of 10%, or at a rate of 5% if such Hong Kong subsidiary is considered as a “beneficial owner” that is generally engaged in substantial business activities and entitled to treaty benefits under the China-Hong Kong Tax Arrangement. According to the Announcement 9, the PRC tax authorities must evaluate whether an applicant qualifies as a “beneficial owner” on a case-by-case basis. We are actively monitoring the withholding tax and are evaluating appropriate organizational changes to minimize the corresponding tax impact.

Dividends payable by us to our foreign investors and gains on the sale of our Shares may become subject to withholding taxes under the PRC tax laws.

Under the EIT Law and EIT Implementation Rules, our foreign corporate Shareholders may be subject to a 10% income tax upon any gains realized from the transfer of their Shares and dividend distributable to such foreign corporate Shareholder, if such income is regarded as income from “sources within the PRC.” According to the EIT Implementation Rules, whether income generated from transferring equity investments is to be regarded as sources within the PRC or from foreign territory shall depend upon the locations in which the enterprises accepting the equity investment are located. However, it is unclear whether income received by our Shareholders will be deemed to

RISK FACTORS

be income from sources within the PRC and whether there will be any exemption or reduction in taxation for our foreign corporate Shareholders due to the promulgation of the EIT Law. If our foreign corporate Shareholders are required to pay PRC income tax on the transfers of our Shares that they hold or on the gains on the sale of our Shares by them, the value of our foreign corporate Shareholders' investments in our Shares may be materially and adversely affected.

We may be classified as a “resident enterprise” for PRC enterprise income tax purposes, which could result in unfavorable tax consequences to us and our non-PRC Shareholders.

The EIT Law provides that enterprises established outside China whose “de facto management bodies” are located in China are considered “resident enterprises” and are generally subject to the uniform 25% enterprise income tax rate on their worldwide income. In addition, Issues about the Determination of Chinese-controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of Their Body of Actual Management (《國家稅務總局關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》國稅發[2009]82號) issued by the State Administration of Taxation on April 22, 2009 regarding the standards used to classify certain Chinese-invested enterprises controlled by Chinese enterprises or Chinese group enterprises and established outside China as “resident enterprises” clarified that dividends and other income paid by such “resident enterprises” will be considered to be PRC source income, subject to PRC withholding tax, currently at a rate of 10%, when recognized by non-PRC enterprise shareholders. This circular also subjects such “resident enterprises” to various reporting requirements with the PRC tax authorities. Under the implementation regulations to the enterprise income tax, a “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and properties of an enterprise. In addition, the circular mentioned above sets out criteria for determining whether “de facto management bodies” are located in China for overseas incorporated, domestically controlled enterprises. However, as this circular only applies to enterprises established outside China that are controlled by PRC enterprises or groups of PRC enterprises, it remains unclear how the tax authorities will determine the location of “de facto management bodies” for overseas incorporated enterprises that are controlled by individual PRC residents like us and some of our subsidiaries. Therefore, although substantially all our management is currently located in China, it remains unclear whether the PRC tax authorities would require or permit our overseas registered entities to be treated as PRC resident enterprises. We do not currently consider us to be a PRC resident enterprise. However, if the PRC tax authorities disagree with our assessment and determine that we are a “resident enterprise,” we may be subject to enterprise income tax at a rate of 25% on our worldwide income and dividends paid by us to our non-PRC Shareholders as well as capital gains recognized by them with respect to the sale of our Shares may be subject to a PRC withholding tax. This will have an impact on our effective tax rate, a material adverse effect on our net income and results of operations, and may require us to withhold tax on our non-PRC Shareholders.

RISK FACTORS

Our dividend income from our foreign-invested PRC subsidiaries may be subject to a higher rate of withholding tax than that which we currently anticipate.

Under the EIT Law and the EIT Implementation Rules, dividend payments from PRC subsidiaries to their foreign shareholders, if the foreign shareholder is not deemed as a PRC tax resident enterprise under the EIT Law, are subject to a withholding tax at the rate of 10%, unless the jurisdiction of such foreign shareholders has a tax treaty or similar arrangement with the PRC and the foreign shareholder obtains approval from competent local tax authorities for application of such tax treaty or similar arrangement. If certain conditions and requirements under the China-Hong Kong Tax Arrangement are met, the withholding rate could be reduced to 5%. However, the Announcement 9 provides that tax treaty benefits will be denied to companies without business substance, and a beneficial ownership analysis will be adopted to determine whether or not to grant the tax treaty benefits. It is unclear whether Announcement 9 applies to dividends from our PRC subsidiaries paid to us through our indirectly wholly-owned subsidiary incorporated in Hong Kong which holds our PRC subsidiaries. If, under Announcement 9, it was not considered the “beneficial owner” of any such dividends, such dividends would, as a result, be subject to income tax withholding at the rate of 10% rather than the more favorable 5% rate applicable under the China-Hong Kong Tax Arrangement. In that case, our financial position and results of operations may be materially and adversely affected.

We face uncertainty relating to the Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (“SAT Circular No. 7”) issued by the SAT.

On February 3, 2015, the SAT issued the SAT Circular No. 7, which abolished certain provisions in the Circular on Strengthening the Administration of Enterprise Income Tax on Non-PRC Resident Enterprises’ Share Transfers (《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》) (“SAT Circular No. 698”), previously issued by the SAT on December 10, 2009. SAT Circular No. 7 provides comprehensive guidelines relating to indirect transfers by a non-PRC resident enterprise of assets (including equity interests) of a PRC resident enterprise (“PRC Taxable Assets”). For example, SAT Circular No. 7 specifies that the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC Taxable Assets, when a non-PRC resident enterprise transfers PRC Taxable Assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC Taxable Assets. The PRC tax authorities may disregard the existence of such overseas holding company and consider the transaction to be a direct transfer of PRC Taxable Assets, if such transfer is deemed to have been conducted for the purposes of avoiding the enterprise income tax in the PRC and lack any reasonable commercial purpose. Although SAT Circular No. 7 contains certain exemptions (including (i) where a non-resident enterprise derives income from the indirect transfer of PRC Taxable Assets by acquiring and selling shares of a listed overseas holding company which holds such PRC Taxable Assets on a public market; and (ii) where a non-resident enterprise had directly held and disposed of such PRC Taxable Assets, and the income from the transfer could be exempted from the enterprise income tax in the PRC under an applicable tax treaty or arrangement), it remains unclear whether any exemptions under SAT Circular No. 7 will be applicable to the transfer of our Shares or to any future acquisition by us outside China involving PRC Taxable

RISK FACTORS

Assets, or whether the PRC tax authorities will reclassify such transaction by applying SAT Circular No. 7. SAT Circular No. 7 may be determined by the tax authorities to be applicable to our reorganization, if such transaction were determined by the tax authorities to lack reasonable commercial purpose. As a result, we may be subject to tax under SAT Circular No. 7 and may be required to expend valuable resources to comply with SAT Circular No. 7 or to establish that we and our non-resident subsidiaries should not be taxed under SAT Circular No. 7, which may have a material adverse effect on our business, financial conditions, results of operations and growth prospects.

On October 17, 2017, the SAT issued the Circular on the Source of Deduction of Income Tax for Non-resident Enterprises (《國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告》) (the “**SAT Circular No. 37**”), which became effective on December 1, 2017 and abolished SAT Circular No. 698 as well as certain provisions in SAT Circular No. 7. Pursuant to SAT Circular No. 37, where the party responsible to deduct such income tax did not or was unable to make such deduction, the non-resident enterprise receiving such income should declare and pay the taxes that should have been deducted to the relevant tax authority. The taxable gain is calculated as the income from such transfer net of the net book value of equity interest.

We have conducted and may conduct acquisitions involving changes in corporate structures, and historically our Shares were transferred by certain then Shareholders to our current Shareholders. We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance for the investigation by the PRC tax authorities with respect thereto. Any PRC tax imposed on a transfer of our Shares or any adjustment of such gains would cause us to incur additional costs and may have a negative impact on the value of your investment in us.

It may be difficult to effect service of process upon us or our Directors or executive officers who reside in China or to enforce against them in China any judgments obtained from non-PRC courts.

Most of our Directors and executive officers reside within China, and substantially all our assets and the assets of those persons are located within China. It may not be possible for investors to effect service of process upon us or those persons inside China or to enforce against us or them in China any judgments obtained from non-PRC courts unless in accordance with the provisions of the international treaties concluded or acceded to by the foreign country and the PRC. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts in the United States, the United Kingdom, Japan or most other western countries. However, judgments rendered by Hong Kong courts may be recognized and enforced in China if the requirements set forth by the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) are met. Therefore, recognition and enforcement in China of judgments of a court in any of these jurisdictions other than Hong Kong in relation to any matter not subject to binding arbitration provisions may be difficult or impossible.

RISK FACTORS

Fluctuations in the value of the RMB and the PRC Government's control over foreign currency conversion may adversely affect our business and results of operations and our ability to remit dividends.

Substantially all our revenue and expenditures are denominated in RMB, while the net proceeds from the Global Offering and any dividends we pay on our Shares will be in Hong Kong dollars. Fluctuations in the exchange rates between the RMB and the Hong Kong dollars or U.S. dollars will affect the relative purchasing power in RMB terms. Fluctuations in the exchange rates may also cause us to incur foreign exchange losses and affect the relative value of any dividend distributed by us. Currently, we have not entered into any hedging transactions to mitigate our exposure to foreign exchange risk.

Movements in RMB exchange rates are affected by, among other things, changes in political and economic conditions and China's foreign exchange regime and policy. PBOC regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rates and achieve certain exchange rate targets and policy goals. In the fourth quarter of 2016, the RMB had depreciated significantly in the backdrop of a surging U.S. dollars and persistent capital outflows of China. This depreciation halted in 2017, and the RMB appreciated approximately 7% against the U.S. dollars during this one-year period. Starting from the beginning of 2019, the RMB has depreciated significantly against the U.S. dollars again. In early August 2019, the PBOC set the RMB's daily reference rate at RMB7.0039 to US\$1.00, the first time that the exchange rate of RMB to U.S. dollars exceeded 7.0 since 2008. We cannot assure you that RMB will not appreciate or depreciate significantly in value against Hong Kong dollars or U.S. dollars in the future.

In addition, conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. It cannot be guaranteed that under a certain exchange rate, we shall have sufficient foreign exchange to meet our foreign exchange needs. Under China's current foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from SAFE, but we are required to present relevant documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the licenses to carry out foreign exchange business. Foreign exchange transactions under the capital account, however, must be approved by or registered with SAFE or its local branch. The PRC Government may also at its discretion restrict access in the future to foreign currencies for current account transactions. Any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to Shareholders or satisfy any other foreign exchange obligation. If we fail to obtain approvals from the SAFE to convert RMB into any foreign exchange for any of the above purposes, our potential offshore capital expenditure plans and even our business, may be materially and adversely affected.

RISK FACTORS

Failure by our Shareholders or beneficial owners who are PRC residents to make any required applications and filings pursuant to regulations relating to offshore investment activities by PRC residents may prevent us from being able to distribute profits or inject capital and could expose us and our PRC resident Shareholders to liability under the PRC laws.

The SAFE Circular No.37 which was promulgated by SAFE and became effective on July 4, 2014, requires a PRC individual resident (“**PRC Resident**”) to register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (“**Offshore SPV**”) that is directly established or controlled by the PRC Resident for the purpose of conducting investment or financing. Following the initial registration, the PRC Resident is also required to register with the local SAFE branch for any major change in respect of the Offshore SPV, including, among other things, any major change of a PRC Resident shareholder, name or term of operation of the Offshore SPV, or any increase or reduction of the Offshore SPV’s registered capital, share transfer or swap, merger or division. Failure to comply with the registration procedures of SAFE Circular No. 37 may result in penalties and sanctions, including the imposition of restrictions on the ability of the Offshore SPV’s Chinese subsidiary to distribute dividends to its overseas parent.

Inflation or deflation in China could negatively affect our profitability and growth.

Economic growth in China has, during certain periods, been accompanied by periods of high inflation, and the PRC Government has implemented various policies from time to time to control inflation. For example, the PRC Government introduced measures in certain sectors to avoid overheating of the Chinese economy, including increasing interest rates and capital reserve thresholds at Chinese commercial banks. The effects of the stimulus measures implemented by the PRC Government since the global economic crisis that commenced in 2008 and the continued growth in the overall economy since then have resulted in sustained inflationary pressures. If these inflationary pressures continue and are not mitigated by PRC Government measures, our cost of sales will likely increase, and our profitability could be materially reduced, as there is no assurance that we would be able to pass any cost increases onto our customers. Measures adopted by the PRC Government to control inflation may also slow economic activity in China, reduce demands for our products and decrease our revenue growth, all of which would materially and adversely affect our business, financial conditions and results of operations.

On the other hand, our business could also be affected by deflationary pressures. A decline in general price levels could negatively impact sales growth, operating margins and earnings if our competitors react by lowering their retail pricing. As a result, our business, financial conditions and results of operations could be materially adversely affected.

RISK FACTORS

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares and an active trading market may not develop.

Prior to the Global Offering, there has not been a public market for our Shares. An active public market may not develop or be sustained after the Global Offering. The initial Offer Price range for our Shares was the result of, and the Offer Price will be the result of, negotiations among us and the Joint Global Coordinators on behalf of the Underwriters and may not be indicative of prices that will prevail in the trading market after the Global Offering.

We have applied to list and deal in our Shares on the Stock Exchange. However, even if approved, being listed on the Stock Exchange does not guarantee that an active trading market for our Shares will develop or be sustained. If an active market for our Shares does not develop after the Global Offering, the market price and liquidity of our Shares may be adversely affected. As a result, you may not be able to resell your Shares at prices equal to or greater than the price paid for the Shares in the Global Offering.

The market price and trading volume of our Shares may be volatile, which could result in substantial losses for investors purchasing Shares in the Global Offering. The market price of our Shares may fluctuate significantly and rapidly as a result of a variety of factors, many of which are beyond our control, including:

- actual and anticipated variations in our results of operations;
- changes in securities analysts' estimates or market perception of our financial performance;
- announcement by us of significant acquisitions, dispositions, strategic alliances or joint ventures;
- recruitment or loss of key personnel by us or our competitors;
- market developments affecting us or the tobacco and vaping industry;
- regulatory or legal developments, including litigation;
- the operating and stock price performance of other companies, other industries and other events or factors beyond our control;
- fluctuations in trading volumes or the release of lock-up or other transfer restrictions on our outstanding Shares or sales of additional Shares by us; and
- general economic, political and stock market conditions in Hong Kong, China and elsewhere in the world.

RISK FACTORS

Moreover, in recent years, stock markets in general have experienced significant price and volume fluctuations, some of which have been unrelated or disproportionate to the operating performance of the listed companies. These broad market and industry fluctuations may adversely affect the market price of our Shares.

Since there will be a gap of several days between pricing and trading of our Offer Shares, the price of our Offer Shares could fall below the Offer Price when the trading commences.

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be five Hong Kong business days after the pricing date. As a result, investors may not be able to sell or deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall below the Offer Price when the trading commences as a result of adverse market conditions or other adverse developments, that could occur between the time of sale and the time trading begins.

Purchasers of Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

Based on the Offer Price range, the Offer Price is expected to be higher than the net tangible book value per Share prior to the Global Offering. Therefore, you will experience an immediate dilution in pro forma net tangible book value per Share. In addition, we may issue additional Shares or equity-related securities. If we issue additional Shares or equity-related securities in the future, the percentage ownership of our existing Shareholders may be diluted. In addition, such new securities may have preferred rights, options or pre-emptive rights that make them more valuable than or senior to the Shares.

There can be no assurance if and when we will pay dividends in the future. Dividends distributed in the past may not be indicative of our dividend payment in the future.

Distribution of dividends shall be formulated by our Board of Directors at their discretion and may be subject to Shareholders' approval. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to our results of operations, cash flows and financial conditions, operating and capital expenditure requirements, distributable profits as determined under HKFRSs, our Articles of Association, market conditions, our strategic plans and prospects for business development, contractual limits and obligations, payment of dividends to us by our operating subsidiaries, taxation, and any other factors determined by our Board of Directors from time to time to be relevant to the declaration of dividend payments. As a result, our historical dividend distributions are not indicative of our future dividend distribution policy. There can be no assurance whether, when and in what form we will pay dividends in the future or that we will pay dividends in accordance with our dividend policy. See "Financial Information — Dividend Policy" for more details of our dividend policy.

RISK FACTORS

Our Controlling Shareholders may exert substantial influence over our operation and may not act in the best interests of our independent Shareholders.

Immediately following the completion of the Capitalization Issue and Global Offering (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 group of Controlling Shareholders being Mr. Chen, Mr. Xiong, BVI 1 and BVI 2 will together control approximately 39.90% of our issued share capital, and EVE BVI, EVE Asia and EVE Energy who are also a group of Controlling Shareholders, will together control approximately 33.11% of our issued share capital. Therefore, they will be able to exercise significant influence over all matters requiring Shareholders' approval, including the election of Directors and the approval of significant corporate transactions. They will also have veto power with respect to any shareholder action or approval requiring a majority vote except where it is required by relevant rules to abstain from voting. Such concentration of ownership also may have the effect of delaying, preventing or deterring a change in control of us that would otherwise benefit our Shareholders. The interests of the Controlling Shareholders may not always coincide with us or your best interests. If the interests of the Controlling Shareholders conflict with the interests of us or our other Shareholders, or if the Controlling Shareholders choose to cause our business to pursue strategic objectives that conflict with the interests of us or other Shareholders, we or those other Shareholders, including you, may be disadvantaged as a result.

We were incorporated under the laws of the Cayman Islands and these laws could provide different protections to minority Shareholders than the laws of Hong Kong.

Our corporate affairs are governed by the Memorandum and the Articles and by the Companies Law and laws of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interest of minority Shareholders could differ in some respects from those established under statutes or judicial precedent in existence in Hong Kong. Such differences could mean that the minority Shareholders could have different protections than they could have under the laws of Hong Kong.

Sale, or perceived sale, of substantial amounts of our Shares in the public market could adversely affect the prevailing market price of our Shares.

Save for existing Shareholders who are subject to certain lock-up periods, our existing Shareholders may dispose of our Shares that they may own now or in the future. Sales of substantial amounts of our Shares in the public market, or the perception that these sales may occur, could materially and adversely affect the prevailing market price of our Shares.

RISK FACTORS

Facts and statistics in this prospectus relating to the market and the industry we operate may not be fully reliable, and statistics in this prospectus provided by Frost & Sullivan are subject to assumptions and methodologies set forth in the “Industry Overview.”

Facts and statistics in this prospectus relating to the market and the industry we operate, including those relating to the economy and the global tobacco and vaping industry, are derived from various publications of governmental agencies or industry associations, or an industry report prepared by Frost & Sullivan and commissioned by us. We cannot guarantee, however, the quality or reliability of these materials. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any material fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Joint Global Coordinators, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers or any other party involved in the Global Offering and no representation is given as to its accuracy and completeness. Investors should not place undue reliance on such facts or statistics.

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles and/or other media regarding us, our business, our industry and/or the Global Offering.

There may have been prior to the publication of this prospectus, and there may be subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and/or media regarding us, our business, our industry and/or the Global Offering. None of us, the Joint Global Coordinators, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other person involved in the Global Offering has authorized the disclosure of information about the Global Offering in any press or media and none of these parties accepts any responsibility for the accuracy or completeness of any such information or the fairness or appropriateness of any forecasts, views or opinions expressed by the press and/or other media regarding our Shares, the Global Offering, our business, our industry or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information, forecasts, views or opinions expressed in any such publications. To the extent that such statements, forecasts, views or opinions are inconsistent or conflict with the information contained in this prospectus, we disclaim them. Accordingly, you should make your investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTIONS FROM THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

In preparation for the Global Offering, our Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Since substantially all of our Company's business operations and management are located in the PRC, it would be more practical for our executive Directors to remain ordinarily resident in the PRC where our Company has substantial operation. As all of our executive Directors currently reside in the PRC, we do not and, for the foreseeable future, will not have sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, we will put in place the following measures in order to ensure that regular communication is maintained between the Stock Exchange and us:

- (a) we have appointed and will continue to maintain two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange and ensure that our Company complies with the Listing Rules at all times. The two authorized representatives are Mr. Wang Guisheng, the executive Director, the chief financial officer and the joint company secretary of our Company and Ms. Cheng Choi Ha, the joint company secretaries of our Company. Both of the authorized representatives: (i) are, and will be, readily contactable by telephone, facsimile and/or email to deal promptly with any enquiries which may be made by the Stock Exchange; (ii) have the means to contact all the Directors (including the non-executive Director and the independent non-executive Directors) promptly at all times, as and when the Stock Exchange wishes to contact the Directors on any matters; and (iii) are to act at all times as the principal channel of communication between the Stock Exchange and us;
- (b) each of the authorized representatives has means to contact all Directors (including the non-executive Director and the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters. We will implement a policy whereby:
 - (i) each Director will provide his mobile phone number, office phone number, email address and facsimile number (if any) to the authorized representatives;
 - (ii) each Director will provide his phone numbers or means of communication to the authorized representatives when he is traveling; and

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTIONS FROM THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

- (iii) each Director will provide his mobile phone number, office phone number, email address and facsimile number (if any) to the Stock Exchange;
- (c) in compliance with Rule 3A.19 of the Listing Rules, we have appointed Guotai Junan Capital Limited as our compliance adviser who will act as an additional channel of communication between the Stock Exchange and us for the period commencing on the Listing Date and ending on the date that we publish our financial results for the first full financial year after the Listing Date pursuant to Rule 13.46 of the Listing Rules;
- (d) any meeting between the Stock Exchange and our Directors may be arranged through the authorized representatives or our compliance adviser, or directly with the Directors within a reasonable time frame;
- (e) our Company will inform the Stock Exchange promptly in respect of any change in our Company's authorized representatives, the Directors, and/or the compliance adviser of the Company;
- (f) our Directors who are not ordinarily resident in Hong Kong possess or will apply for valid travel documents to visit Hong Kong for business purposes and would be able to come to Hong Kong and meet with the Stock Exchange in Hong Kong within a reasonable period of time, when required; and
- (g) we will retain a Hong Kong legal adviser to advise us on the application of the Listing Rules and other applicable Hong Kong laws and regulations after our Listing.

WAIVERS AND EXEMPTION IN RELATION TO THE PRE-IPO SHARE OPTION SCHEME

Pursuant to Rule 17.02(1)(b) of the Listing Rules, paragraph 27 of Appendix 1A to the Listing Rules, and paragraph 10 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance (the “**Third Schedule**”), this prospectus is required to include, among other things, details regarding the number, description, and amount of any of our Shares which any person has, or is entitled to be given, an option to subscribe for, together with certain particulars of each option, namely the period during which it is exercisable, the price to be paid for the Shares subscribed for under it, the consideration (if any) given or to be given for it or for the right to it and the names and addresses of the persons to whom it was given, full details of all outstanding options and their potential dilution effect on the shareholdings upon Listing, as well as the impact on the earnings per Share arising from the exercise of the Pre-IPO Share Options.

We have granted the Pre-IPO Share Options to 558 Grantees to subscribe for 319,032,000 Shares on the terms set forth in the paragraph headed “Our History and Development — Pre-IPO Share Option Scheme” in this prospectus and the paragraph headed “D. Share Option Schemes — 1. Pre-IPO Share Option Scheme” in Appendix IV to this prospectus. Assuming an Offer Price of HK\$11.00 per Offer Share (being the mid-point of the Offer Price range), the exercise price of each Pre-IPO Share Option will be RMB0.38 per Share and our Company will receive a total

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTIONS FROM THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

consideration of RMB121,232,160 if all Pre-IPO Share Options are exercised. The Grantees include Grantees who are our Directors and their associates and directors/general managers of our subsidiaries, and the Grantee who is a member of our senior management team and our other employees.

We have applied (i) to the Stock Exchange for a waiver from strict compliance with the requirements under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Appendix 1A to the Listing Rules and (ii) to the SFC for an exemption from strict compliance with paragraph 10(d) of the Third Schedule pursuant to section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in connection with the disclosure of certain details relating to the Pre-IPO Share Options and certain Grantees in this prospectus on the ground that the waiver and the exemption will not prejudice the interest of the investing public and strict compliance with paragraph 10(d) of the Third Schedule would be unduly burdensome for the Company for the following reasons:

- (i) we have granted the Pre-IPO Share Options to 558 Grantees to subscribe for 319,032,000 Shares, representing approximately 5.5546% of our Shares in issue immediately after completion of the Capitalization Issue and the Global Offering (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 Grantees include 15 Grantees who are our Directors and their associates and directors/general managers of our subsidiaries, 1 Grantee who is a member of our senior management team and the other 542 Grantees are our employees who are not our Directors or their associates, senior management as named in this prospectus or directors/general managers of our subsidiaries;
- (ii) our Directors consider that it would be unduly burdensome to disclose in this prospectus full details of all the Pre-IPO Share Options granted by us to each of the Grantees, which would significantly increase the cost and time required for the preparation of this prospectus;
- (iii) material information of the Pre-IPO Share Options will be disclosed in this prospectus to provide the prospective investors with sufficient information to make an informed assessment of the potential dilutive effect and impact on earnings per Share of the Pre-IPO Share Options in making their investment decision, and such information includes:
 - (a) a summary of the Pre-IPO Share Option Scheme;
 - (b) the aggregate number of our Shares underlying the Pre-IPO Share Options and the percentage of our Shares of which such number represents;

**WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTIONS FROM THE
COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

- (c) the dilution effect and the impact on earnings per Share upon full exercise of the Pre-IPO Share Options immediately following the completion of the Capitalization Issue and the Global Offering (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 which may be granted under the Post-IPO Share Option Scheme);
- (d) full details of the Pre-IPO Share Options granted to (1) Grantees who are the Directors, senior management, and connected persons of our Company and (2) other Grantees who have been granted Pre-IPO Share Options to subscribe for 1,000,000 Shares or more, on an individual basis, are disclosed in this prospectus, and such details include all the particulars required under paragraph 10 of the Third Schedule;
- (e) with respect to the Pre-IPO Share Options granted by our Company under the Pre-IPO Share Option Scheme to employees, other than those referred to in (d) above, the following details are disclosed in this prospectus, including (i) the aggregate number of such Grantees and the number of Shares subject to the Pre-IPO Share Options; (ii) the consideration paid for the grant of the Pre-IPO Share Options; and (iii) the exercise period and the exercise price for the Pre-IPO Share Options; and
- (f) the particulars of the waiver and exemptions granted by the Stock Exchange and the SFC;
- (iv) our Directors consider that non-compliance with the above disclosure requirements would not prevent our Company from providing potential investors with sufficient information for an informed assessment of the activities, assets, liabilities, financial position, management and prospects of our Group; and
- (v) a full list of all the Grantees containing all details as required under Rule 17.02(1)(b) of the Listing Rules, paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10 of the Third Schedule will be made available for public inspection as described in the paragraph headed “2. Documents Available for Inspection” in Appendix V to this prospectus.

**WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTIONS FROM THE
COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

The Stock Exchange has granted us a waiver from strict compliance with the relevant requirements under the Listing Rules subject to the conditions that disclosure in respect of the information referred to in paragraph (iii) above has been made in this prospectus.

The SFC has granted a certificate of exemption under Section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting our Company from strict compliance with paragraph 10(d) of the Third Schedule, subject to the conditions that:

- (i) full details of Pre-IPO Share Options granted to (1) Grantees who are the Directors, senior management, and connected persons of our Company, and (2) other Grantees who have been granted Pre-IPO Share Options to subscribe for 1,000,000 Shares or more, on an individual basis, are disclosed in this prospectus, and such details include all the particulars required under paragraph 10 of the Third Schedule;
- (ii) with respect to the Pre-IPO Share Options granted by our Company under the Pre-IPO Share Option Scheme to employees, other than those referred to in (i) above, the following details, including (aa) the aggregate number of such Grantees and the number of Shares subject to the Pre-IPO Share Options; (bb) the consideration paid for the grant of the Pre-IPO Share Options; and (cc) the exercise period and the exercise price for the Pre-IPO Share Options have been disclosed in this prospectus;
- (iii) a full list of all the Grantees (including the persons referred to in point (i) above) who have been granted options to subscribe for Shares under the Pre-IPO Share Option Scheme, containing all the details as required under paragraph 10 of the Third Schedule, be made available for public inspection in accordance with the section headed “Documents Delivered to the Registrar of Companies and Available for Inspection” in Appendix V to this prospectus; and
- (iv) the particulars of the exemption are set forth in this prospectus and the Company’s prospectus will be issued on or before June 29, 2020.

Further information on the Pre-IPO Share Option Scheme is set forth in the paragraph headed “Our History and Development — Pre-IPO Share Option Scheme” in this prospectus and the paragraph headed “D. Share Option Schemes — 1. Pre-IPO Share Option Scheme” in Appendix IV to this prospectus.

CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue after the Listing, certain transactions that will constitute non-exempt continuing connected transactions of our Company under the Listing Rules upon the Listing. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, waivers in relation to certain continuing connected transactions between us and certain connected persons under Chapter 14A of the Listing Rules from strict compliance with the announcement and independent shareholders' approval requirements (as applicable) in respect of certain non-exempt continuing connected transactions. For more details, please see the section headed "Continuing Connected Transactions" in this prospectus.

CLAWBACK MECHANISM

Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of the Offer Shares under the Hong Kong Public Offering to certain percentage of the total number of the Offer Shares offered under the Global Offering if a certain prescribed total demand level is reached. We have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with paragraph 4.2 of Practice Note 18 of the Listing Rules such that the initial allocation of Offer Shares under the Hong Kong Public Offering shall be approximately 12% of the Global Offering and in the event of over-subscription under the Hong Kong Public Offering, the Joint Global Coordinators (for themselves and on behalf of the other Underwriters), shall apply an alternative clawback mechanism to the provisions under paragraph 4.2 of Practice Note 18 of the Listing Rules, following the closing of the application lists as disclosed in "Structure of the Global Offering — The Hong Kong Public Offering — Reallocation."

DIRECTORS' RESPONSIBILITY STATEMENT

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

THE HONG KONG PUBLIC OFFERING AND THIS PROSPECTUS

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor and any of the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

The Listing is sponsored by the Sole Sponsor and the Global Offering is managed by the Joint Global Coordinators. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to us and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) agreeing on the Offer Price. The International Offering is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement, which is expected to be entered into on or around the Price Determination Date.

If, for any reason, the Offer Price is not agreed among us and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), the Global Offering will not proceed and will lapse. For full information about the Underwriters and the underwriting arrangements, please see the section headed “Underwriting” in this prospectus.

Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

PROCEDURES FOR APPLICATION FOR THE HONG KONG OFFER SHARES

The procedures for applying for the Hong Kong Offer Shares are set forth in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus and in the Application Forms.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set forth in the section headed “Structure of the Global Offering” in this prospectus.

OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization are set forth in the section headed “Structure of the Global Offering” in this prospectus.

RESTRICTIONS ON OFFERS AND SALES OF SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than in Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING OF THE SHARES ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Global Offering (including the Shares which may be issued pursuant to the Capitalization Issue and upon the exercise of the Over-allotment Option), the ordinary Shares to be issued upon the reclassification and redesignation of the Series A-1 Preferred Shares and the Series A-2 Preferred Shares and the Shares which may be issued upon the exercise of the Options granted under the Pre-IPO Share Option Scheme and any Options which may be granted under the Post-IPO Share Option Scheme.

No part of our equity or debt securities is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Shares on the Stock Exchange is refused before the expiration of three

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to the Company by or on behalf of the Stock Exchange.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Friday, July 10, 2020. The Shares will be traded in board lots of 1,000 Shares each. The stock code of the Shares will be 6969.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisers for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisers if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, the Shares or exercising any rights attaching to the Shares. We emphasize that none of our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription, purchase, holding or disposing of, or dealing in, the Shares or your exercise of any rights attaching to the Shares.

REGISTER OF MEMBERS AND STAMP DUTY

Our principal register of members will be maintained by our principal share registrar, Conyers Trust Company (Cayman) Limited, in the Cayman Islands, and our Hong Kong register of members will be maintained by the Hong Kong Share Registrar, Tricor Investor Services Limited, in Hong Kong. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by the Hong Kong Share Registrar and may not be lodged in the Cayman Islands.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Dealings in our Shares registered on our Hong Kong register of members will be subject to Hong Kong stamp duty. The stamp duty is charged to each of the seller and purchaser at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the Shares transferred. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of the Shares. In addition, a fixed duty of HK\$5 is charged on each instrument of transfer (if required).

CSRC APPROVAL AND OTHER RELEVANT PRC AUTHORITIES APPROVAL

The Listing does not require the approval of the CSRC or any other PRC government authorities under the current PRC laws, regulations and rules.

EXCHANGE RATE CONVERSION

Unless otherwise specified, amounts denominated in RMB and US\$ have been translated, for the purpose of illustration only, into Hong Kong dollars in this prospectus at the following exchange rates: HK\$1.00:RMB0.9143 and US\$1.00: HK\$7.7499.

No representation is made that any amounts in RMB or US\$ were or could have been or could be converted into Hong Kong dollars at such rates or any other exchange rates on such date or any other date.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

LANGUAGE

If there is any inconsistency between this prospectus and its Chinese translation, this prospectus shall prevail, provided that if there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC mentioned in this prospectus and their English translations, the Chinese names shall prevail. The English translations of the Chinese names of such PRC entities or enterprises are provided for identification purposes only.

OTHER

Unless otherwise specified, all references to any shareholdings in our Company following the completion of the Global Offering assume that 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.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
Chen Zhiping (陳志平)	21B, Unit 1, Building 4 Tian Yu Hao Ting Bao'an District, Shenzhen Guangdong, China	Chinese
Xiong Shaoming (熊少明)	2H603, Shang Du Garden Yu'an 1st Road Bao'an District, Shenzhen, Guangdong, China	Chinese
Wang Guisheng (王貴升)	2-7D, Yongjing Building Dongfangzunya, Luosha Road Luohu District Shenzhen, Guangdong China	Chinese
Non-executive Director		
Dr. Liu Jincheng (劉金成)	Room A1201, Jinhege Jindixingyuan, No. 110, Eling South Road, Huicheng District, Huizhou, Guangdong, China	Chinese
Independent Non-executive Directors		
Zhong Shan (鍾山)	508 Building 17 Yueliang Wan Nanshan District, Shenzhen Guangdong, China	Chinese
Yim Siu Wing, Simon (閻小穎)	Flat A, 19/F The Westminster Terrace 2A Yau Lai Road Tsuen Wan Hong Kong	Chinese
Dr. Liu Jie (劉杰)	J7-2602 Zhonghai Jinrong Bay Haizhu District, Guangzhou Guangdong, China	Chinese

Further information about the Directors and other senior management members are set out in the section headed “Directors and Senior Management” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor

CLSA Capital Markets Limited
18/F, One Pacific Place
88 Queensway
Hong Kong

Joint Global Coordinators

CLSA Limited
18/F, One Pacific Place
88 Queensway
Hong Kong

China International Capital Corporation Hong Kong Securities Limited

29th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Guotai Junan Securities (Hong Kong) Limited

27/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Joint Bookrunners and Joint Lead Managers

CLSA Limited
18/F, One Pacific Place
88 Queensway
Hong Kong

China International Capital Corporation Hong Kong Securities Limited

29th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Guotai Junan Securities (Hong Kong) Limited

27/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Daiwa Capital Markets Hong Kong Limited

Level 28 One Pacific Place
88 Queensway
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal Advisers to Our Company

As to Hong Kong and U.S. laws:

Simpson Thacher & Bartlett

35/F, ICBC Tower

3 Garden Road

Central

Hong Kong

As to PRC laws:

DeHeng Law Offices (Shenzhen)

Floor 11, Section B, Anlian Plaza

No. 4018 Jintian Road

Futian District, Shenzhen

Guangdong, China

As to Cayman Islands laws:

Conyers Dill & Pearman

Cricket Square

Hutchins Drive

PO Box 2681

Grand Cayman KY1-1111

Cayman Islands

Legal Advisers to the Sole Sponsor and the Underwriters

As to Hong Kong laws:

Reed Smith Richards Butler

17th Floor, One Island East

Taikoo Place

18 Westlands Road

Hong Kong

As to U.S. laws:

Reed Smith LLP

599 Lexington Avenue

22nd Floor

New York, NY10022

United States

As to PRC laws:

Zhong Lun Law Firm

6/F, ONE IFC (HSBC Building)

8 Century Avenue

Pudong New Area

Shanghai

China

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Auditor and Reporting Accountants

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
Hong Kong

Industry Consultant

Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.
1018, Tower B
500 Yunjin Road
Shanghai, 200232
China

Receiving Banks

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

CMB Wing Lung Bank Limited
45 Des Voeux Road Central
Hong Kong

CORPORATE INFORMATION

Registered Office	Conyers Trust Company (Cayman) Limited Cricket Square Hutchins Drive PO Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Head Office in the PRC	No. 16, Dongcai Industrial Zone, Gushu Community, Xixiang Street Bao'an District, Shenzhen, Guangdong China
Principal Place of Business in Hong Kong	Office B, 28/F, EGL Tower No. 83 Hung To Road Kowloon Hong Kong
Company's Website	<u>www.smooreholdings.com</u> <i>(The information on the website does not form part of this prospectus)</i>
Joint Company Secretaries	<p>Mr. Wang Guisheng (王貴升) (CICPA, HKICPA, ACCA) 2-7D, Yongjing Building Dongfangzunyu, Luosha Road Luohu District Shenzhen, Guangdong China</p> <p>Ms. Cheng Choi Ha (鄭彩霞) (HKICS, ICSA) Level 54, Hopewell Centre 183 Queen's Road East Hong Kong</p>

CORPORATE INFORMATION

Authorized Representatives

Mr. Wang Guisheng (王貴升)
2-7D, Yongjing Building
Dongfangzunyu, Luosha Road
Luohu District
Shenzhen, Guangdong
China

Ms. Cheng Choi Ha (鄭彩霞)
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Audit Committee

Mr. Zhong Shan (*Chairman*)
Mr. Yim Siu Wing, Simon
Dr. Liu Jie

Remuneration Committee

Mr. Yim Siu Wing, Simon (*Chairman*)
Dr. Liu Jie
Mr. Chen

Nomination Committee

Mr. Chen (*Chairman*)
Mr. Zhong Shan
Dr. Liu Jie

**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 Share Registrar

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

Compliance Adviser

Guotai Junan Capital Limited
27/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

CORPORATE INFORMATION

Principal Banks

Bank of China Limited, Liutang Branch

No. 137, Baomin No. 2 Road
Xixiang Street, Bao'an District
Shenzhen, Guangdong
China

China Construction Bank Corporation, Baochen Branch

Floor L1, Building No. 5, Yifang Center
No. 101, Xinhua Road, Xinhua Street, Bao'an District
Shenzhen, Guangdong
China

Industrial and Commercial Bank of China Limited, Xixiang Branch

No. 29–33, Floor L1, Shengtaoshajunyuan
Xinhua Road, Xixiang Street, Bao'an District
Shenzhen, Guangdong
China

INDUSTRY OVERVIEW

Unless otherwise indicated, the information contained in this section is derived from various governmental and official publications, other publications and the market research report prepared by Frost & Sullivan, which was commissioned by us. We believe that the sources of information are appropriate, and we have taken reasonable and cautious care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. We, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of our or their respective directors, senior management, representatives or any other person involved in the Global Offering, excluding Frost & Sullivan, have not independently verified such information and have made no representation as to the accuracy and completeness thereof. The relevant information and statistics may not be consistent with such other information and statistics compiled within or outside China or other regions. As a result, such information should not be unduly relied upon.

SOURCES OF INFORMATION

In connection with the Global Offering, we commissioned Frost & Sullivan to conduct research and analysis of, and produce a report (the “**Frost & Sullivan Report**”) on, the global vaping industry. Frost & Sullivan is an independent market research and consulting company that provides industry consulting services, commercial due diligence, and strategic consulting services to both institutional investors and corporations. We have agreed to pay a commission fee of RMB700,000 for the Frost & Sullivan Report. The methodologies used by Frost & Sullivan in gathering the relevant market data to compile the Frost & Sullivan Report included both primary research and secondary research. Primary research involved in-depth interviews with other industry participants and industry experts. Secondary research involved analyzing data from Frost & Sullivan’s own internal database and various publicly available data sources, including the National Bureau of Statistics of China, Chinese Government releases, annual reports published by relevant industry participants, and industry associations.

Frost & Sullivan’s projection on the size of each of the related markets is based on the assumption that (i) the overall global social, economic and political environment are expected to maintain a stable trend over the next decade; (ii) related key industry drivers are likely to continue driving growth in the global vaping industry during the forecast period; (iii) there are no extreme force majeure event or industry regulations by which the market situation may be affected either dramatically or fundamentally; and (iv) the outbreak of COVID-19 in 2020 may generate limited negative impact on the growth of economies and the global vaping device industry in 2020. With effective measures being continuously adopted and strengthened by affected countries and regions globally, the situation is expected to gradually recover over the next few months. Except as otherwise noted, all the data and forecasts in this section are derived from the Frost & Sullivan

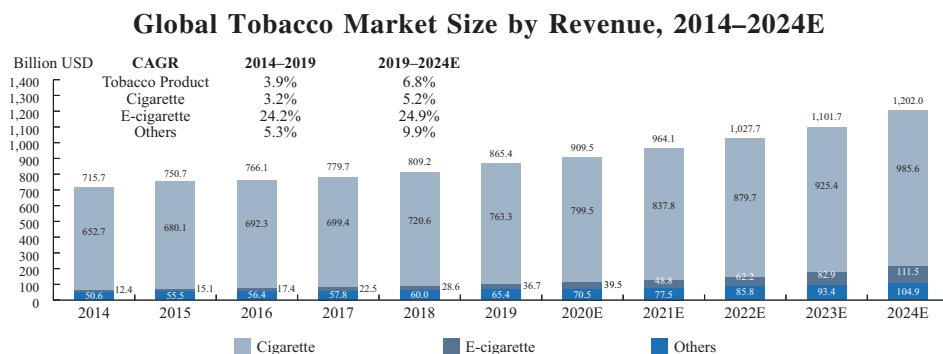
INDUSTRY OVERVIEW

Report. Our Directors have confirmed, after making reasonable inquiries and exercising reasonable care, that there is no adverse change in the market information since the date of the Frost & Sullivan Report which may qualify, contradict or impact the information disclosed in this section.

TOBACCO MARKET OVERVIEW

Introduction of the Global Tobacco Market

The global tobacco market refers to the market that is related to the plantation, manufacture, distribution and retail of tobacco products. The market size by revenue of global tobacco products increased by a CAGR of 3.9% from US\$715.7 billion in 2014 to US\$865.4 billion in 2019. Looking forward, affected by the increasingly strict smoking control policy worldwide, it is expected that the retail volume of cigarettes, especially traditional cigarettes, will continue to decline, while the rising retail price of cigarettes and the emergence of e-cigarettes and HNB devices will offset the effect of the overall declining sales volume. As a result, the global tobacco market size is expected to further grow at a CAGR of 6.8% to reach US\$1,202.0 billion by 2024. The chart below sets forth the global tobacco market size by revenue from 2014 to 2024.



Source: Frost & Sullivan

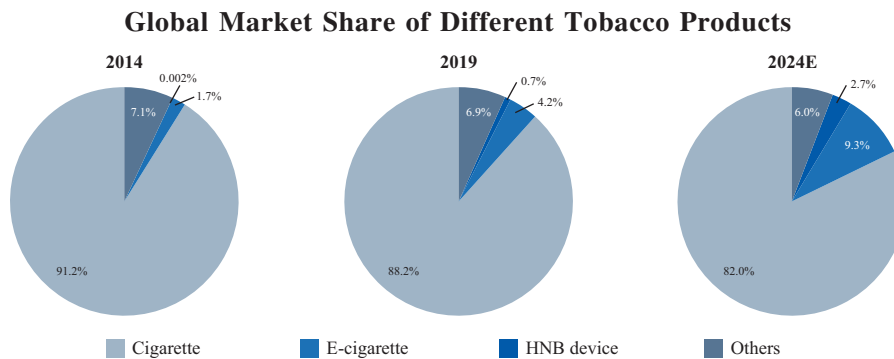
In addition, the global tobacco market is highly concentrated with global companies, including China National Tobacco Corporation, Philip Morris, British American Tobacco, Japan Tobacco and RJ Reynolds Tobacco. These leading tobacco product providers have all been involved in the emerging e-cigarette or HNB device business.

Introduction of Different Tobacco Products

Tobacco products primarily include cigarettes, e-cigarettes, HNB devices and others (i.e. pipe tobacco, chewing tobacco, cigars and snuff). Currently, the tobacco market is dominated by cigarettes, e-cigarettes and HNB devices. Cigarettes are manufactured by rolling or stuffing cut tobacco leaves and reconstituted tobacco, which are often combined with other additives, into a paper-wrapped cylinder. E-cigarette products include open system vaping devices and closed system vaping devices, both of which generally have a battery, a heating element and a place to hold the e-liquid. HNB devices use a battery-powered heating system to generate nicotine-containing vapor by heating tobacco. Studies have shown that heating tobacco creates less harmful substances as compared to burning tobacco.

INDUSTRY OVERVIEW

Among all tobacco products, cigarettes hold the dominant position in terms of sales value with 88.2% of the total sales value of tobacco products in 2019. Nevertheless, e-cigarettes and HNB devices have become increasingly popular around the world. While the e-cigarette and HNB device markets are still relatively young, they are growing at a fast pace and are expected to expand further as related technologies become more mature and industry giants further invest in these markets. In light of the rapid development of the e-cigarette and HNB device markets, it is expected that the proportion of sales value of e-cigarettes among all tobacco products will increase from 4.2% in 2019 to 9.3% by 2024, and the proportion of sales value of HNB devices among all tobacco products will increase from 0.7% to 2.7% during the same period. The chart below sets forth the evolution of global market shares of different tobacco products from 2014 to 2024.



Note: Others include pipe tobacco, chewing tobacco, cigars and snuff, etc.

Source: Frost & Sullivan

Future Trends of the Global Tobacco Market

Rapid development of e-cigarettes and HNB devices

Under the influence of tobacco control campaigns, the e-cigarette and HNB device markets are developing rapidly, and e-cigarettes and HNB devices have become the new focus for R&D in the tobacco industry. E-cigarettes and HNB devices are considered as ideal alternatives for conventional tobacco products. In particular, HNB devices and closed system vaping devices are occupying an increasingly larger market share of the total tobacco market. Due to the rise of e-cigarette manufacturers and HNB device manufacturers as well as the growing popularity of e-cigarettes and HNB devices, it is expected that the number of e-cigarette and HNB device users will grow to approximately 89.6 million and 19.0 million by 2025, respectively. Furthermore, the usage rates of e-cigarettes and HNB devices in 2025 will be approximately three times and 190 times higher, respectively, than that in 2015.

Diversification of tobacco products

Diverse customer demands are driving the innovation in the tobacco industry. Creative tobacco products, such as short cigarettes, king size cigarettes and flavor capsule cigarettes, have become increasingly popular among the smoking population. To profit from this rising market, tobacco manufacturers will expend more effort in its product diversification.

INDUSTRY OVERVIEW

Increasing industry concentration

Merger and acquisition activity in the international tobacco industry is heating up in recent years. For example, in 2017, British American Tobacco acquired 57.8% of Reynolds American Inc. Therefore, the tobacco industry will likely become more concentrated as tobacco companies are seeking merger and acquisition opportunities in order to retain or improve market position and increase their profitability.

Increasing tobacco taxes

Raising the price of tobacco products through tobacco tax increases is one of the most effective tobacco control strategies, because an increase in tobacco prices encourages existing smokers to quit or cut down and deters the youth population from beginning to smoke. Such trend will adversely affect the tobacco industry.

E-CIGARETTE MARKET OVERVIEW

Introduction of the E-cigarette Market

An e-cigarette is a battery-powered device that is typically designed to resemble a traditional cigarette and that emits vaporized e-liquid when the user inhales from it. E-cigarette products can generally be classified into two types, including closed system vaping devices and open system vaping devices.

The U.S., E.U. and U.K. had the largest market size of e-cigarettes in terms of revenue by ex-factory price in 2019 and are expected to continue to have the largest market size in 2024. China trailed behind at third place and is expected to maintain the third largest market share in 2024. Nonetheless, the penetration rate of e-cigarettes in China is still relatively low, which indicates that there is great market potential for the development of the e-cigarette industry in China.

While the demands of e-cigarettes centers around North America and Europe, the manufacturing of e-cigarettes takes place mainly in China, which produces over 90% of the world's e-cigarettes. Further, 90% of the e-cigarettes produced in China are for export. The e-cigarette manufacturing industry in China is concentrated in Shenzhen with more than 600 e-cigarette companies located there. We are one of the earliest e-cigarette manufacturers.

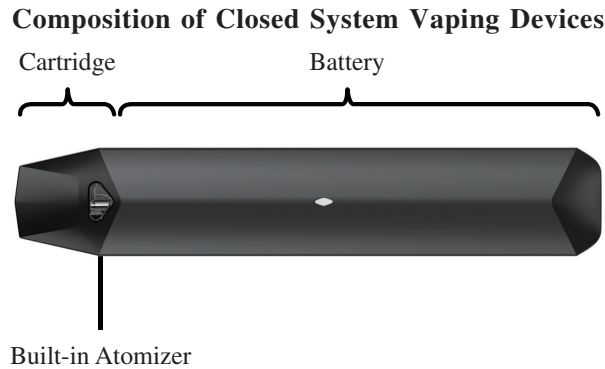
Types of E-cigarette Device and Their Characteristics and Composition

Closed system

The closed system vaping device category includes rechargeable closed system vaping devices and disposable closed system vaping devices. They include the following components: (i) cartridges which include atomizers and e-liquid and (ii) batteries. Closed system vaping devices are easy to use, and as they are usually shaped like pens or USB memory sticks, they are also convenient to carry around. A cartridge usually can last around three and 12 days, depending on the consumption

INDUSTRY OVERVIEW

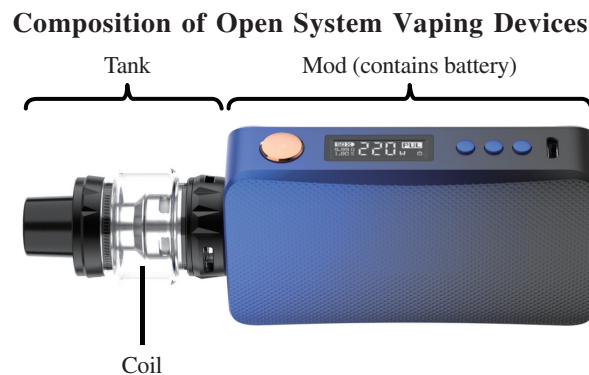
habits of the user. According to Frost & Sullivan, the main popular brands of closed system vaping devices are Blu, JUUL, Logic, NJOY, RELX, Vuse and Vype. The following chart demonstrates the composition of the closed system vaping devices:



Source: Frost & Sullivan

Open system

Open system vaping devices enable users to change coils and mods and to purchase different e-liquid to refill into vaping device by themselves. Open system vaping devices provide users with more personalized user experience. Various models of coils and mods can be matched together to meet individualized requirements, and open system vaping devices offer more flexibility in terms of choices for e-liquids. The evolving and varying demands of consumers, such as larger smoke volume and higher power, contribute to the development of open system vaping devices. As the market for components such as packaged coils and vaping device kits becomes more mature, open system vaping devices are becoming more accessible to consumers with limited knowledge on vaping device and DIY capabilities. According to Frost & Sullivan, the major brands for open system vaping devices include Aspire, IJoy, Joyetech, SMOK and Vaporesso. The following chart demonstrates the composition of the open system vaping devices:



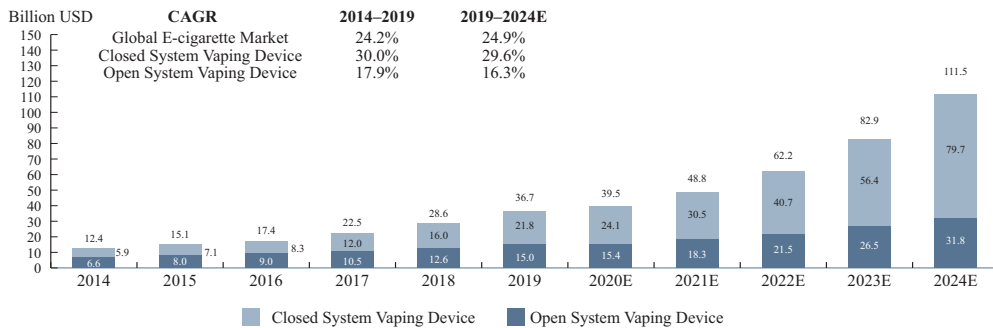
Source: Frost & Sullivan

INDUSTRY OVERVIEW

Global Market of E-cigarettes

E-cigarettes have emerged as an innovative electronic consumer product with growing popularity worldwide. The robust growth of the global e-cigarette market is mainly due to the increasing consumer acceptance of e-cigarette products, proactive marketing campaigns of the tobacco companies, and accelerated innovation and product development by e-cigarette manufacturers. As a result, the global e-cigarette market size by revenue grew rapidly at a CAGR of 24.2% from US\$12.4 billion in 2014 to US\$36.7 billion in 2019, and it is expected to further grow at a CAGR of 24.9% to reach US\$111.5 billion by 2024. The chart below sets forth the global e-cigarette market size by revenue from 2014 to 2024.

Global Market Size of E-cigarettes by Revenue (Retail Price), 2014–2024E



Source: Frost & Sullivan

Among the global e-cigarette market, closed system vaping devices still dominated the e-cigarettes market. Closed system vaping devices' market size in terms of revenue by retail price increased at a CAGR of 30.0% from US\$5.9 billion in 2014 to US\$21.8 billion in 2019, and it is expected to further increase at a CAGR of 29.6% to US\$79.7 billion by 2024. Open system vaping devices' market size in terms of revenue by retail price increased at a CAGR of 17.9% from US\$6.6 billion in 2014 to US\$15.0 billion in 2019, and it is expected to further increase at a CAGR of 16.3% to US\$31.8 billion by 2024.

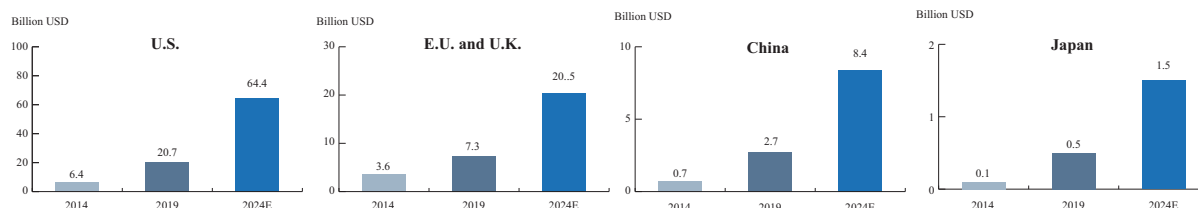
Closed system vaping devices have larger market share at 59.3% in 2019, which is expected to increase to 71.4% by 2024. Open system vaping devices trailed behind with a market share of 40.7% in 2019, which is expected to decrease to 28.6% by 2024.

Regional Market Size

As the largest market, the U.S. e-cigarette market grew from US\$6.4 billion in 2014 to US\$20.7 billion in 2019, and is expected to reach US\$64.4 billion by 2024. The e-cigarette market in the E.U. and U.K., China and Japan reached US\$7.3 billion, US\$2.7 billion and US\$0.5 billion in 2019, respectively. It is expected that the e-cigarette market will continue to expand in the next several years. The chart below sets forth the regional e-cigarette market size by shipment destination from 2014 to 2024.

INDUSTRY OVERVIEW

Regional Market Size of E-cigarettes by Revenue (Retail Price) and by Shipment Destination, 2014, 2019 & 2024E



Source: Frost & Sullivan

Policy and Regulation Analysis

The regulations and policies of e-cigarettes vary across different countries and regions. In major e-cigarette markets, namely the U.S. and European markets, policies and regulations were introduced to guide the development of the e-cigarette market on principles of guaranteeing the quality of e-cigarettes and the health of consumers. For the China e-cigarette market, there are currently no specific policies and regulations, save for the prohibition on the sale of e-cigarettes to juveniles and the sale through the internet, as it is still uncertain whether e-cigarettes should be treated as a tobacco product, electronic product or medical equipment. The relevant regulations of e-cigarettes for the major markets are summarized below.

U.S.

On August 8, 2016, the FDA extended its regulatory power to include e-cigarettes. Under this ruling, the FDA will evaluate certain vaporizer-related issues, including ingredients, product features and health risks, as well as their attractiveness to juveniles and non-users. The FDA rule also bans sales to juveniles.

The Federal Food, Drug, and Cosmetic Act requires all ENDS product manufacturers to submit PMTAs with the FDA. Under the PMTA requirements, ENDS products can be categorized into three types: (i) ENDS products that were “on the market” in the U.S. prior to February 15, 2007 (“**Grandfathered ENDS Products**”), (ii) Existing ENDS Products, and (iii) New ENDS Products.

The relevant requirements in relation to each of the three categories are as follows: (i) PMTA is not required for the distribution of Grandfathered ENDS Products in the U.S. market; (ii) PMTA is required for New ENDS Products before introducing them into the U.S. market; and (iii) PMTA is required for Existing ENDS Products and is required to be submitted to and accepted by the FDA by August 8, 2022. Prior to the aforementioned deadlines, Existing ENDS Products are allowed to remain “on the market” in the U.S. without PMTAs unless expressly objected to by the FDA. Where a PMTA for an Existing ENDS Product has been submitted and accepted by the FDA, but not yet approved on or after the deadline, such Existing ENDS Product may continue to be commercially marketed while its PMTA undergoes review by the FDA. On July 12, 2019, the United States District Court for the District of Maryland ordered the FDA to move the submission deadline to May 12, 2020. Under the court’s order, Existing ENDS Products for which applications

have been timely filed have a one-year period of enforcement discretion pending FDA review. Both the FDA and industry groups appealed the decisions to the United States Court of Appeals for the Fourth Circuit. On May 4, 2020, the Fourth Circuit ruled that the appeal of the district court's decision accelerating the deadline was found to be moot in light of FDA's new industry guidance published on January 2, 2020, which sets forth a modified enforcement policy with an intention to prioritize for enforcement of all ENDS products for which a PMTA has not been submitted to FDA by May 12, 2020. As a result, the appeal was dismissed at the FDA's request. In addition, on April 22, 2020, having considered the adverse impacts of the COVID-19 outbreak, the May 12, 2020 deadline was extended to September 9, 2020, which was subsequently reflected in the FDA's enforcement guidance. With the dismissal of the appeal by the Fourth Circuit, the September 9, 2020 deadline remains unimpacted by the appeal. The new guidance also states that, starting on February 6, 2020, the FDA would prioritize for immediate enforcement against the following groups of unauthorized ENDS products: (i) "flavored, cartridge-based ENDS products (other than tobacco- or menthol-flavored ENDS products)" and (ii) ENDS products of any flavor (including tobacco and menthol flavors) for which the manufacturer has failed to take adequate measures to prevent minors' access or which is targeted to minors or whose marketing is likely to promote the use of ENDS by minors. See "Regulatory Overview — Laws and Regulations in the United States — Laws and Regulations Relating to ENDS Products — PMTA Requirement for ENDS Products" for more details. Pursuant to this enforcement policy, on April 27, 2020, the FDA issued several warning letters to manufacturers and distributors of ENDS products for allegedly targeting youth or promoting use by youth. The FDA also issued warning letters to retailers of e-liquids whose products' packaging imitated packaging for candy that is popular with children and featured cartoon characters.

In addition, starting from September 2019, several states announced temporary emergency flavor bans for ENDS products that prohibited sales and possession of all or almost all non-tobacco-flavored ENDS products. A few states have enacted legislation or adopted administrative rules to permanently ban non-tobacco-flavored ENDS products, while the temporary emergency flavor bans in some states have expired per their terms. See "Regulatory Overview — Laws and Regulations in the United States — Laws and Regulations Relating to ENDS Products — State Flavor Ban."

Europe

The European Commission issued the Tobacco Products Directive (the "TPD"), which has been in effect since April 2014. Under the TPD, an e-cigarette is widely defined as a product that can be used for, including all types of vaping devices, HNB devices and their respective components, the consumption of nicotine-containing vapor via a mouthpiece, or any component of that product. The TPD regulates e-cigarettes on five main aspects: (i) the information to be provided by the manufacturer and/or distributor, (ii) the advertising and promotion, (iii) safety issues and warnings, (iv) products presentation, and (v) provisional measures in case of suspected risk.

INDUSTRY OVERVIEW

Member states of the European Union are required to ensure that advertisements for any tobacco related product are prohibited, unless the advertisement is specifically targeted at professionals specializing in the electronic cigarettes trading. Moreover, no promotion whatsoever shall be made as to those devices with an intention (direct or indirect) to promote electronic cigarettes.

Japan

The Japan Pharmaceutical Manufacturers Association promulgated the Pharmaceutical Affairs Act, which has been in effect since 2010. E-cigarettes that contain nicotine are classified as medicinal products and are regulated under the Pharmaceutical Affairs Act, which requires marketing approval for the sale, advertisement, manufacture, importation and distribution. As of the Latest Practicable Date, no medicinal e-cigarettes had been approved. The Ministry of Health, Labor and Welfare issued a statement permitting the private importation of medicinal e-cigarettes, provided that they are for private use only and the amount is less than one-month supply. The import, sale or manufacture of alternative smoking products, including all types of vaping devices, HNB devices and their components could also be regulated under the Safety Act by Ministry of Economy, Trade and Industry, which regulates these activities with the goal of preventing hazards and disturbances resulting from those products.

China

In China, there is no specific national laws, regulations, rules or standards for the sale of e-cigarettes, save for the prohibition on sale of e-cigarettes to juveniles and sale through the internet. On October 30, 2019, the State Administration for Market Regulation and the State Tobacco Monopoly Administration jointly issued the Announcement on Further Protecting Juveniles from E-cigarettes (《關於進一步保護未成年人免受電子煙侵害的通告》), to further strengthen the protection of the physical and mental health of juveniles and prevent juveniles from buying e-cigarettes through the internet and smoking e-cigarettes. The announcement urged (i) e-cigarette producers and sellers to shut down their online sales websites or application programs in time and to withdraw the advertisements of e-cigarettes published on the internet; and (ii) e-commerce platform operators to close e-cigarettes online shops in time and take e-cigarette products off shelves. In addition, some cities, such as Shenzhen, Hangzhou and Nanning, have banned the use of e-cigarettes in public places, which include public transportation, indoor workspace, etc. Further, the sale of e-cigarettes in China is also subject to relevant PRC laws and regulations that are generally applicable to the sale of goods, such as the Contract Law of the PRC and the Product Quality Law of the PRC.

VAPING DEVICE MARKET OVERVIEW

Introduction of the Vaping Device Market

The global vaping device market consists of e-cigarettes and vaping device for special purpose. E-cigarettes generally include closed system vaping devices and open system vaping devices. Vaping device for special purpose mainly encompasses vaping devices for a variety of applications, including, among others, applications in medical or recreational CBD and THC vaping. In particular, vaping devices are gradually being applied into various medical scenarios, including, but not limited to, medical experimental processes and clinical treatments. Atomizing the drug liquid into tiny particles makes it easier for the drug to enter into the respiratory tract and lungs by means of inhalation, which allows for painless, rapid and effective treatment. The inhalation therapy with vaping devices has become an important and effective treatment for respiratory symptoms and diseases such as coughing, asthma, bronchitis and other lung illnesses, and a growing number of vaping device suppliers have begun to strengthen their research and investment in this sector. As a result, medical application may be an important segment of the global vaping device industry in the future, with rising awareness among the vaping and medical industry stakeholders.

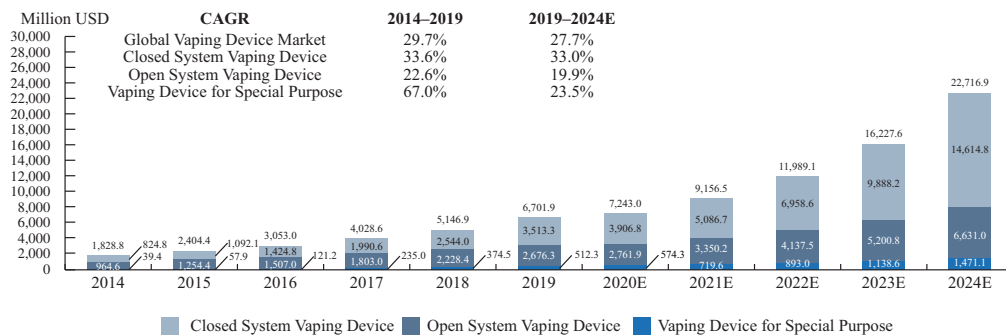
The global vaping device market has enjoyed a robust growth, which is in part driven by diversifying and improving vaping devices. The global vaping device market size grew rapidly from US\$1,828.8 million in 2014 to US\$6,701.9 million in 2019, representing a CAGR of 29.7%. With growing demands globally, the market size of global vaping device is expected to further reach US\$22,716.9 million by 2024, representing a CAGR of 27.7% from 2019. The outbreak and spreading of COVID-19 generated certain impact on the development of the global vaping device industry, especially on the growth rate from 2019 to 2020, which has been reflected in the data set forth below. The growth rate for open system vaping device, closed system vaping device and vaping device for special purposes from 2019 to 2020 was 3.2%, 11.2% and 12.1%, respectively, much lower than the 20.1%, 38.1% and 36.8% for the previous year, respectively.

However, due to the effective prevention measures adopted by many countries, Frost & Sullivan is of the view that the impact of the COVID-19 on the global vaping device industry is limited and temporary, and the market is expected to have a rebounded growth from 2021. The aforesaid statement by Frost & Sullivan is primarily based on their verification work with multiple methodologies, including but not limited to interviews with global leading vaping device suppliers (such as Company A, Company B, Company C and Company D), branders, distributors, retail endpoints and the customer surveys conducted in markets like the U.S. The interviewed manufacturers stated that the COVID-19 outbreak would slightly impact their growth in 2020 and expected further recovery in the second half of 2020 and the next year; meanwhile, a total of 157 interviews have been conducted by Frost & Sullivan with retail endpoints of vaping device products in the U.S. (95 interviews), the U.K. (32 interviews) and China (30 interviews) to obtain the latest market information under the circumstances of the COVID-19 outbreak, which included branded chain stores of vaping products, convenient stores, supermarkets, etc. The sampled geographical locations were decided upon considerations of parameters and indicators such as population density,

INDUSTRY OVERVIEW

regional economic condition, level of disposable income, which are in line with other similar cases of Frost & Sullivan and the interviewees at retail endpoints (such as store managers, etc.) in the U.S., U.K. and China confirmed that they did not experience notable decrease in sales until the end of May 2020 as compared with the previous year and could expect higher growth in the second half of 2020. In addition, according to the customer survey with vaping device users in the U.S. (1,800 samples), U.K. (800 samples) and China (800 samples), over 90% of the customers stated that the COVID-19 outbreak did not hinder their intention for purchasing vaping products. Frost & Sullivan adopted strict methods and approaches with high prudence in the customer survey to ensure the rationality, reasonableness and reliability of the sample groups by considering multiple parameters, including but not limited to regional vaping device consumption, age, gender, occupation, personal disposable income in each region and the size of customer sample and whether approaches of sample selection are similar with its other cases. Hence, Frost & Sullivan is of the view that the sample selection in this customer survey was conducted in a rational manner and the findings derived from the customer survey could well reflect the general opinions of vaping device users in those regions. The chart below sets forth the global vaping device market size by revenue from 2014 to 2024.

Global Market Size of Vaping Devices by Revenue (Ex-factory Price), 2014–2024E



Source: Frost & Sullivan

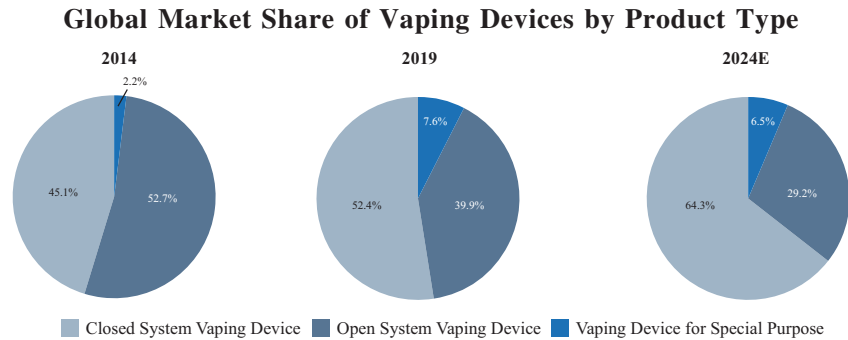
Vaping Device Industry Value Chain

The value chain of the vaping device industry consists of three parts, namely suppliers (upstream), vaping device manufacturers (midstream) and retail and branding (downstream). The upstream segment of the global vaping device industry includes raw material, equipment and labor service suppliers. Vaping device manufacturers at the midstream segment cooperate with upstream suppliers to manufacture and assemble vaping devices. According to Frost & Sullivan, it is estimated that over 90% of vaping devices sold globally in 2019 were manufactured by brand owners or OEM/ODMs in China. In terms of the downstream markets, vaping devices are generally distributed via both offline channels and online channels.

INDUSTRY OVERVIEW

Market Shares by Product Type

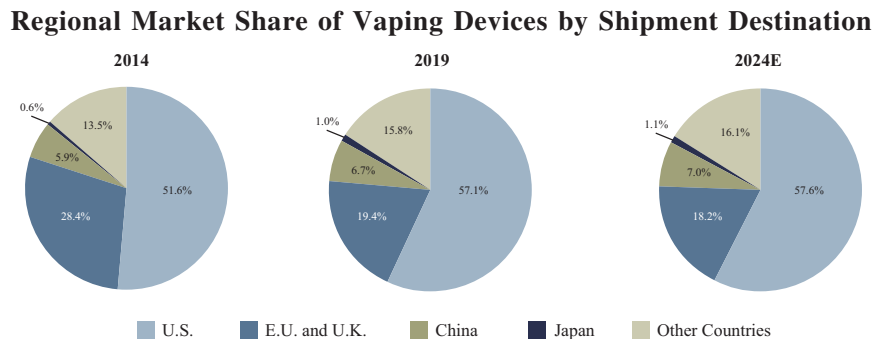
In 2019, the closed system vaping device accounted for 52.4% of the global vaping device market share, with open system vaping device and vaping device for special purpose accounting for 39.9% and 7.6%, respectively. Due to growing popularity, the market share of closed system vaping device is expected to reach 64.3% of the total global vaping device market by 2024. The chart below sets forth the global vaping device market share breakdown by product type in 2014, 2019 and by 2024.



Source: Frost & Sullivan

Market Shares by Shipment Destination

With the continuously growing vaping population in the U.S., the E.U. and U.K., China and Japan, the market sizes of these countries and regions have witnessed a robust growth. Since the vaping culture in the U.S. formed early, the U.S. has the largest market share of the global vaping device market with 57.1% in 2019. Increasing customer demands in the E.U. and U.K., China and Japan have provided an opportunity for the development of the vaping device market in the last few years. In addition, the rapid development of online and offline sales channels for vaping devices in some countries and the growing health awareness of the general public also stimulated the growth of vaping devices. The E.U., U.K., China and Japan accounted for 19.4%, 6.7% and 1.0% of the global vaping device market in 2019, respectively. It is expected that the penetration rate of vaping devices will further increase in the global markets, as vaping culture around the world has been forming and attracting more consumers. The chart below sets forth the global vaping device market share breakdown by shipment destination in 2014, 2019 and by 2024.



Source: Frost & Sullivan

Vaping Device Market Drivers

According to Frost & Sullivan, the market drivers of the vaping device market mainly include (i) technological innovation, enriched functionality and enhanced safety, (ii) development of online and offline retail channels, (iii) growth of vaping as a culture and hobby, and (iv) a variety of attractive product characteristics of vaping devices.

Technological innovation, enriched functionality and enhanced safety

With technological developments and increasing investment in production development, vaping experiences are evolving and becoming more diversified in terms of configurations, power and vaping experience. Product innovation and advancement in electronic device technology not only increase the variety of vaping devices and enhance their safety but also lower the production costs of vaping devices, making vaping devices more attractive and affordable for the consumers. Moreover, with the manufacture technology of vaping devices becoming more mature, the incidence of e-liquid leaks is gradually decreasing, allowing for a safer and more favorable vaping experience for users.

Development of online and offline retail stores

At present, the vaping device market is still at an early stage and consumer cognition still needs to be improved. It is important to open offline “experience shops” in order to offer first-hand consumer experience and to promote vaping devices online to increase exposure. Thus, the opening of more retail outlets specialized in vaping devices, both online or offline, will help enhance product exposure, improve consumer cognition and further strengthen the vaping culture. Vape shops and designated stores, which are increasing in numbers, have also served as informational and educational portals to enable consumers to learn more about vaping devices.

Growth of vaping as a culture and hobby

As open system vaping devices offer users to select a broad range of mods and coil heads as well as a variety of settings to produce vapor, a sizeable vaping community has been formed over the course of the past few years wherein people share with each other their vaping experiences. Consumers who are interested in cloud chasing (the act of exhaling large plumes of vapor) are more likely to share their vaping or DIY experience through social media, websites or vaping forums and will purchase more frequently in order to upgrade their equipment for a better vaping experience. These consumers act as hardcore users who exert influence on other consumers. Such influence is strong, especially when the hardcore users are key opinion leaders or bloggers who have millions of followers that are willing to try what is recommended by the influencers.

A variety of attractive product characteristics of vaping devices

The wide variety of vaping devices that are available to users also play an important role in driving the growth of this market. In addition, many consumers are treating vaping devices as a personal adornment to show their personality. Differences in styles and functions of vaping devices provide plenty of personalized choice for consumers, which stimulates the consumption and increases the popularity of vaping devices.

Vaping Device Market Entry Barriers

According to Frost & Sullivan, the entry barriers of vaping device market mainly include (i) R&D capabilities, (ii) established relationship with customers, (iii) high-caliber talents and experienced management personnel, and (iv) significant capital investment.

R&D capabilities

With strong R&D capabilities and high-end core technologies, current players are able to provide products with enhanced environmental protection functions and diversified vaping experiences. High quality or technologically advanced products will help manufactures increase their recognition among key customers, which allows them to maintain their market share and gain popularity and customer loyalty. Meanwhile, constantly-upgraded products can also help increase user experience, and thus further ensure a company's market position. Therefore, a lack of strong R&D capabilities will prevent new entrants from entering this industry.

Established relationship with customers

Customers of vaping device manufacturers are mainly large corporations. These customers tend to have strict requirements and screening process when engaging new suppliers. In addition, the relationships between vaping device manufacturers and customers are mostly long-term and recurring, which allow experienced vaping device manufacturers to establish a solid customer base and set up high barriers for new entrants. New entrants would have to compete against experienced players who have mature setups and networks and would find it difficult to build close customer relationships and networks within a short time.

High-caliber talents and experienced management personnel

Talents in the vaping device industry include high-caliber R&D experts and experienced management personnel. The R&D capability of a vaping device manufacturer depends on whether it has high-caliber experts, and manufacturers that have strong R&D capabilities are able to gain an important competitive edge. In addition, an experienced and professional management team will allow the vaping device manufacturers to efficiently and effectively operate their business and to have better strategic planning. Without experts with extensive industry knowledge and a professional management team with rich experiences, it is difficult for new entrants to quickly differentiate their own products or services or form competitive advantages to compete with the leading vaping device manufacturers.

Significant capital investment

Significant capital investment is necessary for vaping device manufacturers. This is mainly because vaping device manufacturers need a large amount of capital for the early procurement of upstream raw materials, the establishment of a production base to produce vaping devices and the investment in R&D. Moreover, it is costly to build a R&D team, which is also critical for vaping device manufacturers to build and maintain their market leading positions. Therefore, it would be difficult for new entrants without sufficient capitals to enter and compete in this industry.

INDUSTRY OVERVIEW

Competitive Landscape

In 2019, the top five players contributed to 30.5% of the global vaping device market in terms of revenue, among which we were the world's largest vaping device manufacturer in terms of revenue by ex-factory price, accounting for 16.5% of the total market share. The table below sets forth the estimated revenue and market size in 2019.

Rank	Company	Estimated Revenue in 2019 (US\$ million)	Market Share (%)
1	Our Group	1,103.2	16.5
2	Company A	437.6	6.5
3	Company B	196.6	2.9
4	Company C	172.2	2.6
5	Company D	136.2	2.0
	Top five players subtotal	2,045.8	30.5
	Total	6,701.9	100.0

Source: Frost & Sullivan

According to Frost & Sullivan, the challenges for the players in the vaping device market mainly include competition from substitute products, lack of unified safety standard, increased lobbying by parties of conflicting interests, and implementation of stricter legal framework. Nonetheless, we are still able to maintain our leading position, mainly due to our industry leading R&D capabilities and vaping technology. In addition, our scalable production capability and established supplier relationships exceed industry average.

Future Trends of the Vaping Device Market

According to Frost & Sullivan, the future trends of the vaping device market mainly include (i) industry consolidation driven by regulatory requirements, (ii) popularity of differentiated products, (iii) higher vaping device quality standards, and (iv) scale production capacity and automated production flow.

Industry consolidation driven by regulatory requirements

With the introduction of regulations on vaping devices in many countries, especially the two largest markets, the U.S. and Europe, the regulatory norm is becoming clearer. Generally, certain requirements and restrictions are imposed on the production, sales and marketing of vaping devices. Under such circumstances, companies with competitive edges will outstand those without them and will take over larger market shares, leading to further industry consolidation in the near future.

INDUSTRY OVERVIEW

Popularity of differentiated products

Vaping devices are more than an alternative to traditional cigarettes. Instead, they represent the user's taste and offer them a new and fun experience, as they provide large amounts of vapor, different tastes of e-liquid and fashionable design. In light of such trend and to further differentiate their vaping devices, manufacturers are upgrading their products in terms of technology and design. Many manufacturers are now providing full-spectrum vaping devices, including closed system vaping devices, open system vaping devices and other kinds of vaping devices, so as to be more competitive in the market. In the next few years, with the technology becoming more mature, it is expected that more differentiated vaping devices will continuously emerge to draw consumers' attention.

Higher vaping device quality standards

In Europe, the TPD requires all vaping devices sold in Europe to meet certain quality standards. Similarly, in the U.S., PMTAs are required for Existing ENDS Products to be submitted to and accepted by the FDA by the designated deadlines. Therefore, it is expected that the vaping device quality standards will continue to increase in the foreseeable future, which would increase the entry barrier and ultimately lead to consolidation within the industry. This may also present an opportunity for key players in the vaping device industry with sufficient financial resources and legal knowledge to comply with new and evolving regulations and to take advantage of the industry consolidation trend.

Scale production capacity and automated production flow

With the rapid development of the vaping device industry, the demands of vaping device are continuously growing. The increasing demands present a great challenge for the vaping device manufacturers to efficiently produce devices that meet their quality standards and deliver those devices to the customers on time. Many vaping device manufacturers set up production bases in different places to enhance their large-scale production capacity. In addition, automated production flow is gradually being adopted by manufacturers and has become a rising trend in the vaping device industry. Maintaining consistency in quality standards and safety supplies while keeping up with demands is the key to further expansion.

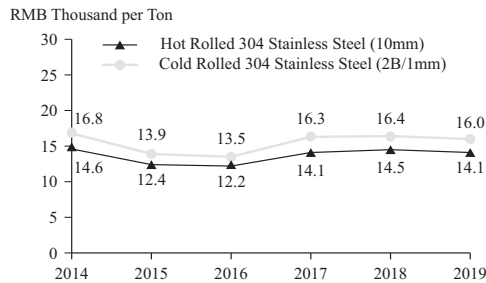
RAW MATERIALS AND LABOR COST

Stainless steel and Li-ion battery are the major raw materials for e-cigarettes and HNB devices. The average prices of stainless steel in China experienced a decrease from 2014 to 2016. However, the average prices of the 10mm hot rolled and the 1mm cold rolled 304 stainless steels per ton in China increased from RMB12.2 thousand and RMB13.5 thousand in 2016 to RMB14.5 thousand and RMB16.4 thousand in 2018, respectively, due to increasing price of raw materials such as nickel and chromium. The average prices of stainless steel in China later experienced a decrease from 2018 to 2019, mainly due to a roughly 2.0% decrease in the price of nickel. The price of Li-ion battery cells declined from approximately RMB1.6 per Wh in 2014 to approximately

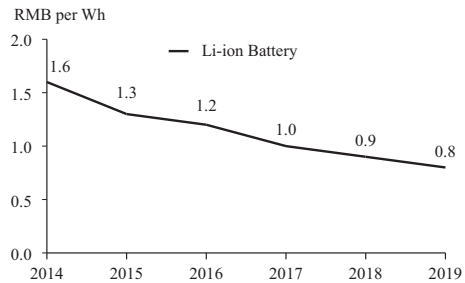
INDUSTRY OVERVIEW

RMB0.8 per Wh in 2019 as a result of decreasing prices of key parts such as battery cathode and battery separator. The charts below set forth the average prices of stainless steel and Li-ion battery in China from 2014 to 2019.

Average Prices of Stainless Steel in China, 2014–2019



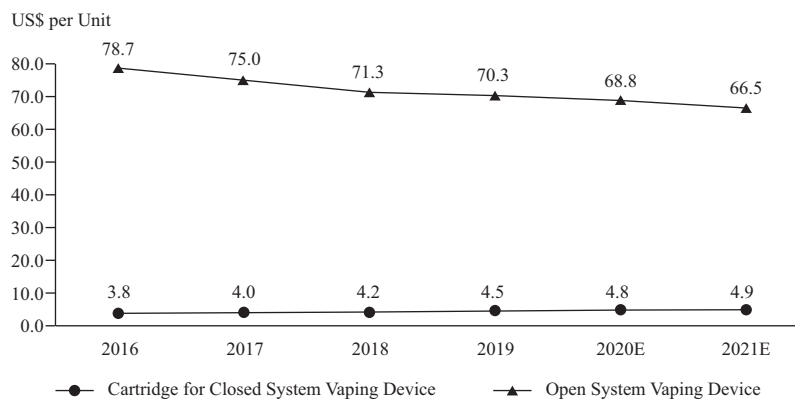
Average Prices of Li-ion Battery in China, 2014–2019



Source: Frost & Sullivan

In recent years, the average prices of e-cigarettes and HNB devices have continued to decrease despite the fact that the average annual salary in the e-cigarette and HNB device manufacture industry increased from approximately RMB51.6 thousand in 2014 to approximately RMB78.9 thousand in 2019, with a CAGR of approximately 8.9%, and is expected to maintain a moderate and relatively slow increasing trend. The decline of the average price of e-cigarettes and HNB devices is due in part to the decreasing prices of raw materials, in particular the Li-ion batteries, which has reduced the cost of production of e-cigarettes and HNB devices. As a result, the average prices of HNB devices, open system vaping devices and closed system vaping devices decreased from US\$101.5, US\$84.1 and US\$29.7 in 2014 to US\$92.8, US\$70.3 and US\$24.9 in 2019, respectively. It is expected that the average prices of e-cigarettes and HNB devices would further decrease in the future. However, with the continuously decreasing price of raw materials, the margin of e-cigarettes and HNB devices are expected to rise in the next few years.

Average Price of Cartridge and Open System Vaping Device (Retail Price) (Global), 2016–2021E



Note: The cartridge refers to the cartridge of closed system vaping device.

Source: Frost & Sullivan

INDUSTRY OVERVIEW

The cartridges of closed system vaping device are consumable products that need to be frequently replaced, and the total consumption of cartridges normally accounted for approximately 70% of overall consumption of closed system vaping device. Therefore, it is more rational to use the average price of cartridge to reflect the price trend of closed system vaping device. The average price of cartridge slightly increased from 2016 to 2019, and it is expected to reach approximately US\$4.9 per unit in 2021, primarily due to the improvement in technology and increasing compliance costs (especially in the U.S. market). Moreover, the average price of open system vaping device was approximately US\$70.3 per unit in 2019 and is expected to decrease to approximately US\$66.5 per unit in 2021 due in part to the decreasing price of raw materials and evolving demand from consumers to smaller-sized open system vaping device.

REGULATORY OVERVIEW

LAWS AND REGULATIONS IN THE PRC

We summarize below the most significant laws and regulations that affect our business operations in the PRC.

COMPANY LAW

The establishment and operation of corporate entities in the PRC is governed by the PRC Company Law (《中華人民共和國公司法》), which was promulgated by the Standing Committee of the National People's Congress of the PRC (中華人民共和國全國人民代表大會常務委員會, the "SCNPC") on December 29, 1993 and became effective on July 1, 1994. The PRC Company Law was subsequently amended on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013 and October 26, 2018, respectively and the latest amendment of which was implemented on October 26, 2018.

The PRC Company Law generally governs two types of companies: limited liability companies and joint stock limited companies. Both types of companies have the status of legal persons, and the liability of a company to its debtors is limited to the value of assets owned by the company. Liabilities of shareholders of a limited liability company are limited to their respective capital contributions. A joint stock limited company is a company with a registered share capital divided into shares of equal par value, and liabilities of its shareholders are limited to the amount of capital they are legally obliged to contribute for the shares for which they have subscribed.

LAWS AND REGULATIONS RELATING TO FOREIGN-OWNED ENTERPRISE

The Law of the PRC on Wholly Foreign-owned Enterprises (2016 Amendment) (《中華人民共和國外資企業法》(2016修訂)) and the Detailed Rules for the Implementation of the Law of the PRC on Wholly Foreign-owned Enterprises (2014 Amendment) (《中華人民共和國外資企業法實施細則》(2014修訂)) specify rules and regulations on the establishment, operation and management of whole-foreign-funded enterprises in China.

On March 15, 2019, the National People's Congress approved the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》), which will come into force on January 1, 2020. Upon the effectiveness of the Foreign Investment Law of the PRC, the Law on Wholly Foreign-owned Enterprises shall be repealed.

The Foreign Investment Law of the PRC regulates the investment activities of foreign natural persons, enterprises or other organizations directly or indirectly within China. Investment activities include setting up foreign-invested enterprises in China, obtaining shares, equities, property shares or other similar rights and interests of enterprises in China, investing in new projects in China and other investment prescribed by laws, administrative regulations or specified by the State Council. According to the Foreign Investment Law of the PRC, the PRC government offers pre-entry national treatment for foreign investors and conducts a negative list management for foreign investment. Equal access to government procurement will also be given to foreign-invested enterprises. The Foreign Investment Law of the PRC stipulates a wider range of investment protection that foreign investors can receive in China, such as free remittance of capital

REGULATORY OVERVIEW

contribution, profits, capital gains, assets disposal income, intellectual property license fees, legally-obtained damages or compensation, liquidation proceeds, etc. It is also provided that forms of organization, organization structures and activities of foreign-invested enterprises shall be governed by the provisions of the PRC Company Law and the Law of the Partnership Enterprise. Foreign-invested enterprises established before the effectiveness of the Foreign Investment Law of the PRC may keep their original forms of business organizations for five years after the effective date of the Foreign Investment Law of the PRC.

In addition, foreign investment in the PRC shall follow the guidance set forth in the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2019) (《外商投資准入特別管理措施(負面清單) (2019版)》) (the “**Negative List**”) promulgated by the NDRC and the MOFCOM on June 30, 2019 and became effective on July 30, 2019, which sets out the “prohibited” and “restricted” industries for foreign investment. Investing in an industry that falls within the restricted category of the Negative List requires the permit granted by competent authorities, while foreign investors may not invest in any prohibited field on the Negative List. Fields not on the Negative List shall be administered under the principle of equal treatment to both domestic and foreign investment. Pursuant to the Negative List, the wholesale or retail trade in leaf tobacco, cigarettes, redried tobacco, or any other tobacco products is prohibited for foreign investment, but the development, manufacture and sale of vaping products does not fall within the “prohibited” category.

Foreign-funded enterprises whose formation and modification are not subject to special administrative measures for market access as prescribed by the PRC government shall truthfully, accurately and completely provide the filing information and undergo the filing formalities prescribed by the Interim Measures for the Recordation Administration of the Formation and Modification of Foreign-funded Enterprises (2018 Amendment) (《外商投資企業設立及變更備案管理暫行辦法》(2018修訂)).

LAWS AND REGULATIONS RELATING TO COMPANY’S PRODUCTS

Our PRC Legal Advisers are of the view that the vaping devices and vaping components manufactured by the Company were not specifically defined as “tobacco products” under the tobacco monopoly license system of the PRC, thus the production, marketing and import and export of the Company’s products are not under the administration of tobacco monopoly and do not violate relevant laws and regulations relating to tobacco monopoly. There are currently no laws and regulations which specifically govern the manufacture of vaping devices and vaping components in the PRC, and there are no licenses or permits which are specifically required for the Company’s business of manufacturing such products. The Company is therefore subject to general PRC business licensing requirements and its manufacturing operations are subject to laws and regulations that are generally applicable to the manufacture of electronic products, such as laws and regulations relating to product quality and consumer rights.

REGULATORY OVERVIEW

The main regulations relating to e-cigarette products were regulations prohibiting the sale of e-cigarettes to juveniles and the sale through the internet, as well as the smoking control rules of some cities regarding using e-cigarettes as a form of smoking. These regulations do not specifically vary with different types of e-cigarette products (no matter closed system or open system vaping devices, vaping devices with e-liquid containing or not containing nicotine).

Tobacco Monopoly Law

The Tobacco Monopoly Law of the PRC (《中華人民共和國煙草專賣法》) (the “Tobacco Monopoly Law”) adopted by SCNPC on June 29, 1991 and last amended on April 24, 2015, and the Implementation Regulation of the Tobacco Monopoly Law (《中華人民共和國煙草專賣法實施條例》) issued by the State Council on July 3, 1997 and last amended on February 6, 2016 stipulated a tobacco monopoly license system for tobacco monopoly commodities. Pursuant to Tobacco Monopoly Law and its Implementation Regulation, the state exercised monopoly administration in accordance with law over the production, sale, import and export of tobacco monopoly commodities, and “tobacco monopoly commodities” refers to cigarettes, cigars, cut tobacco, redried leaf tobacco, leaf tobacco, cigarette paper, filter rods, cigarette tow and special tobacco machines. Cigarettes, cigars, cut tobacco and redried leaf tobacco are generally referred to as “tobacco products” under Tobacco Monopoly Law. The Company’s products, no matter vaping devices or vaping components, closed system or open system vaping devices, vaping devices with e-liquid containing or not containing nicotine were not defined as “tobacco products” in Tobacco Monopoly Law and its Implementation Regulation.

Juveniles Protection

The Law of the PRC on the Protection of Juveniles (《中華人民共和國未成年人保護法》) (the “Juveniles Protection Law”) was promulgated on September 4, 1991, amended on December 29, 2006 and October 26, 2012, and became effective on January 1, 2013. According to the Juveniles Protection Law, the food, drugs, toys, utensils and amusement facilities, etc. produced for and sold to juveniles shall meet the national standards or industrial standards, and may not be harmful to the safety or health of juveniles. Any necessary precautions shall be indicated at an eye-catching position on the product or on the package of the product.

On August 28, 2018, the State Administration for Market Regulation and the State Tobacco Monopoly Administration jointly issued the Announcement of the State Administration for Market Regulation and the State Tobacco Monopoly Administration on Prohibiting the Sale of E-cigarettes to Juveniles (《國家市場監督管理總局、國家煙草專賣局關於禁止向未成年人出售電子煙的通告》), which expressly prohibits the sale of e-cigarette products to juveniles for the protection physical and mental health. It is suggested that e-cigarette products containing the words “students” and “juveniles” shall be removed from the shelves of e-commerce platforms, and relevant stores (sellers) shall be relegated or closed. The e-commerce platforms shall also strengthen the examination and verification of the names of e-cigarette products on the shelves, take effective measures to block relevant keywords, and refrain from displaying e-cigarette products to juveniles.

On October 30 2019, the State Administration for Market Regulation and the State Tobacco Monopoly Administration jointly issued the Announcement on Further Protecting Juveniles from E-cigarettes (《關於進一步保護未成年人免受電子煙侵害的通告》) to further strengthen the protection of the physical and mental health of the juveniles and prevent the juveniles from buying and smoking e-cigarettes through the internet. The announcement urged (i) e-cigarette producers and sellers to shut down their online sales websites or application programs in time and to withdraw the advertisements of e-cigarettes published on the internet; and (ii) e-commerce platform operators to close e-cigarettes online shops in time and take e-cigarette products off shelves.

The above-mentioned Announcements prohibiting the sale of e-cigarettes to juveniles and the sale through the internet do not specifically distinguish among different types of e-cigarettes, i.e. closed system and open system vaping devices, vaping devices with e-liquid containing and not containing nicotine.

Smoking Control Rules

On August 28, 2005, the SCNPC decided to ratify the Framework Convention on Tobacco Control (《煙草控制框架公約》), which was adopted at the 56th conference of WHO on May 21, 2003, and simultaneously declared that according to Article 16 of Paragraph 5 of the Framework Convention on Tobacco Control of WHO, any automatic cigarette vending machine is prohibited from being used within the territory of the PRC.

Pursuant to Framework Convention on Tobacco Control of WHO, each party shall adopt and apply effective legislative, administrative and/or other measures within its national jurisdiction to prevent exposure to tobacco smoke in public places like indoor workplace, public transportation, indoor public places, etc. As response to Framework Convention on Tobacco Control of WHO, many cities like Beijing, Shanghai, Guangzhou, Shenzhen have issued smoking control rules to prohibit smoking in public places, while the smoking control rules of some cities (namely Shenzhen, Hangzhou, Nanning, Qinhuaangdao, Wuhan and Zhangjiakou) have specified that using e-cigarettes is a form of smoking, and thus it is banned to use e-cigarettes in public places in such cities.

Still, there is no specific distinction among different types of e-cigarettes (i.e. closed system and open system vaping devices, vaping devices with e-liquid containing and not containing nicotine) and HNB devices in the above-mentioned smoking control rules.

Product Quality

Products made in the PRC are subject to the Product Quality Law of the PRC (《中華人民共和國產品質量法》) (the “**Product Quality Law**”), which was adopted by the SCNPC on February 22, 1993 and amended on July 8, 2000 and August 27, 2009 and December 29, 2018. The Product Quality Law is applicable to all production and marketing activities in the PRC, and is formulated to strengthen product quality related regulation, enhance the quality, clarify the product liabilities, protect the legitimate rights and interests of consumers and safeguard the social and economic order.

Pursuant to the Product Quality Law, manufacturers and sellers shall establish a sound internal product quality control system and strictly adhere to a job responsibility system in relation to quality standards and quality liabilities together with implementing corresponding examination and inspection measures. Enterprises are prohibited from producing or marketing counterfeit products in any fashion, including forging or infringing upon quality marks such as certification marks and marks for fine quality products, forging or infringing the place of origin, and producing or marketing adulterated products, or using fake goods as genuine goods or sub-standard products as standard products. It is also provided that products shall pass standard examinations. Products with the potential to adversely affect health of the people and the safety of lives and property shall conform to the State and trade standards for ensuring the health of the human body and safety of lives and property. In the absence of such State or trade standards, products shall conform to the minimum requirements for ensuring the health of the human body and the safety of lives and property. Any violation of this law may result in civil liabilities and penalties, such as compensation for damages, fines, suspension or shutdown of business, as well as confiscation of products illegally produced for sale and the sales proceeds of such products. The responsible individual or enterprise will be subject to criminal liabilities for serious violation.

Under the Standardization Law of the PRC (2017 Amendment) (《中華人民共和國標準化法》(2017修訂)) and the Regulations for the Implementation of the Standardization Law of the PRC (《中華人民共和國標準化法實施條例》), products must conform to certain technical requirements set out by governments and certain institutions. Compulsory standards must be implemented. Products and services not meeting compulsory standards shall not be produced, sold, imported, or provided.

Consumer Rights

The Law of the PRC on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》 (the “**Consumer Rights Protection Law**”) was promulgated on October 31, 1993, amended on August 27, 2009 and October 25, 2013 and became effective on March 15, 2014. According to the Consumer Rights Protection Law, unless otherwise provided by this law, a business that provides products or services shall, in any of the following circumstances, bear civil liability in accordance with the Product Quality Law and other relevant laws and regulations: (i) where a defect exists in a product; (ii) where a commodity does not possess functions it is supposed to possess, and it is not declared when the product is sold; (iii) where the product standards indicated on a product or on the package of such product are not met; (iv) where the quality condition indicated by way of product description or physical sample, etc. is not met; (v) where products pronounced obsolete by formal State decrees are produced or have expired or deteriorated commodities are sold; (vi) where a sold product is not adequate in quantity; (vii) where the service items and charges are in violation of an agreement; (viii) where demands by a consumer for repair, redoing, replacement, return, making up the quantity of a product, refund of a product purchase price or service fee or claims for compensation have been delayed deliberately or rejected without reason; or (ix) in other circumstances whereby the rights and interests of consumers, as provided by the PRC laws and regulations, are harmed.

REGULATORY OVERVIEW

The Tort Law of the PRC (《中華人民共和國侵權責任法》) was promulgated on December 26, 2009 and came into force on July 1, 2010 to clarify the tort liability, and to prevent and punish tortious conduct. Under this law, in the event of damage arising from a defective product, the victim may seek compensation from either the manufacturer or seller of such a product. If the defect is caused by the seller, the manufacturer shall be entitled to seek reimbursement from the seller upon compensation of the victim.

LAWS AND REGULATIONS RELATING TO WORK SAFETY

Work Safety

Pursuant to the Work Safety Law of the PRC (《中華人民共和國安全生產法》) (the “**Work Safety Law**”), which was promulgated on June 29, 2002 and amended on August 27, 2009 and August 31, 2014 (the new revision became effective on December 1, 2014), enterprises are obliged to implement measures to ensure safety at work, including strengthening work safety management, establishing and improving work safety responsibility systems and work safety policies and rules, enhancing work safety conditions, establishing work safety standardization, improving work safety levels, etc. The work safety standards prescribed by the Work Safety Law and other relevant laws, administrative regulations and national or industry standards must be observed. Where such conditions are not complied, no enterprises shall commence or be engaged in production and other business activities. Additionally, enterprises must offer production safety courses and training programs to their employees. Entities engaging in mining, metal smelting, building construction, or road transportation, or manufacturing, marketing, or storing hazardous substances must have a work safety management body or full-time work safety management personnel. Violation of this law and failure to perform duties in work safety management may lead to administrative punishments, including correction order, qualification revocation, fines, and criminal liability if the violation constitutes any crime.

According to the Interim Measures for the Supervision and Administration of “Three Simultaneities” for Safety Facilities of Construction Projects (《建設項目安全設施“三同時”監督管理辦法》) (the “**Construction Projects Safety Facilities Measures**”), which was promulgated by the State Administration of Work Safety (國家安全生產監督管理總局) on December 14, 2010 and amended on April 2, 2015 (the revision was implemented on May 1, 2015), production and business operation entities shall be responsible for the construction of the safety facilities of construction projects. The “safety facilities of construction projects” refer to all devices, facilities, installations, fixtures, buildings and other technical measures used by production and business operation entities in production and operation activities for the purpose of preventing work safety accidents. It is required that safety facilities be designed, built and put into production and used simultaneously with the main part of the construction project. In addition, the Construction Projects Safety Facilities Measures provides that, for the construction projects specially set forth in the Construction Projects Safety Facilities Measures, comprehensive research and pre-assessment on the safety conditions of the construction projects shall be conducted by qualified safety assessment body.

Special Equipment Safety

According to the Special Equipment Safety Law of the PRC (《中華人民共和國特種設備安全法》) promulgated by the SCNPC on June 29, 2013 and implemented on January 1, 2014, enterprises manufacturing or using special equipment shall establish and strive to improve the safety and energy-saving management system, safety and energy-saving responsibility system for special equipment. Special equipment refer to boilers, pressure vessels (including gas cylinders), pressure pipelines, elevators, lifting appliances, passenger ropeways, large amusement facilities, and special vehicles used in the factory, which involve a high degree of safety risks. An enterprise can only use special equipment having production permit and passing quality examination; and is prohibited to use special equipment reported as useless or eliminated by the State. This law also provides that enterprises using special equipment shall prepare and keep safety technology files for their special equipment.

LAWS AND REGULATIONS RELATING TO FIRE PREVENTION

According to the Fire Prevention Law of the PRC (《中華人民共和國消防法》) promulgated by the National People's Congress on April 29, 1998 and amended on October 28, 2008 and April 23, 2019, the Provisions on the Administration of Fire Safety of State Organs, Organizations, Enterprises and Institutions (《機關、團體、企業、事業單位消防安全管理規定》) promulgated by the Ministry of Public Security on November 14, 2001, and the Provisions on Supervision and Administration of Fire Protection of Construction Projects (《建設工程消防監督管理規定》) promulgated by the Ministry of Public Security on April 30, 2009 and amended on July 17, 2012, where a construction project needs a fire prevention design under the national fire protection technical standards, the construction unit shall submit the fire prevention design documents, which shall undergo PRC government's examination, and upon completion of such construction project, the construction unit shall apply for fire protection acceptance or conduct fire protection filing for fire protection design and completion acceptance as the case may be.

Furthermore, for theater, public library, indoor fitness center, outpatient building of hospital, teaching building of university, canteen, labor-intensive production and processing workshop, etc., the construction entity or entity using such venue shall, prior to using such venue for any business operation, apply for a safety inspection on fire prevention with the relevant fire prevention department under the public security authority at or above the county level where the venue is located, and such place cannot be put into use and operation if it fails to pass the safety inspection on fire prevention or fails to conform to the safety requirements for fire prevention after such inspection.

LAWS AND REGULATIONS RELATING TO IMPORT AND EXPORT OF GOODS

Pursuant to the Customs Law of the PRC (2017 Amendment) (《中華人民共和國海關法》) (the “**Customs Law**”) promulgated by the SCNPC on January 22, 1987 and amended on July 8, 2000, June 29, 2013, December 28, 2013, November 7, 2016 and November 4, 2017, all inward and outward means of transport, goods and articles shall enter or leave the PRC by a customs office. In special circumstances, where it is necessary to temporarily enter or leave Chinese territory without passing through a place where a customs office is established, approval to do so shall be obtained

REGULATORY OVERVIEW

from the State Council or an organ authorized by the State Council, and all customs procedures shall be duly completed. All import and export goods must be declared and that duties on goods must be paid by their sender or receiver or by representatives entrusted thereby and approved by and registered with the customs. Customs Law provides that customs duties are levied by the customs and the duty-paying value of an export item shall be decided by the customs based on its transaction price. If the transaction price cannot be determined, the customs will assess the duty-paying value in accordance with relevant law.

Pursuant to the Provisions of the Customs of the PRC on the Administration of Registration of Customs Declaration Entities (《中華人民共和國海關報關單位註冊登記管理規定》) promulgated by the General Administration of Customs of the PRC (中國海關總署) on March 13, 2014 and amended on December 20, 2017, May 29, 2018 (the revision became effective on July 1, 2018), import and export of goods shall be declared by the consignor or consignee itself, or by a customs declaration enterprise entrusted thereby and duly registered with the customs authority. Consignors and consignees of imported and exported goods shall go through customs declaration entity registration formalities with the competent customs departments in accordance with applicable provisions. After completing the registration formalities with the customs of their residence, consignors and consignees of the imported and exported goods may separately file/submit their own customs declarations at any customs port or location where customs supervisory affairs are concentrated within the customs territory of the PRC.

The Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) (the “**Foreign Trade Law**”) which was promulgated on May 12, 1994 and amended on April 6, 2004 and November 7, 2016, regulates import and export of goods, technology and services and intellectual property rights in relation to foreign trades. Pursuant to the Foreign Trade Law, foreign trade operators shall be registered for archival purposes with the administrative department of foreign trade of the State Council or the institution entrusted thereby, unless otherwise stipulated by any law, administrative regulation or required by the foreign trade department of the State Council. In general, import and export of goods and technology are allowed, despite that Article 16 of the Foreign Trade Law sets out the circumstances where the import or export of relevant goods or technology may be restricted or forbidden by the State. The State applies the system of quota, license, etc. to the goods subject to import or export restrictions, while applies the system of license to the technologies restricted or prohibited from import or export. Foreign trade operators in their importing and exporting business are forbidden to implement any act of monopolization and to conduct unfair competition activities. They are also prohibited to smuggle, to cheat for export refunds, to evade inspections and quarantines as provided for by any law or administrative regulation, to forge or alter the marks of origin of the import or export goods, to forge, alter or trade the certificates of origin, the licenses of import or export, the certificates of import or export quotas of the import or export goods, or any other certification documents of import or export. According to the Regulation of the PRC on the Administration of the Import and Export of Goods (《中華人民共和國貨物進出口管理條例》) issued by the State Council on December 10, 2001 and became effective on January 1, 2001, the State allows free import and export of goods and maintains the fairness and orderliness of the import and export of goods according to law. Unless it is clearly provided in laws or administrative regulations to forbid or restrict the import or export of goods, no entity or individual may establish or maintain

prohibitive or restrictive measures over the import or export of goods. The list of goods restricted or prohibited from import or export shall be formulated, adjusted and promulgated by the foreign trade department in collaboration with other relevant departments of the State Council. Where there are quantitative limits of the State on the goods restricted in import or export, the goods shall be subject to the administration of quotas, and other goods restricted from import or export shall be subject to the administration of licenses. Vaping products are not included the catalog of restricted or prohibited export goods maintained and updated from time to time and therefore are not subject to export quota control or licensing requirements (for restricted export goods) or prohibition from exporting (for prohibited export goods).

LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

Environmental Protection

According to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) (the “**Environmental Protection Law**”) promulgated on December 26, 1989 and amended on April 24, 2014 (the revision was implemented on January 1, 2015), enterprises, public institutions, and other business operators shall prevent and reduce environmental pollution and ecological disruption, and assume liabilities for damage caused by them. These entities are also required to comply with the national environmental quality standards set out by the environmental protection administrative department of the State Council, and local environmental quality standards established by people’s governments of provinces, autonomous regions, and municipalities. The State adopts certain policies and measures to encourage and support the development of environmental protection industries, and further reduction of pollutant discharge by enterprises, public institutions, and other business operators after meeting the statutory requirements for the discharge of pollutants. Environmental Protection Law also stipulates that the obligation of enterprises, public institutions, and other business operators to prevent and control pollution and damage to environment caused by waste gas, water and residue, medical wastes, dust, malodorous gasses, radioactive substances, noise, vibration, optical radiation, electromagnetic radiation, and other substances generated in their production, construction, and other activities. Any breach of the Environmental Protection Law may lead to fines, production restriction or business suspension, order of cessation or closedown, detention by public security authority, etc.

The PRC Environmental Impact Assessment Law (《中華人民共和國環境影響評價法》) promulgated by the SCNPC on October 28, 2002, amended on July 2, 2016 and December 29, 2018 (the revision came into effect on December 29, 2018), and the Regulations on Environmental Protection Management of Construction Projects (《建設項目環境保護管理條例》) promulgated by the State Council which became effective on November 29, 1998 and amended on July 16, 2017 (the revision became effective on October 1, 2017), establish a concrete institution of environmental impact assessment. Construction entities, before commencing the construction work, shall submit a report including an all-round assessment of the environmental impacts, or report form including an analysis or specific assessment of the environmental impacts, or shall complete a registration form of the environmental impacts as required by applicable laws. Before the environmental impact assessment document is examined and approved by the relevant department, no entity shall commence its construction project.

Prevention and Control of Water Pollution

The Water Pollution Prevention and Control Law of the PRC (《中華人民共和國水污染防治法》) promulgated on May 11, 1984 and amended on May 15, 1996, February 28, 2008 and June 27, 2017 (the latest revision was implemented on January 1, 2018), provides that each new construction, expansion, reconstruction or other related project, which directly or indirectly discharges pollutants into a water source, is subject to the state regulations on environmental protection of construction projects. Each enterprise that discharges pollutants directly or indirectly into a water source must register its facility with, and submit relevant information to the local environmental protection authorities. Such information may include the categories, quantity and concentration of pollutants discharged during the ordinary course of the operations of the enterprise. Such an enterprise may also be required to submit information on its water pollution prevention and control measures to the local environmental protection authorities. In addition, the PRC government also requires that each enterprise obtain a permit for the direct or indirect discharge of pollutants into the water, and pay a pollutant discharge fee.

Prevention and Control of Air Pollution

The Atmospheric Pollution Prevention and Control Law of the PRC (《中華人民共和國大氣污染防治法》) promulgated on September 5, 1987 and amended on August 29, 1995, April 29, 2000 and August 29, 2015 (the latest amendment was implemented on October 26, 2018) provides that each new construction, expansion, reconstruction or other related project that discharges atmospheric pollutants is subject to state regulations on environmental protection of construction projects. Each enterprise that discharges atmospheric pollutants must register its facilities with, and submit relevant information to the local environmental protection authorities. Such information may include the categories, quantity and concentration of pollutants during the ordinary course of the operations of the enterprise. Such an enterprise may also be required to provide certain technological information associated with atmospheric pollution to the local environmental protection authorities. In addition, the PRC government has implemented a system to collect fees from enterprises that discharge pollutants based on the categories and quantities of atmospheric pollutants discharged. The relevant environmental protection authorities have established standards for collecting fees that take into consideration the relevant atmospheric pollution regulations and the national economic and technological development level.

Prevention and Control of Environmental Pollution by Solid Waste

Enterprises' production and construction are also regulated by the Law of the PRC on the Prevention and Control of Environment Pollution Caused by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》) which was promulgated on October 30, 1995 and lately amended on November 7, 2016. Entities discharging industrial solid wastes are obliged to establish and perfect the responsibility system for the prevention and control of environmental pollution and to adopt treatment on industrial solid wastes to reduce or control environmental pollution. The PRC government has in place an industrial solid waste declaration and registration system. Enterprises and public institutions shall make use of industrial solid wastes produced thereby pursuant to economic and technical conditions; for those industrial solid wastes that will not or cannot be

REGULATORY OVERVIEW

utilized temporarily, enterprises and public institutions shall, in accordance with the regulations of the environmental protection administrative department of the State Council, build facilities and sites for their safe and classified storage or carry out the harmless treatment for them. It is prohibited to close down, leave idle or dismantle, without approval, facilities or places for the prevention and control of environmental pollution by industrial solid wastes.

Prevention and Control of Environmental Noise Pollution

According to the Law of the PRC on Prevention and Control of Pollution from Environmental Noise (《中華人民共和國環境噪聲污染防治法》) promulgated on October 29, 1996 and amended on December 29, 2018, enterprises producing environmental noise pollution shall take measures to control it and pay fees for excessive emission of such pollution according to applicable laws and regulations. They also shall maintain and keep normal operation of the facilities for prevention and control of such pollution. Any enterprise intending to dismantle or leave idle such facilities must report the matter in advance to the administrative department of ecology and environment of the local government at or above the county level (the “**Relevant Department**”) for approval. If the use of permanent equipment in the course of industrial production produces environmental noise pollution, the relevant enterprise must report to the Relevant Department the types and quantity of its equipment that produces environmental noise pollution, the noise level produced under normal operation and the facilities installed for prevention and control of such pollution, and provide technical information relating to the prevention and control of such environmental noise pollution.

LAWS AND REGULATIONS RELATING TO TAXATION

Enterprise Income Tax

Pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the “**EIT Law**”) and the Regulation on the Implementation of the Enterprise Income Tax Law of the PRC (2019 Amendment) (《中華人民共和國企業所得稅法實施條例》(2019修訂)) (the “**Implementation of EIT Law**”), within the territory of China, enterprises and other organizations with income shall pay enterprise income tax. Under the EIT Law, enterprises are categorized into resident and non-resident enterprises. Resident enterprises, which are established in China, or which is established under the law of a foreign country (region) but has de facto management body inside China, are subject to the uniform 25% enterprise income tax rate for their global income. It is also provided that the enterprise income tax shall be levied at the reduced rate of 20% for qualified “small and thin-profit enterprises,” and the enterprise income tax shall be levied at the reduced rate of 15% for “high and new technology enterprises” in key industries supported by the PRC government. In certain circumstances, the enterprise income tax may be exempted or reduced, or preferential enterprise income tax may be granted.

According to the Agreement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Incomes (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》) which was effective since August 21, 2006 and the Protocol IV of it which came into

REGULATORY OVERVIEW

force on December 29, 2015, the 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong company if such Hong Kong company directly holds at least 25% of the equity interests in the PRC company, otherwise the 10% withholding tax rate applies.

Value-added Tax

Pursuant to the Interim Regulation of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例》) promulgated on December 13, 1993 and amended on November 5, 2008, February 6, 2016 and November 19, 2017 (its latest amendment was implemented on November 19, 2017), all entities and individuals in the PRC engaging in sale of goods or labor services of processing, repair or replacement, sale of services, intangible assets, or immovables, or import of goods shall pay value-added tax for the added value derived from the process of manufacture, sale or services. Except as otherwise provided, the general rate of value-added tax for taxpayers selling goods and labor services or importing goods is 17%, whereas taxpayers who export goods are subject to zero value-added tax rate.

The MOF and the SAT published a Notice on Adjusting VAT Rates (財政部、稅務總局關於調整增值稅稅率的通知) on April 4, 2018 and which became effective on May 1, 2018 to announce that the value-added tax rate shall be lowered from 17% to 16% from May 1, 2018. On April 1, 2019, the Announcement on Policies to Deepen the VAT Reform (《關於深化增值稅改革有關政策的公告》) promulgated by MOF, SAT, and GAC came into effect, which lowered the value-added tax rate for industries such as manufacturing from 16% to 13%.

Municipal Maintenance Tax

According to the Interim Regulation of the PRC on Urban Maintenance and Construction Tax (《中華人民共和國城市維護建設稅暫行條例》) promulgated by the PRC State Council on February 8, 1985 and amended on January 8, 2011, a taxpayer of consumption tax, value-added tax or business tax is required to pay a municipal maintenance tax calculated on the basis of consumption tax, value-added tax and business tax. The tax rate is 7% for a taxpayer in an urban area, 5% for a taxpayer in a county or a town, and 1% for a taxpayer not in any urban area or county or town.

The Interim Provisions on the Collection of Educational Surcharges (《徵收教育費附加的暫行規定》) issued on April 28, 1986 and lately amended on January 8, 2011 provides that taxpayers of consumption tax, value-added tax and business tax shall pay educational surcharges. Educational surcharges are evaluated on the amount of value-added tax, business tax or consumption tax actually paid by entities and individuals, collected at the rate of 3%, and paid simultaneously with value-added tax, business tax or consumption tax. It is also stipulated that enterprises' educational surcharges are to be paid with sales income (or business income).

Stamp Tax

Pursuant to the Interim Regulation of the PRC on Stamp Tax (《中華人民共和國印花稅暫行條例》) promulgated by the PRC State Council on August 6, 1988 and amended on January 8, 2011, all units and individuals which conclude or receive any of the documents listed in this regulation shall be regarded as obligatory payers of stamp duty. The taxable documents include documents

REGULATORY OVERVIEW

issued for purchase and sale transactions, process contracting, property leasing, commodity transportation, storage and custody of goods, loans, property insurance, technology contracts and other documents of a contractual nature; documents of transfer of property title; business books of account; documentation of rights or licenses; and other documents determined by the Ministry of Finance.

LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

According to the Regulation of the PRC on Foreign Exchange Administration (《中華人民共和國外匯管理條例》) (the “**Foreign Exchange Regulation**”) enacted by the State Council on January 29, 1996 and amended on January 14, 1997 and August 5, 2008 (the latest revision was implemented on August 5, 2008), domestic institutions and individuals can transfer their foreign exchange income back into the PRC territory or deposited overseas. Before making direct investment, issuing or trading negotiable securities or derivative products overseas, domestic institutions or individuals shall comply with the registration formalities at the foreign exchange administrative department of the State Council. If the relevant state provisions require them to get the approval of the competent department or archive the issue with the competent department, they shall do so before proceeding to fulfill the registration formalities.

In March 2015, the State Administration of Foreign Exchange (國家外匯管理局) (the “SAFE”) released the Notice of the State Administration of Foreign Exchange on Reforming the Mode of Management of Settlement of Foreign Exchange Capital of Foreign-funded Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》), pursuant to which the PRC government conducts the willingness settlement of foreign exchange capital of foreign-funded enterprises, which means that enterprises can settle their foreign exchange capital based on their actual management needs after the monetary contribution has been confirmed by the SAFE or recorded by banks. RMB funds obtained from the willingness settlement of foreign exchange capital will be included in the account for settled foreign exchange to be paid for management. The capital funds of foreign-funded enterprises can only be used within the enterprises’ business scope under authenticity and self-use principles.

In October 2019, the SAFE released the Notice of the State Administration of Foreign Exchange on Further Promoting the Facilitation of Cross-border Trade and Investment (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》), which, among others, canceled the restrictions on the domestic equity investment by non-investment foreign-funded enterprises with their capital funds and non-investment foreign-funded enterprises are allowed to make domestic equity investment with their capital funds in accordance with the law on the premise that the existing special administrative measures (negative list) for foreign investment access are not violated and the projects invested thereby in China are true and compliant.

LAWS AND REGULATIONS RELATING TO INTELLECTUAL PROPERTY RIGHTS

Patent

According to the Patent Law of the PRC (2008 Revision) (《中華人民共和國專利法》(2008修訂)) (the “**Patent Law**”) and the Detailed Rules for the Implementation of the Patent Law of the PRC (2010 Revision) (《中華人民共和國專利法實施細則》(2010修訂)), entities and individuals can apply for patents to protect their technical achievements including “inventions,” “utility models” and “designs” in China. For a patent to be granted, an invention or utility model shall be novel, inventive and practically applicable. Any design for which a patent is granted shall not be attributed to the existing design, and no entity or individual has, before the date of application, filed an application with the patent administrative department of the State Council (the “**Patent Department**”) on the identical design and recorded it in the patent documents published after the date of application. The duration of an invention patent is twenty years, and the duration of the patent for a utility model or design is ten years, starting from the date of application. Pursuant to the Patent Law, an entity or individual must file an application in advance to the Patent Department for confidentiality review if it or he intends to file an application in a foreign country for patenting an invention or utility model accomplished in China.

Trademark

According to the Trademark Law of the PRC (2013 Revision) (《中華人民共和國商標法》(2013修訂)) and the Regulation on the Implementation of the Trademark Law of the PRC (2014 Revision) (《中華人民共和國商標法實施條例》(2014修訂)), entities and individuals who need to acquire the right to exclusively use a trademark on the goods or services thereof in the course of business operations shall submit application to the Trademark Office for trademark registration. The exclusive right to use a registered trademark is limited to the trademark which has been registered and to the goods in respect of which the registration has been made. Where the usage of registered trademark on the goods is required by any law and regulation, relevant application of trademark registration must be made and no marketing for such goods shall be made until the approval of their trademark registration. The period of validity of a registered trademark is ten years, starting from the date of registration. Trademark registrants can renew the registration within twelve months before the expiry of the period of validity. Noticeably, a new amendment of this law has been approved on April 23, 2019 and has come into force on November 1, 2019 pursuant to which, a bad faith application for trademark registration for a purpose other than use shall be rejected.

Copyright

The Copyright Law of the PRC (《中華人民共和國著作權法》), which was issued by the SCNPC on September 7, 1990, came into effect on June 1, 1991 and amended on October 27, 2001 and February 26, 2010, specifies that works of Chinese citizens, legal persons or other organizations, including literature, art, natural sciences, social sciences, engineering technologies and computer software created in writing or oral or other forms, whether published or not, all enjoy the copyright. Copyright holder can enjoy multiple rights, including the right of publication, the right of authorship and the right of reproduction.

REGULATORY OVERVIEW

The Measures for the Registration of Computer Software Copyright (《計算機軟件著作權登記辦法》), which was issued by the National Copyright Administration on February 20, 2002 and came into effect on the same day, regulates the registration of software copyright, the exclusive licensing contract and transfer contracts of software copyright. The National Copyright Administration is mainly responsible for the registration and management of national software copyright and recognizes the China Copyright Protection Center as the software registration organization. The China Copyright Protection Center will grant certificates of registration to computer software copyright applicants in compliance with the regulations of the Measures for the Registration of Computer Software Copyright and the Regulations on Protection of Computers Software (《計算機軟件保護條例》) (issued by the State Council on December 20, 2001, came into effect on January 1, 2002 and revised on January 8, 2011 and January 30, 2013).

Domain Name

According to the Administrative Measures for Internet Domain Names (《互聯網域名管理辦法》), which was issued by the Ministry of Industry and Information Technology (the “**IIT Ministry**”) on August 24, 2017 and came into effect on November 1, 2017, the IIT Ministry is responsible for managing internet network domain names of China. The “.CN” and the “zhongguo (in Chinese character)” shall be China’s national top level domains. The principle of “first-to-file” is adopted for domain name services. The applicant of domain name registration shall provide the agency of domain name registration with the true, accurate and complete information about the domain name holder’s identity for the registration purpose, and sign the registration agreements. Upon the completion of the registration process, the applicant will become the holder of the relevant domain name.

LAWS AND REGULATIONS RELATING TO LABOR AND SOCIAL INSURANCE

Labor

According to the Labor Law of the PRC (《中華人民共和國勞動法》), which was promulgated by the SCNPC on July 5, 1994, came into effect on January 1, 1995 and was amended on August 27, 2009 and December 29, 2018, an employer shall develop and improve its rules and regulations to safeguard the rights of its workers.

According to the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), which was promulgated by the SCNPC on June 29, 2007, came into effect on January 1, 2008 and was amended on December 28, 2012, and the Implementation Regulations on Labor Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》), which was promulgated and became effective on September 18, 2008, employers and employees shall enter into written labor contracts to establish their employment relationship. The labor contracts shall set forth the terms, duties, remunerations, disciplinary rules of the employment and the conditions to terminate the labor contracts. With respect to a circumstance where a labor relationship has already been established but no formal contract has been made, a written labor contracts shall be entered into within one month from the date when the employee begins to work.

REGULATORY OVERVIEW

According to the Interim Provisions on Labor Dispatch (《勞務派遣暫行規定》), which was promulgated on January 24, 2014 and came into effect on March 1, 2014, employers may employ dispatched workers in temporary, auxiliary or substitutable positions only, and shall strictly control the number of dispatched workers which shall not exceed 10% of the total number of its workers.

Social Insurance Regulations and Housing Provident Fund Regulations

According to the Law of Social Security of the PRC (《中華人民共和國社會保險法》), which was promulgated on October 28, 2010 and effective from July 1, 2011, and was subsequently amended on December 29, 2018, and other relevant PRC laws and regulations such as the Interim Regulations on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), Regulations on Work Injury Insurance (《工傷保險條例》), Regulations on Unemployment Insurance (《失業保險條例》) and Trial Measures on Employee Maternity Insurance of Enterprises (《企業職工生育保險試行辦法》), the employer shall register with the social insurance authorities and contribute to social insurance plans covering basic pensions insurance, basic medical insurance, maternity insurance, work injury insurance and unemployment insurance. Basic pension, medical and unemployment insurance contributions shall be paid by both employers and employees, while work injury insurance and maternity insurance contributions shall be paid only by employers, and employers who failed to promptly contribute social security premiums in full amount shall be ordered by the social security premium collection agency to make or supplement contributions within a stipulated period, and shall be subject to a late payment fine computed from the due date at the rate of 0.05% per day; and where payment is not made within the stipulated period, the relevant administrative authorities shall impose a fine ranging from one to three times the amount of the amount in arrears.

According to the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》), which was effected on April 3, 1999 and amended on March 24, 2002, employers shall undertake to register with the competent administrative center of housing provident fund (the “Center”) and upon the verification by the Center, open accounts of housing provident fund for their employees at the relevant bank. Enterprises are also obliged to timely pay and deposit housing provident fund for their employees in full amount.

The employer shall process housing provident fund payment and deposit registrations with the Center. Companies who violate the above regulations and fail to process housing provident fund payment and deposit registrations or open housing provident fund accounts for their employees shall be ordered by the Center to complete such procedures within a prescribed time limit, failure of which will result in a fine of not less than RMB10,000 but not more than RMB50,000. When an employer breaches these regulations and fails to pay up housing provident fund contributions in full amount as due, the Center shall order such employer to pay up within a prescribed time limit. Where the payment and deposit has not been made after the expiration of the time limit, an application may be made to a people’s court for compulsory enforcement.

LAWS AND REGULATIONS IN THE UNITED STATES

In the U.S., the importation, sale, distribution, advertising, and use of vaping products and components are regulated on both the federal and state levels. Under the U.S. regulatory regime, vaping products and components are regulated by two categories: (i) electronic nicotine delivery systems (“**ENDS**”) which can be both closed system vaping devices and open system vaping devices; and (ii) non-ENDS personal vaporizer component products, which primarily refers to closed system and open system vaping devices used for cannabis consumption purposes.

Laws and Regulations Relating to ENDS Products

ENDS products are primarily regulated in the United States by the FDA pursuant to its authorities under the federal Food, Drug and Cosmetic Act (“**FDCA**”), as amended by the Family Smoking Prevention and Tobacco Control Act (“**Tobacco Control Act**”) enacted in 2009. The Tobacco Control Act provides the FDA with authority to regulate the manufacture, distribution, marketing, and sale of “tobacco products” in the United States. A “tobacco product” under the Tobacco Control Act is defined as any “product made or derived from tobacco that is intended for human consumption, including any component, part or accessory of a tobacco product” and tobacco products may not be marketed in combination with any drug, medical device or dietary supplement.

Pursuant to the Tobacco Control Act, the FDA initially only regulated a limited subset of products that fell within the statutory definition of a “tobacco product” that included cigarettes, cigarette tobacco, smokeless tobacco and roll-your-own tobacco. On May 10, 2016, the FDA published the so-called “Deeming Rule,” which became effective on August 8, 2016, bringing within the scope of its regulatory authority all products that fall within the statutory definition of a tobacco product, including cigars, pipe tobacco, hookah, and ENDS products. Pursuant to the Deeming Rule, ENDS products shall generally comply with all federal regulatory requirements that are applicable to combustible tobacco products, including, *inter alia*: (i) manufacturing establishment registration and product listing requirements for U.S. manufacturing facilities and those products manufactured in the United States; (ii) ingredient listing requirements for all products containing e-liquid, regardless of where they are manufactured; (iii) health document reporting requirements; (iv) a nicotine warning requirement for product packaging and advertisements, as well as other product labeling requirements; (v) age restrictions on sales; and (vi) a ban on the giving away of free samples. The Deeming Rule also requires pre-approval of the FDA (by way of marketing order) of any New ENDS Product through a premarket tobacco application, or “PMTA.” For details on the PMTA, please refer to the paragraph headed “—PMTA Requirement for ENDS Products” below.

Manufacturing Establishment Registration and Product Listing Requirements

The FDCA requires every “person who owns or operates any establishment” in the United States that is engaged in the “manufacture, preparation, compounding, or processing of a tobacco product” to register the manufacturing establishment with the FDA. Registered establishments are subject to the FDA’s inspection at least once every two years. A list of all products manufactured at a given facility must be submitted to the FDA at the time the manufacturing establishment registers,

REGULATORY OVERVIEW

including product labeling and samples of product advertisements. Manufacturing establishments that are not located in the United States are not required to register with the FDA. However, the FDA retains the statutory authority to expand the registration and product listing requirements to foreign manufacturers. As of the Latest Practicable Date, the FDA has not promulgated any rules to extend its statutory authority to require foreign manufacturers to register their manufacturing establishments and/or submit lists of products.

Ingredient Listing Requirement

The FDCA requires manufacturers or importers to submit a list of all ingredients found in their finished tobacco products. The ingredient listing requirement applies to all manufacturers, regardless of whether they are foreign or domestic. As of the Latest Practicable Date, the FDA was only enforcing this requirement for ENDS Products containing e-liquid, and not open system vaping devices.

Health Document Reporting Requirement

The FDCA obligates manufacturers and importers to submit any “health documents” relating to their products to the FDA. The health document reporting requirement applies to all manufacturers regardless of whether they are foreign or domestic. This reporting requirement covers any document generated after June 22, 2009, that “relates to health, toxicological, behavioral, or physiologic effects of current or future tobacco products, their constituents (including smoke constituents), ingredients, components, and additives.” As of the Latest Practicable Date, the FDA was only requiring manufacturers to submit health documents generated between June 23, 2009, and December 31, 2009.

Nicotine Warning for Product Packaging and Advertisements and Other Labeling Requirements

Pursuant to the FDCA and regulations promulgated pursuant to the FDA’s authority thereunder, all tobacco products are required to state: (i) the name and place of business of the tobacco product manufacturer or distributor; (ii) the quantity of the package’s contents in terms of weight, measure, or numerical count; and (iii) “Sale only allowed in the United States” on all products sold in the United States. Further, a nicotine addiction warning stating “WARNING: This product contains nicotine. Nicotine is an addictive chemical.” is required to be placed on the labels of all ENDS products containing nicotine. In addition, the warning must also be placed on all advertisements for such products that contain a visual component.

Age and Other Restrictions for Retail Sales

The Tobacco Control Act restricts the sale of ENDS products to individuals who are at least 21 years of age, and regulations enacted by FDA prohibit vending machine sales of covered tobacco products and require retailers to verify customers’ ages for both in-person and online sales.

REGULATORY OVERVIEW

Free Sample Ban

FDA regulations prohibit the provision of free samples of tobacco products, including ENDS products, to consumers by manufacturers, distributors, or retailers of ENDS products. Free samples are permissible for business-to-business transactions and heavily discounted products may also be sold to consumers so long as there is some payment by the consumer for the product.

PMTA Requirement for ENDS Products

Section 910 of the FDCA requires manufacturers of “new tobacco products” to obtain a marketing order from the FDA prior to introducing a new tobacco product, such as an ENDS product, into interstate commerce. A “new tobacco product” is defined as “(A) any tobacco product (including those products in test markets) that was not commercially marketed in the United States as of February 15, 2007; or (B) any modification (including a change in design, any component, any part, or any constituent, including a smoke constituent, or in the content, delivery or form of nicotine, or any other additive or ingredient) of a tobacco product where the modified product was commercially marketed in the United States after February 15, 2007”. Any tobacco product, including an ENDS product, that is a “new tobacco product” and does not have a marketing order in effect is deemed to be “adulterated” and cannot be legally sold in the United States. By virtue of a new guidance issued by FDA on November 25, 2019, modifications made to ENDS products after August 8, 2016, were exempted from the enforcement of violations of the PMTA requirements if such modifications are undertaken to make the battery and electrical components used in a particular ENDS product compliant with the ANSI/CAN/UL Standard for Safety for Electrical Systems of Electronic Cigarettes and Vaping Devices (UL 8139).

In August 2017, the FDA issued a guidance for industry that allowed Existing ENDS Products to remain on the U.S. market without an approved marketing order until August 8, 2022, provided that such products were “on the market” in the United States between February 15, 2007, and August 8, 2016 (“**August 2017 Guidance**”). Under the August 2017 Guidance, any Existing ENDS Products that remained on the U.S. market after August 8, 2022, for which a PMTA had not been submitted and accepted (although not necessarily yet approved) would be considered “adulterated” and could no longer be sold on the U.S. market. For those products for which a PMTA had been submitted and accepted by the FDA, but not yet approved, the products could continue to be commercially marketed while the PMTA was undergoing review by the FDA. If a marketing order were granted, the product could then continue to be commercially marketed. If a marketing order were denied, the product could no longer be sold in the United States. One ramification of this discretionary enforcement policy is that New ENDS Products could not be introduced to the U.S. market after August 8, 2016, without first securing a marketing order. Without securing a marketing order, those new products are considered “adulterated” by the FDA.

On May 15, 2019, the United States District Court for the District of Maryland vacated the August 2017 Guidance and, on July 12, 2019, ordered the FDA to require that the submission deadline for PMTAs for such ENDS products be moved up to May 12, 2020. Both the FDA and industry groups appealed the decisions to the United States Court of Appeals for the Fourth Circuit. On May 4, 2020, the Fourth Circuit ruled that the appeal of the district court’s decision accelerating

REGULATORY OVERVIEW

the deadline was moot in light of FDA's new industry guidance published on January 2, 2020, which sets forth a modified enforcement policy with an intention to prioritize for enforcement all ENDS products for which a PMTA has not been submitted to FDA by May 12, 2020. As a result, the appeal was dismissed at the FDA's request. In addition, on April 22, 2020, having considered the adverse impacts of the COVID-19 outbreak, the May 12, 2020 deadline was extended to September 9, 2020, which was subsequently reflected in the FDA's enforcement guidance. With the dismissal of the appeal by the Fourth Circuit, the September 9, 2020 deadline remains unimpacted by the appeal. The New Guidance stated that starting on February 6, 2020, FDA would also prioritize for immediate enforcement (i) ENDS products that are "flavored, cartridge-based ENDS products (other than tobacco- or menthol-flavored ENDS products)" and (ii) ENDS products of any flavor (including tobacco and menthol flavors) for which the manufacturer has failed to take adequate measures to prevent minors' access or which are targeted to minors or whose marketing is likely to promote the use of ENDS by minors. The New Guidance further clarified that the prohibition on flavored, cartridge-based ENDS products does not apply to disposable ENDS products. Factors for determining whether ENDS products are "targeted to minors" or whose marketing "is likely to promote the use of ENDS by minors" include whether the products or their packaging resemble kid-friendly foods or drinks such as juice boxes, candy, or certain cereals, whether cartoons are used in product marketing, and whether the product is marketed as "stealth" or "secret" or is in the form of ordinary objects that may not be readily recognized by parents or teachers. Pursuant to this enforcement policy, on April 27, 2020, FDA issued several warning letters to manufacturers and distributors of ENDS products that FDA alleged targeted youth or were likely to promote use by youth. Such manufacturers and distributors include (i) the manufacturer and a distributor of a device shaped to look like a Nintendo Game Boy video game console, (ii) a distributor of a device that incorporated a rotating piece similar to a fidget spinner, and (iii) distributors of compact devices that were shaped like smart watches and incorporated working watches. FDA also issued warning letters to retailers of e-liquids whose products' packaging imitated packaging for candy that is popular with children and featured cartoon characters.

State Flavor Ban

Starting in September 2019, the governors of several states announced temporary emergency flavor bans for ENDS products. As announced, these bans, in their various forms, prohibited sales and possession of all non-tobacco-flavored ENDS products (although some states excluded menthol flavors). These temporary emergency flavor bans were imposed by the governors of New York, Michigan, Massachusetts, Washington, Oregon, Montana, and Rhode Island. The bans were subsequently temporarily enjoined by courts in New York, Michigan, Oregon, and Montana. As of the Latest Practicable Date, (i) Massachusetts, New Jersey, and New York legislatively enacted permanent statutory flavor bans, except that New York's ban excluded flavored vaping products for which FDA issues a marketing order through the PMTA process; (ii) Rhode Island created a permanent administrative rule banning the sale of flavored vaping products; and (iii) the Montana and Washington emergency flavor bans expired per their terms. On November 8, 2019, the CDC announced that it had preliminarily linked a number of the cases of severe respiratory illness to the

REGULATORY OVERVIEW

presence of Vitamin E acetate, which has been found in some THC-containing vape cartridges for non-ENDS vaping devices. The CDC's announcement was widely reported in the media and no additional emergency flavor bans have been announced since that time.

Laws and Regulations Relating to Non-ENDS Products

Federal Law

The Controlled Substances Act, 21 U.S.C. § 812, creates five schedules of controlled substances, the manufacture, distribution, or possession with intent to distribute of which is a felony crime under U.S. federal law. Marihuana and THC are among the controlled substances included in Schedule I to the Controlled Substances Act. Legislation passed in December 2018 modified the definition of marihuana to exclude “hemp” and excluded those tetrahydrocannabinols found in hemp from Schedule I. Under the Controlled Substance Act, “hemp” is defined to mean “the plant *Cannabis sativa* L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol concentration of not more than 0.3% on a dry weight basis.” Any hemp-derived CBD oil containing less than 0.3% THC on a dry weight basis is not a Schedule I controlled substance and its manufacture, possession, or sale is not prohibited or penalized under the Controlled Substances Act.

Title 21 U.S.C. § 863 criminalizes the sale, offer to sell, importation, or use of any facility of interstate commerce to transport drug paraphernalia. “Drug paraphernalia” includes any equipment, product, or material of any kind which is primarily intended or designed for use in ingesting, inhaling, or otherwise introducing into the human body a controlled substance, possession of which is unlawful under the Controlled Substances Act. Factors for determining whether a product constitutes drug paraphernalia include, *inter alia*: (1) instructions provided with the item concerning its use; (2) descriptive materials accompanying the item which explain or depict its use; (3) national and local advertising concerning its use; (4) the manner in which the item is displayed for sale; (5) whether the owner, or anyone in control of the item, is a legitimate supplier of like or related items to the community, such as a licensed distributor or dealer of tobacco products; (6) evidence of the ratio of sales of the item(s) to the total sales of the business enterprise; (7) the existence and scope of legitimate uses of the item in the community; and (8) expert testimony concerning its use. The federal drug paraphernalia statute is not applicable to any person authorized by local, state, or federal law to manufacture, possess, or distribute the item.

State Laws

At the state level, regarding the sale of hemp-based CBD oil containing less than 0.3 percent THC on a dry weight basis, the regulation of non-ENDS products varies from state to state and can be broadly divided into three categories: (i) states where hemp-derived CBD oil remains technically illegal; (ii) states that allow the sale of hemp-derived CBD oil only to consumers with certain specified medical conditions; and (iii) states that allow the sale of hemp-derived CBD oil, subject to state-specific requirements such as those requiring that CBD oil can only be sold at licensed dispensaries or a licensed seller. As of the Latest Practicable Date, (i) hemp-derived CBD oil

REGULATORY OVERVIEW

remained generally illegal in one state — Idaho and illegal for use in vaporizers in three states — Kansas, South Dakota and Louisiana; (ii) sale of hemp-derived CBD oil was legalized for sale to patients with specific medical conditions in two states — Mississippi and Missouri; and (iii) hemp-derived CBD oil was legalized to sell for use in vaporizers in 44 states, subject to potential state licensing requirements and was legal to possess in the District of Columbia.

In relation to CBD products not derived from hemp, or containing THC levels greater than 0.3%, they are considered a Schedule I drug and subject to federal criminal prosecution and still regulated as marijuana products or as a controlled substance in many states. Generally speaking, state law concerning marijuana sale, use, and possession can also be divided into three categories: (i) states that have legalized marijuana for recreational use, in which case there are generally no state-level restrictions on the possession or sale of vaping products containing CBD products with greater than 0.3% THC; (ii) states that have established legal frameworks for medical marijuana only, in which case a detailed analysis is needed of the legality of sales of marijuana-derived or non-hemp-derived CBD products (i.e., containing a THC level greater than 0.3%) under applicable state laws; and (iii) states that continue to criminalize the sale of marijuana-derived or non-hemp-derived CBD products (i.e., containing a THC level greater than 0.3%). As of the Latest Practicable Date, (i) 11 states and the District of Columbia had legalized the use of marijuana for recreational use, (ii) 26 states had merely legalized the use of marijuana for medical use, and (iii) 13 states continued to criminalize the sale and possession of marijuana.

Laws and Regulations Relating to Product Liability

Products sold within the United States must comply with United States product safety and product liability laws and regulations, which vary on a state by state basis. “Product liability” is the umbrella term for the liability of a manufacturer, distributor, retailer, or other supplier of merchandise whose product causes physical harm to a user (regardless of whether the user is in privity of contract). The general potential causes of action for a product liability claim are design defect, manufacturing defect, failure to warn, breach of warranty and fraud, which can be grounded in, *inter alia*, strict liability (which does not consider the intent or conduct of the manufacturer) and/or negligence (which examines whether the manufacturer’s actions were reasonable under the circumstances). Some of these claims are based in statutes, such as state consumer protection acts, false advertising and unfair trade practices laws, and warranties under the Uniform Commercial Code. We set forth below a summary of the two genre of causes of action under the product liability regulatory regime in the United States:

Strict liability

Strict liability means that the defendant must pay damages even though the defendant neither acted intentionally nor failed to exercise reasonable care. To establish a claim for strict liability, a plaintiff typically must show (1) that the product was unreasonably unsafe or unreasonably dangerous when it was designed, manufactured, or sold, (2) the seller expected and intended that the product would reach the consumer without changes to the product, and (3) the plaintiff was injured by the defective product. Under state law, the manufacturer and any seller in the chain of distribution may be held strictly liable for injuries and/or deaths

caused by a product defect that was present at the time of manufacture. And the failure of the contract to provide indemnification does not preclude a seller, whether a distributor or a retailer, from obtaining common law indemnification, which is independent from a contract between two parties. Generally, in identifying the manufacturer, courts look to whether the defendant had control over the design, assembly, and production processes. Generally speaking, under most states' laws, a component part manufacturer is not liable for harm resulting from the integration of its non-defective component part into a finished product, and generally has no duty to warn of dangers that arise only when its non-defective component part is integrated into a finished product.

Negligence

A claim for negligence generally requires the plaintiff to show all of the elements outlined above and demonstrate that the manufacturer's conduct was unreasonable. The reasonableness of the manufacturer's conduct is typically a question for the jury.

There might be some defenses available to a manufacturer in the event of a product liability claim in the United States, including (i) product misuse or modification, (ii) state-of-the-art, (iii) assumption of risk, (iv) compliance with government standards, (v) comparative fault and (vi) contributory negligence/comparative negligence. The defense of product misuse or modification is available when a product manufacturer can show that the plaintiff's injury was caused by an unforeseeable misuse or modification of the manufacturer's product. Pursuant to the Restatement (Third) of Torts: Product Liability § 2 (2000), the state-of-the-art defense generally means that the product's design conforms to industry custom, that it reflects the safest and most advanced technology developed and in commercial use, or that it reflects technology at the cutting edge of scientific knowledge. In addition and under other defenses, the product manufacturer's potential liability may be reduced or eliminated if (i) the plaintiff was aware of the risk and chose to engage in the activity regardless and/or (ii) the products complied with the relevant government standards. In certain circumstances, courts of certain states also allow for apportionment of fault between the parties that can reduce or eliminate the defendants' liabilities. For claims based on negligence, the defense of contributory or comparative negligence can reduce or eliminate the damages a plaintiff can claim from a defendant.

Notably, under the Restatement (Third) of Torts: Product Liability § 18 (2000), despite that parties within the commercial chain of distribution may contract indemnity agreements or save-harmless clauses among themselves, courts of some states might not allow a product manufacturer to avoid liability for harm to a consumer through contract provisions or disclaimers. When a product defect causes harm to persons, a majority of courts in the United States generally refuse to give effect to disclaimers, waivers, or other contract-based defenses in tort actions brought by individual consumer plaintiffs to recover for such harm.

LAWS AND REGULATIONS IN JAPAN

In Japan, regulations applicable to each product will depend on the substances used for the product (whether it contains tobacco leaves or nicotine e-liquid) or whether the product meets specific technical requirements.

In Japan, vaping devices containing tobacco leaves are generally regulated by the Tobacco Business Act (Act No. 86 of 1984) (“**Tobacco Business Act**”) and those not containing tobacco leaves but containing nicotine liquids are generally regulated by the Pharmaceutical and Medical Device Act (Act No. 145 of 1960) (“**Medical Device Act**”). Vaping devices, either containing or not containing tobacco leaves, with or without nicotine liquids, could also be regulated by the Electrical Appliance and Material Safety Act (Act No. 234 of November 16, 1961) (“**Safety Act**”) on a product-by-product basis if it meets certain technical requirements.

Tobacco Business Act

In Japan, retailing to consumers and other business activities (including manufacturing, import, export, distribution, sale, and advertising) of “tobacco products” (including HNB devices containing tobacco leaves) are generally regulated under the Tobacco Business Act by the Ministry of Finance. The Tobacco Business Act provides that no individual or company other than Japan Tobacco may manufacture any tobacco products. Under the Tobacco Business Act, any individual or company selling or distributing tobacco products in Japan, including imported products, must obtain a license from the Minister of Finance to do so. However, the Tobacco Business Act does not regulate products that are not tobacco products. Under the Tobacco Business Act, tobacco products are defined as products containing tobacco leaves. Therefore, any products (including both closed system and open system vaping devices) that do not contain tobacco leaves are not regulated under the Tobacco Business Act.

Medical Device Act

In Japan, liquids or cartridges which contain nicotine are regulated as a “pharmaceuticals,” and devices used in e-cigarettes, including both closed system vaping devices and open system vaping devices, which are used for producing nicotine-containing vapors are regulated as “medical devices” under the Medical Device Act by the Ministry of Health, Labor and Welfare. Products considered as pharmaceutical or medical device are not permitted for sale in Japan without obtaining a sales authorization. Non-nicotine-containing liquids or cartridges or e-cigarettes devices not producing nicotine-containing vapor are not regulated by the Medical Device Act, if no substance is used which is separately regulated under the Medical Devices Act. Also, devices containing tobacco leaves are generally regulated under the Tobacco Act, not the Medical Device Act.

Safety Act

In Japan, the import, sale or manufacture of alternative smoking products (the “**ASPs**”) including all types of vaping devices, HNB devices and their components (such as cartridges and batteries) could be regulated under the Safety Act by Ministry of Economy, Trade and Industry, which regulates those activities with the goal of preventing hazards and disturbances resulting from those products.

Under the Safety Act, any individual or company which imports and sells electrical appliances and materials shall notify the Ministry of Economy, Trade and Industry within 30 days from the commencement of the business, and shall conduct an assessment of such electrical appliances and materials in order to comply with specified technical standards. A product which falls under the definition of “electrical appliance and materials” must not be sold or displayed for the purpose of sale except for a product labeled with a “PSE mark” which certifies that the said obligations by the individual or company have been complied with. Whether a product falls under the definition of an electrical appliance or material under the Safety Act must be evaluated from a technical perspective and on a product-by-product basis.

Regulations under the Safety Act only apply to the individual or company which imports the products or manufactures or sales the products in Japan.

LAWS AND REGULATIONS IN THE EU

The Directive 2014/40/EU

Directive 2014/40/EU of the European Parliament and of the Council of April 3, 2014 on the approximation of the laws, regulations and administrative provisions of the Member States concerning the manufacture, presentation and sale of tobacco and tobacco related products and repealing Directive 2001/37/EC became effective on May 19, 2014 and became applicable in Member States of the EU on May 20, 2016 (the “**Directive**”). The Directive has been implemented in each Member State in a manner that is substantially consistent with the Directive subject to some local variations.

The Directive applies to tobacco related products including electronic cigarettes, refill containers and herbal products for smoking. An electronic cigarette or e-cigarette is widely defined in the Directive as a product that can be used for consumption of nicotine-containing vapor via a mouthpiece, or any component of that product. Therefore, the Directive regulates all types of vaping devices, HNB devices and their respective components principally on five main aspects: (i) the information to be provided by the manufacturer and/or distributor, (ii) the advertising and promotion, (iii) safety issues and warnings, (iv) products presentation and (v) provisional measures in case of suspected risk.

Information to be provided by the manufacturer and/or distributor

Pursuant to Article 20 of the Directive, manufacturers and importers are obliged to submit a notification to the competent authorities of the Member States of any such products which they intend to place on the markets.

REGULATORY OVERVIEW

Advertising and promotion

Member States are required to ensure that advertising for any tobacco related product is prohibited, unless the advertising is specifically targeted at professionals specializing in the electronic cigarettes trading. Moreover, no promotion whatsoever shall be made as to those devices with an intention (direct or indirect) to promote electronic cigarettes.

Safety issues and health warnings

In the event that a manufacturer, importer or distributor considers, or has reason to believe, that e-cigarettes to be placed on the market are not safe or of good quality, or otherwise not in conformity with the Directive, it shall immediately take necessary corrective action to ensure the products comply with the Directive or shall withdraw or recall its products. The Directive also requires the manufacturer, importer or distributor to warn the market surveillance authorities of the Member State in which the electronic cigarette is to be commercialized.

Moreover, any outside packaging shall carry health warnings in the official language of the Member State where the product is placed. Such warnings shall cover the entire surface of the unit packet or outside packaging and, it must be irremovably printed, indelible and fully visible and shall be surrounded by a black border of a width of 1mm inside the surface area that is reserved for said warnings. The warning required for “smokeless tobacco products” shall be the following: “This tobacco product damages your health and is addictive.”. It must appear on the two largest surfaces and must cover 30% of the unit packet and any outside packaging.

Product presentation

The Directive also requires that the labeling of unit packets and any outside packaging and the product itself shall not include any element or feature that promotes or encourages its consumption by creating erroneous impression about its characteristics, health effects, risks or emissions, nor shall it suggest that a particular tobacco product is less harmful than others or aims to reduce the effect of some harmful components of smoke or has vitalizing, energetic, healing, rejuvenating, natural, organic properties or has other health or lifestyle benefits.

Provisional measures in case of suspected risk

Under the Directive, if a competent authority ascertains or has reasonable grounds to believe that specific e-cigarettes or type of e-cigarettes could present a serious risk to human health, it may take appropriate provisional measures. It shall immediately inform the European Commission and the competent authorities of other Member States of the measures taken with supporting data. The European Commission shall determine, as soon as possible, after having received that information, whether the provisional measure is justified and notified the Member State its conclusion so as to enable the Member State to take appropriate follow-up measures.

OUR HISTORY AND DEVELOPMENT

OVERVIEW

We are a global leader in offering vaping technology solutions with advanced R&D technology, strong manufacturing capacity, wide-spectrum product portfolio and diverse customer base. Through our innovative and pioneering vaping technology solutions, we operate two principal business segments: (i) 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 (ii) research, design, manufacturing and sale of self-branded open system vaping devices, or APV, for retail clients.

Our founder and a Controlling Shareholder, Mr. Chen, first became involved in the manufacturing of vaping devices and research and development of vaping technology when he joined Shenzhen Simoer Technology Co., Ltd. (深圳市思摩爾科技有限公司) as a minority shareholder in 2007 and gradually increased his shareholding to 85%. Leveraging on his knowledge of vaping technology through his accumulated experiences in the vaping industry and with the vision to expand into sales and marketing sector, Mr. Chen established Smoore Shenzhen in September 2009, through an entrustment arrangement, as a platform to provide research and development of vaping and heating technology services, together with manufacturing and in-house sales and marketing functions under ODM and OEM business models. Since then, our business has been principally conducted through Smoore Shenzhen and has been growing with a diversified product portfolio and an expanding international footprint. With a view to streamlining his ownership interests, consolidating corporate functions and having considered the fact that Shenzhen Simoer Technology Co., Ltd. (深圳思摩爾科技有限公司) was inactive, Mr. Chen decided to deregister Shenzhen Simoer Technology Co., Ltd. (深圳市思摩爾科技有限公司) in November 2012 and devote available resources to Smoore Shenzhen for its business development and expansion. At the time of the deregistration, Shenzhen Simoer Technology Co., Ltd. (深圳思摩爾科技有限公司) was solvent and not involved in any material non-compliance.

We started manufacturing self-branded APV in 2015. We introduced our first generation of heating technology in 2016, and further launched our second generation of heating technology “FEELM”, which won the “Golden Leaf Award” granted by Tobacco Reporter and Vapor Voice Magazines in 2018.

We design and manufacture a range of vaping products, which include (i) open system vaping devices, (ii) closed system vaping devices, and (iii) vaping components. We differentiate ourselves by having an edge on developing and integrating innovative technologies which enable us to achieve improvements in product technology, structure and design so as to provide vaping devices that meet our customers’ demands.

OUR HISTORY AND DEVELOPMENT

KEY BUSINESS MILESTONES

The following table sets forth the key business milestones in our history:

Year	Event
2009	<ul style="list-style-type: none">● Establishment of Smoore Shenzhen
2012	<ul style="list-style-type: none">● We started exporting our products to the U.S. market
2015	<ul style="list-style-type: none">● We successfully launched our self-branded APV “Vapresso” in the U.S. market● We started exporting our products and expanded our distributor network to Europe● We were 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● Smoore Shenzhen was listed on the NEEQ● We established business relationship with Japan Tobacco and some of its group companies
2016	<ul style="list-style-type: none">● We introduced the first ceramic heating technology into the market
2017	<ul style="list-style-type: none">● We established our first basic research center in Changsha, the PRC
2018	<ul style="list-style-type: none">● We established business relationship with British American Tobacco and Reynolds Asia-Pacific● “FEELM” was awarded the “Golden Leaf Award” by Tobacco Reporter and Vapor Voice Magazines

OUR HISTORY AND DEVELOPMENT

Year	Event
2019	<ul style="list-style-type: none">• Smoore Shenzhen was awarded the Certificate of Participation by the Underwriters Laboratories, a global safety certification company approved by the U.S. Federal Agency Occupational Safety and Health Administration to perform safety testing• We successfully established three basic research centers and our foundation 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)• We were 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	<ul style="list-style-type: none">• “FEELM” was awarded the “iF Design Award” by iF Industrie Forum Design

OUR PRINCIPAL SUBSIDIARY — SMOORE SHENZHEN

Smoore Shenzhen is our principal operating subsidiary in the PRC and the major corporate developments of Smoore Shenzhen are set out below:

(1) *Establishment of Smoore Shenzhen in 2009*

On September 21, 2009, Smoore Shenzhen was established with an initial registered capital of RMB500,000 and was held as to 85% by Mr. Lai and 15% by Mr. Liu, respectively, on trust for Mr. Chen (the “**Trust Arrangement**”). At that time, as the vaping market in China was an emerging market without an established and transparent pricing standard, certain of our customers were required by their internal procurement policies to procure vaping products from two or more suppliers which are not under common control to ensure the fairness and reasonableness of the price of such products. In light of such circumstance, Mr. Chen decided to set up the Trust Arrangement so as to allow Smoore Shenzhen to serve as an alternative supplier for our customers in addition to Shenzhen Simoer Technology Co., Ltd. (深圳思摩爾科技有限公司) for the purpose of facilitating the business development of Smoore Shenzhen and accommodating the needs of certain customers to diversify their supplier profiles. Mr. Chen contributed 100% of the total registered capital of Smoore Shenzhen. Mr. Chen and Mr. Lai knew each other when they were students in Tongji University (同濟大學) and subsequently became acquainted with Mr. Liu through mutual friends. Mr. Lai was the head of sales and marketing team, and Mr. Liu was in charge of the R&D for Smoore Shenzhen. The Trust Arrangement was later terminated in December 2013. For further details, please refer to the paragraph headed “— (3) Share transfer and second capital injection in 2013” below. Following the establishment of Smoore Shenzhen, our other

OUR HISTORY AND DEVELOPMENT

Founding Shareholders, Mr. Xiong, Mr. Wang, Mr. Qiu and Mr. Luo, who were acquaintances of Mr. Chen, joined Smoore Shenzhen. Mr. Chen and Mr. Xiong knew each other since 2007 when Mr. Chen joined Shenzhen Simoer Technology Co., Ltd. (深圳思摩爾科技有限公司) as a minority shareholder and Mr. Xiong was one of the then shareholders of Shenzhen Simoer Technology Co., Ltd. (深圳思摩爾科技有限公司). Mr. Luo and Mr. Qiu became acquainted with Mr. Chen through business relations. Mr. Chen and Mr. Wang knew each other since high school. Mr. Xiong was the vice general manager, Mr. Wang and Mr. Luo focused on R&D and Mr. Qiu was in charge of the finance department.

(2) *First capital injection in 2012*

To further grow the business and to finance the expansion of Smoore Shenzhen, on November 21, 2012, the registered share capital of Smoore Shenzhen was increased from RMB500,000 to RMB3,000,000. The additional RMB2,500,000 share capital was contributed by Mr. Chen in cash and was fully settled on November 20, 2012. Subsequent to the capital injection, Smoore Shenzhen continued to be held as to 85% by Mr. Lai and 15% by Mr. Liu, on trust for Mr. Chen.

(3) *Share transfer and second capital injection in 2013*

To motivate and retain certain of our management and employees as well as to terminate the Trust Arrangement, Mr. Lai and Mr. Liu as transferors, and each of the other Founding Shareholders, namely Mr. Chen, Mr. Xiong, Mr. Wang, Mr. Qiu and Mr. Luo, each as a transferee, entered into an equity transfer agreement on December 18, 2013, pursuant to which:

- (i) Mr. Lai transferred 70% and 10% equity interests of Smoore Shenzhen to Mr. Chen and Mr. Xiong, respectively, each at a consideration of RMB1,000; and
- (ii) Mr. Liu transferred 0.55%, 2.45%, 5%, 5% and 1% equity interests of Smoore Shenzhen to Mr. Chen, Mr. Xiong, Mr. Wang, Mr. Qiu and Mr. Luo, respectively, each at a consideration of RMB1,000.

In addition, Mr. Chen also agreed that Mr. Lai and Mr. Liu retained 5% and 1% shareholding in Smoore Shenzhen, respectively, to reward their dedication to the development of Smoore Shenzhen. As a result of the above transfers, the Trust Arrangement was terminated and Smoore Shenzhen was held as to 70.55% by Mr. Chen, 12.45% by Mr. Xiong, 5% by Mr. Wang, 5% by Mr. Qiu, 5% by Mr. Lai, 1% by Mr. Liu and 1% by Mr. Luo.

On December 24, 2013, the registered capital of Smoore Shenzhen was further increased to RMB10,000,000 and the additional RMB7,000,000 share capital was contributed by Mr. Chen, Mr. Xiong, Mr. Wang, Mr. Lai, Mr. Qiu, Mr. Liu and Mr. Luo using their own financial resources in proportion to their respective shareholding in Smoore Shenzhen and fully settled by December 24, 2013.

OUR HISTORY AND DEVELOPMENT

(4) *Investment from EVE Energy in 2014*

EVE Energy is a leading manufacturer of lithium battery products with headquarter in Guangdong and became listed on the Shenzhen Stock Exchange in 2009. Our business relationship with EVE Energy began in 2011 when we started procuring battery products from them. As part of EVE Energy's corporate strategy back in 2014, they were looking for investment opportunities which generate synergies for their business.

In order to enhance the synergies with our upstream suppliers, the Founding Shareholders and EVE Energy entered into an equity transfer agreement on February 28, 2014 (the “**Equity Transfer Agreement**”) pursuant to which, EVE Energy agreed to purchase an aggregate of 50.10% equity interest in Smoore Shenzhen at a consideration of RMB439 million (the “**Original Consideration**”), subject to adjustment based on certain performance guarantees. The Original Consideration was paid or to be paid by five installments with (i) the first installment of RMB39 million settled on March 7, 2014, (ii) the second installment of RMB100 million settled on April 4, 2014 and (iii) the last three installments, each being RMB100 million and payable to the Founding Shareholders within five days after the receipt of audited reports of Smoore Shenzhen for the three financial years of 2014, 2015 and 2016, respectively. The Original Consideration was determined based on arm's length negotiation with reference to the then business valuation of Smoore Shenzhen and its business prospects and taking into account the performance guarantee arrangement. The equity transfer was completed on April 1, 2014.

According to the books and accounts (audited) of Smoore Shenzhen, for the three financial years of 2014, 2015 and 2016, the Original Consideration was adjusted to RMB289.17 million due to the performance guarantee arrangement agreed between the parties, payable to the Founding Shareholders, and the amount was fully settled by 2017.

Following the above transfer, Smoore Shenzhen was held as to 50.10% by EVE Energy, and 49.90% by the Founding Shareholders, with Mr. Chen, Mr. Xiong, Mr. Wang, Mr. Qiu, Mr. Lai, Mr. Liu and Mr. Luo holding 35.2045%, 6.2125%, 2.495%, 2.495%, 2.495%, 0.499%, and 0.499% equity interests in Smoore Shenzhen, respectively.

(5) *Previous listing on the NEEQ in 2015*

In order to attract financing to further expand our business, Smoore Shenzhen was converted into a joint stock company on July 28, 2015 with a share capital of RMB60,000,000 through conversion of its total net assets as of May 31, 2015 in the amount RMB94,941,847.99, and the remaining RMB34,941,847.99 was credited to the capital reserves of Smoore Shenzhen. On December 14, 2015, 60,000,000 shares, being the then entire share capital of Smoore Shenzhen, became listed on the NEEQ under stock code 834742.

OUR HISTORY AND DEVELOPMENT

(6) *Private placements in 2016*

By a shareholders' resolution passed on January 3, 2016, Smoore Shenzhen issued an aggregate of 3,000,000 shares to certain existing shareholders (including the Founding Shareholders), 20 directors, supervisors and employees of Smoore Shenzhen and five institutional investors by way of private placement in March 2016 for a total consideration of RMB35,400,000 with RMB3,000,000 injected into the registered share capital of Smoore Shenzhen and the remaining RMB32,400,000 credited to the capital reserves of Smoore Shenzhen. As a result, the registered share capital of Smoore Shenzhen was increased to RMB63,000,000 and its total number of shares was increased to 63,000,000 shares.

By a shareholders' resolution passed on July 19, 2016, Smoore Shenzhen further issued an aggregate of 300,000 shares to two institutional investors by way of private placement in October 2016 for a total consideration of RMB3,540,000 with RMB300,000 injected into the registered share capital of Smoore Shenzhen and the remaining RMB3,240,000 credited to the capital reserves of Smoore Shenzhen. The registered share capital of Smoore Shenzhen was correspondingly increased to RMB63,300,000 and its total number of shares was increased to 63,300,000 shares.

As a result of these private placements in 2016, Smoore Shenzhen was held by Mr. Chen, Mr. Xiong, Mr. Wang, Mr. Qiu, Mr. Lai, Mr. Luo, Mr. Liu, EVE Energy and others as to 33.8431%, 5.9677%, 2.4929%, 2.4787%, 2.4439%, 0.6310%, 0.5251%, 47.4882% and 4.1294%, respectively.

(7) *Market making transfers in 2017*

As at March 23, 2017, EVE Energy, Mr. Chen and Mr. Xiong held 30,060,000, 21,422,670, 3,777,530 shares of Smoore Shenzhen, respectively, representing approximately 47.4882%, 33.8431% and 5.9677% equity interest in Smoore Shenzhen, respectively.

Through a series of market making transfers from March 2017 to June 2017, (i) Mr. Chen purchased an aggregate of 5.3223% equity interest in Smoore Shenzhen and his shareholding in Smoore Shenzhen was increased to 39.1654%, and (ii) EVE Energy disposed of an aggregate of 8.9763% equity interest in Smoore Shenzhen and its shareholding was decreased to 38.5119%.

Following the completion of the above market making transfers and immediately prior to the Delisting (as defined below) in June 2019, Smoore Shenzhen was held as to 39.1654%, 5.9677%, 2.6193%, 2.4771%, 2.4929%, 0.5836%, 0.3750%, 37.5498% and 8.7692%, by Mr. Chen, Mr. Xiong, Mr. Wang, Mr. Qiu, Mr. Lai, Mr. Luo, Mr. Liu, EVE Energy and others, respectively.

OUR HISTORY AND DEVELOPMENT

(8) *The Delisting in 2019*

With a view to achieving our overall strategic objective to develop an international financing platform and maximize our shareholders' value, we voluntarily delisted Smoore Shenzhen from the NEEQ on June 5, 2019 (the “**Delisting**”). We subsequently decided to apply for the Listing of our Shares on the Main Board of the Stock Exchange as we believe the listing would allow us to (i) gain direct access to the international capital markets for financing to fund our operations and further expansion and (ii) build on our reputation internationally, further enhance our bargaining power in our business dealings with our customers and attract higher profile international customers and strategic investors.

The market capitalization of Smoore Shenzhen upon the Delisting was RMB8,530.308 million based on the closing price of the shares of Smoore Shenzhen (RMB134.76 per share) on the NEEQ on the last trading day before the Delisting. The Delisting was approved by the shareholders of Smoore Shenzhen at an extraordinary general meeting of Smoore Shenzhen held on January 10, 2019.

Our Directors confirm that, to the best of their knowledge and belief, during the period which the shares of Smoore Shenzhen were listed on the NEEQ, Smoore Shenzhen (i) had been in compliance with all applicable PRC securities laws and regulations as well as applicable rules and regulations under the NEEQ in all material respects, (ii) had not been subject to any disciplinary action by the relevant regulators, and (iii) there were no other matters in relation to the prior listing on the NEEQ and the Delisting that should be brought to the attention of potential investors of our Company.

Our PRC Legal Advisers are of the opinion that in the application for Smoore Shenzhen's listing and Delisting on the NEEQ and during the period when its shares were listed on the NEEQ, Smoore Shenzhen had been in compliance with all applicable PRC securities laws and regulations as well as applicable rules and regulations under the NEEQ in all material respects and no regulatory measures or disciplinary actions have been taken by the NEEQ towards Smoore Shenzhen due to any violation of laws and regulations, no regulatory measures or administrative penalties or investigations have been imposed on Smoore Shenzhen by the CSRC and its dispatched units.

The Sole Sponsor has undertaken due diligence including background and litigation searches relating to Smoore Shenzhen, reviewing the announcements published by Smoore Shenzhen on the NEEQ website and reviewing the opinion made by the PRC Legal Advisers, and, based on the foregoing, nothing has come to the Sole Sponsor's attention in relation to the prior listing on the NEEQ and the Delisting that would adversely impact the suitability of the Company to list on the Stock Exchange.

Upon the Delisting and as at June 5, 2019, Smoore Shenzhen had a total of 129 shareholders. Pursuant to various share transfer arrangements, 16 shareholders of Smoore Shenzhen (including Mr. Chen) purchased an aggregate of 4,216,000 shares from 99 exiting shareholders who were willing to sell their shares at a price not lower than their original purchase price paid or at a consideration that was determined after arm's length negotiations among the parties with reference

OUR HISTORY AND DEVELOPMENT

to, among others, (i) the closing price of the shares of Smoore Shenzhen on the NEEQ on the last trading day before the Delisting and (ii) the original purchase price of the shares of Smoore Shenzhen paid by each of these 99 exiting shareholders. Upon the completion of the share transfer arrangements, Mr. Chen acquired an additional 1,448,000 shares of Smoore Shenzhen, representing approximately 2.2875% of the then total registered share capital of Smoore Shenzhen, as a result of which, Mr. Chen's shareholding in Smoore Shenzhen increased to 41.4529%.

In July 2019, the shareholders of Smoore Shenzhen passed a resolution at an extraordinary general meeting to approve, among other things, the conversion of Smoore Shenzhen from a joint stock company to a limited liability company. Upon completion of such conversion, the registered share capital of Smoore Shenzhen was RMB63,300,000.

(9) *The Concert Party Agreement*

In order to strengthen our risk management and internal control and to reflect their long-term partnership in the ownership and management of our Group, Mr. Chen and Mr. Xiong entered into the Concert Party Agreement. Mr. Chen and Mr. Xiong have been business partners since 2007 when Mr. Chen joined Shenzhen Simoer Technology Co., Ltd. (深圳思摩爾科技有限公司) as a minority shareholder. After Shenzhen Simoer Technology Co., Ltd. (深圳思摩爾科技有限公司) was deregistered in 2012, Mr. Xiong joined Shenzhen Smoore and started managing the Group's business since then. Mr. Chen and Mr. Xiong have been working closely and cooperating as parties acting in concert in exercise control over the Group and to develop the Group's business for more than 10 years. After long term cooperation, Mr. Chen and Mr. Xiong also shared an understanding on the management of the Group's business affairs and they perceived that it would be in their common interests to enter into a concert party agreement in governing the Group. Pursuant to the Concert Party Agreement, Mr. Chen and Mr. Xiong have undertaken, among other things, to act in concert in exercising their voting rights in the shareholders' general meetings of our Company with respect to our business operation and management.

Upon the completion of the Capitalization Issue and the Global Offering (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), and pursuant to the Concert Party Agreement, Mr. Chen and Mr. Xiong will be collectively entitled to exercise and control approximately 36.80% of our entire issued share capital.

OUR HISTORY AND DEVELOPMENT

OUR OTHER SUBSIDIARIES

Our other subsidiaries are all wholly-owned by Smoore Shenzhen. Except as disclosed in the notes below, none of our other subsidiaries set out in the following table had any shareholding change during the Track Record Period and up to the Latest Practicable Date:

No.	Name	Establishment Date	Incorporate Place	Principal Business Activity
1.	Maike Electronics ⁽¹⁾	September 16, 2013	PRC	Manufacturing of vaping devices
2.	Smoore Industry	March 12, 2014	Hong Kong	Export sales of vaping devices
3.	Maike Brothers	April 1, 2014	PRC	Manufacturing of vaping devices
4.	SVR	May 9, 2016	U.S.	Inactive
5.	Smoore Dongguan	April 10, 2018	PRC	Manufacturing of vaping devices
6.	Shenzhen Vaporesso	May 29, 2018	PRC	Manufacturing of vaping devices
7.	Jiangmen Moore ⁽²⁾	November 15, 2018	PRC	Manufacturing and sales of vaping devices
8.	Maike Technology	May 17, 2019	PRC	Manufacturing of vaping devices
9.	Shenzhen Maishi	August 8, 2019	PRC	Manufacturing of vaping devices
10.	Changsha Smoore	November 6, 2019	PRC	Inactive
11.	Jiangmen Smoore ⁽³⁾	November 13, 2019	PRC	Manufacturing and sales of vaping devices

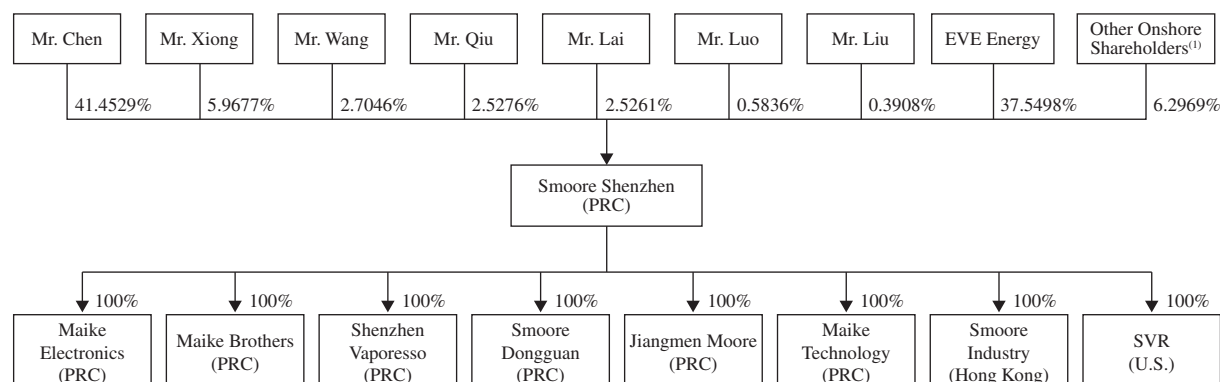
Notes:

- (1) At the time of the establishment, Maike Electronics had a registered share capital of RMB500,000 and was held by Mr. Bu Zhiqiang (“**Mr. Bu**”), brother of Mr. Chen, and Mr. Qiu as to 85% and 15%, respectively, on trust for Mr. Chen. At the time of establishing Maike Electronics, Mr. Chen was not in town for relevant corporate filings and therefore entrusted Mr. Bu and Mr. Qiu to establish Maike Electronics. By a shareholders’ resolution passed on December 16, 2013, (a) Mr. Bu and Mr. Qiu agreed to sell all their equity interest in Maike Electronics to Smoore Shenzhen (the “**2013 Maike Electronics Acquisition**”), and (b) the registered share capital of Maike Electronics was increased to RMB3,000,000, which was fully paid up by Smoore Shenzhen on December 25, 2013. At the same time, the above trust arrangement was terminated. Upon completion of the 2013 Maike Electronics Acquisition and the termination of the above trust arrangement, Maike Electronics became a directly wholly-owned subsidiary of Smoore Shenzhen.
- (2) By a shareholders’ resolution passed on March 28, 2019, the registered share capital of Jiangmen Moore was increased from RMB500,000 to RMB10,000,000. The newly increased registered share capital of RMB9,500,000 were paid up in cash by Smoore Shenzhen on September 5, 2019.
- (3) By a shareholders’ resolution passed on November 13, 2019, the registered share capital of Jiangmen Smoore was increased from RMB500,000 to RMB1,000,000. The registered share capital was fully paid up by Jiangmen Moore on December 13, 2019.

OUR HISTORY AND DEVELOPMENT

OUR CORPORATE STRUCTURE IMMEDIATELY PRIOR TO THE REORGANIZATION

Our business was carried out through a number of subsidiaries established or incorporated in China, Hong Kong and the U.S. The following chart sets forth the corporate structure of our Group immediately prior to the Reorganization:



Note:

- (1) Other Onshore Shareholders include (a) four corporate shareholders held by 58 individuals and (b) 25 individual shareholders (together with the 58 individuals under category (a), collectively, the “**Other Onshore Beneficial Owners**”, and each an “**Other Onshore Beneficial Owner**”). None of the Other Onshore Beneficial Owners held more than 1% equity interest in Smoore Shenzhen. To the best knowledge of our Directors, all the Other Onshore Beneficial Owners are independent third parties, except Dr. Liu Jincheng who is our non-executive Director.

DEVELOPMENT OF OUR GROUP STRUCTURE AND THE REORGANIZATION

In preparation for our Listing, our Group underwent the Reorganization pursuant to which our Company became the holding company and listing vehicle of our Group. The following sets out the key steps of the Reorganization:

The Reorganization

(1) *Establishment of our Company, Smoore BVI and Smoore HK*

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on July 22, 2019 as the holding company of our Group. Upon incorporation, our Company had an authorized share capital of US\$100,000,000 divided into 10,000,000,000 shares of a par value of US\$0.01 each. On the date of incorporation, one (1) share was allotted and issued nil paid to the initial subscriber and was subsequently transferred to BVI 1, an investment holding company established in the BVI and wholly owned by Mr. Chen. Our Company further allotted and issued 99 Shares nil paid to BVI 1 on July 22, 2019. The 100 nil paid Shares were subsequently fully paid up by BVI 1 on November 29, 2019.

Smoore BVI was established in the BVI as an investment holding company on July 23, 2019, which is wholly owned by our Company.

OUR HISTORY AND DEVELOPMENT

Smoore HK was established in Hong Kong as an investment holding company on August 21, 2019, which is wholly owned by Smoore BVI.

(2) *Offshore shareholding restructuring*

To reflect the onshore shareholding structure of Smoore Shenzhen, our Company further allotted and issued an aggregate of 61,831.65 ordinary shares at a par value of US\$0.01 each to the following Shareholders at a total consideration of US\$618.3165, which has been settled in full as of November 29, 2019:

<u>Name of Shareholder</u>	<u>Number of Shares allotted</u>	<u>Consideration for the allotment (US\$)</u>
BVI 1	24,771.32	247.7132
BVI 2	3,777.53	37.7753
BVI 3	1,712.00	17.1200
BVI 4	1,600.00	16.0000
BVI 5	1,599.00	15.9900
BVI 6	369.40	3.6940
BVI 7	247.40	2.4740
EVE BVI	<u>23,769.00</u>	<u>237.6900</u>
Subtotal	57,845.65	578.4565
Other Offshore Shareholders ⁽¹⁾	3,986.00	39.8600
— <i>Non-employee shareholders</i> ⁽²⁾	2,491.00	24.9100
— <i>Employee shareholders</i> ⁽³⁾	1,223.00	12.2300
— <i>Phoebe Mythology Limited</i> ⁽⁴⁾	<u>272.00</u>	<u>2.7200</u>
TOTAL	<u>61,831.65</u>	<u>618.3165</u>

Notes:

As of the Latest Practicable Date:

- (1) Other Offshore Shareholders consisted of 52 BVI limited liability companies established, individually or collectively, by our Other Onshore Beneficial Owners to reflect their interests in Smoore Shenzhen as part of the Reorganization. Other Offshore Shareholders can be divided into three categories: (a) Non-employee shareholders; (b) Employee shareholders; and (c) Phoebe Mythology Limited.
- (2) The non-employee shareholders were 37 investment holding entities established in the BVI and wholly owned by 37 Other Onshore Beneficial Owners, respectively. All of these 37 Other Onshore Beneficial Owners were independent third parties and did not hold any position in our Group.
- (3) The employee shareholders were 14 investment holding entities established in the BVI and wholly owned by 14 Other Onshore Beneficial Owners, respectively, who were employees of our Group. All employee shareholders were independent third parties except Golden Energy Global Investment Ltd., which was wholly owned by Dr. Liu Jincheng, our non-executive Director. Immediately after the completion of the Capitalization Issue and the Global Offering (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), Golden Energy Global Investment Ltd., will hold less than 1% of our total issued share capital.

OUR HISTORY AND DEVELOPMENT

- (4) Phoebe Mythology Limited is an investment holding entity established in the BVI and collectively held by the remaining 32 Other Onshore Beneficial Owners. All of these 32 Other Onshore Beneficial Owners are independent third parties, of which (a) 28 are individuals who do not hold any position in our Group, and (b) four are full-time employees of our Group.

(3) Capital injection by SBI Limited into Smoore Shenzhen

On September 11, 2019, we entered into a capital injection agreement with SBI Limited, pursuant to which the registered capital of Smoore Shenzhen increased from RMB63.30 million to RMB66.63 million and SBI Limited acquired 5% Smoore Shenzhen's equity interest at a consideration of US\$8,148,525, which was determined based on arm's length negotiation with reference to the valuation of the proportionate equity interest in Smoore Shenzhen as of April 30, 2019. RMB3,331,579 was injected to Smoore Shenzhen's registered share capital and the remaining amount of the consideration was credited to the capital reserves of Smoore Shenzhen. The consideration was fully settled on October 30, 2019. Upon completion of filings with the relevant authorities on September 11, 2019, Smoore Shenzhen became a sino-foreign joint venture, with a total registered capital of RMB66.63 million and was held as to 95% by the Founding Shareholders, EVE Energy and Other Onshore Shareholders (collectively, the "**Existing Onshore Shareholders**") collectively and 5% by SBI Limited.

SBI Limited is a limited liability company incorporated in the BVI and was owned by Vision Knight Capital (China) Fund II, L.P. ("**Vision Knight Fund**"), and Vision Knight Capital (China) Entrepreneur II, L.P. ("**Vision Knight Entrepreneur**"), as to 95.45% and 4.55%, respectively, prior to the equity transfer as described in paragraph (4) below. Both Vision Knight Fund and Vision Knight Entrepreneur are limited partnerships established under the laws of the Cayman Islands, acting through their common general partner, Vision Knight Capital (China) GPII, L.P., which in turn acts through its general partner VKC Cayman II Ltd. Both Vision Knight Fund and Vision Knight Entrepreneur are investment funds whose primary purpose is to make equity investments.

(4) Acquisition of Smoore Shenzhen

On October 18, 2019, our Company entered into an equity transfer agreement with Vision Knight Fund and Vision Knight Entrepreneur, pursuant to which our Company acquired 100% of SBI Limited for a total consideration of US\$8,148,525, which was determined based on arm's length negotiation with reference to the valuation (adopting income approach taking into account future income derived from tangible assets of the Company and the potential profitability of the Company) of Smoore Shenzhen as of April 30, 2019, being RMB1,152.17 million, in accordance with a valuation report issued by Beijing North Asia Asset Assessment Firm (Special General Partnership) (北京北方亞事資產評估事務所(特殊普通合夥)), an independent third party, and the proportionate equity interests held by Vision Knight Fund and Vision Knight Entrepreneur in Smoore Shenzhen. The consideration was fully settled on November 8, 2019. As a result, our Company, through its acquisition of SBI Limited, acquired 5% equity interest in Smoore Shenzhen.

OUR HISTORY AND DEVELOPMENT

Pursuant to the equity transfer agreements entered into between Smoore HK with each of the Existing Onshore Shareholders on October 31, 2019, respectively, Smoore HK acquired an aggregate of 95% equity interest in Smoore Shenzhen from the Existing Onshore Shareholders at a total consideration of RMB1,095.35 million, which was determined based on arm's length negotiation with reference to the valuation (adopting income approach taking into account future income derived from tangible assets of the Company and the potential profitability of the Company) of Smoore Shenzhen as of April 30, 2019, being RMB1,152.17 million in accordance with a valuation report issued by Beijing North Asia Asset Assessment Firm (Special General Partnership) (北京北方亞事資產評估事務所(特殊普通合夥)), an independent third party, and the proportionate equity interests held by such Existing Onshore Shareholders in Smoore Shenzhen. These equity transfers were completed on November 5, 2019 and the consideration was fully settled in cash on December 16, 2019.

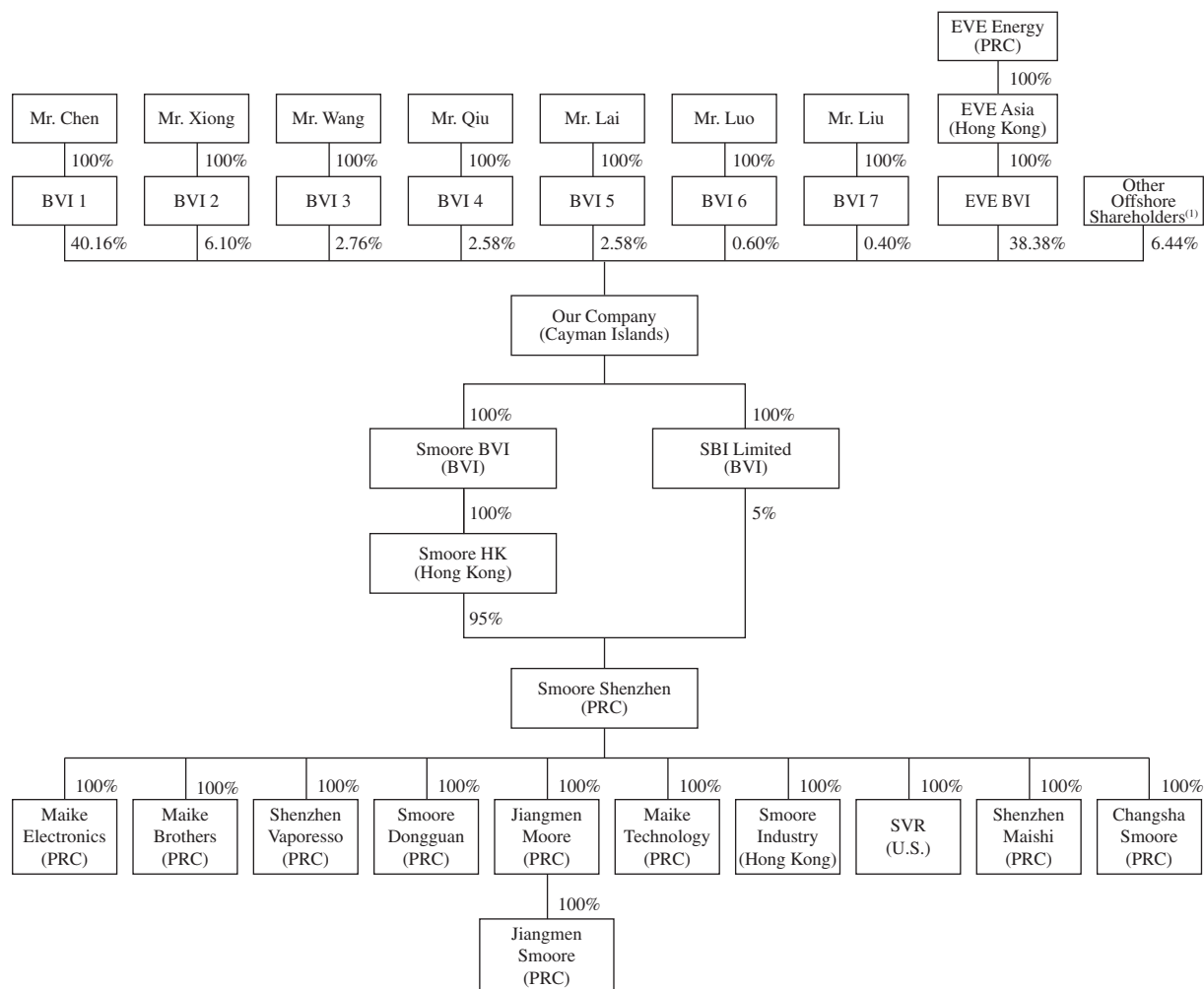
Upon completion of the above acquisitions, Smoore Shenzhen became a wholly-owned subsidiary of our Company and was converted from a sino-foreign joint venture to a foreign joint venture enterprise.

As confirmed by our PRC Legal Advisers, each of the equity transfers mentioned above for the purpose of the Reorganization was properly and legally completed and settled.

OUR HISTORY AND DEVELOPMENT

Our corporate structure following the Reorganization

The following chart sets forth our corporate and shareholding structure immediately upon the completion of the Reorganization:



Note:

- (1) For the details of the Other Offshore Shareholders, please refer to notes (1) to (4) under the paragraph “— Development of Our Group Structure and the Reorganization — The Reorganization — (2) Offshore shareholding restructuring” in this section.

OUR HISTORY AND DEVELOPMENT

PRE-IPO INVESTMENTS

We undertook the following pre-IPO investments:

Equity investments by Pre-IPO (Equity) Investors

Series A-1 Preferred Shares

On October 25, 2019, CCG China, Dora Medical, EVOLUT CAPITAL, Hero Might and Islandwide acquired from Mr. Chen, through an entity controlled by him, 131.248, 222.113, 80.768, 100.960 and 302.880 Series A-1 Preferred Shares of our Company for US\$6,499,989.03, US\$11,000,030.97, US\$3,999,993.25, US\$4,999,991.57 and US\$14,999,974.70, respectively, which were determined based on arm's length negotiation with reference to the valuation of our Company post investments (being US\$3,200,000,000), the timing of such investments and status of our business and operating entities in particular the outlook of our Group as illustrated by the number and profile of our investors. The consideration for each CCG China, Dora Medical, EVOLUT CAPITAL, Hero Might and Islandwide were fully settled by way of cash payment on October 30, 2019, October 30, 2019, October 25, 2019, November 1, 2019, and October 31, 2019, respectively.

Prior to the Capitalization Issue on the Listing Date, all Series A-1 Preferred Shares will be re-classified and re-designated as ordinary shares of our Company on a one-to-one basis. Upon completion of the Capitalization Issue and the Global Offering (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), each of CCG China, Dora Medical, EVOLUT CAPITAL, Hero Might and Islandwide will hold 10,499,840, 17,769,040, 6,461,440, 8,076,800 and 24,230,400 ordinary shares, respectively, representing approximately 0.18%, 0.31%, 0.11%, 0.14% and 0.42% of the total issued capital of our Company.

Ordinary shares to Sagittarius

On October 25, 2019, Sagittarius acquired from Mr. Chen, through an entity controlled by him, 530.381 ordinary shares of our Company for US\$26,266,843.57, which was determined based on arm's length negotiation with reference to the valuation of our Company post investment (being US\$3,200,000,000), the timing of such investments and status of our business and operating entities in particular the outlook of our Group as illustrated by the number and profile of our investors. The consideration was fully settled by way of cash payment on November 5, 2019.

Upon completion of the Capitalization Issue and the Global Offering (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), Sagittarius will hold 42,430,480 ordinary shares of our Company representing approximately 0.74% of the total issued share capital of our Company.

OUR HISTORY AND DEVELOPMENT

Cost per Share

On such basis, upon the Listing, the effective cost per Share paid by the Pre-IPO (Equity) Investors is approximately US\$0.62 (equivalent to approximately HK\$4.80), which represents a discount of approximately 50.00% to the low end of the stated Offer Price range of HK\$9.60 and a discount of approximately 61.29% to the high end of the stated Offer Price range of HK\$12.40.

Strategic benefits

Our Directors are of the view that the investments made by the Pre-IPO (Equity) Investors demonstrate their confidence in the operation of our Group and serves as an endorsement of the performance and prospect of our Group. In addition, at the time of respective investment made by our Pre-IPO (Equity) Investors, our Directors were of the view that our Group could benefit from the Pre-IPO (Equity) Investors' business connection network, knowledge and experience.

Further, our Directors are of the view that the Pre-IPO (Equity) Investors would be able to provide valuable advices and business insights relating to our operation and business strategies. Benefiting from Pre-IPO (Equity) Investors' extensive business network, we would also be able to reach out various business opportunities, including potential customers, potential suppliers and potential research and development partners.

Lock-up

Each of CCG China, Dora Medical, EVOLUT CAPITAL, Hero Might, and Islandwide is subject to a lock-up period not exceeding 180 days from the Qualified IPO. Sagittarius is not subject to any lock-up period.

Issue of Convertible Promissory Notes to Pre-IPO CN Investors

On October 30, 2019 (“**Issuance Date**”), our Company issued to Nall Technology, On Ride and Osborne the Convertible Promissory Notes with a total principal amount of US\$28,000,012.90, US\$9,499,984.76 and US\$14,099,986.88, respectively, which were fully settled by way of cash payment on November 19, 11 and 14, 2019, respectively. The above consideration paid by each of the Pre-IPO CN Investors was the principal amount of their respective Convertible Promissory Note and was determined based on arm's length negotiation between the relevant parties.

Other principal terms of the Convertible Promissory Notes are set out as follows:

- *Maturity Date.* The maturity date of the Note is the earlier of (i) one hundred and eighty (180) days following the Issuance Date of the Note; or (ii) the date upon which an event of default, a trade sale or a Qualified IPO (as defined below) occurs.
- *Early Redemption.* The Convertible Promissory Notes would not be redeemable until the maturity date.

OUR HISTORY AND DEVELOPMENT

- *Interest Rate.* Each Note bears a simple rate of eight percent (8%) per annum on the principal outstanding amount. No interest shall be payable in the event that the Note is converted into the Conversion Shares.
- *Optional Conversion.* Subject to the terms of Convertible Promissory Notes and unless otherwise agreed between our Company and the Pre-IPO CN Investors, the Pre-IPO CN Investors shall have the right, in its sole and absolute discretion, to convert all the principal amount of the Convertible Promissory Notes into: (i) Series A-2 Preferred Shares on or after the date that is one hundred and eighty (180) days following the Issuance Date of the Note; (ii) ordinary Shares immediately prior to the closing of a Qualified IPO if the Qualified IPO occurs before the date that is one hundred and eighty (180) days following the Issuance Date of the Note; or (iii) Conversion Shares on another date as mutually agreed by such Pre-IPO CN Investor and the Company. Each Pre-IPO CN Investor shall convert their respective Note into Series A-2 Preferred Shares prior to the Listing as described in the paragraph headed “— Conversion upon Listing” below.

Each of the Pre-IPO CN Investor may also, in its sole and absolute discretion, convert all or any portion of the entire outstanding principal amount of their respective Note into such number of Conversion Shares in the event of a trade sale.

- *Valuation.* US\$2,536,390,153.17, which is the US\$ equivalent to RMB18,000,000,000 (calculated based on 1:7.0967, which is the average of the buy/sell USD/RMB rates published by Bank of China Hong Kong on its website (<https://www.bochk.com/en/smeinone/investment/rates/usdrates.html>) on October 16, 2019 (Hong Kong time)) multiplied by a fraction, the numerator being the amount of registered capital of Smoore Shenzhen ultimately held by the Company, directly or indirectly, immediately before the issuance of Conversion Shares, and the denominator being the aggregate amount of registered capital of Smoore Shenzhen immediately before the issuance of Conversion Shares.
- *Qualified IPO.* The closing of the Company’s sale of ordinary shares (or securities representing ordinary shares) in a firm commitment underwritten public offering on a major securities exchange outside of the PRC (including the Stock Exchange, NASDAQ, New York Stock Exchange and other stock exchanges acceptable to the holders of the Series A-2 Preferred Shares, that values the Company as a whole at such an amount that the consideration per share of the Shares to be issued in such public offering is no less than then-effective conversion price immediately before the closing of such offering; provided that, if (i) the Company issues any Shares in any public offering for a consideration per share less than the then-effective conversion price, and (ii) (A) the then-effective conversion price has been adjusted for the purpose of such public offering, or (B) the Shareholders of the Series A-2 Preferred Shares have received cash compensation for the purpose of such public offering in accordance with the Shareholders Agreement.

OUR HISTORY AND DEVELOPMENT

- *Conversion price.*

The conversion price of the Convertible Promissory Notes is US\$39,254.19 and is calculated by applying the following formula:

Conversion price = Valuation/Number of Shares

Number of Shares = the total number of issued ordinary shares of our Company on a fully-diluted and as-converted basis, i.e. 64,614.509 ordinary shares

Notwithstanding anything to the contrary, the conversion price shall not be lower than the par value of the Shares of our Company.

- *Share charges.* As security for the obligations of our Company under the Convertible Promissory Notes, BVI 1, being one of our Controlling Shareholders, executed and delivered the share charges over ordinary shares representing approximately 3.11% of the total issued Shares of our Company as of the Issuance Date in favor of the Pre-IPO CN Investors. The share charges were released on April 30, 2020 by way of mutual agreement and the entering into of a deed of release by and amongst, BVI 1 and each of the Pre-IPO CN Investors.

- *Conversion.*

Pursuant to the Convertible Promissory Notes and the conversion notices dated April 30, 2020 issued by the Pre-IPO CN Investors, all the principal amount of the Convertible Promissory Notes held by each of Nall Technology, On Ride and Osborne was converted into 713,300, 242,012 and 359,197 Series A-2 Preferred Shares, respectively. Upon completion of the Capitalization Issue and the Global Offering (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), each of Nall Technology, On Ride and Osborne will directly hold 57,064,000, 19,360,960 and 28,735,760 ordinary shares of our Company, representing approximately 0.99%, 0.34% and 0.50% of our total issued share capital, respectively.

On such basis, upon the Listing, the effective cost per Share paid by Nall Technology, On Ride and Osborne is approximately US\$0.49 (equivalent to approximately HK\$3.80), which represents a discount of approximately 60.42% to the low end of the stated Offer Price range of HK\$9.60, and a discount of approximately 69.35% to the high end of the stated Offer Price range of HK\$12.40.

- *Use of proceeds.* The proceeds were used for acquiring the equity interest in Smoore Shenzhen and other Reorganization related matters of our Group. As of the Latest Practicable Date, the proceeds had been fully utilized.

OUR HISTORY AND DEVELOPMENT

- *Strategic benefits.* Our Directors are of the view that the investments made by the Pre-IPO CN Investors demonstrates their confidence in the operation of our Group and serves as an endorsement of the performance and prospect of our Group. In addition, our Company would benefit from the additional capital invested by the Pre-IPO CN Investors in our Group and/or their business connection network, knowledge and experience.

Further, our Directors are of the view that the Pre-IPO CN Investors are able to provide valuable advices and business insights relating to our operation and business strategies. Benefiting from Pre-IPO CN Investors' extensive business network, we would also be able to reach out various business opportunities, including potential customers, potential suppliers and potential research and development partners.

Each of the Pre-IPO CN Investors is subject to a lock-up period not exceeding 180 days from the Qualified IPO.

Special rights of the Pre-IPO Investors

In connection with the pre-IPO investments, the holders of Series A-1 Preferred Shares and Series A-2 Preferred Shares (collectively, the “**Preferred Shares**”) are entitled to certain special rights, such as pre-emptive right, right of first offer and co-sale right in the event that the Company proposes to offer any new Shares or an existing Shareholder wishes to sell his/its Shares in the Company as the case may be.

Pursuant to the Shareholders Agreement, in the event of a Liquidation Event (as described below) of any member of the Group (except any insignificant subsidiary of Smoore Shenzhen), the holders of the Preferred Shares are entitled to, among others, (i) receive an amount equal to the issue price of such outstanding Preferred Shares with a simple interest of eight percent (8%) per annum (accrued daily) before any distribution or payment shall be made to the holders of any ordinary shares of our Company; and (ii) participate in the distribution of the remaining assets or funds of our Company with the holders of ordinary shares of our Company ratably based on their respective shareholding (on as-converted basis) prior to the occurrence of such Liquidation Event (as described below).

As defined in the Shareholders Agreement, the Liquidation Event means, in respect of a Person, (i) any liquidation, dissolution, bankruptcy or winding up of such Person, whether voluntary or involuntary, or (ii) any Deemed Liquidation Event of such Person. The Deemed Liquidation Event means, in respect of any Person, means (a) any consolidation, amalgamation, merger, transfer, issuance, acquisition, business integration or reorganization of such Person with or into any other Person, or any other transaction or series of related transactions: (i) in which the members or shareholders of such Person immediately prior to such share sale own less than fifty percent (50%) of such Person's voting power in the aggregate immediately after such share sale, or (ii) in which any power that controls in excess of fifty percent (50%) of such Person's voting power or the majority of the board members of such Person is transferred (including but without limitation, such power transferred from one party to another party, and no party owns any such power immediately prior to the share sale while one or more part(ies) own(s) such power

OUR HISTORY AND DEVELOPMENT

immediately after the share sale) (other than the sale, lease, exclusive license or other disposition of substantially all of the assets to a wholly-owned subsidiary of such Person which survives after such sale, lease or other disposition); (b) a sale, transfer, lease or other disposition of all or substantially all of the assets (including but not limited to any material intellectual property) of such Person (or any series of related transactions resulting in such sale, transfer, lease or other disposition of all or substantially all of the assets of such Person); or (c) the exclusive licensing of all or substantially all of such Person's intellectual property to a third party.

The holders of Preferred Shares also enjoy anti-dilution right under the Shareholders Agreement, pursuant to which in the event that our Company issues any new Shares without consideration or for a consideration per share less than the then-effective conversion price per share, they have the right to reduce its then-effective conversion price to the price per share at which such new Shares were issued, concurrently with such diluting issue, or at their sole discretion, elect to receive compensation from the Company and/or Mr. Chen and Mr. Xiong, collectively in the form of cash.

All special rights granted to the Pre-IPO Investors (if any) shall be automatically terminated upon Listing. Our Directors further confirm that, upon Listing, the Company's Articles will not contain any provisions that provide any special rights to the Pre-IPO Investors.

Background of the Pre-IPO Investors

Nall Technology

Nall Technology is a limited partnership formed under the laws of the Cayman Islands on June 13, 2019 and is ultimately managed by its general partner, Nall Technology Management Ltd. As of the Latest Practicable Date, Nall Technology had two limited partners, one of which, Pier 39, L.L.C., held more than 30% of the interests in Nall Technology.

Pier 39, L.L.C. is a limited liability company which makes private equity and other investments. Pier 39, L.L.C. was formed under the laws of Delaware and is ultimately controlled by Mr. Louis M. Bacon, who has 31 years of experience in investing in different industries and, based on the Company's knowledge after due enquiry, is an independent third party. As of the Latest Practicable Date, the other limited partner of Nall Technology is Belinder Holdings L.L.C., an institutional investor based in the U.S., which held minority interests in Nall Technology. Belinder Holdings L.L.C. was formed under the laws of Delaware and is ultimately controlled by Jaimin Rangwalla, who has approximately 16 years of experience in investing in public and private markets and technology and, based on the Company's knowledge after due enquiry, is an independent third party.

Nall Technology Management Ltd., an exempted company incorporated under the laws of Cayman Islands, is wholly owned by Mr. Jaimin Rangwalla.

Nall Technology is an investment vehicle principally engaged in investment in the consumer, retail and technology industries. Nall Technology contacted us through its own business network in early 2019.

OUR HISTORY AND DEVELOPMENT

On Ride

On Ride is a limited liability company incorporated under the laws of the BVI on March 15, 2004 and is wholly owned by Mr. Li To who has more than 10 years of experience in investing in stocks, funds and private equities in China and overseas with his own fund. On Ride is a private equity fund primarily focused on securities investments and private equity investments in medical and digital technology industries. Previous investments of On Ride include a leading cancer gene sequencing company and a leading cloud computing company. On Ride approached us to seek business cooperation with an aim to invest in a leading vaping company like our Company in September 2019.

Osborne

Osborne is a limited liability company incorporated under the laws of the BVI on March 26, 2018 and is an investment holding company owned by Vision Knight Fund and Vision Knight Entrepreneur as to 95.5% and 4.5%, respectively.

Both Vision Knight Fund and Vision Knight Entrepreneur (collectively, “**Vision Knight Capital USD Fund II**”, and together with their respective associates, “**Vision Knight Capital**”) are investment funds established in the form of limited partnerships under the laws of the Cayman Islands and are parallel USD investment vehicles managed by their general partner Vision Knight Capital (China) GP II, L.P. (“**Vision Knight GP**”) which, as of the Latest Practicable Date, held 5.71% and nil interests in Vision Knight Fund and Vision Knight Entrepreneur, respectively. As of the Latest Practicable Date, (i) Vision Knight Fund had 57 limited partners of which 54 limited partners each held less than 5% of the interests in Vision Knight Fund and three limited partners in aggregate held 26.66% of the interests in Vision Knight Fund, including one international fund of funds and two foreign sovereignty wealth; and (ii) Vision Knight Entrepreneur had 33 limited partners, none of which each held more than 10% of the interests in Vision Knight Entrepreneur.

Vision Knight GP is ultimately managed by its general partner VKC Cayman II Ltd., which has nil interest in Vision Knight GP. VKC Cayman II Ltd. is a limited liability company incorporated under the laws of Cayman Islands and wholly owned by Mr. Wei Zhe. As of the Latest Practicable Date, Vision Knight GP had 11 limited partners of which eight limited partners each held less than 5% of the interests in Vision Knight GP and three other limited partners who together held approximately 91% of the interests in Vision Knight GP with Mr. Wei Zhe, Mr. Zhu Hailong and Dr. Zhu Daming ultimately held approximately 66%, 17% and 8% of the interests in Vision Knight GP, respectively.

Vision Knight Capital is a private equity fund founded by Mr. Wei Zhe in 2011. As of the Latest Practicable Date, Vision Knight Capital has a total asset under management of over RMB10 billion with two U.S. dollar funds, one of which being Vision Knight Capital USD Fund II, and two RMB funds. Vision Knight Capital primarily focuses on investing in consumer, internet, education and B2B industries. Previous investments of Vision Knight Capital include a leading fashion brand company listed on the Stock Exchange, a leading K-12 education company listed on the New York Stock Exchange and a leading real estate B2B company listed on the NASDAQ.

OUR HISTORY AND DEVELOPMENT

Mr. Wei Zhe has around 20 years of experience in the investment, management and operation in China. Prior to founding Vision Knight Capital, he was the chief executive officer of Alibaba.com Limited for five years. Mr. Zhu Hailong is the managing partner of Vision Knight Capital and prior to joining Vision Knight Capital, he was the chief executive officer of a leading online advertising service provider in China and Dr. Zhu Daming is a founding partner of Vision Knight Capital and he has more than 14 years of experience in the investment and finance with focuses on medical and consumer industry.

The investment group of Osborne approached us to seek business cooperation opportunities with an aim to invest in a leading vaping company like our Company in March 2019.

CCG China

CCG China is a limited partnership formed under the laws of the Cayman Islands on March 20, 2018 and is managed by its general partner FY Capital Limited. CCG China is a private equity fund which principally engages in investments in China with a focus on technology, media and telecommunications, as well as consumer and healthcare industries. CCG China's past investments include pre-IPO equity investments in a Chinese group buying website for local food delivery services, consumer products and retail services, and a Guangzhou-based developer of facial recognition software.

As of the Latest Practicable Date, CCG China was owned by its two limited partners, Sino Ventures Group Limited and HJ Group Limited, holding 52% and 48%, respectively, which were in turn ultimately and wholly owned by Ms. Zhang Wangjin and Mr. Guan Weidong, respectively. Ms. Zhang Wangjin has more than ten years of investment experience with a focus on financial services, consumer, technology, and healthcare industries. Mr. Guan Weidong is experienced in investment in both the private market and public market across the US, Hong Kong and China.

FY Capital Limited is a limited liability company incorporated in the Cayman Islands and is ultimately and wholly owned by Ms. Zhang Wangjin. FY Capital principally invests in healthcare, consumer and TMT sectors globally.

We became acquainted with CCG China through an external financial adviser engaged by our Company in October 2019.

Dora Medical

Dora Medical is a limited liability company incorporated in Hong Kong on January 21, 2019 solely for the purpose of investment in our Company and is wholly owned by HL Partners II L.P., a limited partnership formed under the laws of the Cayman Islands, which is ultimately managed by its general partner HL GP II Company Limited.

As of the Latest Practicable Date, V-Sciences Fund Investments Pte Ltd and Beijing Shunrong Investment Corporation (北京順榮投資有限公司), being the largest two limited partners, each held approximately 13% of the interests in HL Partners II L.P. V-Sciences Fund Investments Pte Ltd is an exempt private company incorporated in Singapore and is wholly owned by Temasek Holdings (Private) Limited, which in turn is wholly owned by the Singapore Ministry of Finance. V-Sciences

OUR HISTORY AND DEVELOPMENT

Fund Investments Pte Ltd principally engages in equity investment. Beijing Shunrong Investment Corporation (北京順榮投資有限公司) is a limited liability company incorporated in the PRC and is wholly owned by the State Council of the PRC. Beijing Shunrong Investment Corporation (北京順榮投資有限公司) principally engages in the equity investment, investment management and investment consulting. As of the Latest Practicable Date, the other limited partners of HL Partners II L.P. include corporate investors, institutional investors as well as individual investors, all of whom held minority interests in HL Partners II L.P.. Based on the Company's knowledge after due enquiry, such other limited partners are independent third parties. HL Partners II L.P. is an investment fund which principally focuses on investment opportunities in medical and healthcare industries and other related industries.

HL GP II Company Limited is a limited liability company incorporated in the Cayman Islands. HL GP II Company Limited holds 2.5% of the interests in HL Partners II L.P. and is owned by Mr. WANG Stephen Hui, currently the sole director of HL GP II Company Limited, and Ms. WU Wei as to 91.25% and 8.75%, respectively. Mr. WANG Stephen Hui has nearly 20 years of experience in the medical industry and healthcare investment, focusing exclusively on healthcare services, medical device and pharmaceutical sectors. Ms. WU Wei has more than 15 years of experience in financial management and investment analysis.

We became acquainted with Dora Medical through an external financial adviser engaged by our Company in September 2019.

EVOLUT CAPITAL

EVOLUT CAPITAL is a segregated portfolio company with limited liability incorporated in the Cayman Islands on August 12, 2019 and EVOLUT CAPITAL BEST SELECTION FUND NUMBER ONE SP is a segregated portfolio designated by EVOLUT CAPITAL on October 10, 2019 for the sole purpose of investments in our Company. EVOLUT CAPITAL primarily engages in private equities, properties investments (such as land), fund of funds, real estates, life settlement funds in overseas markets for the purpose of capital appreciation. EVOLUT CAPITAL is ultimately controlled by Evolut Holding Ltd, an entity wholly-owned by Ms. Cheung Ngan Kiu and managed by the director Ms. Zhuoyun Song who has more than five years of experience in investing in stocks and funds in China and overseas. We became acquainted with EVOLUT CAPITAL through an external financial adviser engaged by our Company in September 2019.

Hero Might

Hero Might is a limited liability company incorporated in the BVI on April 11, 2014 primarily for the purpose of investing in technology, media and telecommunications and manufacturing industries in China area. Hero Might is wholly owned and controlled by Mr. Wang Chong, the executive director of Hero Might. Mr. Wang Chong is an individual investor and an experienced fund manager with more than ten years of investment experience with his own fund. Mr. Wang Chong works as senior executive in a leading Chinese asset management firm focusing on investments in Hong Kong stock market. We became acquainted with Mr. Wang Chong through an external financial adviser engaged by our Company in October 2019.

OUR HISTORY AND DEVELOPMENT

Islandwide

Islandwide is a limited liability company incorporated in the BVI on July 2, 2008 and is principally engaged in investments in consumer, retail and technology, media and telecommunications industries including a recent investment in a Hong Kong listed natural resources investment and commodities business company. Islandwide is wholly owned and controlled by Ms. Yu Hsuan-Jung. Ms. Yu Hsuan-Jung, a director of Islandwide, is an individual investor who has an established investment portfolio in China via Islandwide. We became acquainted with Islandwide through an external finance adviser engaged by our Company in October 2019.

Sagittarius

Sagittarius is a limited liability company incorporated in the BVI on September 20, 2019 and is wholly owned by Mr. Victor Zhang, who is an investor looking for investment opportunities in the emerging market and industry with his own fund. Mr. Victor Zhang has a range of real estate investments in China, Singapore and Canada. In recent years, Mr. Victor Zhang has a growing interest in emerging industries with a particular focus on consuming sector. To diversify his investment profiles, Mr. Victor Zhang has invested in, among others, a U.S.-based leading global coffeehouse chain and two China-based e-commerce giants. We became acquainted with Mr. Victor Zhang through an external financial adviser engaged by our Company in August 2019.

The above Convertible Promissory Notes had been fully converted and shares had been subscribed in full and there were no pre-IPO arrangement subsisting as of the Listing Date. Other than the investments made by the Pre-IPO Investors as disclosed in this prospectus, none of the Pre-IPO Investors is a connected person (as defined under the Listing Rules) of our Company. The Shares held by each of the Pre-IPO Investors will be treated as part of the public float of our Company following Listing for the purpose of Rule 8.08 of the Listing Rules.

As of the Latest Practicable Date and to the best of our knowledge, information and belief, (i) there was no other past or present relationship among the Pre-IPO Investors; and (ii) none of the Pre-IPO Investors had any other past or present relationship with our Company, our subsidiaries, our connected persons and our senior management. All the Pre-IPO Investors are parties independent of our Company, our subsidiaries, our connected persons and our senior management.

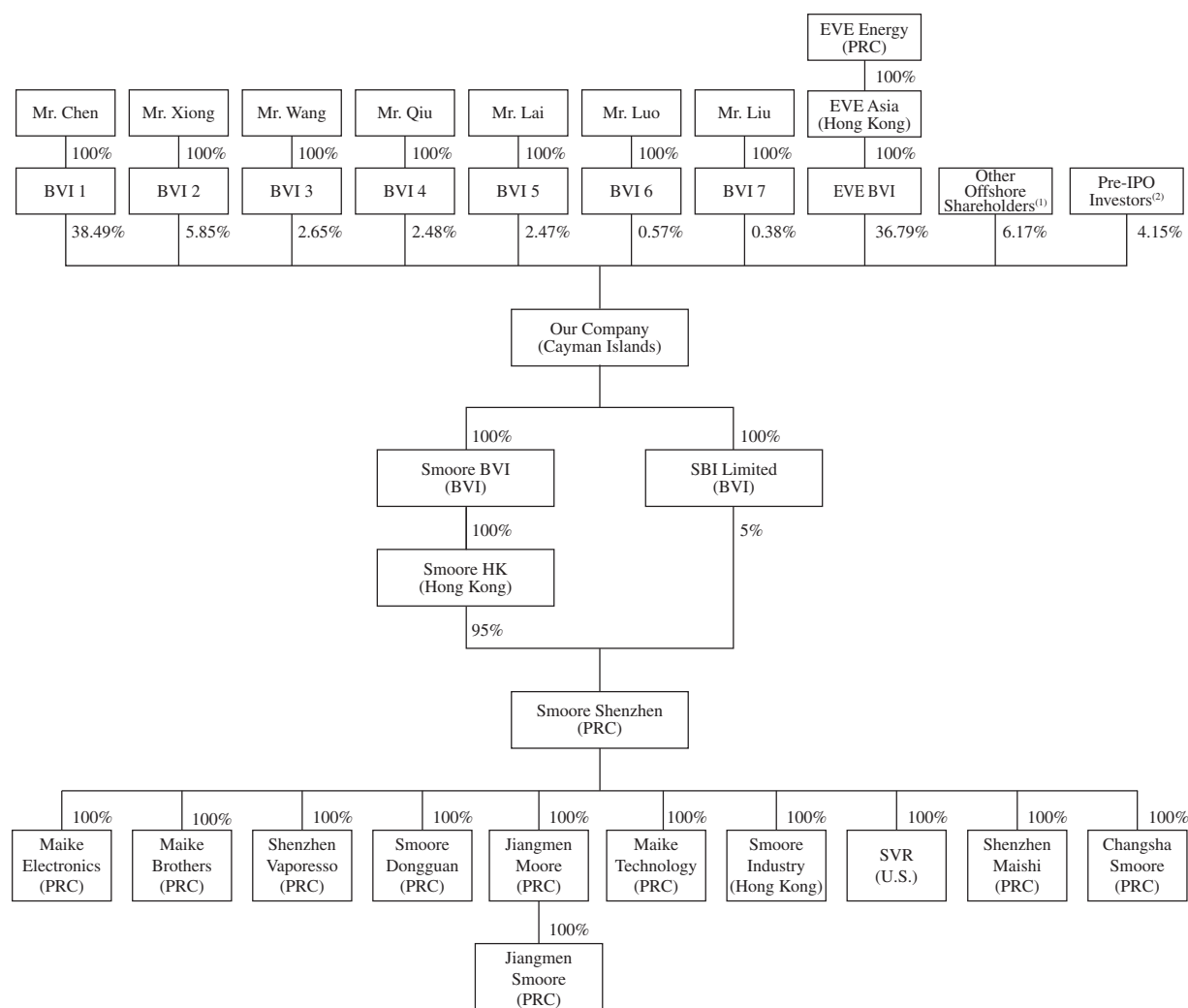
Confirmation from the Sole Sponsor

The Sole Sponsor is of the view that the terms of the Pre-IPO investments as described above are in compliance with (i) the Interim Guidance on the Pre-IPO investments issued by the Stock Exchange on October 13, 2010 and as updated in March 2017, as the considerations of the pre-IPO investments were all settled more than 28 clear days before the date of our first submission of the listing application form to the Listing Division of the Stock Exchange in relation to the Listing; (ii) the Guidance Letter HKEx-GL43-12 issued by the Stock Exchange in October 2012 and as updated in July 2013 and March 2017 and (iii) the Guidance Letter HKEx-GL44-12 issued by the Stock Exchange in October 2012 and as updated in March 2017, as the special rights granted to each of the Pre-IPO Investors will be terminated upon Listing.

OUR HISTORY AND DEVELOPMENT

Corporate Structure upon Completion of the Pre-IPO Investment

The following chart sets forth our corporate and shareholding structure immediately following the completion of the Pre-IPO Investment:



Notes:

- (1) For the details of the Other Offshore Shareholders, please refer to notes (1) to (4) under the paragraph “— Development of Our Group Structure and the Reorganization — The Reorganization — (2) Offshore shareholding restructuring” in this section.
- (2) Assuming the Notes issued to the Pre-IPO CN Investors are converted to our ordinary shares as described under the paragraph headed “— Pre-IPO Investments — Issue of Convertible Promissory Notes to Pre-IPO CN Investors” in this section.

OUR HISTORY AND DEVELOPMENT

CAPITALIZATION ISSUE

Pursuant to the resolutions of our Shareholders passed on June 15, 2020, subject to and conditional upon the share premium account of our Company being credited as a result of the issue of Offer Shares pursuant to the Global Offering, our Directors were authorized to allot and issue a total of 5,169,096,105.491 Shares credited as fully paid at par to the holders of Shares whose names are entered on the principal register of members of the Company maintained in the Cayman Islands prior to the Capitalization Issue (or as they may direct) in proportion to their respective shareholdings by way of capitalization of the sum of approximately US\$51,690,961.06 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares.

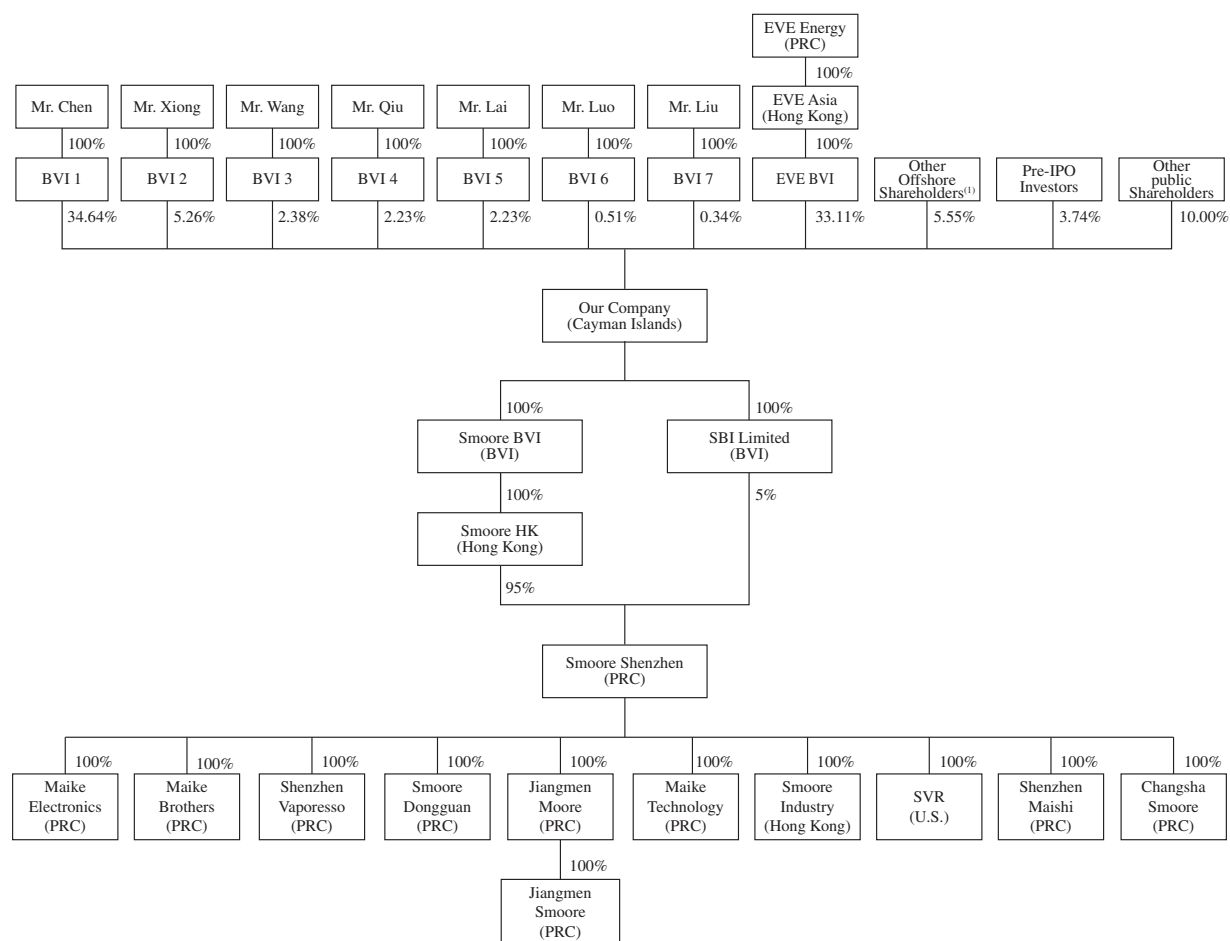
PRE-IPO SHARE OPTION SCHEME

On September 30, 2019, we adopted the Pre-IPO Share Option Scheme. Pursuant to the Pre-IPO Share Option Scheme, we have granted the Pre-IPO Share Options to 558 Grantees, including 15 Grantees who are our Directors and their associates and directors/general managers of our subsidiaries, 1 Grantee who is a member of our senior management named in this prospectus and 542 Grantees who are our employees but not Directors or their associates, senior management named in this prospectus or directors/general managers of our subsidiaries. A summary of the principal terms and conditions of the Pre-IPO Share Option Scheme is set out in the paragraph headed “D. Share Option Schemes — 1. Pre-IPO Share Option Scheme” in Appendix IV to this prospectus.

OUR HISTORY AND DEVELOPMENT

CORPORATE STRUCTURE UPON COMPLETION OF THE CAPITALIZATION ISSUE AND THE GLOBAL OFFERING

The following chart sets forth our corporate structure immediately after completion of the Capitalization Issue and the Global Offering (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):



Notes:

- (1) For the details of the Other Offshore Shareholders, please refer to notes (1) to (4) under the paragraph “— Development of Our Group Structure and the Reorganization — The Reorganization — (2) Offshore shareholding restructuring” in this section.
- (2) Except for the shareholding of BVI 1, BVI 2, EVE BVI and Golden Energy Global Investment Ltd. (a wholly owned company of Dr. Liu Jincheng, our non-executive Director and one of the Other Offshore Shareholders, with a shareholding of 0.85%), the shareholding of BVI 3, BVI 4, BVI 5, BVI 6, BVI 7, the remaining Other Offshore Shareholders (with a shareholding of 4.70%) and the Pre-IPO Investors, with the aggregated shareholding of 16.13%, will be counted as public float.

OUR HISTORY AND DEVELOPMENT

COMPLIANCE WITH PRC LAWS AND REGULATION

Our PRC Legal Advisers confirmed that (i) the establishment of our subsidiaries in China and their subsequent shareholding changes have complied with the relevant PRC laws and regulations in all material respects; and (ii) the Reorganization has complied with relevant applicable PRC laws and regulations in material respects.

PUBLIC FLOAT

Upon the Listing, the Shares held by Mr. Chen (through BVI 1), Mr. Xiong (through BVI 2), Dr. Liu Jincheng (through Golden Energy Global Investment Ltd.) and EVE Energy (through EVE Asia and EVE BVI) will not be counted towards the public float of the Company. Save for our Shares held by such Shareholders, our Shares held by other existing Shareholders will be counted towards the public float. Taking into account our Shares held by the existing Shareholders and our Shares to be issued to other public Shareholders pursuant to the Global Offering, our Directors are of the view that our Company will be able to satisfy the public float requirement under Rule 8.08 of the Listing Rules.

SAFE REGISTRATION

Pursuant to the SAFE Circular No. 37, before a PRC resident contributes assets or equity interests in an overseas special purpose vehicle (the “**Overseas SPV**”), the PRC resident must conduct foreign exchange registration for offshore investment with the local branch of SAFE. Pursuant to the Circular of SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知) (the “**SAFE Circular No. 13**”) issued by SAFE and became effective on June 1, 2015, the aforesaid registration shall be directly reviewed and handled by qualified banks instead of the local branch of SAFE.

Our PRC Legal Advisers have confirmed that each of Mr. Chen, Mr. Xiong and other ultimate shareholders of the offshore holding vehicles holding our Shares as of the date of this prospectus, being PRC residents, has duly registered in respect of his/her investment in our Group in accordance with SAFE Circular No. 37 and SAFE Circular No. 13 in September 27, 2019.

M&A RULES

According to Article 2 of the “Provisions on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors” (關於外國投資者併購境內企業的規定) (the “**M&A Rules**”) jointly issued by six PRC governmental and regulatory agencies, including MOFCOM and CSRC, which became effective on September 8, 2006 and amended on June 22, 2009, foreign investors should comply with the M&A Rules and other applicable PRC laws and regulations when the foreign investors purchase equity interests in a domestic non-foreign-invested enterprise (“**domestic company**”) or subscribes for increased capital of a domestic company, thus changing the nature of the domestic company into a foreign-invested enterprise (“**merger and acquisition of equity interests**”); or when the foreign investors establish a foreign-invested enterprise in the PRC,

OUR HISTORY AND DEVELOPMENT

through which they purchase and operate the assets of a domestic company by agreement; or when foreign investors purchase the assets of a domestic company, establish a foreign-invested enterprise by injecting such assets, and operate the assets.

Pursuant to the Manual of Guidance on Administration for Foreign Investment Access* (《外商投資准入管理指引手冊》(2008)) promulgated by Foreign Investment Department of the Ministry of Commerce* (商務部外資司), notwithstanding the fact that (i) the domestic shareholder of the domestic company is connected with the foreign investor or not; (ii) whether the foreign investor is an existing shareholder or a new investor, the M&A Rules shall not apply to the merger and acquisition of equity interests in a foreign-invested enterprise.

Upon the completion of the filing of the joint venture agreement and relevant documents with relevant authorities on September 11, 2019, Smoore Shenzhen became a sino-foreign joint venture. Subsequently, on November 5, 2019, Smoore Shenzhen became a foreign joint venture enterprise, with Smoore HK and SBI Limited holding 95% and 5% of its entire equity interest, respectively, and has since completed relevant registration and filing in accordance with applicable provisions and regulations governing changes in equity of foreign-invested enterprises. Please refer to the paragraph headed “— Development of Our Group Structure and the Reorganization — The Reorganization — (3) Capital injection by SBI Limited into Smoore Shenzhen” for details. Therefore, the Reorganization of our Group is not subject to the M&A Rules and the Listing of our Company does not require approvals from the CSRC and the MOFCOM under the M&A Rules.

OVERVIEW

We are a global leader in offering vaping technology solutions, including manufacturing vaping devices and vaping components for HNB products on an ODM basis, with advanced R&D technology, strong manufacturing capacity, wide-spectrum product portfolio and diverse customer base. According to Frost & Sullivan, we were the world's largest vaping device manufacturer in terms of revenue, accounting for 16.5% of the total market share, in 2019. Through our innovative and pioneering vaping technology solutions, we operate two principal business segments: (i) research, design and manufacturing of closed system vaping devices and vaping components for a number of global leading tobacco companies and independent vaping companies, such as Japan Tobacco, British American Tobacco, Reynolds Asia-Pacific, RELX and NJOY, and (ii) research, design, manufacturing and sale of self-branded open system vaping devices, or APV, for retail clients.

The market for vaping devices has developed at a rapid pace, which, since its emergence, has been gaining increasing popularity globally. According to Frost & Sullivan, the market size of the global vaping device market by revenue at ex-factory price grew rapidly at a CAGR of 29.7% from US\$1.8 billion in 2014 to US\$6.7 billion in 2019, and is expected to further grow at a CAGR of 27.7% to reach US\$22.7 billion by 2024. The market growth is primarily driven by technological innovation, enriched functionality and enhanced safety in vaping devices. With technological development and increasing investment in production development, vaping devices have become more advanced and diversified in terms of configurations, vaping experience, power, style, etc. In such dynamic and diverse industry, a vast range of vaping devices were introduced by tobacco companies and independent vaping companies seeking a larger share of the vaping market. According to Frost & Sullivan, there are more than 1,200 vaping device manufacturers globally. Though the top five players accounted for 30.5% of the entire market share in terms of revenue, the top ten players accounted for less than half of the entire market share in terms of revenue in 2019, and most of the vaping device manufacturers are small to medium-sized enterprises. In response to such trend and to maintain our existing market share, we have focused on the development, manufacturing, marketing and sales of vaping devices, and the improvement in vaping technology.

Our strong R&D capabilities are critical to the building and maintaining of our market leading position. We not only focus on scientific research but also its practical application to our products. Our R&D platform consists of three separate departments, namely the basic research centers, the technology center and the technology industrial center, each focusing on different aspects of the research areas — from basic research exploring, advancing the fundamental knowledge and generating new ideas, to applying scientific theories to conduct new technology development and project incubation, and further to the application and testing of such technology for the mass production of our products. With a comprehensive R&D platform, we are able to further build and market our technology brand. We introduced our first generation of heating technology in 2016, and further launched its second generation “FEELM,” which combines metal films with ceramic conductors to achieve improvements in material and structural science. In September 2018, “FEELM” won the “Golden Leaf Award” from the Tobacco Reporter and Vapor Voice Magazine. In addition, in October 2019, we became the only company since 2013 among the top five vaping device manufacturers in terms of revenue in 2018 to be awarded the “China Patent Excellence

Award” by the National Intellectual Property Administration, PRC for our patent relating to the manufacturing technique and application of porous ceramic. The “China Patent Excellence Award” is one of China’s most prestigious awards for patents. The selection criteria for the award include patent quality, technology advancement, application and protection measures, social benefits as well as development prospects. In November 2019, we also received the “Laboratory Accreditation Certificate” from the China National Accreditation Service for Conformity Assessment for the safety and quality of our laboratories. The scope of the accreditation encompasses our laboratories’ ability to conduct chemical analysis, physical performance testing, and product quality testing, among others. Our ability to build up our own technology brands serves as an entry barrier to other competitors and also helps maintain our leading position in the vaping industry.

We take into consideration the practicability of future mass production and possible solutions to increase production efficiency and profitability during our R&D process. Therefore, we are able to turn our R&D results into innovative and diversified vaping devices. As one of the earliest vaping technology solution providers in China, we are known for our integrated production system and well-established supply chain management through years of experience. In addition, we have developed a worldwide customer network consisting of global leading tobacco companies and independent vaping companies. A majority of our sales are exported to more than 50 overseas countries, primarily including the U.S., Japan and European countries. Our strong relationships with our key customers not only enable us to maintain our existing business scale but also offer development opportunities in different products and applications. We have expanded our product offerings to capture different and future market opportunities, from closed system vaping devices to self-branded open system APV. By having an edge on developing and integrating innovative technologies, we are able to achieve improvements in product technology, structure and design so as to provide vaping devices that meet our customers’ demands.

Benefiting from the above advantages, we had experienced significant revenue and profit growth during the Track Record Period. Our revenue increased from RMB707.3 million in 2016 to RMB7,610.6 million in 2019, representing a CAGR of 120.8%. Our profit and total comprehensive income for the year increased from RMB106.2 million in 2016 to RMB2,173.8 million in 2019, representing a CAGR of 173.5%.

STRENGTHS

Our success is attributable to the following competitive strengths:

World’s largest vaping technology solution provider

We are a global leader in offering vaping technology solutions with advanced R&D technology, strong manufacturing capacity, wide-spectrum product portfolio and diverse customer base. According to Frost & Sullivan, we were the world’s largest vaping device manufacturer in terms of revenue, accounting for 16.5% of the total market share, in 2019.

The market for vaping devices has developed at a rapid pace, which, since its emergence, has been gaining increasing popularity globally. According to Frost & Sullivan, the market size of the global vaping device market by revenue at ex-factory price grew rapidly at a CAGR of 29.7% from

US\$1.8 billion in 2014 to US\$6.7 billion in 2019, and is expected to further grow at a CAGR of 27.7% to reach US\$22.7 billion by 2024. The market growth is primarily driven by technological innovation, enriched functionality and enhanced safety in vaping devices. With technological development and increasing investment in production development, vaping devices have become more advanced and diversified in terms of configurations, vaping experience, power, style, etc. In such dynamic and diverse industry, a vast range of vaping devices were introduced by tobacco companies and independent vaping companies seeking a larger share of the vaping market. According to Frost & Sullivan, there are more than 1,200 vaping device manufacturers globally. Though the top five players accounted for 30.5% of the entire market share in terms of revenue, the top ten players accounted for less than half of the entire market share in terms of revenue in 2019, and most of the vaping device manufacturers are small to medium-sized enterprises.

Despite the extraordinary growth in the global vaping industry, it would be challenging for new entrants to compete with us due to the high entry barriers, including requirements for R&D capabilities, established relationship with customers, high-caliber talents and significant capital investment. With our first-mover advantage and breakthrough technology, we were able to capture and capitalize the enormous market opportunities and achieve significant growth in our business scale during the Track Record Period. Our revenue from corporate client oriented sales increased from RMB510.0 million in 2016 to RMB6,568.7 million in 2019, representing a CAGR of 134.4%. As to our revenue from retail client oriented sales through our self-branded APV, our revenue in this business line increased from RMB197.3 million in 2016 to RMB1,041.9 million in 2019, representing a CAGR of 74.1%.

Advanced R&D-manufacturing integration technology platform

Our strong R&D capabilities are critical to the building and maintaining of our market leading position. We leverage our R&D platform to market our key technology and increase our brand awareness. We not only focus on scientific research but also its practical application to our products. Our R&D platform consists of three separate departments, namely the basic research centers, the technology center and the technology industrial center, each focusing on different aspects of the research areas. Based on our strategic plans and the industry trends, our basic research centers explore and advance the fundamental knowledge and generate new ideas, which form the basis of progress and development in our vaping technology. On the foundation of the research results, our technology center subsequently applies these scientific theories to conduct new technology development and project incubation. After a new technology is developed, our technology industrial center will apply and test such technology for the mass production of our products. By integrating the different functions of these three departments, we are able to bolster the development in our core technology and respond to market demands in a timely manner.

As of the Latest Practicable Date, we had advanced R&D resources of three research centers and 645 R&D personnel. Furthermore, we have various design and R&D technology patents in the field of vaping technology. As of the Latest Practicable Date, over 1,600 patents had been applied for in China and overseas, of which more than 700 patents had been granted. Our in-house engineers have accumulated product and technical expertise, and have been working with our customers closely in product design, research and development. For example, to enhance product

performance, our R&D team conducted feasibility study and applied our heating technology in a new product “TARGET,” which successfully gained market popularity by eliminating some of the defects in atomization.

With our business strategies to meet the evolving customer demands, our R&D team focuses on different research areas and has achieved various milestones. Our R&D development path has gradually evolved along with the industry trends and the enhancement in our R&D capabilities — from product application to product structure, and further to core vaping technology. At the early stage of our business, we first placed our focus on the development of disposable vaping devices, which contributed to our cooperation with NJOY in 2009 and subsequent production of “NJOY King Size” in 2012 by NJOY. Backed by our R&D experience accumulated in the production of a wide range of vaping devices, we were able to generate and realize innovative ideas across multiple product lines and further elevate our R&D focus to product structure, which can be applied among different product types. As atomizer is the key component in a vaping device, we focused on the enhancement of its structure. Through our continuous R&D efforts, we later successfully made a breakthrough on the limit of liquid reserving by replacing traditional e-liquid absorbing cotton. With such cotton-free technology, we cooperated with Logic in 2014 for its new product.

Starting from 2013, with a long-term vision to build up our own technology brands, we emphasized our research on heating technology. In 2016, our first generation of heating technology was introduced. It is designed to replace conventional wick-based coil which comes with uneven heat distribution, ineffective heating process and inevitable burnt taste. This heating technology is optimized to absorb and vaporize high viscosity extracted e-liquid more efficiently and effectively. Later that year, we further launched its second generation “FEELM,” which combines metal films with ceramic conductors to achieve improvements in material and structural science. The metal film design of “FEELM” creates a wide heated surface that applies temperature, ensuring instant vapor generation. “FEELM” has been adopted widely by many of our corporate clients and exported to the U.S., South Korea, Germany, France, Belgium, New Zealand, South Africa and other countries. In September 2018, “FEELM” won the “Golden Leaf Award” from Tobacco Reporter and Vapor Voice Magazine. In addition, in October 2019, we became the only company since 2013 among the top five vaping device manufacturers in terms of revenue in 2018 to be awarded the “China Patent Excellence Award” by the National Intellectual Property Administration, PRC for our patent relating to the manufacturing technique and application of porous ceramic. The “China Patent Excellence Award” is one of China’s most prestigious awards for patents. The selection criteria for the award include patent quality, technology advancement, application and protection measures, social benefits as well as development prospects. In November 2019, we also received the “Laboratory Accreditation Certificate” from the China National Accreditation Service for Conformity Assessment for the safety and quality of our laboratories. The scope of the accreditation encompasses our laboratories’ ability to conduct chemical analysis, physical performance testing, and product quality testing, among others. Our ability to build up our own technology brands serves as an entry barrier to other competitors and also helps maintain our leading position in the vaping industry.

Scalable production capability and established supplier relationships

We take into consideration the practicability of future mass production and possible solutions to increase production efficiency and profitability during our R&D process. Therefore, we are able to turn our R&D results into innovative and diversified vaping devices. As one of the earliest vaping technology solution providers in China, we are known for our integrated production system and well-established supply chain management through years of experience.

To enjoy the benefits from economies of scale, we have strategically planned most of our ten specialized and large-scale production bases in Shenzhen and Dongguan, the most developed regions for the supply chain of vaping devices globally. We established our first production base in Shenzhen and have since been actively seeking for suitable sites to expand our production bases in the surrounding areas. Furthermore, we have sped up our production expansion and set up more production bases since 2016 in order to fulfill the needs from the rapid growth of our business scale during the Track Record Period. Through our strategically located production bases, we are able to deliver large orders at a lower cost and respond to customer demands in a timely manner. As of the Latest Practicable Date, we were able to produce over 100 million equivalent units for corporate client oriented sales in a month.

We also focused on the automation of our production to ensure production safety, output stability and normative process flow as well as to meet customers' requirements on product quality and timely delivery. For example, we established a strategic partnership with one of our key customers, Japan Tobacco, for a large-scale integrated production facility in Xi Xiang, Bao'an District, Shenzhen that we leased from an independent third party solely for the manufacturing of products as required by Japan Tobacco. We entered into a manufacturing and supply agreement with Japan Tobacco, which includes standard terms such as manufacturing requirement, sourcing of materials, quality standard, packaging requirement, pricing and payment, etc. This project helped improve our production capacity and efficiency and lower our product rejection rate. With our streamlined and automatic production process and quality control system, we can achieve economies of scale and produce high-quality products, allowing us to maintain our competitiveness in the vaping industry. See “— Production — Production Process.”

On the supplier side, a well-established supply chain management is also crucial to our production. The bargaining powers with suppliers depend on the business scale of a company generally. Benefiting from our scalable production capacity, we can place large volume orders for each unit, which gives us opportunity to drive prices down. In addition, we maintain long-term cooperative relationships with our key suppliers. As of the Latest Practicable Date, our top five suppliers during the Track Record Period had collaborated with us for approximately five years on average. Our long-standing relationships with suppliers ensure steady and quality raw material supply as well as effective cost control to minimize raw material prices.

Supported by our scalable production capability and established supplier relationships, we have experienced rapid growth during the Track Record Period. Our gross profit increased from RMB172.0 million in 2016 to RMB3,352.4 million in 2019, representing a CAGR of 169.1%. Our gross profit margin increased from 24.3% in 2016 to 44.0% in 2019.

Customer network with global leading tobacco companies and independent vaping companies and wide-spectrum product portfolio

We have developed a worldwide customer network consisting of global leading tobacco companies and independent vaping companies. A majority of our sales are exported to more than 50 overseas countries, primarily including the U.S., Japan and European countries. Attributing to our wide range of products that cater to the demands and tastes of our customers and consumers, we have an array of different customers, from top global tobacco companies, such as Japan Tobacco and British American Tobacco, to companies that specialize in innovating, designing and selling vaping products, such as RELX and NJOY. Since 2015, we have gradually established our business relationships with our top five customers during the Track Record Period. For example, we started to work with Japan Tobacco in 2015 and expanded our reach to other well-known players such as Reynolds Asia-Pacific in 2018. Our cooperation with these industry well-known companies has served as an endorsement to our high-quality products and market leading position, which not only helps increase our brand awareness in the industry but also attracts more potential customers with global leading brands.

Furthermore, our strong relationships with our key customers also offer development opportunities in different products and applications. These collaborations have strengthened our skill sets and experiences in product design, research and development, and thus have enhanced our competitiveness. Through our expertise and experiences accumulated in the production of a wide range of vaping devices, we were able to generate and realize innovative ideas across multiple product lines, which allows us to expand our product categories and customer base. Meanwhile, such wide-spectrum product portfolio allows us to respond to new market trends in a timely manner and hence, further diversify our revenue streams and lower our product and customer concentration risk.

Experienced management team and talent pool

We benefit from our management team with their strategic visions, operational expertise as well as understandings of the vaping industry. In particular, Mr. Chen, our chairman and chief executive officer, has accumulated over ten years of experience in the vaping industry and is experienced in business management. Mr. Chen leads the creation, management and implementation of our strategy and business, and is supported by a strong talent base of professionals with experience in the development, manufacturing, marketing and sales of vaping devices. Our management team is comprised of industry pioneers and experts exploring innovations and applications of vaping technology. Members of our management have been in the industry for an average of eight years. The turnover of our management team is also very low with most of them having worked in our company for approximately eight years.

Moreover, to sustain our growth and nurture future management, we place great emphasis on training and retaining employees to establish a high-caliber talent pool with intellectual resources. Our internal training features differentiated employee cultivation, performance assessment and incentive schemes which are tailored to the needs of different positions from entry-level staff to senior management with varying skill sets and career pursuits. At the same time, we also focus on

expanding our talent pool through external recruitment. Leveraging the vision and experience of our management and a high-caliber talent pool, we are able to build our self-developed automatic production facilities, and further explore new applications of vaping technology to deliver R&D breakthroughs. See “— Research and Development — R&D Capabilities.”

STRATEGIES

Our mission is to build the world’s leading vaping technology platform to bolster the innovation and development of vaping technology with a wide range of applications. Specifically, we plan to pursue the following strategies to achieve our objectives (unless specified otherwise, these strategies will be funded using cash from our business operations):

Strengthen R&D capabilities to maintain our leading position and support our long-term business growth

Our strong R&D technology has been the key to our success and will continue to be the driver of our future growth in the rapidly changing and competitive vaping industry. Among the various R&D fields, our vaping technology stands in the forefront of the industry. In order to continuously improve our existing products as well as to launch new technologies and products to sustain our established relationships with business partners, we plan to strengthen our scientific research on the vaping theories through our basic research centers and upgrade our heating technology to improve user experience. We will continue to develop and launch the next generation vaping technology brand focusing on product safety and vaping experience as well as catering to customers’ preferences.

In particular, we plan to enhance our R&D capabilities primarily through (i) building a group-level research center in Shenzhen, (ii) strengthening our research on the core mechanisms of vaping and further solidifying our technological leadership in core heating technology, (iii) increasing the investment on our test center and establishing overseas laboratories, (iv) obtaining product certification and submitting PMTAs to the FDA and (v) establishing and strengthening the cooperation and communication with universities and research institutions. Furthermore, we will continue to build and expand our R&D platform and technology brands and devote resources to cross-industry innovations and R&D activities. For example, applying our vaping technology and products in the healthcare sector is one of our next-stage research focus and the potential driver of our future growth. See “Future Plans and Use of Proceeds — Use of Proceeds.”

Our technological innovation will add value to and improve the performance of our products while ensuring the development of a variety of competitive new products each year, which will increase our market penetration. By constantly innovating and upgrading our products in accordance with market feedbacks, we will be able to maintain and further solidify our technological leadership in the industry. Furthermore, since the implementation and success of our R&D strategies will greatly rely on sufficient and skillful talents, we intend to increase the scale of our R&D platform to expand our talent pool and further strengthen our R&D capabilities.

Increase production capacity and operational and production efficiency

We have been dedicated to increasing our production capacity and improving our operational and production efficiency. Our expansion plan is determined based on a number of strategic considerations, including market demands and price for the relevant products, utilization of the existing production facilities, competitive landscape for the target market, estimated development cost, availability and cost of capital resources, our historical results of operations and growth potential as well as our ongoing communications with our customers.

In order to further elevate our manufacturing capabilities, we plan to establish new production bases in Jiangmen and Shenzhen, Guangdong province. We intend to construct our Jiangmen industrial park in two phases with an estimated investment amount of approximately RMB2.7 billion to RMB3.0 billion. For the first phase, we will invest a total of approximately RMB1.2 billion, out of which RMB54.5 million has been used for the acquisition of state-owned land use rights and approximately RMB1,154.4 million will be used for construction of production facilities. We have already entered into a land grant agreement with the local government in October 2019. We also obtained the state-owned land use right certificate, permit for planning parcels of land for construction purpose and permit for planning construction projects in November 2019 as well as all qualification certificate for construction blueprints by January 2020. As of the Latest Practicable Date, the first phase was undergoing the planning and construction procedures as required by the relevant PRC laws and regulations. We expect to complete the main structure of the production base in December 2020 and complete the indoor and outdoor decorations in December 2021. Electromechanical installation and equipment installation and testing are expected to be completed by June 2022, and the production base will commence operations in the same month. The first phase covers a GFA of approximately 330,000 sq.m. and will have 96 automated production and assembly lines as well as approximately 2,600 employees. With the first phase coming into operation, we expect to see a decrease in our production cost per equivalent unit and an increase in our capacity by approximately 90 million equivalent units for corporate client oriented sales per month. Furthermore, assuming that all the production areas are installed with automated assembly lines, we estimate that the breakeven revenue will be approximately RMB19.0 million per month. Considering that our current monthly revenue is much higher than that, we expect that the first phase of Jiangmen industrial park will break even in one or two months.

For the second phase, we are in the process of negotiation with the local government for the purchase of state-owned land use right, and plan to start the construction in 2021. The second phase will cover a GFA of approximately 440,000 sq.m. and have automated production and assembly lines. The estimated total cost of the second phase is approximately RMB1.6 billion, out of which approximately RMB74.5 million will be used for the acquisition of state-owned land use rights and approximately RMB1,502.6 million will be used for construction of production facilities. Once the second phase commences operation in around 2023, we expect it to further increase our capacity by approximately 120 million equivalent units for corporate client oriented sales per month.

Further, we intend to establish an industrial park in Shenzhen, which will cover a GFA of approximately 187,000 sq.m. As of the Latest Practicable Date, we had started to communicate with the local government regarding this project and had submitted an industry selection report and a feasibility report to the relevant governmental authorities. We expect that it will take around two years from the acquisition of state-owned land use right to the commencement of operation of our Shenzhen industrial park, which is estimated to be by 2024. This industrial park is expected to cost

a total of approximately RMB1,040.0 million and to further increase production capacity by approximately 51.9 million equivalent units per month. The industrial park will mainly produce newly launched products, as it will benefit from the convenience of communication with the R&D center in Shenzhen. The type of products that the new Shenzhen industrial park will primarily focus on is vaping devices that are suitable for mass production.

With the large scale of our new production bases, we will be able to fulfill customer demand and the needs of our rapid business growth. We expect to replace most of our leased factories with the new production bases as the leases expire from 2022 to 2024. In particular, based on the current estimate of our revenue growth in the next four years, we plan to replace production bases 1, 4 and 6 when those leases expire in 2022, replace production bases 3, 5, 7, 8 and 9 upon the expiration of their respective leases in 2023, and further replace production base 10 when its lease expires in 2024. See “— Production — Production Facilities” for details of these production bases. This plan is subject to change based on market trends and actual demand from customers, and we will assess the necessity to renew existing lease agreements as they expire. If we have sufficient demand, we may choose to renew some of our lease agreements. We will initially use the new production bases for the production of generalized products, including our self-branded APV and ceramic atomizers without specification from customers, as well as products for certain of our customers who agree to have their products manufactured in the new production bases. As we gradually replace more of our leased factories, our new production bases will begin to manufacture our other products. We also plan to increase our operational and production efficiency at the same time by consolidating more similar production lines into one production base. Since the replacement of our leased factories with the new production bases will be conducted gradually as their respective leases expire, we expect the potential operational and financial impact to be immaterial.

With our own factories, we would be able to tailor the design of the factories to our use and have more flexibilities to upgrade our facilities or install new equipment. Based on the relatively small size of existing production bases, there is limited flexibility for us to change the structure of these leased buildings or optimize the production layout, and therefore we cannot fully realize the desired efficiency improvement. Further, we can also avoid rent increases, spending time and effort on finding new suitable leased production bases and incurring expensive relocation costs when leases expire or are terminated. Assuming that all leased properties are required to relocate at the same time, including properties with and without title defects, the total relocation cost is expected to be approximately RMB160.0 million, which is calculated based on the total decoration cost originally incurred for all of these leased properties.

According to our cost-benefit analysis, using our own production base will also reduce our manufacturing costs in the long term. The average rent allocated to the cost of producing a standard product at one of our leased production bases is approximately RMB15.8 cents, whereas based on our investment in and the expected production capacity of the first phase of our Jiangmen industrial park, the depreciation of plant allocated to the cost of producing a standard product at our own production bases is approximately RMB3.1 cents. The land and construction cost for our own production bases is approximately RMB3,900 per sq.m., and the expected rental cost for our leased production bases is approximately RMB42.0 per sq.m. per month. We expect the investment payback period for the new production bases, which refers to the length of time required to recover the initial investment cost based on net cash inflow to be generated from the production bases starting from the commencement date of operation, to be around nine years. In addition to

constructing our own production bases, we are also actively aware of suitable production bases for lease in case we need to expand our production capacity for non-generalized products to fulfill certain customers' specific need and supplement our current leased production bases and self-owned new production bases.

Moreover, we plan to enhance our automation capability to increase operational and production efficiency. We will employ more advanced and automated production and assembly lines through in-house design and external procurement, aiming to achieve an all-automated manufacturing process at our Jiangmen and Shenzhen industrial parks, which we expect would help increase our capacity per month greatly. We also intend to upgrade our group-level ERP system, which will further integrate and help us manage our major enterprise functions, including, among others, human resources, procurement, sales, customer relations and finance. In addition, we will upgrade our existing factories' intelligent features and IT systems to increase our operational efficiency in the management of procurement, production planning, inventory, sales, logistics and administration. See "Future Plans and Use of Proceeds — Use of Proceeds." Furthermore, we will improve our quality control mechanisms by establishing comprehensive standards and procedures for quality checks and inspections. To ensure that these standards and procedures are followed, we will update our working manuals, enhance our employee systemic trainings and conduct onsite inspections.

Penetrate existing customers and attract new customers to increase our market shares in different areas

We have built our reputation in the industry and gained customers' confidence in us through years of successful cooperation experiences with them. We have knitted a global customer net through which we keep providing our customers with different products and services. To increase customer stickiness, we plan to continue to work with and customize our manufacturing equipment for our customers. We will continue to solidify our partnerships with our existing customers through deeper cooperation, which would allow us to further penetrate our existing customer base to achieve more sales volume and wider product coverage.

Furthermore, as the world's largest vaping device manufacturer in terms of revenue, we will continue to increase our market share by attracting new customers in the vaping industry. In addition, we target to explore in new application areas, especially the healthcare sector, to tap into new emerging markets and further diversify our customer base. For example, we are developing core components for medical atomization equipment. With our atomization technology, current medical atomization equipment can be miniaturized, and the dosage and effective aerosol particle size can be accurately controlled and better atomization efficiency of health care essential oils can be achieved. In particular, the purpose of controlling aerosol particle size is to ensure that a higher proportion of drug aerosol enters the human body and is effectively absorbed, while the purpose of controlling dosage is to ensure that the patient is consuming the proper amount of medication. We have made important breakthroughs in the accurate metering of medicines, which is essential to forming a complete medical solution. We are mainly focusing on developing medical atomization equipment that will help treat asthma, chronic obstructive pulmonary disease ("COPD") and other respiratory diseases as well as provide pain relief.

BUSINESS

We are conducting joint research of medical atomization equipment with several pharmaceutical companies and plan to reach out to more customers, including medical research institutes, for possible application of our vaping devices and atomization technology. We are working with Chinese pharmaceutical companies to develop medical atomization equipment aimed at asthma and COPD treatment, and we are also working with foreign companies to develop medical atomization equipment for lung diseases. For example, we have entered into a material transfer and research agreement with AIM to research the efficacy of using our inhalation delivery device to administer AIM's flagship drug, Ampligen, for COVID-19 treatments. See "Summary — Recent Developments — Material Transfer and Research Agreement with AIM ImmunoTech, Inc. to Research COVID-19 Treatment." Our target markets are hospitals and personal use in major countries such as China and the U.S., subject to sales approval by the relevant government authorities. We plan on having a prototype by the third quarter of 2020 for one of the medical atomization equipment that we are developing and apply for sales approval and certification in China by the end of 2020. We will also organize promotion activities and attend international exhibitions and expos to increase our brand awareness in the new application fields and to attract new customers from various areas.

Seek strategic mergers and acquisitions and suitable business cooperation

To bolster our R&D development, enhance manufacturing capabilities and complete our product offerings, we will selectively pursue opportunities of strategic mergers and acquisitions and cooperation with promising companies that can generate strong synergies with or complement to our existing business. From a R&D perspective, we will target technology suppliers or research institutions with R&D resources and growth potentials in vaping technology or mature experience in its application. From a production perspective, we plan to establish long-term cooperation with upstream raw material suppliers to ensure a stable supply of raw material and better control our production cost. Furthermore, to increase our market shares, we will be interested in collaborating with wholesalers and companies with established channels that will help us expand market shares and strengthen sales network in the vaping industry. In addition, possibilities to expand our geographic coverage and the financial condition and profitability of the company are also factors that we will consider when we evaluate a potential target or business partner. As of the Latest Practicable Date, we had not identified any specific acquisition target or partner, but we will continue to look for suitable opportunities for acquisitions and setting up strategic alliances and joint ventures with business partners.

OUR BUSINESS MODEL

We are a vaping technology solution provider with two principal business segments: (i) research, design and manufacturing of closed system vaping devices and vaping components for a number of global leading tobacco companies and independent vaping companies, such as Japan Tobacco, British American Tobacco, Reynolds Asia-Pacific, RELX and NJOY, and (ii) research, design, manufacturing and sale of self-branded open system vaping devices, or APV, for retail clients.

BUSINESS

The table below sets out the breakdown of our revenue by business segment, each expressed as an absolute amount and as a percentage of our total revenue, for the years indicated.

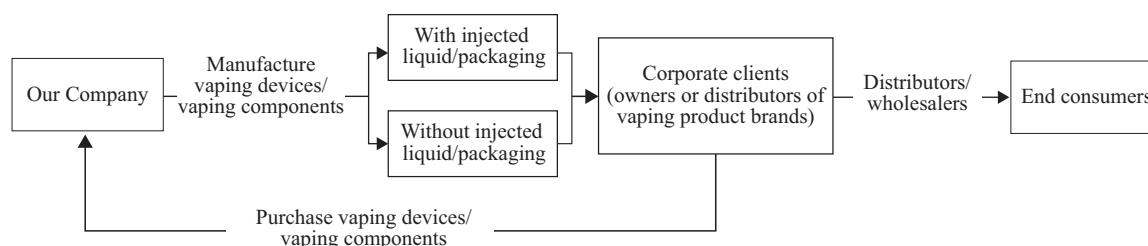
	Year ended December 31,							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Corporate client oriented sales	509,978	72.1	1,003,696	64.1	2,491,990	72.6	6,568,661	86.3
— Vaping devices	503,233	71.1	691,644	44.2	1,124,168	32.8	4,477,005	58.8
— With ceramic heating technology . .	—	—	—	—	415,171	12.1	3,594,713	47.2
— Without ceramic heating technology	503,233	71.1	691,644	44.2	708,997	20.7	882,292	11.6
— Vaping components	6,745	1.0	312,052	19.9	1,367,822	39.8	2,091,656	27.5
Retail client oriented sales	197,276	27.9	561,494	35.9	941,719	27.4	1,041,940	13.7
Total	707,254	100.0	1,565,190	100.0	3,433,709	100.0	7,610,601	100.0

For our corporate client oriented sales, the average selling prices of our vaping devices amounted to RMB3.5, RMB3.6, RMB5.7 and RMB8.7 per equivalent unit in 2016, 2017, 2018 and 2019, respectively, and the average selling prices of our vaping components amounted to RMB10.7, RMB4.5, RMB4.7 and RMB7.5 per equivalent unit in 2016, 2017, 2018 and 2019, respectively. For our retail client oriented sales, the average selling prices of our self-branded APV amounted to RMB159.5, RMB118.1, RMB108.9 and RMB81.8 per equivalent unit in 2016, 2017, 2018 and 2019, respectively.

The retail prices of our cartridges, which was a major source of revenue for closed system vaping devices in major markets (including the U.S., E.U. and China), ranged from US\$2.8 to US\$7.0 in 2019, and the ex-factory whole sale prices as a percentage of retail prices generally ranged from approximately 20% to 40%. The retail prices of our self-branded APV in 2019 ranged from approximately US\$20 to US\$100, and the ex-factory whole sale prices as a percentage of retail prices generally ranged from approximately 35% to 40%. See “Financial Information — Principal Components of Consolidated Statements of Profit and Loss and Comprehensive Income — Revenue — Sales volume and average selling prices” for discussion regarding the fluctuations of average selling prices during the Track Record Period.

Corporate Client Oriented Business

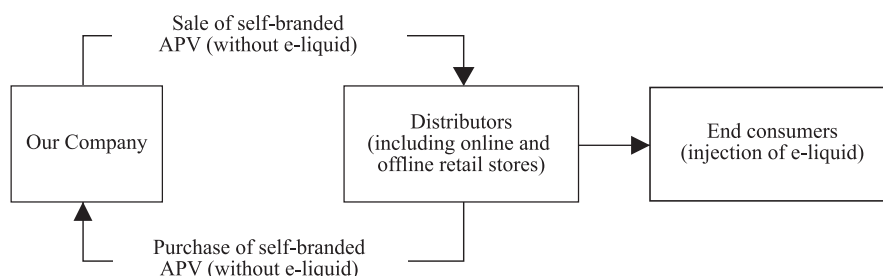
The business process of our corporate client oriented business segment is illustrated as follows:



Under the corporate client oriented business segment, we engage in the research and development of vaping technology and manufacture of closed system vaping devices and vaping components pursuant to specifications provided by our corporate clients.

Retail Client Oriented Business

Our retail client oriented business is mainly for the sales of our self-branded APV, the business process of which is illustrated as follows:



Under our retail client oriented business segment, we engage in the research, design, manufacturing and sale of APV, APV components (such as coils) and accessories under our own brands, including “Vaporesso,” “Renova” and “Revenant Vape.” All of our self-branded APV are open system vaping devices. According to a survey conducted by Frost & Sullivan, our self-branded APV, “Vaporesso,” was ranked third in brand awareness among the main brands of open system vaping devices. The survey sample included people who have purchased an open system vaping device in the past two years or who have decided to purchase an open system vaping device within the next year. We sell our self-branded APV to distributors for resale to end consumers subsequently. We did not operate any retail stores or online platforms for the sale of our self-branded APV directly to end consumers as of the Latest Practicable Date.

OUR PRODUCTS

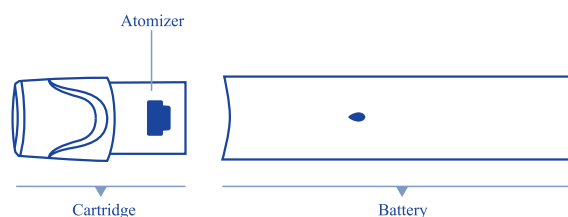
Through over ten years of endeavor, our vaping devices have established a strong reputation in the vaping field. Vaping refers to the practice of inhaling and exhaling the vapor produced by an electronic vaping device. A vaping device is an electronic device that delivers e-liquid in vapor form into the mouth and lungs when inhaled. As an alternative for conventional tobacco products, vaping devices are designed for an innovative way of e-liquid delivery through a battery-powered device that is typically designed to resemble conventional tobacco products. According to Frost & Sullivan, as vaping devices contain electronic components, they typically have a relatively short product life cycle and are subject to the fast-paced evolving trends and new technologies.

Our vaping products are categorized into three types: (i) closed system vaping devices, (ii) vaping components, and (iii) open system vaping devices.

Closed System Vaping Devices

Closed system vaping devices refer to vaping devices consisting of (i) cartridges, which include atomizers and e-liquid, which is sourced from suppliers and not produced by us, and (ii) batteries. A cartridge usually can last around three to 12 days, depending on different consumption habits of users. A closed system vaping device is either rechargeable or disposable. The

convenience to carry, a variety of personalities and the ease to operate raise the penetration rate of the closed system vaping devices. An example of a closed system vaping device manufactured by us is illustrated below:



Vaping Components

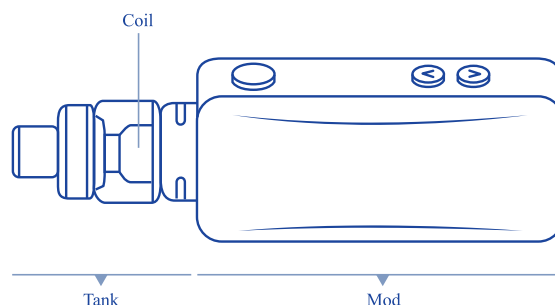
We manufacture vaping components (cartridges and batteries) for HNB products. HNB products refer to a device that uses a battery-powered heating system to generate nicotine-containing vapor by heating tobacco. Seeing the growth trend of HNB market, we started to work with Japan Tobacco, a global tobacco company and one of our key customers, in May 2017 to tap into the HNB market through the manufacturing of vaping components for HNB products. Unlike traditional HNB products, we manufacture vaping components for HNB products, which do not heat tobacco directly. Instead, they generate vapor that goes through and heat a tobacco capsule that contains nicotine. An example of such HNB product is illustrated below:



In addition, with our ceramic heating technology, we also manufacture vaping components (cartridges and batteries) for vaping devices that can be used for medical or recreational CBD and THC vaping.

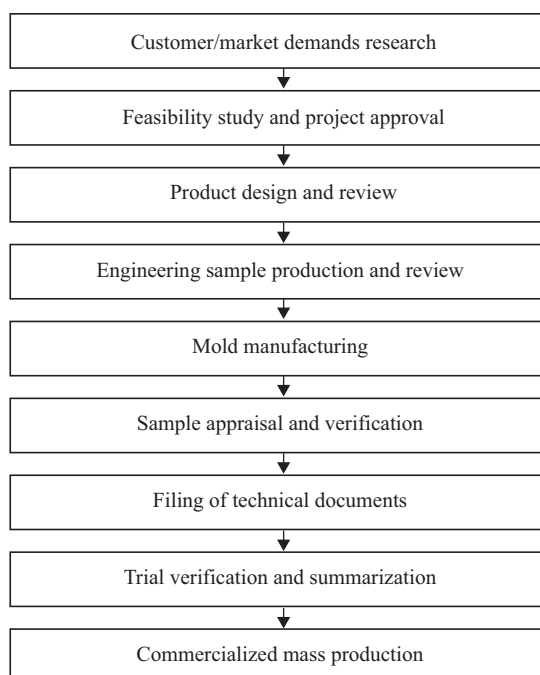
Open System Vaping Devices

Open system vaping devices refer to vaping devices consisting of (i) tanks, which include coils and (ii) mods, which include batteries. Open system vaping devices allow end consumers to refill by themselves. Users have great freedom in mixing different coils, mods and e-liquid to create more personalized experience. Our open system vaping devices are sold under our own brands, including “Vapresso,” “Renova” and “Revenant Vape.” An example of an open system vaping device manufactured by us is illustrated below:



Product Launch and Production Process

Our process of launching and producing new products begins with our R&D team conducting extensive research on market demands to identify possible opportunities that we can capitalize on and then assessing the feasibility of the proposed new product. Upon the project's internal approval, our R&D team will proceed to design the new product based on its research and the desired designs, features and specifications of our customers. After completing the design of the new product, we will manufacture the mold, evaluate the sample, file technical documents and conduct trial verification. The last step of our product launch and production process is the mass production of the new product, which is done at our production facilities. The R&D time varies for each project, typically ranging from three to five months, while the time it takes from mold manufacturing to the completion of mass production will generally take around four months. The below chart illustrates the typical steps of our product launch and production process:



RESEARCH AND DEVELOPMENT

Our strong R&D capabilities are critical to the building and maintaining of our market leading position. According to Frost & Sullivan, R&D ability is one of the core factors for the success of a vaping device manufacturer. In order to stand out from the intense competition in the vaping industry, a vaping device manufacturer will have to make great investment in R&D in order to differentiate its products from others and build its reputation. In light of the rapidly changing consumer preferences and regulatory environment in the vaping industry, we are committed to continuing to ensure product safety as well as staying innovative with new and upgraded vaping technology in order to secure our orders and price premium.

R&D Capabilities

We leverage our R&D platform to market our key technology and expand our brand awareness. Aiming at keeping abreast of the industry advancement, we employ a dedicated product design, research and development team and build research centers focusing on improvement of product safety and vaping experience. We not only focus on scientific research but also its practical application to our products. Our R&D platform consists of three separate departments, namely the basic research centers, the technology center and the technology industrial center, each focusing on different aspects of the research areas. Based on our strategic plans and the industry trends, our three basic research centers explore and advance the fundamental knowledge and generate new ideas, which form the basis of progress and development in our vaping technology. On the foundation of the research results, our technology center subsequently applies these scientific theories to conduct new technology development and project incubation. After a new technology is developed, our technology industrial center will apply and test such technology for the mass production of our products. By integrating the different functions of these three departments, we are able to bolster the development in our core technology and respond to market demands in a timely manner.

The following table illustrates the details and research areas of the three basic research centers:

Research center	Leased or owned	GFA (sq.m.)	Staff headcount	Number of equipment	Main equipment	Research area
Shenzhen basic research center	Leased	4,500	77	289	Field emission scanning electron microscope, liquid chromatography-mass spectrometer with beam driver and beam spectrometer	Atomization principles and mechanisms research, including research on object, process and outcome of vaping as well as impact of vaping to the human body ⁽¹⁾
Changsha basic research center	Owned ⁽²⁾	4,748	41	154	Wavelength dispersive X-ray fluorescence spectrometer, flash thermal conductivity instrument	Research on process of vaping, focusing on new heating materials
Tangshan basic research center	Owned ⁽³⁾	2,867	27	102	Scanning electron microscope, vacuum/debinding/atmosphere sintering furnace	Research on process of vaping, focusing on new heating materials and the manufacturing process of new materials

Notes:

- (1) Shenzhen basic research center is also responsible for the coordination between other two research centers.
- (2) Acquisition cost was approximately RMB37.0 million.
- (3) Acquisition cost was approximately RMB10.5 million.

To ensure the safety of our products, we established an advanced analysis and testing center (“ATC”) under our Shenzhen basic research center. The ATC is responsible for, among other things, chemical analyzes, physical test, structural characterization test and product evaluation. Chemical analyzes include the testing and analysis of cartridge components of our vaping device that are in contact with e-liquid, as well as aerosol from vaping, which work to ensure that leachable and extractable substance from those components and the aerosol comply with the relevant regulations and standards of the jurisdictions in which the products are sold and satisfy customer requirements. Physical tests include the reliability testing of batteries and functional testing of products. We received a certificate of participation in the witness test data program by a global safety certification company.

With our business strategies to meet the evolving customer demands, our R&D team focuses on different research areas and has achieved various milestones. Our R&D development path has gradually evolved along with the industry trends and the enhancement in our R&D capabilities — from product application to product structure, and further to core vaping technology. At the early stage of our business, we first placed our focus on the development of disposable vaping devices, which contributed to our cooperation with NJOY in 2009 and subsequent production of “NJOY King Size” in 2012 by NJOY. Backed by our R&D experience accumulated in the production of a wide range of vaping devices, we were able to generate and realize innovative ideas across multiple product lines and further elevate our R&D focus to product structure, which can be applied among different product types. As atomizer is the key component in a vaping device, we focused on the enhancement of its structure. Through our continuous R&D efforts, we later successfully made a breakthrough on the limit of liquid reserving by replacing traditional e-liquid absorbing cotton. With such cotton-free technology, we cooperated with Logic in 2014 for its new product.

Starting from 2013, with a long-term vision to build up our own technology brands, we emphasized our research on heating technology. In 2016, our first generation of heating technology was introduced. It is designed to replace conventional wick-based coil which comes with uneven heat distribution, ineffective heating process and inevitable burnt taste. This heating technology is optimized to absorb and vaporize high viscosity extracted e-liquid more efficiently and effectively. Later that year, we further launched its second generation “FEELM,” which combines metal films with ceramic conductors to achieve improvements in material and structural science. The metal film design of “FEELM” creates a wide heated surface that applies temperature, ensuring instant vapor generation. “FEELM” has been adopted widely by many of our corporate clients and exported to the U.S., South Korea, Germany, France, Belgium, New Zealand, South Africa and other countries. In September 2018, “FEELM” won the “Golden Leaf Award” from Tobacco Reporter and Vapor Voice Magazine. In April 2019, one of our subsidiaries, Smoore Shenzhen, was awarded the Certificate of Participation by the Underwriters Laboratories, a global safety certification company approved by the U.S. Federal Agency Occupational Safety and Health Administration to perform safety testing. In addition, in October 2019, we became the only company since 2013 among the top five vaping device manufacturers in terms of revenue in 2018 to be awarded the “China Patent Excellence Award” by the National Intellectual Property Administration, PRC for our patent relating to the manufacturing technique and application of porous ceramic. The “China Patent Excellence Award” is one of China’s most prestigious awards for patents. The selection criteria for

the awards include patent quality, technology advancement, application and protection measures, social benefits as well as development prospects. In November 2019, we also received the “Laboratory Accreditation Certificate” from the China National Accreditation Service for Conformity Assessment for the safety and quality of our laboratories. The scope of the accreditation encompasses our laboratories’ ability to conduct chemical analysis, physical performance testing, and product quality testing, among others. Our ability to build up our own technology brands serves as an entry barrier to other competitors and also helps maintain our leading position in the vaping industry.

As of the Latest Practicable Date, we had advanced R&D resources of three research centers and 645 R&D personnel. Our in-house engineers have accumulated product and technical expertise, and have been working with our customers closely in product design, research and development. For example, to enhance product performance, our R&D team conducted feasibility study and applied our heating technology in a new product “TARGET,” which successfully gained market popularity by eliminating some of the defects in atomization.

Our experienced R&D talents also self-developed automatic production facilities, which, along with our strong quality control, enable us to achieve higher production capacity and lower rejection rate. Furthermore, leveraging our strong R&D capabilities, we are able to maintain a pool of high quality design and R&D technology patents in the field of vaping technology. As of the Latest Practicable Date, over 1,600 patents had been applied for in China and overseas, of which more than 700 patents had been granted. See “— Intellectual Property.”

In 2016, 2017, 2018 and 2019, we incurred research and development expenses of RMB14.8 million, RMB61.2 million, RMB106.3 million and RMB277.4 million, respectively, accounting for 2.1%, 3.9%, 3.1% and 3.6% of our total revenue during the respective years.

R&D Process

Through our internal study on consumer preference and market trends, our R&D team attends to the desirable improvement in vaping technology. After we identify the major areas to be improved in the current vaping industry, our R&D team will conduct research of these areas to explore possible technology solutions and their applications in our vaping devices. To improve vaping efficiency and experience, our R&D team analyzes the shortcomings of the current technologies used in the market and brainstorms potential solutions to resolve these issues. We also cooperate with universities to get a hold of the latest knowledge and obtain new patent in the research process. After collecting information on the upcoming industry trends through various sources, we will initiate product concepts in advance to serve as a source of inspiration for our customers.

In terms of production planning and design, our R&D team is responsible not only for the function of our products, but also the development and identification of the raw materials used, which play a significant role in enhancing our product quality. In addition, our R&D team also designs, customizes and innovates automation technologies into our production processes.

BUSINESS

Leveraging our insights into the applications of new materials and technologies, we communicate regularly with our customers to understand their desired designs, features and specifications. We work with our customers on the possible solutions during the customization processes. Furthermore, to ensure that end consumers will have a satisfied user experience, we will collect customer feedbacks so as to improve our current product lines and explore potential advantages and characteristics of our next generation technology.

SALES AND DISTRIBUTION

Sales and Marketing Team

We sell and market our products through our sales and marketing team. As of the Latest Practicable Date, we had a sales and marketing team of 190 personnel. Our team swiftly responds to our customers' demands and communicates with our other departments on a regular basis, which enables us to provide better services. In addition, we visit our customers to present them with our latest technologies and products as well as to gather information, answer questions and provide after-sales support. Furthermore, the level of participation of our management in the industry and the contacts they have developed among existing and potential customers in the industry all contribute to our sales and marketing results. Our ability to meet and exceed our customers' requirements has allowed us to develop relationships with and to attract and retain our customers. For our own self-branded APV, we conduct marketing campaigns through different online channels, including online newsletters, social media campaigns and online informational brochures.

In 2016, 2017, 2018 and 2019, our distribution and selling expenses amounted to RMB18.7 million, RMB50.6 million, RMB98.7 million and RMB157.7 million, respectively, accounting for 2.6%, 3.2%, 2.9% and 2.1% of our total revenue during the respective years. Among our distribution and selling expenses in 2016, 2017, 2018 and 2019, RMB4.8 million, RMB7.4 million, RMB16.7 million and RMB42.4 million were marketing expenses, respectively.

BUSINESS

Geographic Segments

Most of our customers are located in overseas markets and a majority of our sales are exported to more than 50 overseas countries, primarily including the U.S., Japan and European countries. We have established a worldwide sales network and generate sales revenue from different regions and countries around the world. The table below sets out the breakdown of our revenue by our customers' place of incorporation, each expressed as an absolute amount and as a percentage of our total revenue, for the years indicated.

	Year ended December 31,							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
U.S. ⁽¹⁾	354,613	50.1	668,766	42.7	1,386,966	40.4	1,661,981	21.8
China	120,203	17.0	187,115	12.0	407,686	11.9	1,588,703	20.9
Hong Kong ⁽²⁾	60,597	8.6	240,255	15.3	546,987	15.9	2,010,165	26.4
Japan	66	—*	153,749	9.8	443,356	12.9	605,003	7.9
Switzerland	127,156	18.0	110,860	7.2	174,520	5.1	606,957	8.0
U.K.	8,138	1.2	22,519	1.4	66,264	1.9	508,675	6.7
France	8,567	1.2	62,587	4.0	93,646	2.7	146,291	1.9
Israel	7,667	1.1	6,365	0.4	342	—*	13,113	0.2
Korea	122	—*	4,528	0.3	22,651	0.7	97,035	1.3
Malaysia	1,223	0.2	3,685	0.2	2,690	0.1	44,956	0.6
Canada	1,042	0.1	5,795	0.4	15,774	0.5	33,030	0.4
Germany	1,154	0.2	7,823	0.5	29,244	0.9	16,916	0.2
Others ⁽³⁾	16,706	2.3	91,143	5.8	243,583	7.0	277,776	3.7
Total	707,254	100.0	1,565,190	100.0	3,433,709	100.0	7,610,601	100.0

* less than 0.1%

Notes:

- (1) To the best knowledge of our Directors, our revenue from products shipped directly or indirectly to the U.S. amounted to approximately RMB391.5 million, RMB781.3 million, RMB1,797.8 million and RMB3,539.4 million in 2016, 2017, 2018 and 2019, respectively, accounting for approximately 55.4%, 49.9%, 52.4% and 46.5% of our total revenue for the respective years.
- (2) Revenue generated from Hong Kong is on re-export or transshipment basis and, to our best knowledge, none of our products are distributed or sold in Hong Kong. Our customers incorporated in Hong Kong are mainly responsible for transshipment or trading companies for our overseas customers. Based on the revenue derived from customers incorporated in Hong Kong in 2019, approximately 93.4% of the products were forwarded to the U.S. As for all of the products that are exported through Hong Kong, including products sold to customers incorporated in Hong Kong and in other countries, a majority of them were forwarded to the U.S. and Japan during the Track Record Period.
- (3) None of the countries categorized under others contributed more than 2% of our total revenue of any year during the Track Record Period. Our export sales are on EXW, FOB or FCA basis. To our best knowledge, we were not aware of any countries categorized under others had imposed a total ban on e-cigarettes during the period that we conducted business with customers incorporated in these countries.

BUSINESS

Our Customers

The majority of our corporate clients are internationally recognized tobacco companies, including top global tobacco companies and independent vaping companies. Our customers also include distributors for our self-branded APV and a portion of vaping components. To the best knowledge of our Directors, save as disclosed herein, there were no past or present relationships (including, without limitation, family, business, employment, financial or otherwise) between each of the Group's top five customers and the Company, its subsidiaries, their shareholders, directors, senior management or their respective associates.

The tables below set forth information about our top five customers during the Track Record Period.

For the year ended December 31, 2016

Customer	Background	Scale of operation and financial standing	Location	Years of relationship	Credit terms and payment method	Revenue derived from customer (RMB'000)
Customer A . . .	A company publicly traded on the Tokyo Stock Exchange and a leading international tobacco company that is also active in other businesses such as pharmaceutical, real estate and processed food	Net assets of the publicly traded company was approximately JPY2,743.6 billion as of December 31, 2019 and revenue of approximately JPY2,175.6 billion in 2019	Japan	Five	Net 30 days	215,886
Customer B . . .	A subsidiary of a publicly traded company on the New York Stock Exchange that focused on developing and marketing vaping products for tobacco consumers, but has terminated its vaping business in 2018	Net assets of the publicly traded company was approximately US\$6.3 billion as of December 31, 2019 and revenue of approximately US\$25.1 billion in 2019	U.S.	Five	Net 30 days	206,189
Shenzhen iMiracle Technology Co., Ltd. . . .	A trading company with internet e-commerce as its core business and one of the leading one-stop e-cigarette business-to-business online mall	Registered capital of this customer is RMB50.0 million	China	Five	Net 30 days	43,845
SVI Global Tech Limited . . .	A company that engages in multiple businesses, including supply chain, OEM and testing services, and mainly helps overseas customers source merchandise from Asia	Revenue of this customer was approximately US\$300.0 million in 2019	Hong Kong	Seven	Advanced payment	36,873
Customer E . . .	An e-cigarette distributor that provides services to well-known e-cigarette manufacturing companies	Registered capital of this customer is RMB63.0 million	China	Five	Advanced payment	18,205

BUSINESS

For the year ended December 31, 2017

<u>Customer</u>	<u>Background</u>	<u>Scale of operation and financial standing</u>	<u>Location</u>	<u>Years of relationship</u>	<u>Credit terms and payment method</u>	<u>Revenue derived from customer</u> (RMB'000)
Customer A . . .	A company publicly traded on the Tokyo Stock Exchange and a leading international tobacco company that is also active in other businesses such as pharmaceutical, real estate and processed food	Net assets of the publicly traded company was approximately JPY2,743.6 billion as of December 31, 2019 and revenue of approximately JPY2,175.6 billion in 2019	Japan	Five	Net 30 days	397,649
Customer B . . .	A subsidiary of a publicly traded company on the New York Stock Exchange that focused on developing and marketing vaping products for tobacco consumers, but has terminated its vaping business in 2018	Net assets of the publicly traded company was approximately US\$6.3 billion as of December 31, 2019 and revenue of approximately US\$25.1 billion in 2019	U.S.	Five	Net 30 days	262,573
Customer F . . .	An innovative international e-cigarette company that also engages in R&D, manufacturing and sales of high-tech health products and services, and one of our distributors based in Hong Kong	Issued share capital of this customer is HK\$500,000	Hong Kong	Five	Net 60 days	132,469
Customer G . . .	A subsidiary of a publicly traded company on the OTCQB Venture Market (“OTCQB”) and a leading inhalation technology company that provides atomization solutions and a leading distributor of vaping products in the U.S.	Revenue of the publicly traded company was approximately US\$120.0 million in 2019 and a total equity of over US\$200.0 million as of December 31, 2019	U.S.	Four	Net 40 days	121,866
SVI Global Tech Limited . . .	A company that engages in multiple businesses, including supply chain, OEM and testing services, and mainly helps overseas customers source merchandise from Asia	Revenue of this customer was approximately US\$300.0 million in 2019	Hong Kong	Seven	Advanced payment	112,514

BUSINESS

For the year ended December 31, 2018

Customer	Background	Scale of operation and financial standing	Location	Years of relationship	Credit terms and payment method	Revenue derived from customer (RMB'000)
Customer A . . .	A company publicly traded on the Tokyo Stock Exchange and a leading international tobacco company that is also active in other businesses such as pharmaceutical, real estate and processed food	Net assets of the publicly traded company was approximately JPY2,743.6 billion as of December 31, 2019 and revenue of approximately JPY2,175.6 billion in 2019	Japan	Five	Net 30 days	711,169
Customer G . . .	A subsidiary of a publicly traded company on the OTCQB and a leading inhalation technology company that provides atomization solutions and a leading distributor of vaping products in the U.S.	Revenue of the publicly traded company was approximately US\$120.0 million in 2019 and a total equity of over US\$200.0 million as of December 31, 2019	U.S.	Four	Net 40 days	418,536
Customer H . . .	A subsidiary of a publicly traded company on the London Stock Exchange and a leading international cigarette and tobacco manufacturing company	Net assets of the publicly traded company was approximately GBP64.2 billion as of December 31, 2019 and revenue of approximately GBP25.9 billion in 2019	U.K.	Two	OA 30 days/ Net 60 days	292,560
KushCo Holdings, Inc.	A publicly traded company on the OTCQB that is engaged in pharmaceutical packaging	Revenue of the publicly traded company was approximately US\$149.0 million for the fiscal year ended August 31, 2019	U.S.	Two	Advanced payment	254,699
Customer B . . .	A subsidiary of a publicly traded company on the New York Stock Exchange that focused on developing and marketing vaping products for tobacco consumers, but has terminated its vaping business in 2018	Net assets of the publicly traded company was approximately US\$6.3 billion as of December 31, 2019 and revenue of approximately US\$25.1 billion in 2019	U.S.	Five	Net 30 days	221,475

BUSINESS

For the year ended December 31, 2019

Customer	Background	Scale of operation and financial standing	Location	Years of relationship	Credit terms and payment method	Revenue derived from customer (RMB'000)
SVI Global Tech Limited . . .	A company that engages in multiple businesses, including supply chain, OEM and testing services, and mainly helps overseas customers source merchandise from Asia	Revenue of this customer was approximately US\$300.0 million in 2019	Hong Kong	Seven	Advanced payment	1,192,888
Customer H . . .	A subsidiary of a publicly traded company on the London Stock Exchange and a leading international cigarette and tobacco manufacturing company	Net assets of the publicly traded company was approximately GBP64.2 billion as of December 31, 2019 and revenue of approximately GBP25.9 billion in 2019	U.K.	Two	Net 60 days	1,147,565
Customer A . . .	A company publicly traded on the Tokyo Stock Exchange and a leading international tobacco company that is also active in other businesses such as pharmaceutical, real estate and processed food	Net assets of the publicly traded company was approximately JPY2,743.6 billion as of December 31, 2019 and revenue of approximately JPY2,175.6 billion in 2019	Japan	Five	Net 30 days	959,739
Customer J . . .	Affiliated with group companies that engage in e-cigarette business as the largest closed system vaping device brand in China	Registered capital of all the affiliates, including Customer J, in the group companies is over RMB200.0 million	China	Two	Net 30 days	877,619
Customer G . . .	A subsidiary of a publicly traded company on the OTCQB and a leading inhalation technology company that provides atomization solutions and a leading distributor of vaping products in the U.S.	Revenue of the publicly traded company was approximately US\$120.0 million in 2019 and a total equity of over US\$200.0 million as of December 31, 2019	U.S.	Four	Net 40 days	615,378

BUSINESS

During the Track Record Period, sales to our top five customers amounted to RMB521.0 million, RMB1,027.1 million, RMB1,898.4 million and RMB4,793.2 million in 2016, 2017, 2018 and 2019, respectively, accounting for 73.7%, 65.6%, 55.3% and 63.0% of our total revenue for the respective years. Our largest customer in 2016, 2017, 2018 and 2019 accounted for 30.5%, 25.4%, 20.7% and 15.7% of our total revenue, respectively. In particular, SVI Global Tech Limited's revenue contribution increased from RMB36.9 million in 2016 to RMB112.5 million in 2017 because its downstream customer who sources products made by us through SVI Global Tech Limited experienced financial difficulties and therefore reduced orders in 2016. In 2017, this downstream customer increased its orders as it was in a better financial position and the U.S. market grew. SVI Global Tech Limited's revenue contribution increased significantly from RMB142.5 million in 2018 to RMB1,192.9 million in 2019, as its sales to end customers increased due to its offering of products with our ceramic heating technology. In addition, we began to cooperate with Customer H in 2018, and its revenue contribution increased significantly from RMB292.6 million in 2018 to RMB1,147.6 million in 2019, as (i) we only began our business arrangement with Customer H in May 2018 and (ii) Customer H continued to expand its business and was able to sell its vaping products in a total of 27 markets in 2019, including the European markets.

Since 2015, we have gradually established our business relationships with our top five customers during the Track Record Period. For example, we started to work with Japan Tobacco in 2015 and expanded our reach to other well-known players, such as Reynolds Asia-Pacific in 2018. Our strong relationships with our key customers not only enable us to maintain our existing business scale but also offer development opportunities in different products and applications. By having an edge on developing and integrating innovative technologies, we are able to achieve improvements in product technology, structure and design so as to provide vaping devices that meet our customers' demands.

Although a majority of our revenue was derived from a limited number of customers during the Track Record Period, over the years, we have developed long-term relationships with our major customers. In some cases, we are not only a supplier for our major customers but also their product R&D partner. As we have continuously focused on innovations and developed advanced applications in vaping products to meet consumer demands, we have been able to increase our customers' sales and maintain relationship with our major customers. We believe that we will be able to continue to benefit from the growth opportunities in the global vaping industry in the future.

None of our Directors, their associates or any Shareholders that, to the best knowledge of our Directors, owned more than 5% of our share capital as of the Latest Practicable Date, has any interest in any of our top five customers during the Track Record Period. During the Track Record Period and as of the Latest Practicable Date, we did not have any material disputes with our customers.

Arrangements with Corporate Clients under ODM Model***Pricing strategies***

For products sold to our corporate clients under ODM model, the selling price is on a cost-plus basis. In setting our selling price, we take into consideration, among others, production costs, expected profit margins, market analysis of retail price, design and manufacturing complexity, size of the order placed and expected level of sales.

Purchase and payment

Our corporate clients' purchases are made on a purchase order basis. Some of our corporate clients place orders around one to two months in advance. We have a minimum purchase amount requirement for some of our corporate clients. Unless a credit period is granted, our corporate clients need to make prepayments in full before delivery. We generally grant our major corporate clients a credit period of 30 days from the invoice date, taking into account factors such as order volume, reputation, credibility, length of business relationship and historical payment records. For certain corporate clients with long-established relationships and good repayment histories, a longer credit period may be granted. Our corporate clients usually settle their trade payables by bank transfers. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any major defaults in payments or bad debts from our corporate clients which would materially affect our financial conditions and operation results.

Long-term agreements

We have entered into long-term manufacturing and supply agreements with two of our major corporate clients to manufacture products in accordance with their instructions. Revenue generated from these two corporate clients accounted for 30.5%, 25.4%, 28.5% and 21.6% of our total revenue in 2016, 2017, 2018 and 2019, respectively.

Manufacturing obligations

Pursuant to the relevant agreement, we shall manufacture the products in accordance with the applicable instructions and specifications, in compliance with all reasonable inputs, requirements and standards as requested by the relevant corporate client, using the standard of care and diligence consistent with industry standards and exclusively use the equipment and materials approved by the relevant corporate client. Our obligation to manufacture products includes the obligation to perform service incidental or related to the manufacture, processing, packaging and supply of the products. We may commence the manufacturing following inspection or written approval by the relevant corporate client. For new products, we will send samples to laboratories designated by the relevant corporate client. The relevant corporate client has the right to inspect the goods and the factory upon request.

If the products are found to be non-conforming with the instructions or quality standard required by the relevant corporate client, or otherwise non-conforming or not compliant with the terms and conditions of the agreement, we are required to remedy the applicable issue prior to shipment of such products to the relevant corporate client. Without limitations to the aforementioned, we are required to promptly implement reasonable measures at the request of the relevant corporate client once the corporate client detects any non-conformity. If the relevant corporate client determines that any replacement products fail to conform to its instructions, such corporate client has a right to terminate the order, upon which we are required to refund to such corporate client all prepayments made for such products.

Purchase and payment

On or before the designated day of each month, the relevant corporate client shall provide us with a non-binding forecast, setting forth a rolling forecast of anticipated product requirements. The purchase order shall specify the order number, product quantity and delivery information.

The fixed price for the designated products is set forth in the agreement or purchase order. Product price for each product delivered by us shall be payable within the specific timeframe after delivery. We and the relevant corporate client may adjust the product prices upon request and mutual consent.

Termination and renewal

Either party may terminate the agreement upon notice to the other party in the event that the other party (i) commits any material breach of any of the terms of the agreement and fails to remedy that breach within a specific timeframe, or (ii) commits an incurable breach of the agreement, including, but not limited to, a breach of the intellectual property provision or the confidential information provision of the agreement. The relevant corporate client may terminate the agreement at any time provided that it notifies us in writing four or six months in advance as specified in the respective agreement. In addition, the initial term of the respective agreement is five years, and shall be automatically renewed for a successive time period in accordance with the terms of respective agreement, unless either party provides a written notice of non-renewal at least six months prior to the end of the initial term or the renewal period.

During the Track Record Period, there were no breaches of these long-term agreements either by us or by our corporate client.

Arrangements under Distributorship Model

We distribute our self-branded APV under our retail client oriented sales and a portion of vaping components under our corporate client oriented sales through distributors. Cooperating with distributors allows us to reach a diverse consumer base and take advantage of the local sales channels that the distributors have already developed. The distributorship model also enables us to focus on product development, production and marketing. According to Frost & Sullivan, it is an industry norm to use distributorship model in the vaping industry. This is because (i) since over 90% of the vaping devices are shipped by China-based manufacturers while the major regions of

product consumption are U.S., E.U. and U.K. It is more effective and cost-efficient to engage local distributors for product sales in those regions; (ii) compared with vaping device manufacturers, local distributors have well-established sales channels and customer bases and could better address possible requests and after-sales inquiries from end consumers while reporting the latest consumer trends and preferences to the manufacturers; and (iii) the regulatory environment varies across countries and regions, and by using a distributorship model, the vaping device manufacturers could be exempted from the relevant application processes for certifications and sales authorizations.

As of December 31, 2019, we had 260 distributors globally, mainly in the U.S., France and the U.K. To the best knowledge of our Directors, save as disclosed herein, there were no past or present relationships (including, without limitation, family, business, employment, financial or otherwise) between the distributors and the Company, its subsidiaries, their shareholders, directors, senior management or their respective associates. Revenue generated through our distributorship model accounted for 27.0%, 44.5%, 50.5% and 31.0% of our total revenue in 2016, 2017, 2018 and 2019, respectively. We recognize revenue from sales to distributors when the control of goods has transferred, which is when the goods have been shipped to the distributor's specified location.

In 2017, due to the increasing number of distributors, in order to avoid cross-regional competition between our distributors, regulate market prices and establish a more optimal distributorship model, we began to enter into written agreements, including distribution agreements, letters of commitment of price control, supply and rebate agreements or memorandum of understanding, with the strategic cooperative distributors. Strategic cooperative distributors are our most valued distributors who have been selected based on their years of relationship with us, number of sales and cooperation track record. Therefore, in the same year, we began to divide our first-tier distributors who directly cooperate with us into strategic cooperative distributors and regular distributors. In 2017, 2018 and 2019, we had six, seven and 36 strategic cooperative distributors, respectively, and their revenue contributions amounted to 17.6%, 27.8% and 24.1% of our total revenue, respectively, or 39.6%, 55.1% and 76.0% of our total revenue generated through our distributorship model, respectively. During the same years, we had 250, 312 and 224 regular distributors, respectively, with revenue contributions amounting to 26.8%, 22.6% and 7.6% of our total revenue, respectively, or 60.4%, 44.9% and 24.0% of our total revenue generated through our distributorship model, respectively.

BUSINESS

The table below sets forth the number of our distributors and their corresponding revenue contribution in each geographical location for the years indicated:

	Year ended December 31,							
	2016		2017		2018		2019	
	Number of distributors	% of revenue contributed	Number of distributors	% of revenue contributed	Number of distributors	% of revenue contributed	Number of distributors	% of revenue contributed
U.S.	37	5.7	66	15.4	67	28.6	51	19.2
China	29	14.8	13	11.6	11	8.9	11	5.2
Hong Kong ⁽¹⁾ . . .	8	2.5	12	7.8	13	2.3	15	1.1
Japan	2	—*	4	0.1	8	0.1	3	—*
Switzerland	1	—*	1	—*	3	—*	5	—*
U.K.	13	0.9	25	1.3	29	1.1	22	0.6
France	10	1.2	17	1.8	24	2.7	19	1.9
Others ⁽²⁾	45	1.9	118	6.5	164	6.8	134	3.0
Total	145	27.0	256	44.5	319	50.5	260	31.0

* less than 0.1%

Notes:

- (1) Revenue generated from Hong Kong is on re-export or transshipment basis and, to our best knowledge, none of our products are distributed or sold in Hong Kong. Our customers incorporated in Hong Kong are mainly responsible for transshipment or trading companies for our overseas customers. Based on the revenue derived from customers incorporated in Hong Kong in 2019, approximately 93.4% of the products were forwarded to the U.S. As for all of the products that are exported through Hong Kong, including products sold to customers incorporated in Hong Kong and in other countries, a majority of them were forwarded to the U.S. and Japan during the Track Record Period.
- (2) None of the countries categorized under others contributed more than 2% of our total revenue of any year during the Track Record Period.

Pricing strategies

We focus on the control of final selling price to end consumers. We generally sell our products to distributors at around 34% to 43% of the recommended retail price depending on the order volume and the product type. The prices at which we sell our products to the distributors are determined on a cost-plus basis, and we will offer different levels of discounts to distributors based on their distributorship types and sales network coverage on a case-by-case basis. We provide guidance regarding price range as well as product promotional discount policies and programs to our distributors according to their tier. Specifically, for strategic cooperative distributors, we may offer a discount of no more than 20% as compared to the price offered to regular distributors. For strategic cooperative distributors that have achieved a certain performance, we can usually provide a rebate discount of not more than 7%. Our distributors should follow our guidance and formulate the final selling price based on their operational performance.

BUSINESS

Selection and assessment criteria for distributors

We select and assess our distributors based on a number of criteria, including, among others, their local relationships and experiences, retail operation capabilities, marketing capabilities, financial condition, risk management capabilities, reputation, human resources management and IT system. During the Track Record Period, we procured new distributors by participating in exhibitions, going to target countries to survey potential distributors and doing online searches. We enter into written agreements, including distribution agreements, letters of commitment of price control, supply and rebate agreements or memorandum of understanding, with strategic cooperative distributors to ensure stable relationships with them. On the other hand, we conduct our business with regular distributors on purchase order basis. According to Frost & Sullivan, it is the industry norm for downstream companies to conduct business with upstream sellers on a purchase order basis. We usually renew our agreements with strategic cooperative distributors on the basis as specified in the relevant agreement. During the Track Record Period, distributors were added mainly to expand the coverage of our sales network and we terminated our cooperation with some of them due to adjustment in our distributor policy or when they failed to meet our performance targets.

The table below sets forth the total numbers of our distributors for the years indicated:

	Year ended December 31,			
	2016	2017	2018	2019
Distributors at the beginning of the year .	12	145	256	319
— Strategic cooperative distributors ⁽¹⁾ .	—	—	6	7
— Regular distributors	12	145	250	312
Add:	133	182	153	122
— New strategic cooperative distributors	—	—	—	6
— Transfers from regular distributors to strategic cooperative distributors	—	6	1	23
— New regular distributors ⁽²⁾	133	176	152	93
Less:	—	71	90	181
— Discontinued strategic cooperative distributors ⁽³⁾	—	—	—	—
— Discontinued regular distributors ⁽⁴⁾ .	—	65	89	158
— Transfers from regular distributors to strategic cooperative distributors ⁽¹⁾⁽⁵⁾	—	6	1	23
Distributors at the end of the year	145	256	319	260
— Strategic cooperative distributors . .	—	6	7	36
— Regular distributors	145	250	312	224

Notes:

- (1) “Strategic cooperative distributors” refer to strategic cooperative distributors who have signed distribution agreements, letters of commitment of price control, supply and rebate agreements or memorandum of understanding with us, including new strategic cooperative distributors doing business with us for the first time or those transferred from regular distributors.
- (2) “New regular distributors” include regular distributors doing business with us for the first time and discontinued regular distributors who started to do business with us again.
- (3) “Discontinued strategic cooperative distributors” refer to strategic cooperative distributors whose written agreements with us have been terminated.
- (4) “Discontinued regular distributors” refer to regular distributors who have not made any orders since the end of the prior financial year.
- (5) If regular distributors change to strategic cooperative distributors, we will not include such distributors in our calculation of regular distributors for the year.

We calculate the number of our regular distributors based on a purchase order basis, i.e. whether a distributor has made a purchase order during the financial year. If a regular distributor has not made any orders since the end of the prior financial year, then the regular distributor is seen as discontinued. We adopt this calculation method because we generally conduct our business with regular distributors on a purchase order basis rather than entering into written agreements with them. Regular distributors whose status has been changed to strategic cooperative distributors are no longer included in the number of regular distributors for the year. We calculate the number of strategic cooperative distributors based on the number of written agreements entered into or terminated during the year. These newly added strategic cooperative distributors include distributors doing business with us for the first time or those transferred from regular distributors.

Our number of distributors increased from 2016 to 2018. However, our distributors decreased from 319 as of December 31, 2018 to 260 as of December 31, 2019, because (i) some regular distributors did not put in any orders in 2019, and (ii) we terminated our cooperation with some regular distributors as part of our channel optimization efforts to focus more on premium distributors. Nevertheless, we still have a large number of new distributors each year because (i) we are expanding to new markets; (ii) there is increased demand brought on by the growth of our industry; (iii) we are able to attract distributors mainly through attending exhibitions and by relying on our reputable products; and (iv) discontinued regular distributors become new distributors if they begin to order from us again.

Agreements with distributors

Our agreements with strategic cooperative distributors include typical terms contained in standard distribution agreements where our distributors purchase our products before they are sold to end customers. Our distributors are our buyers, not our legal representative, agent or partner. Some distributors operate their own retail stores. Under a distribution agreement, we generally grant the distributor the right to promote and sell our products, use the trademarks owned by us and present itself as the authorized distributor of such products. Further, we shall provide technical

information of the products and help the distributor complete the corresponding advertising materials and manuals. In return, the distributor will do its best to use promotional materials provided by us to promote the products. For details of risk of improper use of our brand, products and intellectual property rights by our distributors, see “Risk Factors — Risks Relating to Our Business and Industry — We have limited control on our distributors, and we cannot assure you that our distributors will continuously operate their distribution business in compliance with relevant laws and regulations or their obligations under the applicable distribution agreement.”

We have set up certain performance targets for our strategic cooperative distributors, and for those who have achieved the performance targets, we will provide a rebate of not more than 7%. In addition, to further bolster our sales, we provide volume rebates typically ranging from 1.5% to 5.0% to some distributors based on their location and purchase amounts. The percentage of rebate varies among distributors and may be negotiated with and granted to individual distributors on a case-by-case basis in consideration of the distributors’ sales performance and the length of their business relationship with us. Distributors can use such credits when making new purchases.

We generally do not enter into any long-term agreements with our distributors. Our written agreements with distributors generally include the following principal terms:

- *Duration:* One year, renewable upon mutual agreement.
- *Distributorship right:* Each of our distributors has the right to operate distributor stores under the distribution agreement within an authorized territory. Such right is generally non-exclusive, though we do give exclusive right to sell our products in a few countries. To avoid competition between our distributors, we do not allow our distributors to sell outside of their authorized territory unless otherwise approved by us. Moreover, to avoid market cannibalism, we assess the number of distributors that a regional market can accommodate based on the sales potential and coverage rate, and we will control the number of distributors accordingly.
- *Use of intellectual property rights:* Our distributors, who are authorized to use our trademarks and other intellectual property rights, are required to protect our credibility and reputation and keep our corporate information, business know-how and trade secrets in strict confidence.
- *Termination and renewal:* The non-breaching party may terminate the agreement if there is any material breach of the agreement. If the distributor would like to renew the agreement, typically they need to give us 30 days’ notice prior to the agreement’s expiration date. Terminated distributors may continue to sell unsold products that they have already purchased from us.
- *Payment and credit terms:* Our distributors, save for those with an approved credit line, are generally required to pay us a deposit of approximately 20% to 100% of the total wholesale value when placing a purchase order. Once we accept the order, the distributor cannot change or cancel without our approval. We will notify the distributor when the goods are ready for shipment. If the distributor fails to make the payment within the specified timeframe stated in the notice, it will need to clarify the reasons for the delay. If the payment is not made within the specified timeframe, we will view the order as being canceled and will be entitled to keep the down payment as liquidated damages.

We have implemented a credit management policy for our distributors. We rate our distributors based on their historical purchase amount, store numbers, years of relationship with us and previous credit history. We conduct assessment to decide our corresponding credit quota and policy to them. Subject to our management's approval, we provide credit terms ranging from 15 days to 60 days to a limited number of distributors that are in good financial condition and have a good credit history.

- *Goods return and obsolete stock arrangements:* Distributors are not allowed to return unsold goods to us unless there are quality defects. When a distributor discovers quality defects in our products and files a complaint with us, it is required to report the details of the defective products, including the batch number, product contents, product list and the reason of defect. We may then allow the distributor to return the unsold goods or issue a deduction for its next purchase. According to Frost & Sullivan, our goods return policy is in line with industry practice in the vaping industry. During the Track Record Period, we did not encounter any material sales return or provide any deduction to our distributors due to product defect. For obsolete inventories, our distributors usually sell them through promotion or dispose these inventories at their own expenses and discretion.
- *Order rights:* Our distributors can choose the products they would like to order subject to our confirmation based on availability of inventory.
- *Purchase amount:* The distributor is generally required to meet a minimum purchase amount, and the distributor will need to purchase at least 30% of the specified minimum purchase amount within the first half of the contract term as part of the renewal conditions. Nevertheless, we have different purchase amount requirements for different markets based on its maturity and capacity, taking into consideration the actual demand from end consumers to avoid inventory accumulation. We assess the demand for each market based on (i) the historical sales records of the distributors, (ii) our understanding of future growth potential through participation in exhibitions, visitation with customers and industry reports, and (iii) purchase, inventory and sales data obtained through our access to certain distributors' record system.

Management of distributors

As part of our distributor management system, we actively supervise the operation of our distributors to ensure their compliance with our retail policies and operating procedures and prevent any conflict of interest or abuse.

- *Monitoring sales and inventory records:* (i) We consider distributors' historical sales performance and sales forecast to evaluate their orders. We will oversee their orders to ensure the delivery of sufficient quantities to meet customer demands in a timely fashion; and (ii) we may alert our distributors to replenish the inventory of popular products when their inventory reaches a prescribed level. Though the products sold to distributors are no longer included in our inventories, to prevent channel stuffing, we have adopted certain

measures to assess distributors' inventory level on a regular basis. For example, we can access and monitor the record of some distributors' inventories. Other distributors that have not given us such access will provide us with periodic reports of their inventory levels upon our requests. We usually make such requests monthly. We also maintain frequent communication with our distributors, including phone calls, emails and onsite visits. Further, we provide support to some of our distributors' promotional activities to help them sell products with high levels of stock. Such support includes providing sales discounts and promotional materials. We do not apply these measures to discontinued distributors.

- *Performance evaluation:* We conduct reviews of the performance of our distributors against certain criteria, including their sales record and compliance with our retail policies and operating procedures. We decide whether to renew or terminate our written agreements with them based on the results of their performance evaluation, including whether they meet the sales target.
- *Onsite inspections:* To ensure full compliance with our retail policies and operating procedures, we generally conduct monthly inspections to monitor distributors' service quality and notify them of corrective measures that need to be taken with respect to those aspects that do not meet our standards. For major distributors, we may conduct inspections as frequent as every week, subject to the actual needs and our availability. For example, before a new product is launched, in order to obtain market feedbacks timely, our sales team will visit these distributors' stores to review the promotion and marketing materials, product display and their inventory level.
- *Price control measures:* We provide pricing instructions and guidelines to our distributors. We monitor and conduct reviews of our product prices offered by our distributors and have the right to terminate the agreements with our distributors for repeated non-compliance with our guidelines.

During the Track Record Period and as of the Latest Practicable Date, we were not aware of any of our distributors committing any material breach of their respective written agreements or in material violation of our policies relating to geographical scope or pricing.

PRODUCTION

Production Facilities

We manufacture all of our products at our production facilities and do not outsource our production to third-party manufacturers. We believe that such arrangements enable us to better protect our proprietary know-how and other intellectual property rights as well as to accumulate the knowledge and expertise which are required for optimizing production efficiency.

As of the Latest Practicable Date, we operated ten leased production bases, the total GFA of which amounting to approximately 143,776 sq.m. The lease terms of these production bases vary as listed in the table below, and we do not have plans to terminate the leases early based on current demand and estimated future prospects. We have strategically planned most of our ten specialized, large-scale production bases in Shenzhen and Dongguan, the most developed regions for the supply chain of vaping devices globally. Through our strategically located production bases, we are able to

BUSINESS

deliver large orders at a lower cost and respond to customer demands in a timely manner. As of the Latest Practicable Date, we were able to produce over 100 million equivalent units for corporate client oriented sales in a month.

The table below sets forth details of our ten production bases:

	Location	GFA (sq.m.)	Lease term (months)	Lease term expiry date	Monthly rent (RMB)	In operation since	Products manufactured
Production base 1	Bao'an District, Shenzhen	1,600	60	September 14, 2022	37,618	September 2009	Closed system vaping device and vaping components
Production base 2	Bao'an District, Shenzhen	14,163	108	August 30, 2028	410,727	December 2019	Closed system vaping device
Production base 3	Bao'an District, Shenzhen	11,000	60	July 31, 2023	459,897	September 2018	Closed system vaping device
Production base 4	Bao'an District, Shenzhen	22,000	64	November 30, 2022	926,539	December 2017	Closed system vaping device and vaping components
Production base 5	Bao'an District, Shenzhen	10,008	60	February 28, 2023	319,141	April 2014	Closed system vaping device
Production base 6	Bao'an District, Shenzhen	15,474	36	August 4, 2022	842,833	December 2019	Closed system vaping device
Production base 7	Bao'an District, Shenzhen	7,969	45	March 31, 2023	330,222	May 2018	Open system vaping device
Production base 8	Chang'an Town, Dongguan	9,980	60	August 31, 2023	264,511	September 2013	Closed system vaping device and vaping components
Production base 9	Chang'an Town, Dongguan	26,780	60	December 1, 2023	863,333	February 2019	Vaping components
Production base 10 . . .	Hongmei Town, Dongguan	24,803	60	March 31, 2024	527,080	May 2019	Ceramic and other intermediate goods

We segregate exclusive production factories for certain key customers. The segregation of production areas is partly made at the instruction of our customers and serves to protect the proprietary nature of their products and the production processes thereof. The segregation also limits the number of customers impacted in case we need to relocate our production factories. We believe that any such impact would likely be immaterial given that our other production bases can cover the production output of the production base being relocated and that we would be given notice of the relocation in advance, which should give us ample time to search for a factory that meet our needs. In addition, by maintaining good communication with the local government, we would be able to get advanced notice should we need to relocate and find new properties to rent in time to avoid losses.

BUSINESS

Production Process

We have an integrated production control and supply chain management system through which we closely monitor all key stages of our manufacturing processes. Our streamlined and standardized production process utilizes automatic technology to ensure production safety, output stability and normative process flow as well as to meet customers' requirements on product quality and timely delivery. For example, we entered into a strategic partnership with one of our key customers, Japan Tobacco, for a large-scale integrated production facility in Xi Xiang, Bao'an District, Shenzhen that we leased from an independent third party solely for the manufacturing of products as required by Japan Tobacco. Pursuant to our manufacturing and supply agreement with Japan Tobacco, we procured certain equipment with specified designs and layouts and have agreed to not modify the equipment and agreed processing parameters of products without the prior written consent of Japan Tobacco. We shall manufacture products for Japan Tobacco using only equipment and materials approved by Japan Tobacco and shall comply with all instructions, inputs, requirements and quality assurance standards and controls reasonably requested by Japan Tobacco in writing. The product price is payable by Japan Tobacco within a specified period for each type of products from the receipt of an invoice issued by us after the delivery of such products to Japan Tobacco or its designee. All payments are made by wire transfer to our account in China. The agreement is renewed automatically for successive one year periods, unless either party provides a written notice of non-renewal at least six months prior to the end of the initial term or any renewal period. This project helped improve our production capacity and efficiency and lower our product rejection rate. Furthermore, our factories are equipped with our self-developed automatic production facilities, which, along with our strong quality control, enable us to achieve higher production capacity and lower rejection rate.

The production cycle of our products varies depending on the product type, delivery schedule requested by our corporate clients and raw material supply. Typically, products for our corporate client oriented sales and retail client oriented sales require nine days and ten days to produce, respectively. We put great efforts to maximize our production efficiency and minimize our inventory levels so that we can swiftly respond to changing customer demands.

Production Capacity and Utilization Rate

The following table sets forth a summary of our annual production capacity in terms of the number of products produced and utilization rates for each of our product categories for the years indicated.

Product Category:	Year ended December 31,											
	2016			2017			2018			2019		
	Designed Production Capacity ⁽¹⁾	Actual Production Volume	Utilization Rate ⁽²⁾	Designed Production Capacity ⁽¹⁾	Actual Production Volume	Utilization Rate ⁽²⁾	Designed Production Capacity ⁽¹⁾	Actual Production Volume	Utilization Rate ⁽²⁾	Designed Production Capacity ⁽¹⁾	Actual Production Volume	Utilization Rate ⁽²⁾
	(equivalent units)	(equivalent units)	(%)	(equivalent units)	(equivalent units)	(%)	(equivalent units)	(equivalent units)	(%)	(equivalent units)	(equivalent units)	(%)
Corporate client oriented sales . . .	220,454,400	145,428,249	66.0	294,286,280	261,860,774	89.0	647,215,300	513,902,431	79.4	1,126,315,902	703,959,164	62.5
Vaping devices	165,230,400	124,748,978	75.5	178,835,280	138,990,397	77.7	297,191,300	206,945,788	69.6	592,606,352	428,901,115	72.4
Vaping components	55,224,000	20,679,271	37.4	115,451,000	122,870,377	106.4	350,024,000	306,956,643	87.7	533,709,550	275,058,049	51.5
Retail client oriented sales ⁽³⁾ . . .	6,000,000	1,245,336	20.8	11,450,000	4,943,763	43.2	19,200,000	10,224,648	53.3	25,350,000	12,521,775	49.4

BUSINESS

Notes:

- (1) Designed production capacity is calculated based on the designed production capacity per hour of our production line. In our calculations, we assumed that (i) we operate 300 days per year at all of our production facilities, and (ii) we operate eight hours per day. We also took into account the production line changeover time, as we sometimes will need to switch production lines when manufacturing different products.
- (2) The utilization rate is calculated by dividing our actual production volume for the year by the designed production capacity of the same year. Utilization rates of over 100% were due to (i) increased market demand and the large production volume of a single product, which allowed us to shorten overall production line changeover time and increase production efficiency, and (ii) the operation time exceeding eight hours at the relevant production bases due to overtime arrangements.
- (3) Retail client oriented sales include sales of our self-branded APV.

The relatively low utilization rate for retail client oriented sales in 2016 was mainly because our retail client oriented business had just started that year. The utilization rate for retail client oriented sales slightly decreased in 2019 because we began to dedicate an entire factory to the production of our self-branded APV after August 2018. Prior to August 2018, our self-branded APV was produced in a factory that also produced our other products. The utilization rate for corporate client oriented sales decreased in 2018 and 2019 mainly because our new factory in Xin'an, Bao'an District, Shenzhen began operations in 2018 and our four new factories in Chang'an, Dongguan, Guangdong and Bao'an District, Shenzhen began operations in 2019. Our new factories usually have a three-month ramp-up period. Generally, we have gradually increased our production capacity during the Track Record Period.

The following table sets forth a summary of our annual production capacity in terms of the number of products produced and utilization rates for each of our production bases for the years indicated.

Production bases:	Year ended December 31,											
	2016			2017			2018			2019		
	Designed Production Capacity ⁽¹⁾	Actual Production Volume	Utilization Rate ⁽²⁾	Designed Production Capacity ⁽¹⁾	Actual Production Volume	Utilization Rate ⁽²⁾	Designed Production Capacity ⁽¹⁾	Actual Production Volume	Utilization Rate ⁽²⁾	Designed Production Capacity ⁽¹⁾	Actual Production Volume	Utilization Rate ⁽²⁾
	(equivalent units)	(equivalent units)	(%)	(equivalent units)	(equivalent units)	(%)	(equivalent units)	(equivalent units)	(%)	(equivalent units)	(equivalent units)	(%)
Production base 1	98,400,000	60,016,674	61.0	148,900,000	116,874,316	78.5	87,984,000	83,747,046	95.2	74,256,000	92,549,492	124.6
Production base 2 ⁽³⁾	—	—	—	—	—	—	—	—	—	—	—	—
Production base 3	—	—	—	—	—	—	—	—	—	123,600,000	96,681,256	78.2
Production base 4	—	—	—	—	—	—	320,600,000	234,910,502	73.3	363,780,000	158,423,265	43.5
Production base 5	72,830,400	65,977,640	90.6	88,885,280	75,775,691	85.3	100,007,300	56,192,146	56.2	195,677,472	152,160,213	77.8
Production base 6 ⁽⁴⁾	—	—	—	—	—	—	—	—	—	20,944,880	5,931,224	28.3
Production base 7	—	—	—	—	—	—	8,400,000	4,404,193	52.4	25,350,000	12,521,775	49.4
Production base 8	55,224,000	20,679,271	37.4	67,951,000	74,154,530	109.1	149,424,000	144,873,192	97.0	122,457,550	125,935,358	102.8
Production base 9 ⁽⁵⁾	—	—	—	—	—	—	—	—	—	225,600,000	72,278,356	32.0
Production base 10 ⁽⁶⁾	—	—	—	—	—	—	—	—	—	410,791,500	250,015,680	60.9

Notes:

- (1) Designed production capacity is calculated based on the designed production capacity per hour of our production line. In our calculations, we assumed that (i) we operate 300 days per year at all of our production facilities, and (ii) we operate eight hours per day. We also took into account the production line changeover time, as we sometimes will need to switch production lines when manufacturing different products.
- (2) The utilization rate is calculated by dividing our actual production volume for the year by the designed production capacity of the same year. Utilization rates of over 100% were due to (i) increased market demand and the large production volume of a single product, which allowed us to shorten overall production line changeover time and increase production efficiency, and (ii) the operation time exceeding eight hours at the relevant production bases due to overtime arrangements.
- (3) No data during the Track Record Period since operations began at the end of December 2019.
- (4) No data for 2016 to 2018 since operations began in December 2019.
- (5) No data for 2016 to 2018 since operations began in February 2019.
- (6) No data for 2016 to 2018 since operations formally began in May 2019.

During the Track Record Period, the designed production capacity of our production bases generally increased primarily due to the installment of additional production lines. However, there were two instances where the designed production capacity decreased. Specifically, the designed production capacity of production base 1 increased from 2016 to 2017 but decreased in 2018 and 2019 because we moved some of the production lines to another production base as production base 1 can no longer accommodate the increasing orders from our customers. Moreover, the designed production capacity of production base 8 increased from 2016 to 2018 but decreased in 2019 because its production ceased in August and September in 2019 as we made adjustments to its layout for manufacturing a different product.

We entered into an agreement with Japan Tobacco to manufacture its products using a designated production base in Xi Xiang, Bao'an District, Shenzhen. The production base was leased from an independent third party and only manufactured products exclusively for Japan Tobacco. We cannot assure you that our other existing customers or new customers will not request similar arrangements regarding designated production bases in the future.

Equipment Maintenance

We own all of our production machineries and equipments. We regularly monitor and upgrade our production machineries and equipments with an aim to increase our overall production capacity and efficiency. The average expected useful life and replacement cycle of our major production machineries and equipments is approximately five to ten years based on our internal amortization and depreciation policies. As of the Latest Practicable Date, the average age of our major production machineries and equipments for producing vaping products was approximately two years on average.

As our production process requires high-quality output to meet customer requirements, we have implemented a maintenance system for our facilities and equipment, including scheduled downtimes for maintenance and repairs and regular inspections. Our maintenance team is well established with professionals to provide maintenance service. We carry out cleaning and maintenance on different periodic basis for different production machineries and equipments to prolong their useful life. Our maintenance system helps us continue to maintain operational efficiency and high-quality control standards as well as operate our production lines at optimal levels. Furthermore, we also place great efforts in bringing in new technology to provide upgrades in our production. Our R&D team keeps developing our self-developed automatic production facilities. As a result, we did not experience any material or prolonged interruptions to our production process due to equipment or machinery failure during the Track Record Period.

Production Expansion Plan

Our expansion plan is determined based on a number of strategic considerations, including market demands and price for the relevant products, utilization of the existing production facilities, competitive landscape for the target market, estimated development cost, availability and cost of capital resources, our historical results of operations and growth potential as well as our ongoing communications with our customers. Although our customers' purchases are made on a purchase order basis, we have partnered with our existing customers from concept design through product development to the final delivery of our products. We have collaborated with them on product planning and developed long-term relationships. Our production expansion plan is primarily based on our understandings of business plans, product planning, potential demands for existing and new products and expected orders from these customers in the coming years. Such close partnership and communication enable us to anticipate, identify and react to the market trends and understand customers' demands so as to facilitate our overall strategy formulation and planning, and to capture growth opportunities in different segments of the market.

In order to further elevate our manufacturing capabilities, we plan to establish new production bases in Jiangmen and Shenzhen, Guangdong province. Our Jiangmen industrial park will be constructed in two phases. With the first phase coming into operation in 2021, we expect to see a decrease in our production cost per equivalent unit and an increase in our capacity by approximately 90 million equivalent units for corporate client oriented sales per month. For the second phase, we expect it to commence operation in around 2023 and to further increase our capacity by approximately 120 million equivalent units for corporate client oriented sales per month. Further, for our Shenzhen industrial park, we expect that it will take around two years from the state-owned land use right acquisition to operation commencement, which is expected to be by 2024. With the large scale of our new production bases, we will be able to fulfill customer demand and the needs of our rapid business growth. We expect to replace most of our leased factories with the new production bases. See "Future Plans and Use of Proceeds — Use of Proceeds" for details.

Warehousing

As of the Latest Practicable Date, the total GFA of our warehouses amounted to approximately 3,425 sq.m., which provides us with abundant warehousing capacities. We conduct regular inspection on our warehousing conditions to ensure that our warehousing condition will not impede our business operation. An internal inspection guidance has been formulated and well complied with. Usually, we purchase our raw materials after receipts of new orders or order forecast from our customers to ensure shorter inventory turnover days. We also have a dedicated team with systematic trainings to ensure good condition and operation of our warehouses.

SUPPLIERS AND RAW MATERIALS**Our Suppliers**

Most of our suppliers are raw material suppliers in China. We carefully select our suppliers to secure principal raw materials used in our production process and require them to satisfy certain evaluation and assessment criteria. Before we engage a new supplier, our procurement department evaluates various aspects of the supplier, including its ability to meet our customers' requirements, production capacity and innovation capability, and formulates procurement plan based on our predicted growth. We maintain a list of high-quality suppliers, whom we prefer to purchase raw materials more frequently and in larger amounts to ensure quality raw materials are provided. We place great emphasis on a supplier's ability to provide the specific materials. We closely monitor the quality of all raw materials provided by our suppliers to ensure that all raw materials comply with the requirements of our customers. Our quality control system covers from purchase order placing stage to before-delivery inspection, and to laboratory sampling test. See "— Quality Control." Our quality control staffs carry out onsite inspections on raw materials at some of our suppliers' facilities before the relevant raw materials are delivered to us. We have developed stable relationships with our key suppliers over the years. As of the Latest Practicable Date, our top five suppliers during the Track Record Period had collaborated with us for approximately five years on average. During the Track Record Period, we did not have any material disputes with our suppliers.

In addition, some of our customers may designate suppliers of raw materials that we are mandated to use in manufacturing their products. Such arrangements accounted for 18.4% of the total purchases of raw materials by us during the Track Record Period. Such arrangements do not apply to our self-branded APV. In cases where the suppliers of raw materials are selected by us, we directly negotiate the prices with the suppliers.

BUSINESS

The tables below set forth information about our top five suppliers during the Track Record Period.

For the year ended December 31, 2016

<u>Supplier</u>	<u>Background</u>	<u>Location</u>	<u>Years of relationship</u>	<u>Credit terms and payment method</u>	<u>Procurement amount by us (RMB'000)</u>
Supplier A	A company that engages in the (i) sales of hardware products and their parts, molding tools, electronic plastic products, (ii) domestic commerce, (iii) material supply and marketing, and (iv) import and export of goods and technology	China	11	Net 60 days	41,523
Supplier B	A company that engages in the production and sale of hardware, metal products, stationery, craft gifts and machinery as well as the import and export of goods	China	Five	Net 30 days	28,797
Supplier C	A company with lithium batteries as its core business	China	Eight	Net 30 days	25,183
Supplier D	A company involved in growing, sourcing, developing, processing, extracting and the production of agriculturally originated products, including tobacco and other natural ingredients	Germany	Four	Net 30 days	23,611
Supplier E	A paper and packaging company	China	Five	Net 30 days	23,488

BUSINESS

For the year ended December 31, 2017

<u>Supplier</u>	<u>Background</u>	<u>Location</u>	<u>Years of relationship</u>	<u>Credit terms and payment method</u>	<u>Procurement amount by us (RMB'000)</u>
Supplier A	A company that engages in the (i) sales of hardware products and their parts, molding tools, electronic plastic products, (ii) domestic commerce, (iii) material supply and marketing, and (iv) import and export of goods and technology	China	11	Net 60 days	94,641
Supplier C	A company with lithium batteries as its core business	China	Eight	Net 30 days	71,691
Supplier F	A company that focused on developing and marketing e-vapor products for tobacco consumers	U.S.	Five	OA 30 days	63,033
Supplier G	A company engaged in selling e-cigarette products, digital electronic products and medical electronic products, among others	China	Five	Net 30 days	60,833
Supplier H	A company engaged in design, development and sale of electronic products, integrated circuits and control panels for home appliances	China	Four	Net 30 days	48,458

BUSINESS

For the year ended December 31, 2018

<u>Supplier</u>	<u>Background</u>	<u>Location</u>	<u>Years of relationship</u>	<u>Credit terms and payment method</u>	<u>Procurement amount by us (RMB'000)</u>
Supplier A	A company that engages in the (i) sales of hardware products and their parts, molding tools, electronic plastic products, (ii) domestic commerce, (iii) material supply and marketing, and (iv) import and export of goods and technology	China	11	Net 60 days	198,933
Supplier C	A company with lithium batteries as its core business	China	Eight	Net 30 days	114,453
Supplier G	A company engaged in selling e-cigarette products, digital electronic products and medical electronic products, among others	China	Five	Payment on delivery	82,884
Supplier H	A company engaged in design, development and sale of electronic products, integrated circuits and control panels for home appliances	China	Four	Payment on delivery	82,368
Supplier I	A company engaged in technical development and sales of electronic products, including mobile communications, 3C products and e-cigarettes	China	Five	Net 30 days	78,068

BUSINESS

For the year ended December 31, 2019

<u>Supplier</u>	<u>Background</u>	<u>Location</u>	<u>Years of relationship</u>	<u>Credit terms and payment method</u>	<u>Procurement amount by us (RMB'000)</u>
Supplier C	A company with lithium batteries as its core business	China	Eight	Net 30 days	208,704
Supplier A	A company that engages in the (i) sales of hardware products and their parts, molding tools, electronic plastic products, (ii) domestic commerce, (iii) material supply and marketing, and (iv) import and export of goods and technology	China	11	Net 60 days	204,013
Supplier I	A company engaged in technical development and sales of electronic products, including mobile communications, 3C products and e-cigarettes	China	Five	Net 30 days	185,262
Supplier J	A company engaged in the technical development and sales of smart packaging products, packaging materials, packaging machinery and environmental protection ecosystem packaging products	China	Two	Net 30 days	99,654
Supplier K	A subsidiary of a Fortune 500 company that manufactures and sells chemicals, fibers and plastics, provides high-quality raw materials for the coatings, adhesives and specialty plastics industries, and supplies cellulose acetate worldwide	Hong Kong	Two	Complete prepayment	92,043

The term of our supply agreements is normally one year, which will extend automatically for an additional year in the absence of any disagreement. We generally do not enter into long-term supply agreements. We have the right to terminate the agreements if (i) the supplier cannot satisfy our product quality requirements or (ii) there are any product quality issues that result in a written complaint from our customers or a compensation claim above a specified number.

Our raw material purchases are made on a purchase order basis, and we specify the material type, unit price, quality and quantity requirements, delivery timeline and other items in each purchase order we send to our suppliers. We generally place purchase orders with our suppliers after we have received a purchase order from the relevant customer. Any product that fails to meet our quality standard shall be returned to and repaired or replaced by the supplier. Sales returns and damages caused by any unqualified products shall be compensated by the supplier. Our suppliers generally agree to lower the price when our order amount reaches a certain threshold.

Payment terms granted by our suppliers vary depending on a number of factors including the size of the order placed. We are required to fulfill payment within a specific timeframe and upon the receipt of the original invoice. The invoice is to be sent by the supplier and received by us before the designated date of each month. Our suppliers typically provide us with credit terms of up to 30 days after the invoice date. We usually settle our trade payables by bank transfers. Delivery charges are typically borne by our suppliers. The majority of our suppliers are located in China, and the majority of our raw material purchases are denominated in RMB.

In 2016, 2017, 2018 and 2019, purchases from our top five suppliers amounted to RMB142.6 million, RMB338.7 million, RMB556.7 million and RMB789.7 million, respectively, accounting for 32.9%, 36.1%, 30.8% and 25.5% of our total purchase cost for the respective years. Our largest supplier in 2016, 2017, 2018 and 2019 accounted for 9.6%, 10.1%, 11.0% and 6.7% of our total purchase cost, respectively. Dr. Liu Jincheng, our non-executive Director, is the chairman of the board, the legal representative and the controlling shareholder of EVE Energy, one of our top five suppliers during the Track Record Period. Except for Dr. Liu Jincheng, none of our Directors, their associates or any Shareholders that, to the best knowledge of our Directors, owned more than 5% of our share capital as of the Latest Practicable Date, has any interest in any of our top five suppliers during the Track Record Period.

Raw Materials

The principal raw materials we use in the production of our products include metal components, electronic materials, plastic materials and packaging materials. In order to minimize our exposure to fluctuation in raw material prices, we negotiate with our customers to bear the increased cost of production collectively. In addition, we have implemented a number of cost-control measures with respect to our raw material procurement in order to mitigate the potential impact of rising raw material prices. These measures include the implementation of production procedures to monitor the use of raw materials and cooperating with suppliers to develop cost-efficient raw materials. To guarantee the delivery and quality of our raw materials, we conduct reviews on some of our suppliers and cooperate with different suppliers for some key raw materials. We had not experienced any shortage or delay in supply of raw materials or quality issues with our raw materials during the Track Record Period that materially affected our operations. In addition, our established relationships with suppliers ensure steady and quality raw material supply as well as effective cost control to minimize raw material prices. See “Financial Information — Principal Components of Consolidated Statements of Profit and Loss and Comprehensive Income — Cost of

Sales” for the sensitivity analysis in relation to changes in costs. Furthermore, since we typically sell our products to customers at a cost-plus basis, we are able to pass the increase in production costs to our customers, if any.

Customer and Supplier Overlapping

During the Track Record Period, there was an overlap between our major customers and suppliers. We provided vaping devices, accessories and technical services to this customer. On the other hand, this customer provided raw materials, including packaging materials and certain components to us. This arrangement was made at the request of this customer, as the e-liquid and packaging materials that it required us to purchase were not available in China.

This customer has ceased to be our customer and supplier as it discontinued its production and distribution of all vaping products in December 2018. The sum of purchase orders settled pursuant to the termination of business arrangement with this customer amounted to approximately RMB43.1 million. When our business arrangement with this customer ended in 2018, we had already incurred production costs in preparation of producing vaping devices for this customer’s orders, including the purchase cost of certain production equipment and raw materials, cost of manufacturing work-in-progress goods and finished goods, as well as indirect expenses incurred from our functional teams. After friendly negotiations, this customer agreed to pay us compensation for the early termination of its business arrangement with us. The compensation terms were in accordance with the termination clause under the framework agreement.

The net gains of the compensation in an amount of approximately RMB25.6 million was recorded as compensation income from customers under other income. The reason that we earned such net gains was because the compensation not only included the production costs that we incurred but also bonus for completing the customer’s shipment targets in the past, indirect expenses mentioned above as well as possible disruption caused to us. See “Financial Information — Principal Components of Consolidated Statements of Profit and Loss and Comprehensive Income — Other Income.”

Among the raw materials that we already purchased for this customer’s purchase orders, some were already put into production. The compensation for the cost of these used raw materials was included in the aforementioned compensation paid by this customer. For the unused raw materials, this customer agreed to buy them from us at the purchase price of approximately RMB8.7 million. The purchase price we received for this purchase was recorded as part of our revenue in 2019 as listed in the table below.

BUSINESS

The table below sets forth the revenue, cost of sales and gross profit related to this customer during the Track Record Period:

	Year ended December 31,			
	2016	2017	2018	2019
Revenue from this customer				
(RMB'000) ⁽¹⁾	206,189	262,573	221,475	8,744
As a % of our total revenue	29.2%	16.8%	6.5%	0.1%
Purchase from this customer				
(RMB'000)	22,365	63,033	13,987	—
As a % of our total cost of sales . . .	4.2%	5.5%	0.6%	—
Gross profit from this customer				
(RMB'000)	31,398	23,931	38,959	1,895
As a % of our total gross profit . . .	18.3%	5.7%	3.3%	0.1%

Note:

- (1) A portion of revenue in 2016, 2017 and 2018 were earned since this customer bought back some of the used raw materials in the normal course of business. Revenue in 2019 was from the sale of unused raw materials to this customer after the early termination of contract.

The gross profit margin of our sales to this customer was 15.2%, 9.1%, 17.6% and 21.7% for 2016, 2017, 2018 and 2019, respectively, and the gross profit margin of our sales to other customers was 28.1%, 30.4%, 35.8% and 44.1% for the respective years. The gross profit margin of our sales to this customer was lower than that of other customers because (i) this customer was an OEM customer in 2017, and OEM products generally have lower profit margins; (ii) many of the raw materials used to produce this customer's orders were purchased from suppliers designated by this customer, which limited the gross profit margin that can be achieved with those raw materials under the cost plus pricing model; and (iii) the heating element used in this customer's product was a traditional cotton core, which has a lower sales price, while most other customers use ceramic heating technology.

Negotiations of the terms of our sales and services to and purchases from this customer were conducted on an individual basis and the sales and services were neither inter-connected nor inter-conditional with each other. Our Directors confirmed that, during the Track Record Period, the aforementioned items we purchased from this customer were only used for the manufacturing of products sold to this customer. The Directors also confirmed that the terms and the pricing policies of transactions with this customer are in line with normal commercial terms and similar to those transactions with our other customers and suppliers.

QUALITY CONTROL

We emphasize quality control in all aspects of our business. From sourcing of raw materials, production, packaging and inventory storage to sales and delivery, we strictly control the quality of our operations. In order to monitor the production quality and ensure that our products meet all benchmarks and specifications of our customers and ourselves, we have implemented various quality checks into our production process.

We have a quality control team and have devoted resources to quality management of our products. As of the Latest Practicable Date, we had 23 personnel in our quality control team. Our quality control team is responsible for establishing quality control standards of our products, implementing the quality control standards and handling customer complaints. We are required to comply with specific guidelines based on the product safety standards and restricted and hazardous materials laws and regulations that are applicable in the jurisdictions where our customers sell their products. We had been in full compliance with our customers' quality control requirements during the Track Record Period and up to the Latest Practicable Date.

Procurement

We only purchase raw materials from qualified suppliers who have passed our quality and reliability assessment. A sample test may be conducted prior to the confirmation of purchase orders to ensure the quality of raw materials. We also require our raw material suppliers to provide us with relevant certificates. Our quality control staffs carry out onsite inspections on raw materials at some of our suppliers' facilities before they are delivered to us. We conduct random sample tests on incoming raw materials supplied by qualified suppliers upon delivery to ensure a high-quality, low-cost and rapid supply chain. Our quality control system has been designed to identify and address defective or sub-quality raw materials as early in the production process as possible. We further utilize our system to efficiently manage the resource in the factory. We evaluate our suppliers based on a range of factors, including raw material quality and the ability to meet our delivery timeline.

Production

We follow our customers' specifications and all relevant industry standards in the production of our products. We conduct quality checks at key control points of our production process in order to ensure that the production process is operating properly. Some of our customers also inspect product quality onsite. When the finished products are delivered to our warehouses, we test the quality and functionality of each batch of finished products to ensure that these finished products meet our customers' requirements. We also conduct sample checks for finished products prior to the delivery of the products.

Packaging and Logistics

Our packaging department ensures that the packaging standards required by our customers are maintained prior to the delivery of products. Our export sales are on EXW, FOB or FCA basis, meaning that the risk of the goods and their title pass to our customers when (i) if on EXW basis, the products are delivered to freight forwarders at our facilities, (ii) if on FOB basis, loaded on

BUSINESS

board at the port of shipment, and (iii) if on FCA basis, the products are delivered to a designated place nominated by the buyer (such as a local warehouse). We typically hire professional logistics service providers to transport products for us, if necessary, and keep track of our products during the transportation.

Warranty and After Sales Services

All customer feedback is directed to the relevant sales team responsible for that specific customer to address such feedback.

We provide warranties for our products. Our warranty periods may vary depending on the customer. For some customers, we will provide a warranty period of three to 12 months; for others, we may provide compensation pursuant to the contract terms. When a customer discovers quality defects in our products and files a complaint with us, it is required to report the details of the defective products, including the batch number, product contents, product list and the reason of defect. Depending on the outcome of our assessment and negotiation with the customer, we may allow the customer to replace defective products. During the Track Record Period, we did not incur any warranty expenses.

During the Track Record Period, two product liability claims were brought against us in the U.S. Both claims involved personal injury allegedly caused by defective batteries in our products. One of the disputes was settled and we have paid the settlement amount of approximately US\$145,000 in full. Our Directors consider that the impact of such claim had an immaterial impact on us. The other claim was dismissed due to lack of prosecution. To mitigate our product liability risks, we have subscribed for product liability insurance, which covers, among other things, compensation for property damages and personal injuries caused by the use of our products. See “— Insurance” and “Risk Factors — Risks Relating to Our Business and Industry — Unsatisfactory performance of or defects in our products may harm our reputation, subject us to significant product liability litigations and have a material adverse effect on our business, financial conditions and results of operations.”

As a result of our enforcement of strict quality control policies, except for the abovementioned claims, during the Track Record Period and up to the Latest Practicable Date, we did not, due to material product quality issues, (i) receive fines, product recall orders or other penalties from the PRC Government or other regulatory bodies or (ii) receive any products return requests or complaints from our customers that have a material adverse effect on our business, financial conditions and results of operations.

INVENTORY MANAGEMENT

We have undertaken a number of measures to manage our inventory with a view to reducing inventory surplus and inventory age. We have been maintaining appropriate inventory levels and continue to strive towards the improvement of our inventory management controls. Our inventory system is able to produce real time information of inventories and provide our management team with clear visibility on the inventory data, which enables them to react to market trends and consumer demands. Our procurement department timely monitors our inventories, including

inventory levels, inventory age, inventory composition and inventory turnover rate. We also carry out physical stock counts on a regular basis. Our efficient inventory management system shortens our products' time to market, maximizes full-price sales, increases inventory turnover rates and maintains optimal inventory levels, thereby helping us remain competitive in the fast-paced vaping industry.

Raw Materials

In order to avoid accumulating large inventories of raw materials, we generally only place orders for raw materials after we have received confirmed purchase orders from our customers. We also time the delivery of the raw materials required for our purchase orders in a manner that is coordinated with our customers' delivery dates so as to minimize the time we have to store raw materials prior to production. Our inventory management system processes information relating to raw material purchases, including suppliers' information and purchase records, and keeps track of the inventory level of raw materials on a real-time basis. We keep a small amount of inventory of certain auxiliary materials, including packaging materials such as boxes and plastic bags, but the cost of these materials is immaterial.

Finished Products

Finished product inventory will occur where we store the finished products pending shipment to our customers. Our inventory management system keeps track of the inventory level of finished products.

Our inventory turnover days were 74.8 days, 47.5 days, 45.8 days and 40.3 days in 2016, 2017, 2018 and 2019, respectively.

INFORMATION TECHNOLOGY SYSTEMS

We strive to attain the highest standards in operation management and have developed strong information technology capabilities. Our information technology systems enable us to quickly retrieve and analyze our operational data and information, including procurement, sales, inventory, logistics, production, customer and financial data. We use our information technology systems to assist us in planning and managing our production, budgeting, human resources, inventory control, sales management and financial reporting, thereby improving our operational efficiency.

We have adopted an ERP system in which many departments, including finance, procurement, sales, product material control, engineering and production, share production and supply chain information to better manage and control our cost. We also leverage a procurement system to manage our procurement process, supplier list and evaluation as well as procurement and customer orders. We rely on our human resource system for our daily business operation and employee management. We intend to continue to upgrade our information technology infrastructure to further integrate our existing systems and further enhance our operational efficiency.

RISK MANAGEMENT AND INTERNAL CONTROL

Our management has designed and implemented a risk management policy to address various potential risks identified in relation to our operations, including strategic risks, operational risks, financial risks and legal risks. Our risk management policy sets forth procedures to identify, analyze, categorize, mitigate and monitor these risks. Our risk management policy also sets forth the reporting hierarchy of risks identified in our operations. Our Board is responsible for overseeing the overall risk management and assessing and updating our risk management policy on an annual basis and our Directors consider that our existing internal control measures are adequate and effective. See “Directors and Senior Management — Directors” for details of our Directors’ professional qualifications and industry experience.

Human Resources Management

We provide regular trainings tailored to the needs of our employees as well as anti-bribery and corruption policy. Through these trainings, we ensure that our employees’ skill sets and knowledge regarding anti-bribery and corruption policy remain up to date.

Financial Reporting

We have in place a set of accounting policies in connection with our financial reporting risk management, such as reporting policies, treasury policies and financial statements preparation policies. We provide regular trainings to relevant employees to ensure that they are well aware of our financial management and accounting policies and implement them in our daily operations.

Legal and Compliance Review

Our business operations are subject to complex laws, regulations, practices and requirements by local government authorities. These laws, regulations, practices and requirements may change from time to time. To operate our business within the legal parameters and to promptly and appropriately respond to regulatory changes, our legal and compliance team conducts compliance reviews of our operations, examines our internal control procedures, and offers regulatory updates, trainings and legal and compliance guidance, especially to our senior management to facilitate their decision making. In addition, we have established procedures relating to document review and drafting and have adopted various policies to ensure compliance with the Listing Rules, including but not limited to aspects of risk management, connected transactions and information disclosure.

COMPETITION

The global vaping market is large and competitive. According to Frost & Sullivan, there are more than 1,200 vaping device manufacturers globally. Though the top five players accounted for 30.5% of the entire market share in terms of revenue, the top ten players accounted for less than half of the entire market share in terms of revenue in 2019, and most of the vaping device manufacturers are small to medium-sized enterprises.

We compete against other vaping device manufacturers, including open system vaping device brand companies for the market share of our self-branded APV. We also face competition from providers of conventional tobacco products and other alternative products for traditional cigarette.

In addition, we may in the future face competition from new entrants. We anticipate that more established companies, including traditional tobacco companies that possess large existing customer bases, substantial financial resources, sophisticated technological capabilities and established distribution channels may also enter the market in the future. As a global leader in offering vaping technology solutions, we believe that our strong R&D abilities, scalable production capability, established supplier relationships, strategic cooperation with global leading brands, wide-spectrum product portfolio, experienced management team and talent pool provide us with a competitive advantage over existing and potential competitors.

PROPERTIES

Owned Properties

As of the Latest Practicable Date, we owned one property with a total GFA of approximately 1,384 sq.m. for self-use. We acquired the property from an independent real estate developer, and as of the Latest Practicable Date, we were in the process of obtaining the ownership certificate for the property with the assistance of such real estate developer. Our PRC Legal Advisers have advised us that, to their best knowledge after due diligence, there are no legal obstacles for obtaining the ownership certificate for such property.

We have also obtained the state-owned land use right over a parcel of land in Jianghai District, Jiangmen, Guangdong province with the site area of approximately 99,987 sq.m., which will be used for phase one of our new production base. As of the Latest Practicable Date, we had begun the planning and construction procedures as required by the relevant PRC laws and regulations, and we expect phase one to commence operation in 2021. We are in the process of negotiation with the local government for the purchase of state-owned land use right of a parcel of land with a site area of approximately 136,735 sq.m. to be used for the second phase of our production base. See “— Strategies — Increase production capacity and operational and production efficiency.”

According to Chapter 5 of the Listing Rules and Section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land and buildings, because as of December 31, 2019, none of our properties had a carrying amount of 15% or more of our consolidated total assets.

Leased Properties

As of the Latest Practicable Date, we leased properties in four cities with a total GFA of approximately 262,726 sq.m. mainly for our production facilities, warehouses, office premises, dormitories and canteens. Our leases generally have a term ranging from one to four years. We will take into consideration the compliance status of the ownership certificates when renewing our leases. All of the landlords are independent third parties.

As of the Latest Practicable Date, due to the inconsistency with land planning purposes and historical issues, our leased properties with a total GFA of approximately 88,816 sq.m. were leased from lessors who had not obtain relevant construction documents from authorities, and hence were unable to provide sufficient or valid ownership certificates or other ownership documents. These leased properties with title defects are used for our production facilities, warehouses, office premises, dormitories and canteens, and are crucial to our operations. The safety conditions of our production and operation on leased properties with title defects comply with the relevant PRC laws and regulations in all material aspects, and the rental rates that we are paying for these leased properties are not materially different from the rental rates for properties that do not have title defects. As of the Latest Practicable Date, these leased properties accounted for approximately 33.8% of our leased properties by GFA. These leased properties may face the risks of returning the illegally occupied land or demolition of the building, and the associated lease agreements may be deemed to be invalid by the court.

As advised by our PRC Legal Advisers, based on consultations with and the certified documents provided by the relevant local governmental authorities, there has not been any plans by the regulatory authorities to take actions against these leased properties.

Though none of our leases have been terminated or voided during the Track Record Period, if any of our leases are terminated or voided as a result of challenges from third parties or the government, we would need to seek alternative premises and incur relocation costs. We believe that there are alternative properties at comparable rental rates available on the market. After we complete the construction for the first phase of our Jiangmen production base, we can also relocate part of the existing leased factories to the Jiangmen production base. Should we be required to relocate these leased properties, we estimate that the total relocation costs would range from approximately RMB100.0 million to RMB120.0 million and that the time it would take us to relocate would be around one or two months provided that we receive advanced notice. The relocation cost is calculated based on (i) the estimated renovation fee of approximately RMB110.0 million if all of the existing leased factories with title defects are required to relocate, and (ii) the relatively low cost of transporting our equipment due to the fact that the sizes of our equipment are not large. The aforementioned renovation fee of approximately RMB110.0 million is further calculated based on the original decoration costs of all leased production facilities with title defects. We do not consider such relocation costs and time would have any material effect on our business or financial conditions. Moreover, as required by the lease contracts, we would get advanced notice in addition to compensation if the landlords were to unilaterally terminate the lease contracts.

As advised by our PRC Legal Advisers, in case any lease is deemed void due to the claim of rights by any third party over the property we leased from the lessor who was unable to provide sufficient and valid ownership certificate or other ownership documents, and we therefore can no longer use such property and are required to relocate, pursuant to Article 228 of the Contract Law of the PRC (《中華人民共和國合同法》), we are entitled to demand a deduction of the rent or not to pay the rent. Our Directors believe that these legal irregularities individually or collectively would not materially affect our business and results of operations. See “Risk Factors — Risks Relating to

Our Business and Industry — We may be forced to relocate due to title defects of our leased properties, or we may be liable for failure to register our lease agreements, which may result in a disruption of our operations and subject us to penalties.”

Furthermore, the relocation caused by early termination or the above legal irregularities should not materially and adversely affect our production output, as we would be given advanced notice to prepare for relocation. The new production facilities that are establishing in Jiangmen and Shenzhen will be able to cover the production output of the leased properties that are being relocated. Our existing production bases would also be able to cover some of the production output if we cannot find a replacement within a short period of time given that we generally reserve production capacity for our production bases. In the worse case, if any of our production bases needs to be relocated immediately without any prior notice and the existing other production bases do not have capacity to cover the production output, we expect that we will need around three months to complete the relocation. During this period, we would lose the corresponding income and operating profit generated by the production base. Taking our largest existing production base as an example, if production is suspended for three months, according to the average monthly sales in 2019 and our net profit margin, it is expected to cause around RMB362.5 million in revenue loss and around RMB100.0 million in net profit loss, amounting to approximately 4.6% of our net profit in 2019.

Pursuant to the applicable PRC laws and regulations, leases must be registered with housing administration authorities. As of the Latest Practicable Date, we, as the lessee, did not register various leases for our production facilities, warehouses, office premises, dormitories and canteens. See “— Legal and Compliance” for further details.

INTELLECTUAL PROPERTY

Intellectual property is the foundation of our business. We invest a substantial amount of time and resources in developing and protecting our intellectual property. We currently hold many intellectual property rights related to core heating technology, product design and material application. These intellectual property rights encompass patents, trademarks, trade secrets and other proprietary rights in China and overseas. Details of our material intellectual property rights are set out in “B. Further Information about Our Business — 2. Intellectual Property Rights of the Group” in Appendix IV of this prospectus.

Our continuous investment in intellectual property is widely recognized and has won us numerous accolades. In 2017, we were awarded the title of “Shenzhen Intellectual Property Advantage Enterprise” by the Shenzhen Intellectual Property Office. In 2019, we won the title of “National Intellectual Property Advantage Enterprise” awarded by the National Intellectual Property Administration, PRC and the title of “Guangdong Provincial Intellectual Property Model Enterprise Honor” awarded by the Guangdong Intellectual Property Protection Association. In addition, in October 2019, we became the only company since 2013 among the top five vaping device manufacturers in terms of revenue in 2018 to be awarded the “China Patent Excellence Award” by the National Intellectual Property Administration, PRC for our patent relating to the manufacturing technique and application of porous ceramic.

Intellectual Property Protection

We strategically prioritize the protection of our intellectual property, as we consider such protection to be crucial to the sustainable development and growth of our business. We protect our R&D and innovation achievements by regularly submitting applications for patents and other proprietary rights. As of the Latest Practicable Date, we had more than 700 patents and had submitted over 1,600 patent applications in China and overseas. We believe that the terms of our intellectual property rights are sufficient to cover the expected life of our products and services.

We have established a patent group that covers the structure, shape, material, production process and other aspects of our ceramic heating technology. Combined with our closely held technical secrets, these patents provide comprehensive intellectual property protection for our technology. As of the Latest Practicable Date, we have applied for more than 180 patents related to ceramic heating technology globally, of which 72 have been granted. Taking our second generation ceramic heating technology, “FEELM,” as an example, as of the Latest Practicable Date, we had applied for more than 40 patents globally, of which 24 had been granted.

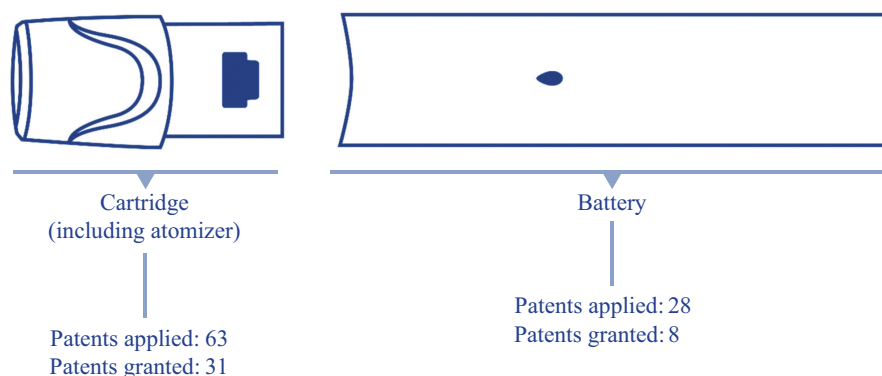
In terms of trademarks, we own brands such as “Vapresso,” “Renova,” “Revenant Vape” and “FEELM.” These brands hold a certain degree of influence in the vaping industry. As of the Latest Practicable Date, we had applied for more than 300 trademarks worldwide, of which 223 had been successfully registered. These trademarks are distributed in over 70 countries.

In addition, we have established a comprehensive trade secret protection system, which prevents intellectual property leaks and unauthorized plagiarism by third parties through strict authorization control and encryption protection in R&D, production and other business activities.

We rely on patents, trademarks, copyrights and other intellectual property protection laws as well as fair trade practices and confidentiality agreements to protect our intellectual property rights in China and overseas. In general, our employees must sign a standard employment contract that contains a clause stating that we own all inventions, trade secrets, R&D results and other crafts developed or created by the employee on behalf of us. Although we have taken preventive measures, third parties may still infringe our intellectual property rights. The unauthorized use of our intellectual property rights by third parties and the costs incurred by us in order to prevent such unauthorized use may adversely affect our business, financial conditions and results of operations. See “Risk Factors — Risks Relating to Our Business and Industry — Our intellectual property rights are critical to our success and infringement of our intellectual property right by any third party may materially and adversely affect our business, financial conditions and results of operations.” In addition, during the Track Record Period and up to the Latest Practicable Date, we had not been sued by any third party for infringement of intellectual property rights and we were not aware of any threatened material proceedings or claims against us relating to intellectual property rights.

Example of Intellectual Property Protection — Closed System Vaping Devices

The closed system vaping device is mainly composed of a cartridge, which includes a built-in atomizer, and a battery. As an example of our intellectual property protection, the following figure lists our patents and pending patents related to our closed system vaping devices equipped with our second generation heating technology, “FEELM,” as of the Latest Practicable Date:

**INSURANCE**

We maintain adequate insurance policies to safeguard against risks and unexpected events. We have purchased property insurance covering our cargo transportation and other products and have purchased insurance covering business-related risks, such as all risks insurance, product liability insurance, medium- and short-term export credit insurance and group accident insurance.

In particular, the product liability insurance is applicable to our products sold in various regions, including Asia, North America, Europe and others. Further, the product liability insurance covers, among other things, compensation for property damages and personal injuries caused by the use of our products. See “— Quality Control — Warranty and After Sales Services” and “Risk Factors — Risks Relating to Our Business and Industry — Unsatisfactory performance of or defects in our products may harm our reputation, subject us to significant product liability litigations and have a material adverse effect on our business, financial conditions and results of operations.”

Our Directors believe that our insurance policies are adequate and consistent with the industry practice. During the Track Record Period and up to the Latest Practicable Date, we had not received any material insurance claims against us.

BUSINESS

EMPLOYEES

As of December 31, 2019, we had 10,540 full-time employees, all of whom were based in China. The following table sets forth a breakdown of our full-time employees by function as of December 31, 2019:

<u>Function</u>	<u>Number of Employees</u>	<u>% of All Employees</u>
Production and manufacturing	9,047	85.8
Research and development	615	5.8
Office and administration	566	5.4
Sales and marketing	204	1.9
Accounting and finance	68	0.6
Procurement	40	0.4
Total	<u>10,540</u>	<u>100.0</u>

According to Frost & Sullivan, acquisition of talents is a key success factor in the global vaping device market. The high-caliber talents with extensive industry knowledge and rich experience play an important role in the successful operation of vaping device manufacturing. Being able to acquire and maintain talents is core for companies in the vaping industry to ensure leading position.

To attract and retain talents, we plan to (i) establish our own employer brand through the cooperation with leading recruiting platforms for recruiting activities to increase our brand awareness; (ii) standardize our recruiting procedures; (iii) offer competitive packages above industry average, especially for core and senior management positions; (iv) perfect our employee benefit system, including providing housings, retreats and medical coverage; (v) provide suitable career tracks and platforms for the career development of our employees; and (vi) continue to foster a corporate culture that promotes diversity and equal opportunities. These initiatives will be funded by the cash generated from our business operations. We have established systematic training programs for our employees based on their positions and expertise. Our employees are required to complete training programs and assessments tailored to their specific department. We also provide our employees with continuing seminars, workshops and vocational trainings by external professionals to expand their expertise and professional knowledge. See “— Environmental, Social and Governance.”

During the Track Record Period, we had recruited dispatched employees by signing labor dispatch service agreements with third-party employment agents. These dispatched employees entered into labor contracts with the employment agents and not with us, and the relevant costs of social insurance and housing funds for the dispatched employees were not borne by us. According to the Interim Provision on Labor Dispatch (《勞務派遣暫行規定》) promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, the number of dispatched employees engaged by any company may not exceed 10% of the total number of its employees, including both directly hired employees and dispatched employees, and dispatched employees can be used only for temporary, ancillary or substitutable positions.

During the Track Record Period, the scale of our business achieved rapid growth, and thus our demand for labor force increased rapidly. Meanwhile, we experienced relatively high staff turnover rate in certain production processes. The labor dispatch arrangement helped us meet our operation requirements by making it easier for us to maintain a sufficient and flexible level of labor force for these ancillary and substitutable positions while reducing the amount of time and manpower involved in the recruitment of staffs.

During the Track Record Period, due to the inadequate legal knowledge and inadvertent oversight of the relevant legal requirements, we did not fully comply with the Interim Provision on Labor Dispatch, and the number of dispatched employees engaged by four of our PRC subsidiaries exceeded 10% of the total number of their respective employees. Nevertheless, we rectified such non-compliance by terminating some labor dispatch service agreements and stopping engagement with relevant dispatched employees by February 2019.

Meanwhile, we have recruited more regular employees to solve the work force demand. Further, we have adopted internal policies to require our human resources department to maintain a staff list in identifying the dispatched staff and our own staff and calculate the ratio of dispatched staff to the total number of employees. In addition, the designated staff is required to calculate the ratio before each engagement of dispatched employee to ensure the potential engagement would not exceed 10% of the total number of employees. Moreover, the staff list (with the ratio of the dispatched staff) must be reviewed monthly by department heads of the production department, finance department and human resources department.

Pursuant to the Interim Provision on Labor Dispatch and Labor Contract Law of the PRC, employers that violate labor dispatch related regulations shall be ordered by the labor administrative department to make corrections within a prescribed time period; if the employer fails to do so within the prescribed time, it shall be fined not less than RMB5,000 but not more than RMB10,000 per employee. As advised by our PRC Legal Advisers, if we are ordered to make corrections and fail to do so within the prescribed time, the maximum penalty amount shall be based on the number of dispatched employee which is in excess of the regulatory threshold and at the discretion of the competent authorities.

Our PRC Legal Advisers are of the opinion that the risk of us being penalized in respect of labor dispatch is remote, given that (i) we have already rectified such non-compliance by February 2019; (ii) as of the Latest Practicable Date, each of the four subsidiaries had not received any notice of rectification or administrative penalties in respect of labor dispatch from the relevant labor administrative departments; (iii) each of the four subsidiaries obtained certificates issued by the relevant departments in charge of labor affairs, confirming that no records of any administrative penalties due to violation of labor laws and regulations were found during the Track Record Period; (iv) after consulting with the relevant labor administrative departments, in principle, no administrative penalties would be imposed on an employer who had rectified its non-compliance in labor dispatch; and (v) the relevant departments in charge of labor affairs and the relevant labor administrative departments are the competent authorities to make such confirmation. See “Risk Factors — Risks Relating to Our Business and Industry — We face risks relating to our labor dispatch arrangements.”

The remuneration package we offer to our employees includes salary, bonuses, medical insurance and other cash subsidies. In general, we determine employee salaries based on each employee's qualification, position and seniority. We have established an annual review system to assess the performance of our employees, which forms the basis of our decisions with respect to salary raises, bonuses and promotions. In addition, we contribute to social insurance for our employees, including medical insurance, work-related injury insurance, retirement insurance, maternity insurance, unemployment insurance and housing provident funds. See “— Legal and Compliance” for details regarding our non-compliance relating to social insurance and housing provident funds. We have not experienced any of our employees negotiating their terms of employment through any labor union or by way of collective bargaining agreements.

Our PRC Legal Advisers have confirmed that we have complied with all applicable labor laws and regulations in China in all material respects, and there were no material labor disputes or labor-related legal proceedings against us during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, we complied with the applicable PRC labor and safety regulations in all material respects and did not encounter any incident or complaint which had a material adverse effect on our operations.

ENVIRONMENTAL MATTERS

We are subject to PRC environmental laws and regulations including the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》). These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions and water and waste discharge. We consider the protection of the environment to be important and have implemented measures in the operation of our business to ensure our compliance with all applicable requirements under the PRC environmental laws and regulations. These measures include strengthening mechanical ventilation in our factories, installing soot purifiers in employee's kitchens, and enhancing sewage treatment.

During the Track Record Period, we had non-compliance incidents where we violated environmental regulations. See “— Legal and Compliance.” Save for the abovementioned, no administrative sanctions or penalties had been imposed upon us for the violation of environmental laws or regulations during the Track Record Period. Our cost for compliance with applicable environmental rules and regulations was RMB8,077, RMB8,877, RMB0.3 million and RMB1.6 million in 2016, 2017, 2018 and 2019, respectively. We do not expect the cost of compliance going forward to be material.

OCCUPATIONAL, HEALTH AND SAFETY

Our operations are subject to regulations and monitoring by local safety authorities, and a variety of guidelines imposed by our corporate clients in relation to production safety and health. During the Track Record Period and up to the Latest Practicable Date, (i) we had not encountered any event of material non-compliance in relation to health and safety matters; (ii) none of our employees had been involved in any major accident or work injury in the course of their employment; and (iii) we had not been subject to disciplinary actions with respect to labor protection issues.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Environmental, social and governance (“ESG”) criteria are a set of standards for a company’s operations that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company’s leadership, executive pay, audits, internal controls and shareholder rights.

Though the general principles for ESG criteria might be similar, different countries and regions also implement its own ESG criteria in practice. In Hong Kong, the Environmental, Social and Governance Reporting Guide (Appendix 27 to the Listing Rules) requires issuers to disclose whether it has complied with laws and regulations as well as its own policies relating to environmental and social matters, including, among others, (i) air and greenhouse gas emissions, discharges into water and land and generation of hazardous and non-hazardous waste, (ii) compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare, (iii) providing a safe working environment and protecting employees from occupational hazards, (iv) preventing child and forced labor, (v) health and safety, advertising, labeling and privacy matters, and (vi) bribery, extortion, fraud and money laundering. Requirements for corporate governance are mainly addressed in the Corporate Governance Code.

Furthermore, we have implemented the relevant ESG internal policies with reference to the international standards and customer requirements from different countries and regions. In terms of environmental matters, we have established policies regarding (i) minimizing exhaust gas, waste water, solid waste, (ii) minimizing greenhouse gas and other emissions, (iii) recycling of resources such as energy, water and other materials, (iv) reducing impact on the environment and natural resources, and (v) managing environmental responsibility risks of suppliers. In terms of social matters, we have adopted policies regarding (i) employee recruitment, compensation, training, working hours and severance, (ii) equal opportunities, diversity, anti-discrimination and safety in the workplace, (iii) prevention of child labor and forced labor, (iv) managing social responsibility risks of suppliers, (v) managing product liability risks, (vi) anti-corruption, and (vii) social and community participation. We conduct yearly reviews to ensure that we comply with the above internal control policies. Set forth below are some examples of our internal policies:

- *Prevention against use of vaping products by teenagers and children.* — Our customers and we are aware of age restrictions in each of the jurisdictions that we market our products, and our customers and we have adopted several measures to help safeguard against the use of our products by teenagers or children who have not reached legal age for vaping. For example, we have attached clear warning labels on our self-branded APVs and closed system vaping devices as well as included language in user manuals stating that the products are intended for use by adults. Our customers and we also focus to ensure that the retail stores in which our products are sold have mechanisms in place to verify the age of the consumers purchasing products manufactured by us so as to comply with local laws and regulations in relation to age restriction. Moreover, our

website for APV products and our major customers' web stores require visitors to enter their age before entering the websites. In terms of product design, we have incorporated designs that would prevent the misuse of our products by children, such as requiring the user to press the power button five times to switch on the device or follow certain procedures to fill the e-liquid into the vaping device.

- *Health and safety policy.* — With regards to our health policy, we believe that having a balanced lifestyle is crucial to achieving a good mindset at work. Therefore, we encourage employees to maintain good mental and physical health by participating in sport activities and reading books. With respect to our safety policy, we require all employees to follow our safety rules and receive safety training, which informs them about the building's evacuation routes, the location of the fire extinguishers and the proper way to operate certain equipment. When procuring office equipment, we take into account the personal safety of employees and try to avoid furniture and equipment with sharp and angular edges, and we only allow qualified professionals to configure our office electrical equipment. We also require employees to report details of health or safety incidents to management immediately after the occurrence of such an incident.

In addition, we always put safety first in the process of designing our products, and we regularly carry out safety, industrial hygiene and environmental protection reviews of our products and factories. To further ensure the safety of our products, we established an advanced analysis and testing center (“ATC”) under our Shenzhen basic research center. The ATC is responsible for, among other things, chemical analyzes, physical test, structural characterization test and product evaluation. Chemical analyzes include the testing and analysis of cartridge components of our vaping device that are in contact with e-liquid, as well as aerosol from vaping, which work to ensure that leachable and extractable substance from those components and the aerosol comply with the relevant regulations and standards of the jurisdictions in which the products are sold and satisfy customer requirements. Physical tests include the reliability testing of batteries and functional testing of products. We received a certificate of participation in the witness test data program by a global safety certification company.

- *Environmental policy.* — We are a corporation that cares deeply about its social responsibilities and, therefore, we try to incorporate environmental protection concepts throughout our operations. For example, when we purchase equipment and products, we have a strong preference towards suppliers who have obtained the relevant environmental protection certificates. In our offices, we try to reduce our consumption of papers and ink cartridges by limiting the use of printers and copiers and setting duplex printing as the default option for our printers. Moreover, we constantly monitor and manage our factories' emissions of greenhouse gasses, chemicals and radioactive materials.

We also assess our products' impact on air quality based on internationally recognized standards, such as the National Ambient Air Quality Standards ("NAAQS") developed by the United States Environmental Protection Agency pursuant to the Clean Air Act of 1977, as amended. The NAAQS establishes the maximum allowable atmospheric concentrations of pollutants that may occur while ensuring the protection of public health and welfare, and it provides the standard measurements for community-wide air quality based on daily measured concentrations of six pollutants, which include: ozone (O₃), sulfur dioxide (SO₂), carbon monoxide (CO), particulate matters less than 2.5 microns in diameter (PM_{2.5}) and less than ten microns in diameter (PM₁₀), nitrogen dioxide (NO₂) and lead (Pb). Our open system vaping device and closed system vaping device are unlikely to generate such pollutants as they are e-liquid cartridge systems that heat, as opposed to burn, e-liquid containing propylene glycol, glycerol, nicotine or nicotine salt and flavors.

- *Employee training.* — Each of our departments conducts quarterly employee training sessions, and each department is required to submit a training proposal for the next quarter at the beginning of the last month of each quarter based on the job requirements and work development plan of the department. We also have an annual training plan constructed by our administrative department based on the various needs of each department, our development policies and external training resources. New employees will receive pre-job training and general training. At the end of each training session, the participants must fill out a training effectiveness evaluation form. See "— Employees."

In terms of corporate governance, we are in compliance with all provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, except as disclosed in "Directors and Senior Management — Corporate Governance Code." For corporate governance measures relating to the management of conflicts of interest that we plan to adopt upon Listing, see "Relationship with Our Controlling Shareholders — Corporate Governance Measures."

We have received various certificates and participated in programs relating to ESG matters in the past. In 2017 and 2018, we were certified by the Responsible Business Alliance, the world's largest industry coalition dedicated to corporate social responsibility in global supply chains. In 2018, we participated in the Workplace Conditions Assessment program provided by Intertek. We obtained certifications relating to our factories and products, including ISO 9001 (criteria for quality management system) in 2011, ISO14001 (criteria for an environmental management system) in 2014, ISO27001 (information security standard) in 2018 and ISO17025 (standard for testing and calibration laboratories) for the ATC in 2019.

To the best knowledge of our Directors, we were not aware of any material non-compliance of the relevant laws and regulations and our own policies relating to the environmental, social and governance requirements during the Track Record Period and up to the Latest Practicable Date. Moreover, to the best knowledge of our Directors, we were in compliance with the applicable international standards, including those mentioned in the previous paragraph, in relation to product safety, labor, working environment and condition of our factories in the PRC during the Track Record Period and up to the Latest Practicable Date. Going forward, we will continue to ensure our

compliance of such requirements to avoid any negative impact on our business, financial conditions, results of operations and public reputation. For our policies relating to environmental matters, please see the paragraph headed “— Environmental Matters” in this section and for information regarding establishing a safe workplace, please see the paragraph headed “— Occupational, Health and Safety” in this section.

COVID-19 OUTBREAK

Background of the COVID-19 Outbreak

In December 2019, a novel strain of coronavirus was reported to have surfaced in Wuhan, China. COVID-19 now affects other cities in China and many countries globally. The Chinese central government and local governments in Wuhan and other cities in China have introduced various temporary measures to contain the COVID-19 outbreak, such as extension of the Lunar New Year holiday and travel restrictions, which have impacted and may continue to impact national and local economy to different degrees.

Impact of the COVID-19 Outbreak on Our Business

Impact on our production capacity

Our operations have experienced a short-term impact mainly due to production delays caused by the extension of the Lunar New Year holiday, mandatory quarantines of our employees upon returning to work and difficulties in recruiting new employees. The COVID-19 outbreak had caused our production capacity in the first quarter of 2020 to be one-third lower than our planned production capacity. We gradually resumed production and operation starting from February 17, 2020 and resumed full production and operation in mid-March 2020. Unless the COVID-19 outbreak worsens, we do not expect to experience significantly reduced production capacity going forward.

Impact on each of our business segments and major markets

Feedbacks obtained through communication between our sales teams and our customers show that the demand for vaping devices and vaping components under corporate client oriented sales have not been materially affected by the outbreak. Some corporate clients have reduced their orders while others have increased their orders. Overall, our corporate client oriented sales revenue and sales volume increased by approximately 20.3% and 12.4%, respectively, in the four months ended April 30, 2020 as compared to that of the same period in 2019 based on our unaudited management accounts. However, due to the outbreak, sales of our self-branded APV under our retail client oriented sales revenue and sales volume have decreased by approximately 40.5% and 33.6%, respectively, in the four months ended April 30, 2020 as compared to that of the same period in 2019 based on our unaudited management accounts. The primary reason for the decrease was the interruption of production due to the impact of the COVID-19 outbreak. The impact on the sales channels of our distributors also led to such decrease, as a number of vaping shops and tobacco shops had reduced business hours or had closed temporarily in the four months ended April 30, 2020 and end consumers had to rely more on online stores to purchase our self-branded APV.

BUSINESS

Further, compared with our closed system vaping device, the average selling price of our self-branded APV is higher, which made them more susceptible to having decreased consumer demand during the COVID-19 outbreak.

The following table illustrates the impact of the COVID-19 outbreak on consumer demand and sales channels of our products in our major markets, which in aggregate accounted for over 90% of our total revenue in 2019:

Country	Impact on consumer demand for vaping device and vaping components	Impact on consumer demand for self-branded APV	Impact on sales channels for corporate client oriented sales		Impact on sales channels for retail client oriented sales	
			Main sales channels	Impact	Main sales channels	Impact
U.S.	Limited impact since these products are daily consumables with certain customer stickiness	Demand affected temporarily	Convenient stores and gas stations	Limited impact since convenient stores and gas stations generally remained open	Vaping shops, tobacco shops and online stores	Majority of vaping shops and tobacco shops have reduced business hours. Online shops have seen increased sales.
China	Limited impact since these products are daily consumables with certain customer stickiness	Demand affected temporarily	Convenient stores and supermarkets	Limited impact since convenient stores and supermarkets generally remained open	Convenient stores and supermarkets	Limited impact since convenient stores and supermarkets generally remained open.
Japan	No material impact since sales channels remained open	Not applicable since over 99.0% of the products we sold to Japan during the Track Record Period were vaping components for HNB devices	Convenient stores, specialty stores and tobacco shops	No impact since all sales channels remained open	Not applicable since over 99.0% of the products we sold to Japan during the Track Record Period were vaping components for HNB devices	Not applicable since over 99.0% of the products we sold to Japan during the Track Record Period were vaping components for HNB devices
Switzerland .	No material impact since major sales channels remained open	No material impact since major sales channels remained open	Convenient stores and vaping shops	No material impact since convenient stores remained open	Convenient stores and vaping shops	No material impact since convenient stores remained open
U.K.	Limited impact since these products are daily consumables with certain customer stickiness	Demand affected temporarily	Convenient stores and gas stations	Limited impact since convenient stores and gas stations generally remained open	Vaping shops, tobacco shops and online stores	Vaping shops and tobacco shops closed temporarily. Sales are conducted through online stores or telephone.
France	Limited impact since these products are daily consumables with certain customer stickiness	Demand affected temporarily	Convenient stores and gas stations	Limited impact since convenient stores and gas stations generally remained open	Vaping shops, tobacco shops and online stores	Majority of vaping shops and tobacco shops have reduced business hours.

BUSINESS

Impact on our major customers

The following table illustrates the impact of the COVID-19 outbreak on the business, operations and orders of our top five customers in 2019:

Customer	Sales jurisdiction	Whether customer has resumed work as of the Latest Practicable Date	Impact on sales channels from January 1, 2020 to the Latest Practicable Date	Impact on orders to us from January 1, 2020 to the Latest Practicable Date
SVI Global Tech Limited	U.S.	Work from home	Sales channels have generally not been affected. ⁽¹⁾	Fewer orders than expected.
Customer H	U.S.	Split employees into groups to take turns to work in the office	Sales channels have generally not been affected.	No impact since consumer demand and sales channels were not affected.
Customer A	Japan and Europe	Resumed work in office	Sales channels have generally not been affected.	The customer canceled an order of RMB3.8 million, amounting to approximately 1.0% of this customer's revenue contribution in 2019, primarily due to lower demand than expected.
Customer J	China	Resumed work in office	Sales channels have generally not been affected.	No impact since end consumer demand and sales channels were not affected.
Customer G	U.S.	Work from home; essential staffs resumed work in office	Some physical stores were temporarily closed. However, online stores remained open and unaffected.	Orders slightly impacted negatively.

Note:

- (1) Although sales channels were generally not affected, the availability of ship cargo space has been reduced, causing possible increase in freight cost.

Impact on our supply chain

As of the Latest Practicable Date, we have not experienced any material adverse impact on our supply chain, as (i) we had stocked up on supplies and raw materials in anticipation of the extended Lunar New Year holiday and the potential disruptions to our suppliers' operations, (ii) none of our major suppliers have been materially affected by the COVID-19 outbreak and our major suppliers have gradually resumed operations in February 2020, (iii) our suppliers have not raised prices of raw materials and (iv) shipping has not been materially affected in the short term. As of the Latest Practicable Date, we have not canceled any orders with our suppliers due to the COVID-19 outbreak since our sales have generally not been affected. If we do cancel any orders subsequently, we may need to pay compensation to the supplier. If we cancel all of the orders that we have made but not received as of April 30, 2020, we may be liable to pay an aggregate of approximately RMB93.0 million in compensation to the suppliers. However, we do not plan to cancel these orders

subsequently, and even if we do, we do not believe that canceling these orders would affect our relationships with our suppliers since our orders are generally limited to one month's supplies, which is a relatively small amount compared to the total volume of orders we make for the year.

Accordingly, we do not expect to experience any material disruptions to our supply chain going forward. Even if the COVID-19 outbreak worsens, we believe that we would be able to avoid any difficulties in obtaining supplies, as we have two or more suppliers for most of the materials we source currently. Moreover, we have appropriately stocked up on key materials that have fewer alternative suppliers.

Ability to Sustain Business Operations with Current Financial Resources

Although, as of the date of this prospectus, we had not experienced and do not expect any material adverse impact on our ability to manufacture or deliver our products under existing contracts, our short-term liquidity requirements or our long-term commercial prospects, we cannot give any assurances that the COVID-19 outbreak will not further escalate nor that the outlook and continuity of the global economy, our suppliers and/or our customers will not significantly deteriorate. See “Risk Factors — Risks Relating to Our Business and Industry — Our business could be materially and adversely affected by the COVID-19 outbreak.” In the worst case scenario, if our production activities are suspended and we cease to bring in any new sales, we estimate that our existing bank balances and cash of approximately RMB1,051.0 million as of April 30, 2020, cash flow from collection of payments and 5% of the estimated net proceeds from the Global Offering that is intended to be used for funding our working capital and other general corporate purposes can support 22 months of our routine business, operation and R&D activities. This estimation is based on the assumptions that (i) we pay off all our existing current liabilities in the first three months; (ii) our cash outflow per month is approximately RMB60.0 million starting from the fourth month; (iii) we lay off production workers and continue to pay rental for leased properties; and (iv) we temporarily cease our expansion plans.

In addition, the PRC government has taken various measures to manage cases, reduce potential spread and impact of infection, as well as various incentive policies to boost the economy, such as cutting taxes, increasing government investment, increasing the amount of the currency issued and cutting interest rates. The combination of fiscal and monetary incentives would ease the negative impact of the COVID-19 outbreak. Therefore, we believe that although the Chinese economy is under pressure in the short term, the impact is likely to ease after the outbreak has been effectively controlled. Still, the extent to which the COVID-19 impacts our business, financial condition and results of operations remains uncertain, and we are closely monitoring its impact on us.

Control Measures Addressing the COVID-19 Outbreak

We have employed various measures to mitigate the impact of the COVID-19 outbreak, including, for example, establishing a group-level contingency plan, which includes recruitment management measures, and timely communication with our customers and suppliers, etc.

BUSINESS

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

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

1. Regularly disinfect and inspect office areas, factory areas, dormitories and cafeterias. We assign disinfection chores to specific personnel every day.
2. Record in detail the travel history of all people who intend to come to work, and take different measures for employees traveling from different regions. For employees coming from high-risk areas, we will follow the government's defined measures and require them to take the corresponding time to be separated from work.
3. Control entry and exit points. All persons must have their body temperature measured and have their hands disinfected every time they enter our offices or production bases. Employees must show identification documents, and visitors must make an appointment in advance and register upon arrival.
4. Formulate a detailed action plan for the emergency treatment of personnel experiencing a fever and infected persons who have been detected.
5. Provide masks and require all employees to wear them in the office and production base as well as on the way to and from work.
6. Stagger employee meal times and ensure a safe distance when eating.

As of the Latest Practicable Date, we have achieved the goal of zero infection for all employees.

REGULATORY ENVIRONMENT

We operate in an industry with complex laws, regulations, requirements and evolving regulatory changes, especially as health risks associated with the use of vaping devices are unclear and have been under scrutiny. In 2016, the WHO recommended that governments should consider prohibiting the use of e-cigarettes in indoor areas to protect non-users from involuntary exposure to second-hand aerosols, issuing warnings about the potential health risks of e-cigarettes and imposing higher taxes on e-cigarettes. Since then, regulatory authorities have published and/or considered different levels and aspects of regulations to mitigate the potential health risks from the usage of vaping devices.

Summary of Material Laws, Regulations, Executive Orders and Policies

The following table illustrates the material laws, regulations, executive orders and policies in relation to the tobacco products of the e-cigarette and vaping device industry recently promulgated or proposed by the relevant authorities in our major markets during the Track Record Period as well as the revenue contribution of the affected products sold in such major markets as a percentage of our total revenue for the years indicated:

Principal Sale Jurisdictions ⁽¹⁾	Material Laws, Regulations, Executive Orders and Policies	Relevant Products, Potential Impact and Compliance Status	Revenue Contribution ⁽²⁾ (%)			
			2016	2017	2018	2019
U.S. ⁽³⁾	<ul style="list-style-type: none">● Premarket tobacco application (“PMTA”) filings requirements for electronic nicotine delivery systems (“ENDS”) products, including devices, components, and/or parts that deliver aerosolized e-liquid when inhaled: <ol style="list-style-type: none">1. Existing ENDS Products ENDS products that were first distributed in the U.S. market between February 15, 2007 and August 8, 2016: a PMTA is required for Existing ENDS Products and is required to be submitted to the FDA by September 9, 2020, the currently effective deadline.2. New ENDS Products ENDS products that were not distributed or on sale in the U.S. prior to or as of August 8, 2016: a PMTA is required for New ENDS Products before introducing them into the U.S. market.	(i) closed system vaping devices (under our corporate client oriented sales), and (ii) open system vaping devices (our self-branded APV under retail client oriented sales). As the September 9, 2020 deadline has not passed yet, we were in compliance with the PMTA requirements as of the Latest Practicable Date. However, our corporate clients and we are at risk of not being able to submit the PMTAs for some of the products in time by the currently effective deadline, and we and our corporate clients may be prevented from selling some of our products in the U.S. As of the Latest Practicable Date, we had yet to submit any PMTAs but were in the process of preparing PMTAs for two of our self-branded APV based on the evaluation of PMTA requirements and previous sales performance, and we intend to submit them to the FDA before the September 9, 2020 deadline. These two self-branded APV are the Existing ENDS Products requiring PMTA filings that we currently intend to continue to sell and market in the U.S.	54.4	40.0	28.0	27.8

As of the Latest Practicable Date, to the best knowledge of our Directors, two of our top five customers had filed PMTAs for products manufactured by us and those PMTAs were accepted by the FDA. Our other corporate clients in the U.S. are expected to file the PMTAs for products manufactured by us before the September 9, 2020 deadline.

The gross profit of the aforementioned products sold to the U.S., including sales forwarded through Hong Kong, accounted for approximately 46.1%, 28.7%, 22.8% and 32.2% of our total gross profit in 2016, 2017, 2018 and 2019, respectively.

Principal Sale Jurisdictions ⁽¹⁾	Material Laws, Regulations, Executive Orders and Policies	Relevant Products, Potential Impact and Compliance Status	Revenue Contribution ⁽²⁾ (%)		
			2016	2017	2018
	<ul style="list-style-type: none"> Flavor bans <ol style="list-style-type: none"> FDA enforcement policy <p>Starting on February 6, 2020, the FDA has prioritized for immediate enforcement against: (i) flavored, cartridge-based ENDS products (other than tobacco- or menthol-flavored ENDS products), and (ii) any flavored ENDS products (including tobacco and menthol flavors) that are targeted at minors.</p> State flavor bans <p>Several states in the U.S. have imposed temporary emergency flavor bans on ENDS products, and a few of these bans have been enjoined by courts while several have become permanent. Flavor bans are not the same as a total ban on e-cigarettes, and none of the states in the U.S. have imposed a total ban on e-cigarettes.</p> 	<p>(i) 36.4% of our closed system vaping devices sold to the U.S. market in 2019 are flavored cartridge-based ENDS products, accounting for 9.4% of our total revenue for the same year. These closed system vaping devices were sold to three of our top five customers in 2019, namely SVI Global Tech Limited, Customer H and Customer A. Specifically, sales of closed system vaping devices with the banned flavored cartridges to SVI Global Tech Limited, Customer H and Customer A amounted to 7.0%, 2.1% and 0.2%, respectively, of our total revenue in 2019. In early 2020, the three customers changed their product mix to comply with the promulgation of flavor bans starting from February 2020. After the change, sales to SVI Global Tech Limited, Customer H and Customer A still grew by 4.0%, 637.0% and 107.0% in the two months ended April 30, 2020, respectively, as compared to that of the same period in 2019.</p> <p>(ii) Our self-branded APVs are not affected by the flavor bans. The flavor bans are mainly aimed at ENDS products that are sold with pre-filled non-tobacco-flavored or non-menthol-flavored cartridges, and our self-branded APVs do not contain any pre-filled cartridges.</p> <p>To the best knowledge of our Directors, we were not aware of any material non-compliance with the flavor bans as of the Latest Practicable Date.</p> <p>According to Frost & Sullivan, despite the promulgation of flavor bans starting from February 2020, the U.S. e-cigarette market size by revenue is still expected to grow at a CAGR of approximately 25.5% from 2019 to 2024. Furthermore, based on our unaudited management account, our sales of ENDS products in the U.S. market increased by approximately 101.5% in the four months ended April 30, 2020 as compared to the same period in 2019.</p> <p>However, these bans may curb consumer interest in and use of vaping devices, which may adversely affect the vaping industry and our operational and financial performance as a whole.</p>			

Principal Sale Jurisdictions ⁽¹⁾	Material Laws, Regulations, Executive Orders and Policies	Relevant Products, Potential Impact and Compliance Status	Revenue Contribution ⁽²⁾ (%)		
			2016	2017	2018
China	<p>The above PMTA filings requirements and flavor bans do not apply to non-ENDS products, which do not contain nicotine or e-liquid.</p> <ul style="list-style-type: none"> ● Prohibition on the sale of e-cigarettes through the internet to protect juveniles <p>On October 30, 2019, the State Administration for Market Regulation and the State Tobacco Monopoly Administration jointly issued the Announcement on Further Protecting Juveniles from E-cigarettes (the “October 2019 Announcement”):</p> <ol style="list-style-type: none"> 1. E-cigarette producers and sellers are urged to shut down their online sales websites or application programs and withdraw online advertisements of e-cigarettes. 2. E-commerce platform operators are urged to close e-cigarette online shops and take e-cigarette products off shelves. 	<p>(i) Our vaping components for HNB products are classified as non-ENDS products since they do not contain e-liquid with nicotine and we do not sell these vaping components to the U.S. market.</p> <p>(ii) Our vaping components for vaping devices that can be used for medical or recreational CBD and THC vaping are classified as non-ENDS products.</p> <p>(i) closed system vaping devices (under our corporate client oriented sales), and (ii) open system vaping devices (our self-branded APV under retail client oriented sales).</p> <p>We did not operate any online platforms in China for the sale of our products as of the Latest Practicable Date. Therefore, we were in compliance with the October 2019 Announcement as of the Latest Practicable Date. However, some of our products may have been sold online by our corporate clients prior to the promulgation of the October 2019 Announcement.</p> <p>Based on our unaudited management account, despite the prohibition of online sales, sales of our products to customers in China increased by approximately 8.9% in the four months ended April 30, 2020 as compared to the same period in 2019.</p>	17.0	12.0	11.9
					20.9
Hong Kong	<ul style="list-style-type: none"> ● Smoking (Public Health) (Amendment) Bill 2019 <p>The Hong Kong government introduced the Smoking (Public Health) (Amendment) Bill 2019 (the “Bill”) in February 2019, proposing to amend the Smoking (Public Health) Ordinance (Cap. 371) to ban the import, manufacture, sale, distribution and advertisement of alternative smoking products, including vaping products and items that are designed for use as a component or accessory. The Bill exempts vaping products that are articles in transit or in air transshipment cargos, provided that the products are not removed from the vessel, aircraft or specified cargo transshipment area. However, the Bill does not exempt vaping products being transported by vehicles on land.</p> <p>On June 2, 2020, the Bills Committee held its last meeting before the end of the current session of the Legislative Council on July 15, 2020. The Bill will not complete the legislative process before the end of the current session of the Legislative Council and will not become law. However, the Hong Kong government may decide to reintroduce and enact the Bill in its current or an amended form in the future.</p>	<p>(i) closed system vaping devices (under our corporate client oriented sales), (ii) open system vaping devices (our self-branded APV under retail client oriented sales), and (iii) vaping components for HNB devices.</p> <p>Revenue generated from Hong Kong is on re-export or transshipment basis and, to our best knowledge, none of our products are distributed or sold in Hong Kong.</p> <p>If the Bill is enacted in its current or an amended form in the future, to ensure our compliance, we will communicate with our customers regarding alternative transshipment options and are confident that there will be alternative ways of having their orders shipped overseas (such as through airports in Shenzhen, Guangzhou and Shanghai) with immaterial disruption to our operations.</p>	8.6	15.3	15.9
					26.4

Principal Sale Jurisdictions ⁽¹⁾	Material Laws, Regulations, Executive Orders and Policies	Relevant Products, Potential Impact and Compliance Status	Revenue Contribution ⁽²⁾ (%)		
			2016	2017	2018
Japan	<ul style="list-style-type: none"> Tobacco Business Act Prohibits any individual or company (other than Japan Tobacco) from manufacturing any tobacco products (including HNB devices containing tobacco leaves), and requires sellers or distributors of tobacco products to obtain a license from the Minister of Finance. Safety Act The Safety Act also applies to vaping components for HNB devices. 	<p>Vaping components for HNB devices, which comprised over 99.0% of the products we sold to Japan during the Track Record Period.</p> <p>To the best knowledge of our Directors, we were not aware of any material non-compliance with the Tobacco Business Act and the Safety Act during the Track Record Period and up to the Latest Practicable Date.</p>	—*	9.8	12.9
E.U. and U.K. ⁽⁴⁾	<ul style="list-style-type: none"> Directive 2014/40/EU Regulates vaping devices principally on five main aspects, including (i) the information to be provided by the manufacturer and/or distributor, (ii) the advertising and promotion, (iii) safety issues and warnings, (iv) products presentation and (v) provisional measures in case of suspected risk. 	<p>(i) closed system vaping devices (under our corporate client oriented sales), and (ii) open system vaping devices (our self-branded APV under retail client oriented sales).</p> <p>To the best knowledge of our Directors, we were not aware of any material non-compliance with Directive 2014/40/EU during the Track Record Period and up to the Latest Practicable Date.</p>	4.0	8.9	8.1
					10.0

* less than 0.1%

Notes:

- (1) During the Track Record Period, in addition to our major markets listed above, we also sold our closed system vaping devices, self-branded APV and vaping components to other countries, such as Israel, Korea, Malaysia and Canada, in aggregate accounting for less than 3% of our total revenue in 2019, which we consider are immaterial to our historical and future business and financial performance.
- (2) The percentage of revenue contribution demonstrates the portion of our business that was affected by the relevant regulations in the respective years. The percentage of revenue contribution in 2019 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. also includes sales forwarded through Hong Kong.
- (4) Prior to its withdrawal from the E.U. at the end of January 2020.

Laws, Regulations, Executive Orders and Policies in Other Jurisdictions

In Hong Kong, where we transport our products to be forwarded to various overseas markets, the Hong Kong government introduced the Smoking (Public Health) (Amendment) Bill 2019 (the “**Bill**”) to the Legislative Council in February 2019, proposing to amend the Smoking (Public Health) Ordinance (Cap. 371) to ban the import, manufacture, sale, distribution and advertisement of alternative smoking products, including items that are designed for use as a component or accessory, and vaping products fall under alternative smoking products. The Bill exempts vaping products that are articles in transit or in air transshipment cargos, provided that the products are not removed from the vessel, aircraft or specified cargo transshipment area. However, the Bill does not exempt vaping products being transported by vehicles on land. On June 2, 2020, the Bills Committee held its last meeting before the end of the current session of the Legislative Council on July 15, 2020. The Bill will not complete the legislative process before the end of the current session of the Legislative Council and will not become law. If the Hong Kong government decides to continue with its proposals either in the current or an amended form, a new bill will have to be reintroduced in the next session of the Legislative Council and go through the entire legislative process again.

While we do not sell our products in Hong Kong, a large portion of our products are being forwarded overseas through Hong Kong, an important regional logistics hub. We transport all of these products to Hong Kong by ground transportation. Our Directors confirm, with advice from our Hong Kong legal advisers, that transshipment arrangements of our products through Hong Kong are in compliance with existing applicable laws and regulations of Hong Kong. Our export sales are on EXW, FOB or FCA basis, and generally our customers are in charge of the logistics arrangement and we will cooperate to have our products delivered at the required places. To the best knowledge of our Directors, during the Track Record Period and up to the Latest Practicable Date, we had not experienced any changes to our transshipment arrangements that adversely impacted our cooperation with customers and business. Should our customers choose to have their products shipped through other logistics hubs, we will also be able to accommodate. If the Bill is reintroduced into the legislative process and enacted in its current or similar form, we will communicate with our customers regarding other transshipment options and are confident that there will be alternative ways of having their orders shipped overseas (such as through airports in Shenzhen, Guangzhou and Shanghai) with immaterial disruption to our operations. Further, the majority of our arrangements with customers, including with major customers and all self-branded APVs, adopts the EXW trade term, which means that the customers bear all or most of the increase in shipping costs should we need to find alternative methods of forwarding.

Governments of other countries have also introduced or considered regulations to regulate vaping devices. For example, Portugal has prohibited the use of vaping devices in indoor spaces and Indonesia has imposed excise tax on the sale of vaping devices. See “Risk Factors — Risks Relating to Our Business and Industry — Changes in existing laws and regulations and the imposition of new laws, regulations and any other entry barriers in relation to the vaping industry may increase our cost. We could be adversely affected as a result of our sales to customers located in relevant countries or regions that are subject to prohibition laws and regulations promulgated by local authorities” and “Regulatory Overview.”

FDA and CDC Recommendation

Furthermore, recently there have been some reports on the potential adverse health effects associated with vaping devices. In particular, the FDA and the CDC issued a joint statement on August 30, 2019 linking a number of cases of severe respiratory illnesses to the use of vaping devices. On November 8, 2019, the CDC announced that it has preliminarily linked the cases of severe respiratory illness to the presence of Vitamin E acetate, which has been found in some THC-containing vaping cartridges for non-ENDS vaping devices that were mostly obtained from the black market. However, evidence is not sufficient to rule out the contribution of other chemicals of concern, including chemicals in either THC or non-THC products. In January 2020, after further research, the FDA and CDC recommended that people should not use THC-containing vaping products, especially those from informal sources. Further, the FDA and CDC recommended that youths, pregnant women and adults who do not currently use tobacco products should never use e-cigarettes. On February 25, 2020, the CDC issued a final update, stating that the number of cases of severe respiratory illnesses has declined to single digits as of February 9, 2020. The CDC also reconfirmed that (i) Vitamin E acetate, which has been found in some THC-containing vaping cartridges for non-ENDS vaping devices that were mostly obtained from the black market, was strongly linked to and the primary cause of the severe respiratory illnesses, and (ii) THC-containing vaping products from informal sources were linked to most cases of severe respiratory illnesses. Reports such as these may prompt further regulatory actions by governments.

Monitoring and Mitigating Risks Arising from the Evolving Regulatory Environment

To monitor the constantly evolving regulatory environment, our legal department is responsible for the monitoring of global regulatory development and changes which are relevant to our business activities. We also have screening procedures for the initiation of business cooperation with new customers and/or other business partners. The purpose of the screening procedure is to review the compliance with local laws and regulations in jurisdictions where these new customers are incorporated or conduct business activities. The legal department also cooperates closely with local law firms in each major jurisdiction where we market our products. The local law firms are mainly responsible for providing legal advices on the compliance matters of local laws and regulations and timely updates on the changes or potential changes of relevant local laws and regulations which may have any impact on our business. We will continue to monitor developments and changes of relevant laws and regulations after the Listing.

In terms of the PMTA requirements in the U.S., to reduce the risk of our PMTAs being delayed or rejected by the FDA, we have hired a law firm for literature review and a consulting firm in the U.S. with expertise in the requirements of PMTAs and knowledge of the concerns of the FDA to assist us with and review our PMTAs. In addition, we have established a communication and reporting system to facilitate the exchange of information internally and externally and to help solve any issues that may arise during the process in a timely manner. In terms of internal personnel arrangement, we have established a specific team, which includes members with experience in filing applications with the FDA, to carry out the preparation of PMTAs. This team will also assist the PMTA preparations of our customers to the extent possible.

BUSINESS

Moreover, in response to potential future laws and regulations in Hong Kong that may affect our current transshipment arrangements, we have conducted a preliminary survey of other airports through which we can transship more of our products. We will communicate with our customers regarding alternative transshipment options should the need arise and are confident that there will be alternative ways of having their orders shipped overseas (such as through airports in Shenzhen, Guangzhou and Shanghai) with immaterial disruption to our operations.

In addition, we plan to take the following actions or measures to manage and mitigate the risks arising from changes of laws and regulations:

1. continue to monitor laws and regulations in each major jurisdiction to identify any changes and potential changes of laws and regulations in time as well as to make sure our business activities comply with relevant laws and regulations;
2. continue to diversify our revenue in terms of countries and regions, in particular, those with established laws and regulations which allow us to conduct our business activity on a normal basis;
3. continue to diversify our product portfolio to explore the applications of vaping technology in other industries, e.g. health care and pharmaceutical industry; and
4. continue to improve the level of production automation, which will help to reduce the reliance on labor, as well as increase our flexibility in selecting various locations for production.

As of the Latest Practicable Date, certain of the regulatory developments described above had increased our compliance cost or affected our product offering strategy in the relevant markets, but had not resulted in any material adverse impact on our operations, financial performance, cooperation with our major customers and business expansion. Assuming that the percentage of revenue contribution from each of the major markets listed above remains the same for 2020 and there is no further change to the legislative regimes in relation to e-cigarettes and vaping devices in the relevant jurisdictions, the proportion of our business that will be affected by the regulatory developments will be similar to that in 2019. We will continue to monitor regulatory developments and adopt measures to ensure compliance with new regulations. See “— Licenses, Regulatory Approvals and Compliance Record” for more details of the measures we have adopted.

LICENSES, REGULATORY APPROVALS AND COMPLIANCE RECORD

According to the Tobacco Control Act, our customers and we are required to submit PMTAs for any New ENDS Products and receive a marketing order from FDA before such New ENDS Products can be sold in the U.S. Moreover, PMTAs must be submitted for Existing ENDS Products, failure of which would prevent our and our customers' Existing ENDS Products from being eligible to legally remain on the U.S. market. Products for which a PMTA has been submitted and accepted by FDA, but not yet approved, can continue to be commercially marketed while the PMTA undergoes review by FDA. The deadline for filing PMTAs for Existing ENDS Products was originally set by the FDA as August 8, 2022. However, on July 12, 2019, the United States District

Court for the District of Maryland ordered the FDA to move forward the deadlines for submitting PMTAs from August 8, 2022 to May 12, 2020 for all Existing ENDS Products. Under the court's order, Existing ENDS Products for which applications have been timely filed have a one-year period of enforcement discretion pending FDA review. Both the FDA and industry groups appealed the decisions to the United States Court of Appeals for the Fourth Circuit. On May 4, 2020, the Fourth Circuit ruled that the appeal of the district court's decision accelerating the deadline was found to be moot in light of FDA's new industry guidance published on January 2, 2020, which sets forth a modified enforcement policy with an intention to prioritize for enforcement of all ENDS products for which a PMTA has not been submitted to FDA by May 12, 2020. As a result, the appeal was dismissed at the FDA's request. In addition, on April 22, 2020, having considered the adverse impacts of the COVID-19 outbreak, the May 12, 2020 deadline was extended to September 9, 2020, which was subsequently reflected in the FDA's enforcement guidance. With the dismissal of the appeal by the Fourth Circuit, the September 9, 2020 deadline remains unimpacted by the appeal. Pursuant to this enforcement policy, on April 27, 2020, the FDA issued several warning letters to manufacturers and distributors of ENDS products for allegedly targeting youth or promoting use by youth. The FDA also issued warning letters to retailers of e-liquids whose products' packaging imitated packaging for candy that is popular with children and featured cartoon characters. See "Regulatory Overview — Laws and Regulations in the United States — Laws and regulations relating to ENDS Products — PMTA Requirement for ENDS Products."

According to the requirements of Premarket Tobacco Product Applications for Electronic Nicotine Delivery Systems issued by the FDA in June 2019, the major factors considered by the FDA when assessing a PMTA include:

1. product development, manufacturing process, equipment qualification and process validation, on-site inspection and release testing;
2. harmful substance from both e-liquid and aerosol, stability study and extractable and leachable substance from components;
3. in-vitro toxicity to animal cell;
4. individual health impact, including pharmacokinetic and topography to help understand the metabolism of nicotine in human body;
5. population health impact, including human factors and user behavior study; and
6. environmental assessment for product manufacturing, use and disposal.

In general, quality and safety of the product are the main concerns of the FDA when deciding if a product is appropriate for the protection of the public health. Our corporate clients and us, as applicants, must be able to present robust and accurate supporting evidence to the FDA in this regard. See "Risk Factors — Risks Relating to Our Business and Industry — The FDA's requirement to file PMTAs may materially and adversely affect our business."

After the FDA receives a PMTA, including all information necessary to complete the submission, it is required to either issue a market authorization order or a no marketing order within 180 days. The FDA has indicated that in the event it receives a major amendment from the applicant that will require substantial FDA review time, the 180-day clock will be reset and a new 180-day period will start at the time the amendment is received. Further, the FDA will pause the running of the 180-day clock in the event that it requests a minor amendment from the applicant clarifying information that has previously been submitted or additional information that will not require substantial FDA review time. The running of the time period will continue upon receipt of the minor amendment.

To the best knowledge of our Directors, all of our products sold to the U.S. are Existing ENDS products. Our corporate clients and we are in the process of preparing PMTAs for our customers' vaping devices and our self-branded APV, respectively, for submission to the FDA before the September 9, 2020 deadline. However, as the preparation of supporting documents for PMTAs is time-consuming and may require an extended period of time, our corporate clients and we are at risk of not being able to submit the PMTAs for the relevant ENDS products in time before the new deadline. As of the Latest Practicable Date, we had yet to submit any PMTAs but were in the process of preparing PMTAs for two of our self-branded APV based on the evaluation of PMTA requirements and previous sales performance, and we intend to submit them to the FDA before the September 9, 2020 deadline. These two self-branded APV are the Existing ENDS Products requiring PMTA filings that we currently intend to continue to sell and market in the U.S. These self-branded APV aggregately accounted for 0.4%, 1.1%, 0.7% and 0.7% of our total revenue in 2016, 2017, 2018 and 2019, respectively. To the best knowledge of our Directors, there is no difficulty in presenting the required evidence to the FDA for the selected two self-branded APV products, which will be submitted to FDA for PMTA before September 9, 2020. We intend to submit PMTAs for our New ENDS Products in the future. In addition, as of the Latest Practicable Date, to the best knowledge of our Directors, two of our top five customers in the U.S. have filed PMTAs for products manufactured by us and those PMTAs were accepted by the FDA. Our other corporate clients in the U.S. are expected to file the PMTAs for products manufactured by us before the September 9, 2020 deadline.

However, even if our corporate clients and we submit all the PMTAs in time, the FDA may still reject our and/or our corporate clients' applications, which would prevent our and/or our corporate clients' Existing ENDS Products from being sold in the U.S., our largest market during the Track Record Period. To the best knowledge of our Directors, our revenue from sales of ENDS products in the U.S. that require PMTA filings under the current regulatory scheme, including our self-branded APV and closed system vaping devices, amounted to RMB384.7 million, RMB625.8 million, RMB962.6 million and RMB2,117.1 million in 2016, 2017, 2018 and 2019, respectively, accounting for 54.4%, 40.0%, 28.0% and 27.8% of our total revenue for the respective years. In the event that the PMTA filings required for such ENDS products are not submitted before the deadline or do not receive approval from the FDA, our business will be adversely affected. See "Risk Factors — Risks Relating to Our Business and Industry — The FDA's requirement to file PMTAs may materially and adversely affect our business."

As of October 29, 2019, about 15 ENDS-related PMTAs have been submitted to and accepted by the FDA in the market. The FDA issued a final guidance and a proposed rule on the requirements of PMTAs for ENDS products in June and September 2019, respectively, to inform applicants of the information that is required in a PMTA. Such information includes, among others, details regarding the physical aspects of the product and evidence on the product's potential harms and benefits at both the individual and population levels. To ensure that our PMTAs conform to the FDA's content and format requirements and to expedite our preparation process, we have hired a law firm for literature review and a consulting firm in the U.S. with expertise in the requirements of PMTAs and knowledge of the concerns of the FDA to assist us with and review our PMTAs. In addition, we have established a communication and reporting system to facilitate the exchange of information internally and externally and to help solve any issues that may arise during the process in a timely manner. In terms of internal personnel arrangement, we have established a specific team, which includes members with experience in filing applications with the FDA, to carry out the preparation of PMTAs. This team will also assist the PMTA preparations of our customers to the extent possible.

Moreover, to further mitigate our compliance risk in relation to the PMTA requirements, we have increased, and are preparing to further increase, our sales and marketing efforts in other markets, including Asian and European markets, to diversify our revenue streams. We will also continue to diversify our product mix to include more non-ENDS offerings, such as vaping device for special purposes and core components for medical atomization equipment, and explore other application areas, particularly healthcare applications, of our vaping devices. See “— Strategies — Penetrate existing customers and attract new customers to increase our market shares in different areas.”

Save as disclosed above and in “— Legal and Compliance” below, we confirm that, during the Track Record Period and up to the Latest Practicable Date, we had complied with all relevant applicable laws and regulations in all material respects and had obtained all requisite licenses, approvals and permits from relevant regulatory authorities for our business in the jurisdictions we operate. We conduct manufacturing through our subsidiaries in China. As of the Latest Practicable Date, all of our subsidiaries in China, Hong Kong and the United States that are engaged in vaping device manufacturing and/or sales had obtained qualification certifications for its business operation. We will apply for new certificates for newly established companies, and renew certificates for existing companies upon their expiration.

LEGAL AND COMPLIANCE

We have been involved in legal proceedings or disputes in the ordinary course of business, such as product liability claims or claims primarily relating to disputes arising from agreements with third-party suppliers and our customers. Our Directors confirm that, as of the Latest Practicable Date, there were no legal proceedings or claims currently existing, pending or threatened against any member of our Group that we consider will have a material impact on us. As such, we did not make any provisions for any legal proceedings or claims during the Track Record Period.

The following table sets forth our non-compliance incidents under the relevant PRC laws and regulations during the Track Record Period and up to the Latest Practicable Date, and the corrective actions we have taken in response to these incidents:

Non-compliance incidents	Reasons for the non-compliance	Legal consequences and potential maximum penalties	Remedies and rectification measures taken
<p>Pursuant to the applicable PRC laws and regulations, leases must be registered with housing administration authorities.</p> <p>As of the Latest Practicable Date, we had not completed the administrative filings of 31 lease agreements relating to our leased properties. These leased properties had an aggregate GFA of approximately 157,575 sq.m.</p>	<p>These non-compliance incidents were primarily caused by lack of cooperation from the landlords in registering lease agreements. Registration of lease agreements requires the landlords' cooperation, including submitting of their identity documents and building title certificates to the relevant authorities.</p>	<p>We were advised by our PRC Legal Advisers that we might be ordered to rectify this non-compliance by competent authorities and if we fail to rectify within a certain period, a penalty of RMB1,000 to RMB10,000 per agreement may be imposed on us as a result of non-registration.</p> <p>The estimated total amount of penalty for our failure to register leases for leased properties is approximately RMB31,000 to RMB310,000.</p>	<p>We have adopted the following measures: (i) we have completed the filing and registration procedures for the relevant lease agreements that the landlords were willing to cooperate; (ii) for new leases, we will communicate with potential landlords beforehand and select the landlords that are willing to cooperate to the extent possible; and (iii) we have provided and plan to continue to provide senior management and legal staff with training regarding the legal and regulatory requirements applicable to our operations from time to time.</p>
	<p>As of the Latest Practicable Date, we did not receive any notice from any regulatory authority with respect to potential administrative penalties or enforcement actions as a result of our failure to register the leases described above. Our PRC Legal Advisers have advised us that the failure to register the lease agreements would not affect the validity of the lease agreements.</p> <p>For more information relating to risks associated with this non-compliance, please refer to "Risk Factors — Risks Relating to Our Business and Industry — We may be forced to relocate due to title defects of our leased properties, or we may be liable for failure to register our lease agreements, which may result in a disruption of our operations and subject us to penalties."</p>	<p>Our Controlling Shareholders, Mr. Chen and Mr. Xiong, have undertaken to indemnify us for any penalty or other monetary damages incurred as a result of our failure to register the lease agreements.</p> <p>Although we may be fined by the relevant authorities, given the maximum amount of the potential penalties, our Directors believe that there will not be any material adverse impact on our overall business, financial conditions or results of operations.</p>	

Non-compliance incidents	Reasons for the non-compliance	Legal consequences and potential maximum penalties	Remedies and rectification measures taken
<p>According to the Law of Social Insurance of the PRC (《中華人民共和國社會保險法》) and other relevant regulations, we are required to provide our employees with welfare schemes covering social insurance.</p> <p>According to the Regulations on Management of Housing Provident Fund of the PRC (《住房公積金管理條例》), we are required to make housing provident fund for our employees.</p> <p>During the Track Record Period, we failed to make contributions to the social insurance and housing provident funds in full amount as required by the relevant PRC laws and regulations, and we have been ordered to pay the outstanding housing provident funds amounting to RMB7,648 by the Shenzhen Housing Provident Fund Management Center for one of our former employees.</p>	<p>These non-compliance incidents occurred primarily caused by: (i) inadvertent oversight of the relevant PRC laws and regulations, the implementation of which vary from city to city; (ii) our staffs who were formerly in charge of this matter did not fully understand the different regulatory requirements in cities where we operated; and (iii) the preference of many of our employees to not contribute to such funds, or they chose to participate in local rural social security systems offered in their place of residency.</p>	<p>Our PRC Legal Advisers have advised us that, under PRC laws and regulations, we might be subject to late fees and fines for not making social insurance contributions in full amount in a timely manner. If any competent government authority is of the view that the social insurance payments we made for our employees do not satisfy the requirements under relevant PRC laws and regulations, we might be ordered to pay the unpaid amount within a certain period and a late fee that equals to 0.05% of the total unpaid amount per day. If we fail to pay the unpaid amount or the late fee, we may be subject to a fine ranging between one to three times of the total unpaid amount of the social insurance fund contribution.</p>	<p>Our PRC Legal Advisers are of the opinion that the risk of us being fined is remote provided that we pay the unpaid amount for social insurance and house provident funds in full amount in a timely manner after receiving notices to rectify such non-compliance from the relevant PRC authorities.</p> <p>In 2016, 2017, 2018, and 2019, our provisions for (or under-contribution to) social insurance fund and housing provident fund contributions amounted to RMB14.4 million, RMB26.2 million, RMB39.1 million and RMB74.5 million, respectively.</p>
		<p>Our PRC Legal Advisers have also advised us that, in the event that we fail to pay the housing provident fund in full amount, the housing provident fund administrative center will order us to pay the amount within a prescribed time limit. If we fail to do so upon the expiration of the above-mentioned time limit, further application will be made to the People's Court for compulsory enforcement.</p>	

Non-compliance incidents	Reasons for the non-compliance	Legal consequences and potential maximum penalties	Remedies and rectification measures taken
	<p>We have obtained confirmations from relevant competent authorities confirming that there was no record of our PRC subsidiaries being penalized for any incidents of non-compliance or breach of the laws and regulations in relation to social insurance contributions and housing provident funds from January 1, 2016 to December 31, 2019.</p> <p>As of the Latest Practicable Date, except as disclosed above, we did not receive any notice from any regulatory authority to rectify the above non-compliance.</p> <p>For more information relating to risks associated with this non-compliance, please refer to “Risk Factors — Risks Relating to Our Business and Industry — We may be required to make additional contributions of social insurance fund and/or housing provident fund and late payments and fines under PRC national laws and regulations.”</p>	<p>We have obtained confirmations from relevant competent authorities confirming that there was no record of our PRC subsidiaries being penalized for any incidents of non-compliance or breach of the laws and regulations in relation to social insurance contributions and housing provident funds from January 1, 2016 to December 31, 2019.</p> <p>As of the Latest Practicable Date, except as disclosed above, we did not receive any notice from any regulatory authority to rectify the above non-compliance.</p> <p>For more information relating to risks associated with this non-compliance, please refer to “Risk Factors — Risks Relating to Our Business and Industry — We may be required to make additional contributions of social insurance fund and/or housing provident fund and late payments and fines under PRC national laws and regulations.”</p>	<p>We have adopted the following measures: (i) we have started to make contribution payments for and actively encourage our employees to participate in the social insurance and housing provident fund in December 2019 in accordance with the relevant PRC laws and regulations. Despite our efforts, we were unable to make full contribution to social insurance and housing provident fund as some employees were unwilling to make full payment of their social insurance and housing provident fund; (ii) we have established and implemented an internal control policy that requires full compliance with the relevant laws and regulations on social insurance fund and housing provident fund; and (iii) we have provided and plan to continue to provide senior management and relevant staffs with training regarding the legal and regulatory requirements applicable to our operations.</p> <p>Our Controlling Shareholders, Mr. Chen and Mr. Xiong, have undertaken to indemnify us for any monetary damages (except as covered by our provisions in this regard) incurred as a result of our failure to make contributions to the social security and housing provident funds in full amount.</p> <p>Our Directors believe there will not be any material adverse impact on our overall business, financial conditions or results of operations.</p>

Non-compliance incidents	Reasons for the non-compliance	Legal consequences and potential maximum penalties	Remedies and rectification measures taken
During the Track Record Period, we commenced (i) the construction of our manufacturing facilities without preparing the required environmental impact assessment documents and without obtaining the approval or filing of the relevant authorities, and (ii) the production of our manufacturing facilities after their renovation and expansion without undergoing the inspection and acceptance procedures.	These non-compliance incidents were primarily due to our urgent need to increase production capacity, which caused us to begin production hastily, resulting in the oversight of the relevant PRC laws and regulations.	As advised by our PRC Legal Advisers, according to the PRC Environmental Impact Assessment Law (《中華人民共和國環境影響評價法》) and the Regulations on Environmental Protection Management of Construction Projects (《建設項目環境保護管理條例》), (i) commencing the construction of our manufacturing facilities without preparing the required environmental impact assessment documents and without obtaining the approval of the relevant authorities could subject us to a fine ranging from 1% to 5% of the overall investment amount for such construction project depending on the materiality and consequences of such violations, and we may be ordered to restore the construction site to its original state; and (ii) commencing the production of our manufacturing facilities after their renovation and expansion without undergoing the inspection and acceptance procedures could subject us to an order to make corrections within the specified time limit and a fine ranging from RMB200,000 to RMB1.0 million. If we are found not to have rectified such non-compliance within the specified time limit, we may be subject to a fine of RMB1.0 million to RMB2.0 million. If the construction project causes significant environmental pollution or ecological damage, its production or usage shall be suspended, or the project shall be closed down until the approval by the relevant government authorities is obtained.	As of the Latest Practicable Date, we had obtained the approvals of environmental impact assessment or completed the informative filings from the competent authorities for all of our manufacturing facilities involved in renovation and expansion. As of the Latest Practicable Date, the environmental facility of one of our manufacturing facilities was in the process of inspection and acceptance procedures and the inspection and acceptance report had been publicized. As confirmed by the independent environment assessment institutions, there was no substantial obstacle for the completion of the above environmental impact assessment approval and the inspection and acceptance procedures. Dongguan Smoore has paid the fines and rectified the non-compliance incident by shutting down and relocating the relevant manufacturing facilities within the Stipulated Period.

Non-compliance incidents	Reasons for the non-compliance	Legal consequences and potential maximum penalties	Remedies and rectification measures taken
		<p>During the Track Record Period, we did not receive any complaint from our customers or any other parties in respect of any environmental incidents arising from our manufacturing activities. However, as a result of the above non-compliance incidents, on June 17, 2019 and August 1, 2019, respectively, the Ministry of Ecology and Environment of Dongguan ordered one of our PRC subsidiaries Smoore Dongguan to rectify the non-compliance incident within six months from the date of the receipt of the rectify notice (the “Stipulated Period”) and to pay (i) a fine of RMB100,000 amounting to 1% of the overall investment amount of the construction project, and (ii) a fine of RMB200,000.</p>	<p>Our PRC Legal Advisers are of the opinion that the risk of us being ordered to restore the construction site to its original state or to stop using the relevant manufacturing facilities is remote on the basis that (i) the above non-compliance incidents have been or are being rectified without substantial obstacles; (ii) as of the Latest Practicable Date, no significant environmental pollution or ecological damage occurred due to the relevant manufacturing facilities. Although we may still be fined by the relevant environmental authorities, our Directors believe that there will not be any material adverse impact on our overall business, financial conditions or results of operations.</p>
		<p>For more information relating to risks associated with this non-compliance, please refer to “Risk Factors — Risks Relating to Our Business and Industry — We may be liable for commencing the production of our manufacturing facilities after their renovation and expansion without undergoing the inspection and acceptance procedures.”</p>	

Views of our Directors

We have engaged an internal control consultant to review the effectiveness of our internal controls associated with our major business processes, identify deficiencies and improvement opportunities, provide recommendations on remedial actions and review the implementation status of these remedial actions. In addition to the internal control measures we adopted in relation to our non-compliances, certain other internal control matters were identified and we have adopted corresponding internal control measures to improve on these matters.

During the Track Record Period, we have noticed the following internal control deficiencies and adopted corrective measures accordingly: (i) we failed to complete administrative filings of 35 lease agreements relating to our lease properties; (ii) we failed to make contributions to the social insurance and housing provident funds in full amount as required by the relevant PRC laws; (iii) we failed to prepare environmental impact assessment documents and obtain approval of or made necessary filing with the relevant authorities when we commenced the construction of our manufacturing facilities and failed to undergo inspection and acceptance procedures after renovation and expansion of our manufacturing facilities; and (iv) we failed to maintain our dispatched employees percentage as required by Interim Provision on Labor Dispatch. We rectified such non-compliance by terminating some labor dispatch service agreements and stopping engagement with relevant dispatched employees by February 2019. See “— Employees” for details. We have adopted the recommendations made by the internal control consultant and our internal control consultant has completed the follow-up procedures on our internal control system with regard to those actions taken by us and have not identified any material deficiencies in our internal control system. See “— Risk Management and Internal Control” and the non-compliance incidents table above for details and the relevant internal control measures that we adopted.

Having considered the nature and reasons for the historical non-compliance incidents identified above and the advice from our PRC Legal Advisers, the corrective actions taken and the internal control measures adopted by us, our Directors are of the view that (i) our internal control measures are adequate and effective to prevent recurrence of future non-compliance incidents; and (ii) the past non-compliance incidents were unintentional and does not affect the suitability of our Directors to act as directors of a listed issuer under Rules 3.08 and 3.09 of the Listing Rules or the suitability for our listing under Rule 8.04 of the Listing Rules.

Our Directors, as advised by our PRC Legal Advisers, confirm that as of the Latest Practicable Date, except as disclosed in the above table, we had complied with relevant PRC laws in all material respects.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Global Offering and the Capitalization Issue (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), our Company will be held as to (i) approximately 34.64% by BVI 1, an investment holding company wholly owned by Mr. Chen, (ii) approximately 5.26% by BVI 2, an investment holding company wholly owned by Mr. Xiong, and (iii) approximately 33.11% by EVE BVI, an investment holding company wholly owned by EVE Asia which is a wholly-owned subsidiary of EVE Energy. As of the Latest Practicable Date, EVE Energy was ultimately controlled by Dr. Liu Jincheng and Ms. Luo Jinhong (駱錦紅) (spouse of Dr. Liu Jincheng) and together they owned 36.94% equity interest in EVE Energy. By virtue of the Concert Party Agreement, Mr. Chen, Mr. Xiong and their respective wholly-owned investment holding companies, namely BVI 1 and BVI 2 will be considered as a group of Controlling Shareholders under the Listing Rules, and EVE BVI, EVE Asia and EVE Energy are also a group of Controlling Shareholders within the meaning of the Listing Rules.

Our two principal business segments are (i) research, design and manufacturing of closed system vaping devices and vaping components, and (ii) research, design, manufacturing and sale of self-branded open system vaping devices, or APV. Apart from our business, none of our Directors and Controlling Shareholders hold or conduct any business which competes, or is likely to compete, either directly or indirectly, with the business of our Group.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, none of our Controlling Shareholders or our Directors was engaged or had interest in any business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently from the Controlling Shareholders and its respective associates after the Global Offering.

Management Independence

The Board comprises three executive Directors, one non-executive Director and three independent non-executive Directors. Our management and operational decisions are made by our executive Directors and senior management, most of whom have served our Group for a long time and have substantial experience in the industry in which we are engaged. Please see the section “Directors and Senior Management” in this prospectus for further details.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, save as disclosed below, none of our Directors held any position at our Controlling Shareholders (where applicable) or their respective close associates. Set out below is a table summarizing the positions held by the Director at our Company and our Controlling Shareholders.

<u>Name</u>	<u>Position with our Company</u>	<u>Position with the Controlling Shareholders and their respective close associates as of the Latest Practicable Date</u>
Mr. Chen	Executive Director, Chairman of the Board, Chief Executive Officer	Director of BVI 1
Mr. Xiong	Executive Director and Vice General Manager	Director of BVI 2
Dr. Liu Jincheng	Non-executive Director	Legal representative and chairman of the board of EVE Energy

As set out above, Dr. Liu Jincheng, our non-executive Director is also legal representative and chairman of the board of EVE Energy, being one of our Controlling Shareholders. Despite this, our Directors are of the view that there are sufficient and effective control mechanisms to ensure that our Directors discharge their duties appropriately and safeguard the interests of our Shareholders as a whole for following reasons:

- (a) Dr. Liu Jincheng, our non-executive Director, is not and will not be involved in the daily management and operation of our Company. The daily management and operation of our Company is managed by our senior management and overseen by our executive Directors. Save as disclosed above, none of our executive Directors and senior management holds any directorship or senior management position in our Controlling Shareholders or their close associates, and they are full-time employees of our Group;
- (b) each of our Directors is aware of his fiduciary duties as a director which require, among others, that he must act for the benefit of and in the best interests of our Company and not allow any conflict between his/her duties as a Director and his/her personal interests. The Directors shall not vote in any Board resolution approving any contract or arrangement or any other proposal in which he or any of his associates has a material interest and shall not be counted in the quorum present at particular Board meeting. Further, when considering connected transactions, our independent non-executive Directors will review the relevant transactions; and
- (c) our independent non-executive Directors constitute three-seventh of our Board and none of them has any relationship with our Controlling Shareholders or their respective associates. They will bring independent judgment to the decision-making process of the Board.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Therefore, there are sufficient Directors who are independent from our Controlling Shareholders and have relevant experience to allow the proper function of the Board.

Based on the above, our Directors are satisfied that our Board as a whole together with our senior management team are able to perform the managerial role in our Group independently and are of the view that we are capable of managing our business independently from the Controlling Shareholders and their respective close associates after the Global Offering.

Operational Independence

Although the Controlling Shareholders will retain a controlling interest in our Company after the Listing, we have full rights to make all decisions regarding, and to carry out, our own business operations independently from our Controlling Shareholders. Our Company (through our subsidiaries) holds or enjoys the benefit of all relevant licenses necessary to carry out our businesses, and has sufficient capital, equipment and employees to operate our business independently from the Controlling Shareholders.

We have established our own organizational structure with independent departments and business units, each with specific areas of responsibility. We maintain a set of comprehensive internal control procedures to facilitate the effective operations of our business. Our operational functions are run independently of the Controlling Shareholders and their respective close associates.

We have our own employee headcount for our operations and our own management of human resources, cash and accounting, invoicing and billing. As of the Latest Practicable Date, substantially all of our full-time employees were recruited independently and primarily through recruitment websites, on-campus recruitment programs, recruiting firms and internal referrals.

During the Track Record Period, we procured battery products from EVE Energy, being one of our Controlling Shareholders. Please refer to the section headed “Continuing Connected Transactions” in this prospectus for further details. For the years ended December 31, 2016, 2017, 2018 and 2019, procurement amount from EVE Energy accounted for approximately 4.7%, 6.3%, 5.1%, and 4.9% of our total cost of sales, respectively. Our Directors are of the view that in the event that EVE Energy does not sell battery products to our Group or we cease to engage EVE Energy as the supplier of battery products, there will be other comparable suppliers readily available in the market to supply comparable battery products to us.

Our Directors are of the view that (i) the above continuing connected transactions will not affect our operational independence from our Controlling Shareholders and their respective close associates after Listing; (ii) they do not expect that there will be any other transactions between our Group and our Controlling Shareholders or their respective close associates upon completion of the Global Offering; and (iii) they are satisfied that our Group has been operating independently from the Controlling Shareholders during the Track Record Period and will continue to operate independently.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Financial Independence

During the Track Record Period and up to the Latest Practicable Date, our Group has our own internal control, accounting and financial management system, accounting and finance department independent treasury functions for cash receipts and payment and we make financial decisions according to our own business needs.

On October 30, 2019, the Convertible Promissory Notes issued by us to our Pre-IPO CN Investors were secured by the share charges in favor of the Pre-IPO CN Investors in respect of the Shares of the Company provided by our Controlling Shareholder, BVI 1, as the chargor, which is an investment holding company wholly-owned by Mr. Chen. Pursuant to the share charges, BVI 1 charged an aggregate of 1,971.764 Shares of our Company, representing approximately 3.11% of the then total issued share capital of our Company, to the Pre-IPO CN Investors. Such share charges were released on April 30, 2020 by way of mutual agreement and the entering into of a deed of release by and amongst, BVI 1 and each of the Pre-IPO CN Investor.

Save as disclosed above, we confirm that there is no other financial assistance provided by our Controlling Shareholders or their respective close associates to our Group and *vice versa* as of the Latest Practicable Date, nor did we have any share pledges or guarantees provided by our Controlling Shareholders and their respective close associates on our borrowing.

In addition, we have independent access to third party financing and our Group does not rely on the Controlling Shareholders and/or their associates by virtue of their provision of financial assistance. As of the Latest Practicable Date, all loans, advances and balances due to the Controlling Shareholders had been fully repaid. Our Directors believe that we are capable of obtaining financing from external sources without reliance on the Controlling Shareholders.

Based on the above, our Directors believe that we have the ability to operate independently of the Controlling Shareholders and their respective associates from a financial perspective and are able to maintain financial independence from the Controlling Shareholders and their respective associates.

DEED OF NON-COMPETITION

Our Controlling Shareholders did and do not engage in any other business that competes or is likely to compete with our business. However, having considered the fact that one of our Controlling Shareholders, EVE Energy, is a leading battery manufacturer and a supplier of battery products for vaping devices, we believe that the entering into of a non-competition deed could prevent EVE Energy from engaging in vaping business that competes or is likely to compete with our business. Our Directors are of the view that the entering into of the Deed of Competition is in the interests of the Company and our Shareholders as a whole. Based on such consideration, EVE Energy, EVE Asia and EVE BVI have entered into the Deed of Non-competition on February 14, 2020 in favor of our Company (for itself and as trustee for its subsidiaries), pursuant to which each of EVE Energy, EVE Asia and EVE BVI has unconditionally and irrevocably undertaken that it will not and will procure that its close associates (except members of our Group) will not, directly or indirectly, either on its own account or in conjunction with or on behalf of any person, firm or

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

company, among other things, carry on, engage, participate or hold any right or interest in or otherwise be involved in any business which is in competition with the business of our Group from time to time, which excludes battery related business (the “**Restricted Business**”) during the effective period of the Deed of Non-competition. This undertaking does not apply, if the total number of shares held by EVE Energy, EVE Asia and EVE BVI and/or their respective close associates account for no more than 10% of the issued share capital of the relevant company, and have no control of the board of such company.

Each of EVE Energy, EVE Asia and EVE BVI has also undertaken to our Company that during the effective period of the Deed of Non-competition, if there is any new business opportunity in the Restricted Business, it shall within a reasonable period of time first refer or recommend such new business opportunities to our Company by written notice. Each of EVE Energy, EVE Asia and EVE BVI shall not invest, participate, be engaged in and/or operate in such business opportunities unless our Company has declined such referral or recommendation in writing or failed to respond within thirty (30) days after receipt of the said notice. Whether or not to take up such new business opportunity will be subject to the decision of the independent non-executive Directors.

Pursuant to the Deed of Non-competition, the above restrictions would only cease to have effect upon the earlier of: (i) our Shares ceasing to be listed on the Stock Exchange; and (ii) so far as each of EVE Energy, EVE Asia and EVE BVI is concerned, it ceases to be a Controlling Shareholder of our Company.

In order to promote good corporate governance practices and to improve transparency, the Deed of Non-competition includes the following provisions:

- our independent non-executive Directors shall review, on an annual basis, the compliance with the Deed of Non-competition by EVE Energy, EVE Asia and EVE BVI;
- EVE Energy, EVE Asia and EVE BVI have undertaken to us that they will provide and procure their respective close associates to provide, upon our request, all information necessary for the enforcement of the Deed of Non-competition;
- each of EVE Energy, EVE Asia and EVE BVI will make an annual declaration in our annual report on its compliance with the Deed of Non-competition; and
- in the event that any of EVE Energy, EVE Asia and EVE BVI and/or their respective close associates has material interests in any matter arising from the Deed of Non-competition, such party shall abstain from voting on the relevant board’s and/or Shareholders’ resolutions and shall not be counted towards the quorum for the relevant meetings.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

Our Directors believe that there will be adequate corporate governance measures in place to manage conflicts of interest after Listing. In particular, we will implement the following measures:

- (a) the independent non-executive Directors will review, on an annual basis, the compliance by EVE Energy, EVE Asia and EVE BVI with the Deed of Non-competition;
- (b) as part of our preparation for the Global Offering, we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provided that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his associates have a material interest nor shall such Director be counted in the quorum present at the meeting;
- (c) a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and abstain from voting at the board meetings on matters in which such Director or his associates have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors;
- (d) we are committed that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors). We have appointed three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial, external opinion to protect the interests of our public Shareholders. Details of our independent non-executive Directors are set out in “Directors and Senior Management — Directors — Independent Non-executive Directors”;
- (e) in the event that the independent non-executive Directors are requested to review any conflicts of interests circumstances between our Group on the one hand and the Controlling Shareholders and/or the Directors on the other hand, the Controlling Shareholders and/or the Directors shall provide the independent non-executive Directors with all necessary information and our Company shall disclose the decisions of the independent non-executive Directors either through its annual report or by way of announcements; and
- (f) we have appointed Guotai Junan Capital Limited as our compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors’ duties and corporate governance.

Further, any transaction that is proposed to be entered into between our Company and the Controlling Shareholders and their respective associates will be required to comply with the requirements of the Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent Shareholders’ approval requirements.

CONTINUING CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTION

We have entered into a raw materials procurement agreement with our connected person (as defined under Chapter 14A of the Listing Rules) in our ordinary and usual course of our business. Upon Listing, the transactions disclosed under this section will constitute continuing connected transaction pursuant to Chapter 14A of the Listing Rules.

CONNECTED PERSONS

EVE Energy is a Controlling Shareholder of our Company and hence our connected person upon Listing.

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

Procurement Framework Agreement with EVE Energy

Parties: the Company, for itself and on behalf of its subsidiaries (as the customer); and

EVE Energy, for itself and on behalf of its subsidiaries (as the supplier)

Principal terms: We entered into a procurement framework agreement (“**Procurement Framework Agreement**”) on June 19, 2020 with EVE Energy, pursuant to which EVE Energy manufactures battery products for us.

The Procurement Framework Agreement will terminate on December 31, 2022 unless renewed otherwise.

Pricing policy: The procurement prices are determined with reference to the prevailing market price. To ascertain the prevailing market price and batteries provided by EVE Energy are no less favorable to us than those available from independent third parties, we obtain quotations for comparable batteries from other independent third party suppliers shortlisted and approved by us, in order to determine whether viable alternatives of comparable quality are available. In addition, we also compare quotations from EVE Energy with the price we agreed with other independent third party supplier for similar product to ensure the terms with EVE Energy are no less favorable to us than independent third party suppliers. Our Directors are of the view that the transactions will be conducted on normal commercial or better terms and not prejudicial to the interest of the Company’s minority Shareholders.

CONTINUING CONNECTED TRANSACTIONS

Reasons for the transaction: EVE Energy has good reputation for its battery products which can meet the quality standards required by us and our customers. In addition, some of our customers also designate us to procure batteries from EVE Energy for its battery products. EVE Energy has been a long term and reliable supplier of our Group since 2011.

Historical figures: The historical figures of the procurement from EVE Energy are set out below:

	Year ended December 31,		
	2017	2018	2019
	(RMB'000)	(RMB'000)	(RMB'000)
Total procurement amount	71,691	114,453	208,704

Annual Caps: The maximum aggregate annual procurement amount from EVE Energy for the years ending December 31, 2020, 2021 and 2022 respectively shall not exceed the caps set out below:

	Proposed Annual Cap for the Year ending December 31,		
	2020	2021	2022
	(RMB'000)	(RMB'000)	(RMB'000)
Total procurement amount	240,000	300,000	360,000

Basis of Annual Caps: In determining the above annual caps, our Directors have considered the historical figures and the potential increase in procurement volume due to the expected growth of the vaping industry and the ever-increasing customer demands in vaping industry, our business expansion plan and potential promotion activities.

LISTING RULES IMPLICATIONS

In respect of the transactions under the Procurement Framework Agreement, as the highest applicable percentage ratio for each of the proposed annual caps for the three years ending December 31, 2022 calculated for the purpose of Chapter 14A of the Listing Rules is expected to exceed 5% on an annual basis, such transactions will, upon Listing, constitute a continuing connected transaction of our Company subject to the annual reporting requirements under Rules 14A.49 and 14A.71 of the Listing Rules, the announcement requirement under Rule 14A.35 of the Listing Rules and the independent Shareholders' approval requirement under Rule 14A.36 of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

THE DIRECTORS' VIEWS

Our Directors (including independent non-executive Directors) are of the view that it is in the interests of our Group to continue with the continuing connected transaction described in this section after the Listing, and that the transactions contemplated under the Procurement Framework Agreement have been and will continue to be conducted on normal commercial terms that are fair and reasonable and are in the interests of our Company and the Shareholders as a whole and carried out in the ordinary and usual course of business of our Group. In addition, the proposed annual caps for the non-exempt continuing connected transaction described above are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

CONFIRMATION FROM THE SOLE SPONSOR

Based on the data and information provided by the Company, having made reasonable inquiries and after due and careful consideration, the Sole Sponsor is of the view that as of the date of this prospectus, the non-exempt continuing connected transaction described above, and for which waivers have been sought, have been and will continue to be carried out in the ordinary and usual course of business of our Group, on normal commercial terms or better that are fair and reasonable and in the interests of our Company and the Shareholders as a whole, and that the respective proposed annual caps are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

APPLICATION FOR WAIVER

As described above, we expect the transactions described in “— Non-exempt Continuing Connected Transaction” to be carried out on a continuing basis and to extend over a period of time. Our Directors therefore consider that strict compliance with the announcement and independent Shareholders’ approval requirements under the Listing Rules would be impractical and such requirement will lead to unnecessary administrative costs and create an onerous burden on the Company.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, pursuant to Rule 14A.105 of the Listing Rules, a waiver from strict compliance with the announcement and independent Shareholders’ approval requirements relating to the continuing connected transaction contemplated under the Procurement Framework Agreement and as described in “— Non-exempt Continuing Connected Transaction.”

We will comply with the applicable requirements under the Listing Rules and will immediately inform the Stock Exchange if there are any changes to the continuing connected transaction.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those as of the date of this prospectus on the continuing connected transaction referred to in this section, we will take immediate steps to ensure compliance with such new requirements.

DIRECTORS AND SENIOR MANAGEMENT

GENERAL

The following table sets out certain information in respect of our Directors and senior management:

Name	Age	Position(s)	Date of Appointment as Director	Date of joining our Group	Roles and responsibilities
<i>Directors</i>					
Chen Zhiping (陳志平)	44	Executive Director, chairman of the Board and chief executive officer	July 22, 2019	September 21, 2009	Overseeing the overall management and business operation, coordinating board affairs, formulating strategies and operational plans and making major business decisions of our Group
Xiong Shaoming (熊少明)	49	Executive Director and vice general manager	October 25, 2019	September 31, 2009	Leading strategic planning, undertaking business objectives set by the Board and managing daily operations of our Group
Wang Guisheng (王貴升)	50	Executive Director, chief financial officer and joint company secretary	October 25, 2019	April 1, 2018	Being responsible for financial planning and management, overseeing the accounting department, legal department and company secretarial matters of our Group
Dr. Liu Jincheng (劉金成)	55	Non-executive Director	October 25, 2019	April 1, 2014	Providing strategic advice on business development of our Group
Zhong Shan (鍾山)	48	Independent non-executive Director	June 5, 2020	June 5, 2020	Providing independent advice and judgment to our Board
Yim Siu Wing, Simon (閻小穎)	45	Independent non-executive Director	June 5, 2020	June 5, 2020	Providing independent advice and judgment to our Board
Dr. Liu Jie (劉杰)	42	Independent non-executive Director	June 5, 2020	June 5, 2020	Providing independent advice and judgment to our Board

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position(s)	Date of Appointment as Senior Management	Date of joining our Group	Roles and responsibilities
<i>Senior Management</i>					
Qiu Lingyun (邱凌雲)	44	Board Secretary	July 28, 2015	January 6, 2011	Coordinating board meetings and related matters and investors' relationship management
Luo Chunhua (羅春華)	49	General Manager of Operation Department	June 29, 2017	November 1, 2010	Overseeing the business development of our Group
Pan Weidong (潘衛東)	44	General Manager of Technology Center	April 1, 2014	April 1, 2014	Overseeing the research and development of products of our Group

None of our Directors and senior management has any relationship with other Directors, senior management or any Substantial Shareholder or Controlling Shareholder.

DIRECTORS

The Board consists of seven Directors, comprising three executive Directors, one non-executive Director and three independent non-executive Directors. The functions and duties of the Board include convening shareholders' meetings, reporting on the Board's work at these meetings, implementing the resolutions passed on these meetings, determining business and investment plans, formulating our annual financial budget and financial statements, and formulating our proposals for profit distributions and for the increase or reduction of share capital. In addition, the Board is responsible for exercising other powers, functions and duties in accordance with the Memorandum and Articles of Association, and all applicable laws and regulations, including the Listing Rules.

Executive Directors

Mr. Chen Zhiping (陳志平), aged 44, is an executive Director, the chairman of the Board and the chief executive officer of our Group. Mr. Chen is principally responsible for the overall management and business operation of our Group, including coordinating board affairs, formulating strategies and operational plans and making major business decisions. Mr. Chen has over 10 years of experience in the vaping industry and is experienced in business management. Mr. Chen has been the key driver of our business strategies and achievements to date and continues to oversee the management of our operations and business.

Mr. Chen founded Smoore Shenzhen in 2009 and since then, Mr. Chen has been serving as the general manager of Smoore Shenzhen. In June 2017, Mr. Chen was further appointed as the chairman of the board of Smoore Shenzhen.

DIRECTORS AND SENIOR MANAGEMENT

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), Shenzhen, in October 2014.

Mr. Xiong Shaoming (熊少明), aged 49, is an executive Director and the vice general manager of our Group and is primarily responsible for leading strategic planning, undertaking business objectives set by the Board and managing daily operations of our Group.

Mr. Xiong joined Smoore Shenzhen in 2009 and has been serving as its vice general manager since then. Mr. Xiong has also been serving as the 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.

Mr. Wang Guisheng (王貴升), aged 50, is an executive Director and the chief financial officer of our Group. Mr. Wang Guisheng joined our Group in April 2018 and has been the chief financial officer of Smoore Shenzhen since June 2018. Mr. Wang Guisheng is primarily responsible for financial planning and management and overseeing the accounting department, legal department and company secretarial matters of our Group. Mr. Wang Guisheng has over 20 years of experience in financial management, accounting, taxation and business management, and in particular, Mr. Wang Guisheng has over 14 years of experience working as directors and senior management for publicly listed companies on the Stock Exchange and other stock exchanges in the PRC.

From July 1993 to January 1999, Mr. Wang Guisheng worked at Shenzhen Anhui Industrial Company (深圳安惠實業公司) where his last position was finance manager. Mr. Wang Guisheng later worked at Walmart Business Information (Shenzhen) Co., Ltd. (沃爾瑪商業諮詢(深圳)有限公司) where his last position was assistant financial controller before he joined Maoye Commercial Company Limited (茂業商業股份有限公司). From July 2005 to October 2010, Mr. Wang Guisheng served as a director of Maoye Commercial Company Limited (茂業商業股份有限公司) (formerly known as Chengshang Group Co., Ltd.* (成商集團股份有限公司)), a company listed on the Shanghai Stock Exchange (stock code: 600828). From August 2007 to October 2010, Mr. Wang Guisheng served as an executive director and the chief financial officer of Maoye International Holdings Limited (茂業國際控股有限公司), a company listed on the Stock Exchange (stock code: 00848). From June 2010 to October 2010, Mr. Wang Guisheng served as a director of ZJBC Information Technology Co., Ltd.* (中嘉博創信息技術股份有限公司) (formerly known as Maoye Communication And Network Co., Ltd.* (茂業通信網路股份有限公司) and Qinhuangdao Bohai Logistics Holdings Corporations Ltd.* (秦皇島渤海物流控股股份有限公司)), a company listed on the Shenzhen Stock Exchange (stock code: 000889). 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. From July 2013 to September 2017, Mr. Wang Guisheng also served as the company secretary of Man Wah Holdings Limited. Currently, Mr. Wang Guisheng is the independent non-executive director of Xinyi

DIRECTORS AND SENIOR MANAGEMENT

Automobile Glass Hong Kong Enterprises Limited (信義汽車玻璃香港企業有限公司), a company listed on the Main board of the Stock Exchange (stock code: 08328) and an independent director of Sunshine Global Circuits Co., Ltd.* (深圳明陽電路科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300739).

Mr. Wang Guisheng obtained a bachelor's degree in economics majoring in insurance from China Institute of Finance* (中國金融學院) which was merged with and is currently known as University of International Business and Economics (對外經濟貿易大學), Beijing, in July 1993 and an executive master's degree in business administration from China Europe International Business School (中歐國際工商學院), Shenzhen, 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.

Mr. Wang Guisheng was a supervisor of the following companies, which were incorporated in the PRC prior to their deregistration:

<u>Name of company</u>	<u>Principal business activity immediately prior to deregistration</u>	<u>Date of deregistration</u>
Wuhu Man Wah Furniture Sales Co. Ltd.* (蕪湖敏華家具銷售有限公司)	Sales of furniture and household supplies	November 26, 2014
Zhongshan Man Wah Furniture Co. Ltd.* (中山敏華家具有限公司)	Sales of furniture and household accessories	April 10, 2018
Nanchang Man Wah Furniture Co. Ltd.* (南昌敏華家具有限公司)	Sales of furniture and household supplies	December 24, 2013
Huizhou Jianian Minghua Furniture Co. Ltd.* (惠州市嘉年名華家具有限公司)	Sales of furniture and craft accessories	December 29, 2017

Mr. Wang Guisheng confirmed that each of the above deregistered companies was solvent at the time of its deregistration, and the deregistration was voluntary by way of submitting an application to the relevant local branch of State Administration for Market Regulation due to cessation of business operation.

DIRECTORS AND SENIOR MANAGEMENT

Non-executive Director

Dr. Liu Jincheng (劉金成), aged 55, is a non-executive Director who is primarily responsible for providing strategic advice and guidance on the business development of our Group. Dr. Liu Jincheng was designated as a non-executive Director in October 2019. Dr. Liu Jincheng has around 18 years of experience in battery industry in China.

Dr. Liu Jincheng joined EVE Energy in December 2001 and currently is the legal representative and the chairman of the board of EVE Energy.

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

Independent Non-executive Directors

Mr. Zhong Shan (鍾山), aged 48, joined our Group in June 2020 as an independent non-executive Director. He is primarily responsible for providing independent advice and judgment to our Board.

Mr. Zhong has extensive experience in financial business management. He has been the chief financial officer at Innoscience (Suzhou) Technology Co. Ltd* (英諾賽科(蘇州)科技有限公司) since September 2017. During April 2007 and 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.

Mr. Zhong Shan was a director of the following company, which was incorporated in the PRC prior to its deregistration:

<u>Name of company</u>	<u>Principal business activity immediately prior to deregistration</u>	<u>Date of deregistration</u>
Shenzhen Yuanhong Venture Investment Co., Ltd.* (深圳市元泓創業投資有限公司)	Equity investment and investment consulting	August 20, 2009

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhong confirmed that the above deregistered company was solvent at the time of it being deregistered, and the deregistration was voluntary by way of submitting an application to the relevant local branch of State Administration for Market Regulation due to cessation of business operation.

Mr. Yim Siu Wing, Simon (閻小穎), aged 45, joined our Group in June 2020 as an independent non-executive Director who is primarily responsible for providing independent advice and judgment to our Board.

Mr. Yim has approximately 15 years of experience in the financial industry. He has been serving as the chairman of the board of Winsome Group Holdings Limited (滙盛集團控股有限公司) since he founded it in May 2016. He worked at Nomura International (Hong Kong) Limited from August 2005 to May 2016 where his last position held was executive director. Before Mr. Yim Siu Wing, Simon started his career in financial industry in 2005, he worked in legal field at Baker & McKenzie and Clifford Chance from September 1999 to January 2003 and February 2003 to July 2005, respectively. Mr. Yim has also been a member of the Chengdu Municipal Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議成都市委員會) since February 2009 and become a standing committee member since February 2013.

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

Dr. Liu Jie (劉杰), aged 42, joined our Group in June 2020 as an independent non-executive Director who is primarily responsible for providing independent advice and judgment to our Board.

Dr. Liu Jie has around 19 years study and work experience in the medical field. Dr. Liu Jie has been worked at The First Affiliated Hospital of Guangdong Medical University (廣州醫科大學第一附屬醫院) (formerly known as The First Affiliated Hospital of Guangdong Medical College (廣州醫學院第一附屬醫院)) since July 2000 where he was appointed as the deputy chief physician in July 2012. Dr. Liu Jie obtained a certificate of practicing physician and a qualification in respiratory medicine from the National Health Commission (formerly known as Ministry of Health) of the PRC in December 2001 and May 2007, respectively. He was qualified as an associate chief physician in respiratory medicine by the Labor and Social Security Department of Guangdong Province (廣東省人力資源和社會保障廳) in March 2011.

Dr. Liu Jie received his bachelor's degree in medicine majoring in clinical medicine of Guangzhou Medical University (廣州醫科大學), previously known as Guangzhou Medical College (廣州醫學院), Guangzhou, in June 2000, and received his master's degree as well as doctor's degree in medicine majoring in internal medicine from Guangzhou Medical University (廣州醫科大學), Guangzhou, in July 2007 and June 2018, respectively. Dr. Liu Jie was appointed as a committee member of Rare Diseases Society of Guangdong Medical Association* (廣東省醫學會罕見病學分會) (the "Society") in June 2013 and was appointed as the deputy chief of the Society's

DIRECTORS AND SENIOR MANAGEMENT

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.

Save as disclosed above, none of our Directors holds any other directorships in any other company listed in Hong Kong or overseas during the three years immediately preceding the date of this prospectus. Please refer to the section headed “Statutory and General Information” in Appendix IV to this prospectus for further information about the Directors, including the particulars of their service contracts and remuneration, and details of interests of the Directors in the Shares (within the meaning of Part XV of the SFO). Save as disclosed herein, to the best knowledge, information and belief of our Directors having made all reasonable enquiries, there are no other matters in respect of each of our Directors that is required to be disclosed pursuant to Rule 13.51(2)(a) to (v) of the Listing Rules and there is no other material matter relating to our Directors that needs to be brought to the attention of our Shareholders.

SENIOR MANAGEMENT

The senior management team of our Group, in addition to the executive Directors listed above, is as follows:

Mr. Qiu Lingyun (邱凌雲), aged 44, is the board secretary of our Group. Mr. Qiu is primarily responsible for the coordination of board meetings and related matters and investors’ relationship management of our Group. Mr. Qiu has approximately 5 years of financial management experience.

Besides undertaking the responsibility of board secretary, Mr. Qiu served as chief financial officer of Smoore Shenzhen from January 2011 to July 2016.

Mr. Qiu received a bachelor’s degree in engineering majoring in industrial international commerce from Shanghai University (上海大學), Shanghai, in July 1999 and an executive master’s degree in business administration from China Europe International Business School (中歐國際工商學院), Shanghai, in October, 2015.

Mr. Luo Chunhua (羅春華), aged 49, is the general manager of operation department of our Group. Mr. Luo joined our Group in November 2010 as the head of our R&D Department. Mr. Luo is primarily responsible for overseeing the business development of our Group. Mr. Luo has over 10 years of experience in management and research and development of electric appliance.

Prior to joining our Group, Mr. Luo worked at various positions specializing in technology development. From July 1998 to February 2008, Mr. Luo was the vice manager at Dongguan VTech Electronic Communication Equipment Factory* (東莞偉易達電子通訊設備廠) of Dongguan VTech Group* (東莞偉易達集團). Since January 2008, Mr. Luo served as a manager responsible for management and professional technology for approximately three years at Guangzhou Mingmei Technology Co., Ltd.* (廣州名美科技有限公司), previously known as Guangzhou Mingmei Electronics Co., Ltd.* (廣州明美電子有限公司).

DIRECTORS AND SENIOR MANAGEMENT

Mr. Luo graduated from an undergraduate program at the school of radio engineering of Beijing Institute of Technology (北京理工大學), Beijing, in July 1992 and received a master's degree in engineering majoring in electronics and communication engineering from South China University of Technology (華南理工大學), Guangzhou, in January 2007. Mr. Luo was awarded the second prize of "Scientific and technological progress" (科技進步二等獎) by China Ordnance Industries Group Corporation* (中國兵器工業總公司) in November 1998.

Mr. Pan Weidong (潘衛東), aged 44, is the general manager of technology center of our Group since he joined us in April 2014. Mr. Pan Weidong is primarily responsible for overseeing the research and development of our products. Mr. Pan Weidong has over 9 years of experience in business operation and research and development.

Prior to joining our Group, Mr. Pan Weidong served as a director of operation at Shenzhen Youhesheng Communication Technology Co. Ltd.* (深圳優合勝通信技術有限公司) from March 2010 to March 2014.

Mr. Pan Weidong graduated from an undergraduate program in thermal processing technology and equipment from Hubei University of Automotive Technology (湖北汽車工業學院), Shiyan, in June 1997 and received a master's degree in business administration from China Europe International Business School (中歐國際工商學院), Shenzhen, in August 2017.

JOINT COMPANY SECRETARIES

Mr. Wang Guisheng (王貴升), was appointed as one of the joint company secretaries of our Company on December 10, 2019. Mr. Wang Guisheng is also an executive Director. Please see the paragraph headed "— Directors — Executive Directors" in this section for his biography.

Ms. Cheng Choi Ha (鄭彩霞), was appointed as one of the joint company secretaries of our Company on December 10, 2019. Ms. Cheng Choi Ha is a manager of the Corporate Services Division of Tricor Services Limited, which is a global professional services provider specializing in integrated business, corporate and investor services.

Ms. Cheng Choi Ha holds a bachelor's degree in business administration, and is a Chartered Secretary, a Chartered Governance Professional, an associate of The Hong Kong Institute of Chartered Secretaries ("HKICS") and an associate of the Institute of Chartered Secretaries and Administrators ("ICSA") in the United Kingdom.

Ms. Cheng Choi Ha has over 10 years of experience in the corporate secretarial services field and providing professional corporate services to Hong Kong listed companies, as well as multinational, private and offshore companies.

BOARD COMMITTEES

Audit Committee

The Company has established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of our audit committee are to review, supervise and approve our financial reporting process, risk management and internal control system and to provide advice and comments to our Board. Members of the audit committee are Mr. Zhong Shan, Mr. Yim Siu Wing, Simon and Dr. Liu Jie. Mr. Zhong Shan is the chairman of the audit committee.

Remuneration Committee

The Company has established a remuneration committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of our remuneration committee are to review and recommend to our Board the remuneration and other benefits paid by us to our Directors and senior management. The remuneration of all our Directors and senior management is subject to regular monitoring by our remuneration committee to ensure that levels of their remuneration and compensation are appropriate. Members of the remuneration committee are Mr. Yim Siu Wing, Simon, Dr. Liu Jie and Mr. Chen. Mr. Yim Siu Wing, Simon is the chairman of the remuneration committee.

Nomination Committee

The Company has established a nomination committee with written terms of reference in compliance with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of our nomination committee are to consider and recommend to our Board suitable and qualified candidates of Directors and to review the structure, size and composition of our Board and the board diversity policy adopted by our Company on regular basis. Members of the nomination committee are Mr. Chen, Mr. Zhong Shan and Dr. Liu Jie. Mr. Chen is the chairman of the nomination committee.

BOARD DIVERSITY

To enhance the effectiveness of our Board and to maintain the high standard of corporate governance, we have adopted the board diversity policy which sets out the objective and approach to achieve and maintain diversity of our Board. Pursuant to board diversity policy, we seek to achieve board diversity by taking into consideration of various factors, including but not limited to professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service.

Our Directors have a balanced mix of knowledge, skills and experience, including the areas of sales, accounting, business management, economics, technology and healthcare industries. They obtained academic degrees in various majors, including economics, business administration,

DIRECTORS AND SENIOR MANAGEMENT

engineering, law and medicine. We have three independent non-executive Directors with different industry backgrounds, representing one-third of the members of our Board. Furthermore, our Board has a wide range of age, ranging from 42 years old to 55 years old.

We recognize that the gender diversity at the Board level can be improved given its current composition of all male Directors. Our nomination committee will use its best efforts to identify and recommend female candidates to the Board for its consideration to appoint as a Director within two years. While we recognize that any Board appointment will be based on meritocracy and candidates will be considered against objective criteria having due regard for the benefits of diversity on the Board, we will strive to enhance female representation and achieve an appropriate balance of gender diversity with reference to stakeholders' expectation and international and local recommendation best practices, with the ultimate goal of bringing our Board to gender parity. We will also ensure that there is gender diversity when recruiting staff at mid to senior level and we are committed to provide career development opportunities for female staff so that we will have a pipeline of female senior management and potential successors to our Board within two years' time.

Our Nomination Committee is responsible for ensuring the diversity of our Board members and compliance with relevant codes governing board diversity under the Corporate Governance Code contained in Appendix 14 to the Listing Rules. Our Nomination Committee will review the board diversity policy and our diversity profile (including gender balance) from time to time to ensure its continued effectiveness. We will also disclose in our corporate governance report about the implementation of the board diversity policy on an annual basis.

We are also committed to adopting similar approach to promote diversity, including but not limited to gender diversity, at all other levels of our Company from the Board downwards to enhance the effectiveness of our corporate governance as a whole.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of remuneration our Directors have received (including fees, salaries, contributions to pension schemes, share-based payments, discretionary bonuses, housing and other allowances and other benefits in kind) for each of the years ended December 31, 2016, 2017, 2018 and 2019 was approximately RMB1.0 million, RMB1.1 million, RMB3.7 million and RMB7.6 million, respectively.

The aggregate amount of fees, salaries, contributions to pension schemes, share-based payments, discretionary bonuses, housing and other allowances and other benefits in kind paid to the five highest paid individuals of our Company, including Directors, during each of the years ended December 31, 2016, 2017, 2018 and 2019, was approximately RMB3.1 million, RMB3.2 million, RMB7.8 million and RMB31.4 million, respectively.

Under the arrangements currently in force, the aggregate amount of remuneration, excluding share-based payments and discretionary bonuses, payable to our Directors for the year ending December 31, 2020 is estimated to be approximately RMB5.8 million.

DIRECTORS AND SENIOR MANAGEMENT

No remuneration was paid by us to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the years ended December 31, 2016, 2017, 2018 and 2019. Further, none of our Directors had waived any remuneration during the same period.

Save as disclosed above, no other payments have been made or are payable in respect of each of the years ended December 31, 2016, 2017, 2018 and 2019 by the Group to the Directors.

Our Board will review and determine the remuneration and compensation packages of our Directors and senior management which, following the Listing, will receive recommendation from the Remuneration Committee which will take into account salaries paid by comparable companies, time commitment and responsibilities of the Directors and performance of our Group.

COMPLIANCE ADVISER

We have appointed Guotai Junan Capital Limited as our compliance adviser (the “**Compliance Adviser**”) upon listing of our Shares on the Stock Exchange in compliance with Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the Compliance Adviser will provide advice to us when consulted by us in the following circumstances:

- before the publication of any announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where its business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares of our Company.

The term of the appointment shall commence on the Listing Date and end on the date on which our Company distributes our annual report in respect of our financial results for the first full financial year commencing after the Listing Date. This appointment may be subject to extension by mutual agreement.

CORPORATE GOVERNANCE CODE

Mr. Chen is our chairman and chief executive officer. With extensive experience in the vaping industry, Mr. Chen is responsible for overseeing the overall management and business operation, coordinating board affairs, formulating strategies and operational plans, and making major business decisions of our Group. Our Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of our Group. The balance of power and authority is ensured by the operation of the senior management and our Board, which comprises

DIRECTORS AND SENIOR MANAGEMENT

experience and high-caliber individuals. Our Board currently comprises three executive Directors (including Mr. Chen), one non-executive Director and three independent non-executive Directors and therefore has a fairly strong independence element in its composition.

Save as disclosed above, we are in compliance with all code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

SHARE OPTION SCHEMES

In order to incentivize our Directors, senior management and other employees for their contribution to our Group and to attract and retain suitable personnel to our Group, we adopted the Pre-IPO Share Option Scheme and conditionally adopted the Post-IPO Share Option Scheme, pursuant to which we may grant options to eligible Directors, senior management and employees of our Group. Please see the paragraph headed “D. Share Option Schemes” in Appendix IV to this prospectus for further details.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Capitalization Issue and the Global Offering (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 following persons will have an interest or a short position in Shares or underlying Shares of our Company which will be required to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Division 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

		Immediately after the Capitalization Issue and the Global Offering (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)	
Name of Shareholder	Nature of interest	Number of Shares	Approximate percentage of interest in our Company
BVI 1	Beneficial Owner	1,989,705,600	34.64%
Mr. Chen ⁽¹⁾	Interest in controlled corporation/interest of concert party	2,291,908,000	39.90%
Ms. Zhao Zihan ⁽²⁾	Interest of spouse	2,291,908,000	39.90%
BVI 2	Beneficial Owner	302,202,400	5.26%
Mr. Xiong ⁽³⁾	Interest in controlled corporation/interest of concert party	2,291,908,000	39.90%
Ms. Han Xiao ⁽⁴⁾	Interest of spouse	2,291,908,000	39.90%
EVE BVI	Beneficial Owner	1,901,520,000	33.11%
EVE Asia	Interest in controlled corporation	1,901,520,000	33.11%
EVE Energy	Interest in controlled corporation	1,901,520,000	33.11%

SUBSTANTIAL SHAREHOLDERS

Notes:

- (1) BVI 1 is beneficially and wholly owned by Mr. Chen. Mr. Chen is therefore deemed to be interested in the Shares held by BVI 1 under the SFO. Further, by virtue of the Concert Party Agreement, Mr. Chen and Mr. Xiong are deemed to be interested in each other's interest in the Shares.
- (2) Ms. Zhao Zihan (趙紫涵) is the spouse of Mr. Chen. Under the SFO, Ms. Zhao Zihan (趙紫涵) is deemed to be interested in the same number of shares in which Mr. Chen is interested.
- (3) BVI 2 is beneficially and wholly owned by Mr. Xiong. Mr. Xiong is therefore deemed to be interested in the Shares held by BVI 2 under the SFO. Further, by virtue of the Concert Party Agreement, Mr. Chen and Mr. Xiong are deemed to be interested in each other's interest in the Shares.
- (4) Ms. Han Xiao (韓笑) is the spouse of Mr. Xiong. Under the SFO, Ms. Han Xiao (韓笑) is deemed to be interested in the same number of shares in which Mr. Xiong is interested.

Save as disclosed above and in the section headed “C. Further Information about Our Directors and Substantial Shareholders — 1. Disclosure of Interests” in Appendix IV to this prospectus, our Directors are not aware of any person who will, immediately following the completion of the Capitalization Issue and the Global Offering (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), have an interest or a short position in the Shares or underlying Shares which will be required to be disclosed to our Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other Member of the Group.

SHARE CAPITAL

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized share capital of our Company as of the Latest Practicable Date and immediately following the completion of the Capitalization Issue and the Global Offering (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):

Authorized share capital

As of the Latest Practicable Date:

<u>Number of Shares</u>	<u>Description of Shares</u>	<u>Total Nominal Value (US\$)</u>
100,000,000	Series A-1 Preferred Shares of US\$0.01 each	1,000,000
200,000,000	Series A-2 Preferred Shares of US\$0.01 each	2,000,000
<u>9,700,000,000</u>	ordinary shares of US\$0.01 each	<u>97,000,000</u>
<u>10,000,000,000</u>	Total	<u>100,000,000</u>

Immediately following the completion of the Capitalization Issue and the Global Offering (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):

<u>Number of Shares</u>	<u>Description of Shares</u>	<u>Total Nominal Value (US\$)</u>
10,000,000,000	ordinary shares of US\$0.01 each	100,000,000

The following is a description of the issued share capital of the Company in issue and to be issued as fully paid or credited as fully paid prior to and following the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised

SHARE CAPITAL

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):

Issued share capital

As of the Latest Practicable Date:

Number of Shares	Description of Shares	Total Nominal Value (US\$)
62,462.031	ordinary shares of US\$0.01 each	624.62031
837.969	Series A-1 Preferred Shares of US\$0.01 each	8.37969
<u>1,314.509</u>	Series A-2 Preferred Shares of US\$0.01 each	<u>13.14509</u>
<u>64,614.509</u>	Total	<u>646.14509</u>

Immediately following the completion of the Capitalization Issue and the Global Offering (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):

Number of Shares	Description of Shares	Nominal Value (US\$)	Total Nominal Value (US\$)
64,614.509	ordinary shares in issue	0.01	646.14509
5,169,096,105.491	ordinary shares to be issued pursuant to the Capitalization Issue	0.01	51,690,961.05491
<u>574,352,000</u>	ordinary shares to be issued pursuant to the Global Offering	0.01	<u>5,743,520</u>
<u>5,743,512,720</u>	Total		<u>57,435,127.2</u>

SHARE CAPITAL

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the Shares are issued pursuant to the Global Offering. The above does not take into account any Shares which may be issued upon the exercise of the Over-allotment Option and the Options granted under the Pre-IPO Share Option Scheme or any Options which may be granted under the Post-IPO Share Option Scheme, or any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

RANKING

The Offer Shares are ordinary shares in the share capital of our Company and rank equally with all ordinary shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the ordinary shares in respect of a record date which falls after the date of this prospectus (other than the Capitalization Issue).

CAPITALIZATION ISSUE

Pursuant to the resolutions of our Shareholders passed on June 15, 2020, subject to and conditional upon the share premium account of our Company being credited as a result of the issue of Offer Shares pursuant to the Global Offering, our Directors were authorized to allot and issue a total of 5,169,096,105.491 Shares credited as fully paid at par to the holders of Shares whose names are entered on the principal register of members of the Company maintained in the Cayman Islands prior to the Capitalization Issue (or as they may direct) in proportion to their respective shareholdings by way of capitalization of the sum of approximately US\$51,690,961.06 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares.

CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS AND CLASS MEETINGS ARE REQUIRED

Pursuant to the Cayman Companies Law and the terms of our Memorandum and Articles of Association, our Company may from time to time by ordinary resolution of shareholders (i) increase its capital; (ii) consolidate and divide its Shares into Shares of larger amount; (iii) divide its Shares into several classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may, subject to the provisions of the Cayman Companies Law, reduce its capital or capital redemption reserve by special resolution of shareholders. For details, please see “2. Articles of Association — (a) Shares — (iii) Alteration of capital” in Appendix III.

Pursuant to the Cayman Companies Law and the terms of our Memorandum and Articles of Association, all or any of the special rights attached to the Share or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special

SHARE CAPITAL

resolution passed at a separate general meeting of the holders of the Shares of that class. For details, please see “2. Articles of Association — (a) Shares — (ii) Variation of rights of existing shares or classes of shares” in Appendix III.

Further, our Company will also hold general meetings from time to time as may be required under the Articles of Association, a summary of which is set out in the section headed “Summary of the Constitution of our Company and Cayman Companies Law” in Appendix III to this prospectus.

GENERAL MANDATE TO ISSUE AND REPURCHASE SHARES

Subject to the conditions stated in “Structure of the Global Offering — Conditions of the Hong Kong Public Offering,” our Directors have been granted general unconditional mandates to issue and repurchase our Shares.

For further details of these general mandate, please see the section headed “A. Further Information About Our Group — 3. Resolutions in Writing of the Shareholders of Our Company Passed on June 15, 2020” in Appendix IV to this prospectus.

SHARE OPTION SCHEME

We have adopted the Pre-IPO Share Option Scheme and conditionally adopted the Post-IPO Share Option Scheme, pursuant to which we have granted the Pre-IPO Share Options and may grant Options under the Post-IPO Share Option Scheme to eligible directors, officers and employees of our Group. The principle terms of the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme are summarized in the section headed “D. Share Option Schemes” in Appendix IV to this prospectus.

FINANCIAL INFORMATION

You should read the following discussion and analysis of our financial conditions and results of operations in conjunction with our consolidated financial statements as of and for each of the years ended December 31, 2016, 2017, 2018 and 2019, and the accompanying notes included in the Accountants' Report set out in Appendix I to this prospectus. The Accountants' Report has been prepared in accordance with HKFRSs. Potential investors should read the Accountants' Report set out in Appendix I to this prospectus in its entirety and not rely merely on the information contained in this section. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, see "Risk Factors."

OVERVIEW

We are a global leader in offering vaping technology solutions, including manufacturing vaping devices and vaping components for HNB products on an ODM basis, with advanced R&D technology, strong manufacturing capacity, wide-spectrum product portfolio and diverse customer base. According to Frost & Sullivan, we were the world's largest vaping device manufacturer in terms of revenue, accounting for 16.5% of the total market share, in 2019. Through our innovative and pioneering vaping technology solutions, we operate two principal business segments: (i) research, design and manufacturing of closed system vaping devices and vaping components for a number of global leading tobacco companies and independent vaping companies, such as Japan Tobacco, British American Tobacco, Reynolds Asia-Pacific, RELX and NJOY, and (ii) research, design, manufacturing and sale of self-branded open system vaping devices, or APV, for retail clients.

Our strong R&D capabilities are critical to the building and maintaining of our market leading position. We not only focus on scientific research but also its practical application to our product. Our R&D platform consists of three separate departments, namely the basic research centers, the technology center and the technology industrial center, each focusing on different aspects of the research areas — from basic research exploring and advancing the fundamental knowledge and generating new ideas, to applying scientific theories to conduct new technology development and project incubation, and further to the application and testing of such technology for the mass production of our products. With a comprehensive R&D platform, we are able to further build and market our technology brand. We introduced our first generation of heating technology in 2016, and further launched its second generation "FEELM," which combines metal films with ceramic conductors to achieve improvements in material and structural science. In September 2018, "FEELM" won the "Golden Leaf Award" from the Tobacco Reporter and Vapor Voice Magazine. In addition, in October 2019, we became the only company since 2013 among the top five vaping device manufacturers in terms of revenue in 2018 to be awarded the "China Patent Excellence Award" by the National Intellectual Property Administration, PRC for our patent relating to the manufacturing technique and application of porous ceramic. The "China Patent Excellence Award" is one of China's most prestigious awards for patents. The selection criteria for the award include patent quality, technology advancement, application and protection measures, social benefits as well as development prospects. In November 2019, we also received the "Laboratory Accreditation

FINANCIAL INFORMATION

Certificate” from the China National Accreditation Service for Conformity Assessment for the safety and quality of our laboratories. The scope of the accreditation encompasses our laboratories’ ability to conduct chemical analysis, physical performance testing, and product quality testing, among others. Our ability to build up our own technology brands serves as an entry barrier to other competitors and also helps maintain our leading position in the vaping industry.

We take into consideration the practicability of future mass production and possible solutions to increase production efficiency and profitability during our R&D process. Therefore, we are able to turn our R&D results into innovative and diversified vaping devices. As one of the earliest vaping technology solution providers in China, we are known for our integrated production system and well-established supply chain management through years of experience. In addition, we have developed a worldwide customer network consisting of global leading tobacco companies and independent vaping companies. A majority of our sales are exported to more than 50 overseas countries, primarily including the U.S., Japan and European countries. Our strong relationships with our key customers not only enable us to maintain our existing business scale but also offer development opportunities in different products and applications. We have expanded our product offerings to capture different and future market opportunities, from closed system vaping devices to self-branded open system APV. By having an edge on developing and integrating innovative technologies, we are able to achieve improvements in product technology, structure and design so as to provide vaping devices that meet our customers’ demands.

Benefiting from the above advantages, we had experienced significant revenue and profit growth during the Track Record Period. Our revenue increased from RMB707.3 million in 2016 to RMB7,610.6 million in 2019, representing a CAGR of 120.8%. Our profit and total comprehensive income for the year increased from RMB106.2 million in 2016 to RMB2,173.8 million in 2019, representing a CAGR of 173.5%.

KEY FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We believe that a number of factors directly or indirectly affect our financial conditions and results of operations, including the factors discussed below:

- Changes in the regulatory framework in relation to the vaping industry in our major markets;
- Our relationships with our key customers;
- Management and expansion of our production capacity;
- Our ability to control production costs;
- Our ability to research, develop and commercialize our vaping devices;
- Changes in consumer preferences and spending patterns; and
- Occurrence of geopolitical events and changes.

Changes in the Regulatory Framework in Relation to the Vaping Industry in Our Major Markets

During the Track Record Period, the majority of our revenue was generated from customers located in certain major markets, primarily including the U.S., China, Japan and Europe. In particular, revenue generated from customers located in our largest export market, the U.S., accounted for 50.1%, 42.7%, 40.4% and 21.8% of our total revenue in 2016, 2017, 2018 and 2019, respectively.

Most of our customers are located in overseas markets and a majority of our sales are exported to more than 50 overseas countries. The sales, distribution, exports and manufacturing in our domestic market and the sales, distribution, imports and transshipment of vaping devices in the overseas markets are subject to various laws and regulations in each local market. Furthermore, as the vaping industry is relatively new, relevant laws and regulations in many countries are still evolving and uncertain. Any negative change in the regulatory framework in relation to the vaping industry in our major markets would affect our customers and us. In addition, the compliance with any new laws, rules or regulations may significantly increase our customers' or our operating costs, which may in turn lower our profitability and affect our results of operations. For details, see "Regulatory Overview" and "Risk Factors — Risks Relating to Our Business and Industry — Changes in existing laws and regulations and the imposition of new laws, regulations and any other entry barriers in relation to vaping industry may increase our cost. We could be adversely affected as a result of our sales to customers located in relevant countries or regions that are subject to prohibition laws and regulations promulgated by local authorities."

Our Relationships with Our Key Customers

A majority of our revenue was derived from a limited number of customers. In 2016, 2017, 2018 and 2019, our top five customers accounted for 73.7%, 65.6%, 55.3% and 63.0% of our total revenue, respectively, and our largest customer accounted for 30.5%, 25.4%, 20.7% and 15.7% of our total revenue, respectively. We anticipate that our dependence on a limited number of major customers will continue for the foreseeable future. We cannot assure you that there will not be any unfavorable changes in our business relationships with our customers in the future. In addition, our sales are made on the basis of individual purchase orders, and we are not, for most products, the exclusive supplier for any of our key customers. We cannot assure you that our major customers will continue to purchase our products at current levels or at all in the future. If there is any unfavorable change in our business relationships with any of our major customers, or if any of our major customers significantly reduces its purchase volume or ceases to place purchase orders with us and we are unable to find alternative customers, our business, financial conditions and results of operations may be adversely affected. See "Risk Factors — Risks Relating to Our Business and Industry — We derive a majority of our revenue from our top five customers, and the loss of, or a significant reduction in, sales to any of these customers could materially and adversely affect our business, financial conditions and results of operations."

FINANCIAL INFORMATION

We have developed a worldwide customer network consisting of leading tobacco companies and independent vaping companies. Attributing to our wide range of products that cater to the demands and tastes of our customers and consumers, we have an array of different customers, from top global tobacco companies, such as Japan Tobacco and British-American Tobacco, to companies that specialize in innovating, designing and selling vaping products, such as RELX and NJOY. Since 2015, we have gradually established our business relationships with our top five customers during the Track Record Period. For example, we started to work with Japan Tobacco in 2015 and expanded our reach to other well-known players such as Reynolds Asia-Pacific in 2018. Our strong relationships with our key customers not only enable us to maintain our existing business scale but also offer development opportunities in different products and applications, which play an important role in our future growth.

Management and Expansion of Our Production Capacity

Growth in our revenue and market share and the diversification of our product mix depends to a large extent on our ability to manage and expand our production capacity. As of the Latest Practicable Date, we had most of our specialized and large-scale production bases in Shenzhen and Dongguan, the most developed regions for the supply chain of vaping devices globally. Through our strategically located production bases, we are able to deliver large orders at a lower cost and respond to customer demands in a timely manner. As of the Latest Practicable Date, we were able to produce over 100 million equivalent units for corporate client oriented sales in a month.

During the Track Record Period, in order to ensure sufficient production capacity at all times to meet growing customer demands, capture growth opportunities and increase our market share, we have gradually increased our production capacity and output, and expanded, trained and managed our rapidly growing workforce. Furthermore, in order to further elevate our manufacturing capabilities, we plan to establish new production bases in Jiangmen and Shenzhen, Guangdong province. Our Jiangmen industrial park will be constructed in two phases. With the first phase coming into operation in 2021, we expect to see a decrease in our production cost per equivalent unit and an increase in our capacity by approximately 90 million equivalent units for corporate client oriented sales per month. For the second phase, we expect it to commence operation in around 2023 and to further increase our capacity by approximately 120 million equivalent units for corporate client oriented sales per month. Further, for our Shenzhen industrial park, we expect that it will take around two years from the acquisition of state-owned land use right to the commencement of its operation.

With the large scale of our new production bases, we will be able to fulfill customer demand and the needs of our rapid business growth. We expect to replace most of our leased factories with the new production bases. See “Business — Production — Production Capacity and Utilization Rate,” “Business — Production — Production Expansion Plan” and “Future Plans and Use of Proceeds — Use of Proceeds” for details.

Our Ability to Control Production Costs

Our results of operations have been and will continue to be affected by our ability to control our production costs and expand our production capacity. Our cost of sales mainly includes cost of raw materials, labor cost and production overhead. Cost of raw materials accounted for 75.4%, 75.3%, 73.3% and 71.6% of our total cost of sales in 2016, 2017, 2018 and 2019, respectively. The primary raw materials used in our production include metal components, electronic materials, plastic materials and packaging materials. The prices of raw materials are determined principally by market forces. We do not enter into any hedging contracts in relation to commodity prices. However, we have implemented a number of cost-control measures with respect to our raw material procurement in order to mitigate the potential impact of rising raw material prices. These measures include the implementation of production procedures to monitor the use of raw materials and maintaining long-term cooperative relationships with our key suppliers. In addition, benefiting from our strong R&D technology and expanding customer base, we are able to place large volume orders per equivalent unit, therefore having opportunity to drive prices down.

Our operations are also labor intensive, and cost of skilled labor comprises a considerable portion of our cost of sales. Despite the continuous increases in average wages in the urban areas of China, labor cost as a percentage of our total cost of sales remained relatively stable, accounting for 13.2%, 13.7%, 14.9% and 14.7% in 2016, 2017, 2018 and 2019, respectively. This was attributable to our employees' improved productivity as a result of the implementation of the automatic manufacturing system. We aim to further enhance our cost efficiency and profit margins by enhancing and streamlining our manufacturing process and improving our logistics and information technology systems.

Our Ability to Research, Develop and Commercialize Our Vaping Devices

Our business prospects and our ability to compete in the vaping industry largely depend on our ability to research, develop and commercialize our vaping devices. Leveraging our expertise and core technology accumulated in the years of experience, we strategically focus on the research, design and development of our vaping devices to create new trends in the industry and foster high growth potentials. Over the years, our ability to successfully research, develop and commercialize vaping devices has positively affected our financial conditions and results of operations. See “Business — Research and Development.”

The research, development and commercialization of new products will continue to be an important factor affecting our results of operations and a major driver for our future growth. Our ability to continue to research, develop and commercialize new vaping devices in line with technological progress and market trends depends on our continued investments in research and development. In 2016, 2017, 2018 and 2019, we incurred research and development expenses of RMB14.8 million, RMB61.2 million, RMB106.3 million and RMB277.4 million, respectively, accounting for 2.1%, 3.9%, 3.1% and 3.6% of our total revenue during the respective years. As we plan to continue to invest in product research and development and focus on innovations in order to remain competitive, we expect our research and development costs to increase in the future.

FINANCIAL INFORMATION

Changes in Consumer Preferences and Spending Patterns

The majority of our customers are international tobacco companies and independent vaping companies. Our business and results of operations are indirectly affected by changes in consumer preferences and spending patterns for our customers' products globally. According to Frost & Sullivan, the market size of global vaping device market by revenue at ex-factory price grew rapidly at a CAGR of 29.7% from US\$1.8 billion in 2014 to US\$6.7 billion in 2019, and is expected to further grow at a CAGR of 27.7% to reach US\$22.7 billion by 2024. Therefore, our customers' and our ability to match consumer preference and their spending patterns will greatly affect our market share in this rapidly growing market.

Consumer preferences and spending patterns are affected by, among other factors, reputation and popularity of our customers' brands, rapidly changing trends for vaping devices, consumer preferences and tastes, consumer purchasing power, public health awareness, government policies, general and local economic conditions, urbanization rates and living standards, many of which are beyond our control. Consequently, our success largely depends on our ability as well as our customers' ability to accurately anticipate and identify these factors and take them into account during the product planning and commercialization process. This requires a combination of various strategies, including, timely collection of consumer feedback, accurate analysis and prediction of market trends, strong R&D capability, appropriate inventory management and flexible production capability.

Occurrence of Geopolitical Events and Changes

Our sales to overseas corporate clients and retail clients are subject to various security and customs inspection, tariff and other trade restrictions in our countries or regions of destination as well as at transshipment point. Occurrence of geopolitical events may cause changes to the trade regulation in the countries of destination as well as transshipment point. These import and export controls and trade restrictions can result in delays in the transshipment or delivery of vaping devices, the levying of customs duties, fines or other penalties on exporters or importers, as well as increased tariffs, which may individually or collectively cause material changes in the demand or supply of our products.

In September 2018, the U.S. government released a list of approximately US\$200 billion worth of Chinese products, including vaping devices, that will be subject to additional tariffs, effective from September 24, 2018. Our products that are being exported to the U.S. have been subject to an additional 25% tariff. These products include products being forwarded to the U.S. through Hong Kong since the country of origin for those products is China. Our products exported to the U.S. are still subject to the additional tariff even after the phase one trade deal was signed since the tariff list on which our products are included was not affected by the phase one trade deal. To the best knowledge of our Directors, our revenue from products shipped directly or indirectly to the U.S. amounted to approximately RMB391.5 million, RMB781.3 million, RMB1,797.8 million and RMB3,539.4 million in 2016, 2017, 2018 and 2019, respectively, accounting for approximately 55.4%, 49.9%, 52.4% and 46.5% of our total revenue for the respective years. Although, for our products that are exported to the U.S., our customers are responsible for declaring and paying the

FINANCIAL INFORMATION

tariffs, we have voluntarily lowered prices for some vaping components by approximately 3.3% in October 2018 in support of our customers. As a result, our revenue and gross profit was negatively affected by approximately RMB7.8 million in the two months ended December 31, 2018 and approximately RMB48.5 million in 2019. In particular, revenue and gross profit of vaping components sold to the U.S. would have been RMB227.0 million and RMB117.2 million, respectively, in the two months ended December 31, 2018 and RMB1,422.3 million and RMB735.6 million, respectively, in 2019, but after the price adjustment, our revenue and gross profit of vaping components sold to the U.S. decreased to RMB219.2 million and RMB109.4 million, respectively, in the two months ended December 31, 2018 and RMB1,373.7 million and RMB687.1 million, respectively, in 2019. On January 15, 2020, China and the U.S. signed the phase one trade deal, which will cut U.S. tariffs and boost China's purchases of U.S. products. However, the agreement still left in place tariffs on US\$250 billion worth of Chinese products and our products remained subject to the additional 25% tariff. The U.S. is our largest export market in terms of revenue by the geographic location of customers, accounting for 50.1%, 42.7%, 40.4% and 21.8% of our total revenue in 2016, 2017, 2018 and 2019, respectively. The abovementioned imposition of tariffs by the U.S. government on vaping devices imported from China has adversely affected our revenue, gross profit and gross profit margin during the Track Record Period even as our sales volume to the U.S. did not decrease due to our technologically superior products. Moreover, political conditions of certain regions can be volatile and unstable. Our business operations may be disrupted by local civil unrest, acts of terrorism, acts of war and armed conflict, regional political or military tensions and strained or altered foreign relations in such regions. See "Risk Factors — Risks Relating to Our Business and Industry — Any disruption of our current production facilities could reduce or restrict sales and materially and adversely affect our business, financial conditions and results of operations."

In addition, we undertake certain transactions denominated in foreign currencies, the majority of which is U.S. dollars. The value of U.S. dollars against RMB and other foreign currencies is generally affected by, among others, changes in the worldwide economic and political conditions. Any fluctuation of RMB against U.S. dollars may, to some extent, adversely affect our financial conditions. See "Risk Factors — Risks Relating to Our Business and Industry — We may not successfully mitigate our exposures to foreign exchange and interest rate."

CRITICAL ACCOUNTING POLICIES

For the purpose of preparing and presenting the historical financial information for the Track Record Period, we have consistently applied all HKASs, HKFRSs and amendments issued by the HKICPA that are effective for our accounting period beginning on January 1, 2019 throughout the Track Record Period except that we adopted HKFRS 9 "Financial Instruments" on January 1, 2018 and HKAS 39 "Financial Instruments: Recognition and Measurement" prior to January 1, 2018.

Our management has assessed the effects of adoption of HKFRS 9 on the historical financial information on January 1, 2018. We have applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applying the classification and measurement requirements (including impairment under expected credit loss model) retrospectively to instruments that have not been derecognized as at January 1, 2018 (date of initial application) and not applying the

FINANCIAL INFORMATION

requirements to instruments that have already been derecognized as at January 1, 2018. The adoption of HKFRS 9 on January 1, 2018 does not have any significant impact on our cash flows. Except for the reclassification and re-measurement of certain of our financial assets from (i) loans and receivables which were measured at amortized cost under HKAS 39 to financial assets measured at amortized cost under HKFRS 9 and (ii) financial assets designated at fair value through profit and loss (“FVTPL”) under HKAS 39 to financial assets at FVTPL required by HKFRS 9, our Directors considered that the initial adoption of HKFRS 9 does not result in a significant impact to our financial position and performance. Details of the impact on our adoption of HKFRS 9 are set out in Note 3 to the Accountants’ Report included in Appendix I to this prospectus.

In addition, the adoption of HKFRS 15 “Revenue from Contracts with Customers” does not have significant impact on our financial position and performance compared to the requirements of HKAS 18 “Revenue”. The adoption of HKFRS 16 “Leases” requires our Group to recognize a right-of-use asset and a corresponding liability in respect of all leases unless they qualify for low value or short-term leases, as a result, our consolidated assets and liabilities increased as compared to the requirements of HKAS 17 “Leases” but there are no significant impact on our Group’s consolidated net asset value, financial performance and key ratios.

Those accounting policies which are significant to our results of operations and financial position, and those areas which require critical judgements by the management in applying for our accounting policies are set forth in Note 4 and Note 5, respectively, to the Accountants’ Report set out in Appendix I to this prospectus. The following paragraphs discuss certain significant accounting policies applied in preparing our financial information:

Revenue from contracts with customers

Under HKFRS 15 “Revenue from contracts with customers”, we recognize 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 recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met: (i) the customer simultaneously receives and consumes the benefits provided by the our performance as we perform; (ii) our performance creates or enhances an asset that the customer controls as the we perform; or (iii) our performance does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents our obligation to transfer goods or services to a customer for which we have received consideration (or an amount of consideration is due) from the customer.

Provision of expected credit loss for trade receivables (upon application of HKFRS 9)

Management estimates the amount of provision of expected credit loss for trade receivables that are measured at amortized cost based on the credit risk of the debtors. The provision amount is measured as the carrying amount of trade receivables and the present value of estimated future cash flows with the consideration of expected future credit loss of trade receivables. The average expected credit loss rate is below 5.9% and below 2.8% in 2018 and 2019, respectively. The assessment of the credit risk of the debtors involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment may arise accordingly.

Fair value of Convertible Promissory Notes and convertible preferred shares

We issued Convertible Promissory Notes and convertible preferred shares to a group of Pre-IPO Investors during the Track Record Period as set out in Notes 26 and 27 to the Accountants' Report in Appendix I to this prospectus. The Convertible Promissory Notes and convertible preferred shares were measured at fair value at the end of each reporting period. These financial liabilities were valued by our Directors with reference to valuations carried out by an independent qualified professional valuer not connected to us and which has appropriate qualifications and experience in valuation of similar financial instruments. The fair value of these financial liabilities are established by using valuation techniques as disclosed in Notes 26 and 27 to the Accountants' Report in Appendix I to this prospectus. Valuation techniques are certified by the valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. Valuation models established by the valuer make the maximum use of market inputs and rely as little as possible on our specific data. However, it should be noted that some inputs, such as fair value of the ordinary shares as assessed by our Directors, possibilities under different scenarios such as initial public offerings, liquidation and discount for lack of marketability, require management estimates. Our Directors' estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions change, it might lead to a change in the fair values of the financial liabilities at fair value through profit or loss. The fair values of the Convertible Promissory Notes and convertible preferred shares classified as financial liabilities at fair value through profit or loss as of December 31, 2019 were RMB367.8 million and RMB232.4 million, respectively.

In relation to the fair value assessment of other financial liabilities, our Directors, based on the professional advice received, adopted the following procedures: (i) reviewed the terms of convertible preferred shares and Convertible Promissory Notes agreements; (ii) engaged an independent valuer, provided necessary financial and non-financial information so as to enable the valuer to perform valuation procedures and discussed with the valuer on relevant assumptions; (iii) carefully considered all information especially those non-market related information input, such as fair value of our ordinary shares, possibilities under different scenarios, time to liquidation and discount for lack of marketability, which require management assessments and estimates; and (iv) reviewed the valuation working papers and results prepared by the valuer. Based on the above procedures, our Directors are of the view that the valuation analysis performed by the valuer is fair and reasonable and that our financial statements are properly prepared.

FINANCIAL INFORMATION

Details of the fair value measurement of the level 3 financial liabilities, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value and reconciliation of level 3 measurements are disclosed in Notes 26, 27 and 33 to the Accountants' Report in Appendix I to this prospectus. The reporting accountants' opinion on the historical financial information of the Group during the Track Record Period as a whole is set out on page I-2 of the Accountants' Report in Appendix I to this prospectus.

The Sole Sponsor has conducted, among others, the following due diligence work in respect of the valuation analysis on level 3 financial instruments performed by the valuer: (i) discussed with us to understand the nature and details of the financial instruments; (ii) obtained and reviewed the relevant subscription agreements regarding the financial instruments; (iii) discussed with us and the reporting accountants about the key basis and assumptions for the valuation of the financial instruments; (iv) discussed with the valuer about the assumptions and methodology used in the valuation report; and (v) reviewed the relevant notes in the Accountants' Report as contained in Appendix I to this prospectus and relevant documents provided by the valuer, including the valuation report. Having considered the work done by us and the reporting accountants, and the relevant due diligence work conducted as stated above, nothing has come to the Sole Sponsor's attention that would cause the Sole Sponsor to question the valuation analysis performed by the valuer on the level 3 financial instruments.

RESULTS OF OPERATIONS

The following table sets forth a summary, for the years indicated, of our consolidated results of operations in absolute amounts and as a percentage of our total revenue. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

FINANCIAL INFORMATION

Consolidated Statements of Profit or Loss and Other Comprehensive Income

	Year ended December 31,							
	2016		2017		2018		2019	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Revenue	707,254	100.0	1,565,190	100.0	3,433,709	100.0	7,610,601	100.0
Cost of sales	(535,303)	(75.7)	(1,145,888)	(73.2)	(2,243,204)	(65.3)	(4,258,249)	(56.0)
Gross profit	171,951	24.3	419,302	26.8	1,190,505	34.7	3,352,352	44.0
Other income	18,447	2.6	4,699	0.3	15,706	0.5	48,870	0.6
Other gains and losses	9,373	1.3	(17,818)	(1.1)	3,301	0.1	(22,655)	(0.3)
Impairment loss recognized on trade receivables, net	(2,213)	(0.3)	(1,230)	(0.1)	(4,301)	(0.1)	(4,882)	(0.1)
Distribution and selling expenses	(18,673)	(2.6)	(50,611)	(3.2)	(98,729)	(2.9)	(157,713)	(2.1)
Administrative expenses	(33,435)	(4.7)	(63,301)	(4.0)	(122,545)	(3.6)	(327,048)	(4.3)
Research and development expenses	(14,819)	(2.1)	(61,159)	(3.9)	(106,315)	(3.1)	(277,401)	(3.6)
Finance costs	(984)	(0.1)	(3,298)	(0.2)	(8,184)	(0.2)	(18,173)	(0.2)
Listing expenses	—	—	—	—	(808)	(0.0)	(26,299)	(0.3)
Profit before tax	129,647	18.3	226,584	14.5	868,630	25.3	2,567,051	33.7
Income tax expense	(23,447)	(3.3)	(37,604)	(2.4)	(134,678)	(3.9)	(393,262)	(5.2)
Profit and total comprehensive income for the year	106,200	15.0	188,980	12.1	733,952	21.4	2,173,789	28.6
Earnings per share								
Basic (RMB cents)	2.12	—	3.73	—	14.49	—	43.03	—
Diluted (RMB cents)	N/A	N/A	N/A	N/A	N/A	N/A	42.75	—
Non-HKFRSs Measure								
Adjusted net profit⁽¹⁾	106,200	15.0	188,980	12.1	734,760	21.4	2,265,391	29.8

Note:

- (1) We derive adjusted net profit from profit and total comprehensive income for the year by adding back listing expenses, share-based payment expenses, loss on fair value changes of Convertible Promissory Notes and loss on fair value changes of convertible preferred shares. Please refer to “— Non-HKFRSs Measure.”

NON-HKFRSs MEASURE

To supplement our consolidated statements of profit or loss and other comprehensive income which are presented in accordance with HKFRSs, we also use adjusted net profit as an additional financial measure. We present this financial measure because it is used by our management to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of the performance of our business. We believe that this non-HKFRSs measure provides

FINANCIAL INFORMATION

additional information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

Adjusted Net Profit

We derive adjusted net profit from profit and total comprehensive income for the year by adding back listing expenses, share-based payment expenses, loss on fair value changes of Convertible Promissory Notes and loss on fair value changes of convertible preferred shares. Our management considers that the listing expenses, share-based payment expenses and loss on fair value changes of convertible preferred shares will not recur after the Listing since listing expenses and share-based payment expenses are one-off expenses relating to our Listing and pre-IPO process, and the convertible preferred shares, including those converted pursuant to the Convertible Promissory Notes, will be reclassified and re-designated to our ordinary shares prior to the completion of the Capitalization Issue and Global Offering. In addition, our management considers the loss on fair value changes of Convertible Promissory Notes and loss on fair value changes of convertible preferred shares to be non-cash items. Due to the non-recurring and non-cash nature of the abovementioned items, our management does not track such items as key operating or financial metric internally when reviewing our performance since these items do not relate to our daily operation. Therefore, by eliminating the impacts of such items in the calculation of adjusted net profit, this measure could better reflect our underlying operating performance and could better facilitate the comparison of operating performance from year to year.

However, the term of adjusted net profit is not defined under HKFRSs. Item excluded from adjusted net profit is significant component in understanding and assessing our operating and financial performance. In light of the foregoing limitations for this non-HKFRSs measure, when assessing our operating and financial performance, you should not consider adjusted net profit in isolation or as a substitute for our profit and total comprehensive income for the year, operating profit or any other operating performance measure that is calculated in accordance with HKFRSs. In addition, because this non-HKFRSs measure may not be calculated in the same manner by all companies, it may not be comparable to other similar titled measures used by other companies.

FINANCIAL INFORMATION

The following table reconciles our adjusted net profit for the years presented to the most directly comparable financial measure calculated and presented in accordance with HKFRSs, which is profit and total comprehensive income for the years indicated:

	Year ended December 31,			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Profit and total comprehensive income for the year	106,200	188,980	733,952	2,173,789
Listing expenses	—	—	808	26,299
Share-based payment expenses	—	—	—	61,268
Loss on fair value changes of Convertible Promissory Notes	—	—	—	3,635
Loss on fair value changes of convertible preferred shares	—	—	—	400
Adjusted net profit.	106,200	188,980	734,760	2,265,391

PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND COMPREHENSIVE INCOME

Revenue

Our revenue represents the amounts received and receivable from the sales of vaping devices and vaping components to corporate clients and sales of self-branded APV to retail clients, net of discounts and sales related taxes during the Track Record Period.

Our revenue increased significantly by 121.3% from RMB707.3 million in 2016 to RMB1,565.2 million in 2017, and further by 119.4% to RMB3,433.7 million in 2018, primarily due to (i) the increase in our sales benefited from new product offerings introduced by our corporate clients, and (ii) a broader corporate client and self-branded APV distributor base. Our revenue increased by 121.6% from RMB3,433.7 million in 2018 to RMB7,610.6 million in 2019, primarily due to an increase in the orders we received from our existing and new corporate clients for vaping devices with our ceramic heating technology, which received positive market feedback.

In sum, the significant growth of our revenue was the combined result of multiple factors. The global vaping device market grew from US\$3.1 billion in 2016 to US\$6.7 billion in 2019, representing an increase of 116.1%, and is expected to continue increasing in the future. Such market growth has been mainly a result of technological advancement, which has improved vaping experiences, increased functionality and enhanced safety, as well as consumers' increased familiarity with and access to information regarding vaping devices. The rapidly growing market generates more purchase demands from our corporate clients and distributors, who in turn placed more orders with us. For example, the revenue derived from one of our top five customers, Customer A, increased from RMB215.9 million in 2016 to RMB959.7 million in 2019, representing an increase of 344.5%. In addition, due to our well-perceived industry reputation and award-

FINANCIAL INFORMATION

winning heating technology, we were able to attract new customers who are well-known industry players. See “Industry Overview — Vaping Device Market Overview” and “Business — Sales and Distribution — Our Customers.”

Revenue by business segment

The following table sets forth a breakdown of our revenue by business segment, each expressed as an absolute amount and as a percentage of our total revenue, for the years indicated.

	Year ended December 31,							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Corporate client oriented sales	509,978	72.1	1,003,696	64.1	2,491,990	72.6	6,568,661	86.3
— Vaping devices	503,233	71.1	691,644	44.2	1,124,168	32.8	4,477,005	58.8
— With ceramic heating technology	—	—	—	—	415,171	12.1	3,594,713	47.2
— Without ceramic heating technology	503,233	71.1	691,644	44.2	708,997	20.7	882,292	11.6
— Vaping components	6,745	1.0	312,052	19.9	1,367,822	39.8	2,091,656	27.5
Retail client oriented sales	197,276	27.9	561,494	35.9	941,719	27.4	1,041,940	13.7
Total	707,254	100.0	1,565,190	100.0	3,433,709	100.0	7,610,601	100.0

Revenue generated from corporate client oriented sales increased by 96.8% from RMB510.0 million in 2016 to RMB1,003.7 million in 2017, and further by 148.3% to RMB2,492.0 million in 2018, primarily due to (i) the increase in our sales benefited from new product offerings introduced by our corporate clients, (ii) a broader corporate client base, such as the addition of Reynolds Asia-Pacific as a new corporate client in 2018, and (iii) growing market demands for our vaping components with ceramic heating technology.

Revenue generated from corporate client oriented sales increased by 163.6% from RMB2,492.0 million in 2018 to RMB6,568.7 million in 2019, primarily due to an increase in the orders we received from our existing and new corporate clients for vaping devices with our ceramic heating technology, which received positive market feedback. For example, we started to work with RELX in January 2018 and have gradually expanded our cooperation with them.

Revenue generated from retail client oriented sales increased by 184.6% from RMB197.3 million in 2016 to RMB561.5 million in 2017, and further by 67.7% to RMB941.7 million in 2018, primarily due to an increase in our self-branded APV distributor base and the growing market demands for our self-branded APV driven by our R&D efforts.

Revenue generated from retail client oriented sales increased by 10.6% from RMB941.7 million in 2018 to RMB1,041.9 million in 2019, primarily due to our self-branded APV gaining more market awareness and the marketing efforts of our new self-branded APV.

As to our revenue composition, revenue generated from corporate client oriented sales amounted to 72.1%, 64.1%, 72.6% and 86.3% in 2016, 2017, 2018 and 2019, respectively. On the other hand, revenue generated from retail client oriented sales amounted to 27.9%, 35.9%, 27.4% and 13.7% in 2016, 2017, 2018 and 2019, respectively.

FINANCIAL INFORMATION

Revenue by geographic location

The following table sets out the breakdown of our revenue by geographic locations of our customers' place of incorporation, each expressed as an absolute amount and as a percentage of our total revenue, for the years indicated.

	Year ended December 31,							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
U.S. ⁽¹⁾	354,613	50.1	668,766	42.7	1,386,966	40.4	1,661,981	21.8
China	120,203	17.0	187,115	12.0	407,686	11.9	1,588,703	20.9
Hong Kong ⁽²⁾	60,597	8.6	240,255	15.3	546,987	15.9	2,010,165	26.4
Japan	66	—*	153,749	9.8	443,356	12.9	605,003	7.9
Switzerland	127,156	18.0	110,860	7.2	174,520	5.1	606,957	8.0
U.K.	8,138	1.2	22,519	1.4	66,264	1.9	508,675	6.7
France	8,567	1.2	62,587	4.0	93,646	2.7	146,291	1.9
Israel	7,667	1.1	6,365	0.4	342	—*	13,113	0.2
Korea	122	—*	4,528	0.3	22,651	0.7	97,035	1.3
Malaysia	1,223	0.2	3,685	0.2	2,690	0.1	44,956	0.6
Canada	1,042	0.1	5,795	0.4	15,774	0.5	33,030	0.4
Germany	1,154	0.2	7,823	0.5	29,244	0.9	16,916	0.2
Others ⁽³⁾	16,706	2.3	91,143	5.8	243,583	7.0	277,776	3.7
Total	<u>707,254</u>	<u>100.0</u>	<u>1,565,190</u>	<u>100.0</u>	<u>3,433,709</u>	<u>100.0</u>	<u>7,610,601</u>	<u>100.0</u>

* less than 0.1%

Notes:

- (1) To the best knowledge of our Directors, our revenue from products shipped directly or indirectly to the U.S. amounted to approximately RMB391.5 million, RMB781.3 million, RMB1,797.8 million and RMB3,539.4 million in 2016, 2017, 2018 and 2019, respectively, accounting for approximately 55.4%, 49.9%, 52.4% and 46.5% of our total revenue for the respective years.
- (2) Revenue generated from Hong Kong is on re-export or transshipment basis and, to our best knowledge, none of our products are distributed or sold in Hong Kong. Our customers incorporated in Hong Kong are mainly responsible for transshipment or trading companies for our overseas customers. Based on the revenue derived from customers incorporated in Hong Kong in 2019, approximately 93.4% of the products were forwarded to the U.S. As for all of the products that are exported through Hong Kong, including products sold to customers incorporated in Hong Kong and in other countries, a majority of them were forwarded to the U.S. and Japan during the Track Record Period.
- (3) None of the countries categorized under others contributed more than 2% of our total revenue of any year during the Track Record Period. Our export sales are on EXW, FOB or FCA basis. To our best knowledge, we were not aware of any countries categorized under others had imposed a total ban on e-cigarettes during the period that we conducted business with customers incorporated in these countries.

FINANCIAL INFORMATION

During the Track Record Period, approximately 80% of our total revenue was generated outside of China, primarily due to the great and increasing demands for vaping devices in the overseas markets including the U.S., Japan and Europe. In particular, the U.S. has been our largest export market. Our revenue generated from customers located in the U.S. amounted to RMB354.6 million, RMB668.8 million, RMB1,387.0 million and RMB1,662.0 million, respectively, accounting for 50.1%, 42.7%, 40.4% and 21.8% of our total revenue in 2016, 2017, 2018 and 2019, respectively. The increase in the absolute amount of revenue generated from the U.S. market during the Track Record Period was primarily due to the rapid increase in corporate client oriented sales and the fact that many of our major customers are located in the U.S.

Our revenue generated from customers located in China amounted to RMB120.2 million, RMB187.1 million, RMB407.7 million and RMB1,588.7 million, respectively, accounting for 17.0%, 12.0%, 11.9% and 20.9% of our total revenue in 2016, 2017, 2018 and 2019, respectively. The increase in the absolute amount during the Track Record Period was primarily due to (i) the use of our new ceramic heating technology, which induced steadily increasing demands for our vaping devices, and (ii) an increase in sales of our self-branded APV by our distributors in China.

Our revenue generated from customers located in Hong Kong amounted to RMB60.6 million, RMB240.3 million, RMB547.0 million and RMB2,010.2 million, respectively, accounting for 8.6%, 15.3%, 15.9% and 26.4% of our total revenue in 2016, 2017, 2018 and 2019, respectively. Hong Kong is a significant regional logistics hub that has a large number of flights and is home to one of the world's largest shipping communities. As we ship our products to over 50 countries, having access to such a logistics hub is important. Our customers also benefit from transshipments through Hong Kong, as the high frequency of flights decreases the time to market for the products. The increase in the absolute amount and revenue contribution from customers located in Hong Kong during the Track Record Period was primarily due to (i) the steadily increasing demands of transshipment arrangements through Hong Kong by our customers, particularly SVI Global Tech Limited and Customer H (collectively accounted for 60.9%, 46.8%, 75.1% and 93.4% of revenue generated through Hong Kong transshipment in 2016, 2017, 2018 and 2019, respectively), both of which recorded significant growth during the Track Record Period, and (ii) procurement through Hong Kong trading company by our overseas customers.

Sales volume and average selling prices

For our corporate client oriented sales, our vaping devices consist of (i) cartridges, which include atomizers and e-liquid and (ii) batteries, among which the sales volume of cartridges is the key indicator to evaluate our manufacturing performance. For our retail client oriented sales, our self-branded APV consist of (i) tanks, which include coils and (ii) mods, which include batteries. We use the sales volume of a full set APV as the key indicator to evaluate our manufacturing performance.

FINANCIAL INFORMATION

Set forth below are the sales volume and the average selling prices by product categories for the years indicated:

		Year ended December 31,							
		2016		2017		2018		2019	
		Sales volume ⁽¹⁾	Average selling prices	Sales volume ⁽¹⁾	Average selling prices	Sales volume ⁽¹⁾	Average selling prices	Sales volume ⁽¹⁾	Average selling prices
		'000	RMB/ equivalent unit	'000	RMB/ equivalent unit	'000	RMB/ equivalent unit	'000	RMB/ equivalent unit
Corporate client oriented sales									
— Vaping devices	144,842	3.5	190,626	3.6	198,950	5.7	512,271	8.7	
— Vaping components . .	633	10.7	69,581	4.5	293,900	4.7	280,387	7.5	
Retail client oriented sales .	1,237	159.5	4,753	118.1	8,645	108.9	12,730	81.8	

Note:

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

The per equivalent unit average selling prices of our products are affected by, among other things, the product types, structure, materials used, design and specifications. The average selling prices of our vaping devices under corporate client oriented sales remained relatively stable in 2016 and 2017. In 2018 and 2019, the average selling prices of our vaping devices under corporate client oriented sales increased primarily as a result of the increase in sales of vaping devices equipped with our ceramic heating technology. The average selling prices of our vaping components under corporate client oriented sales decreased from 2016 to 2017 and 2018, primarily because we began to sell vaping components for HNB products in 2017. The lower price of the HNB vaping components brought down the average selling prices of our vaping components under corporate client oriented sales. The increasing trend of the average selling prices of vaping components under corporate client oriented sales in 2019 was mainly because (i) we introduced a new series of HNB products with higher average selling prices, (ii) a change in our product mix, and (iii) an increase in sales of products with our ceramic heating technology. The decreasing trend in the average selling prices of our self-branded APV during the Track Record Period was primarily attributed to the change in our product mix with more smaller sized APV products offered to suit customers' preferences.

The retail prices of our cartridges, which was a major source of revenue for closed system vaping devices in major markets (including the U.S., E.U. and China), ranged from US\$2.8 to US\$7.0 in 2019, and the ex-factory whole sale prices as a percentage of retail prices generally ranged from approximately 20% to 40%. The retail prices of our self-branded APV in 2019 ranged from approximately US\$20 to US\$100, and the ex-factory whole sale prices as a percentage of retail prices generally ranged from approximately 35% to 40%.

FINANCIAL INFORMATION

Cost of Sales

Cost of sales primarily consists of cost of raw materials, labor cost, production overhead and tax and surcharge. The following table sets forth a breakdown of our cost of sales, expressed as an absolute amount and as a percentage of our total cost of sales, for the years indicated.

	Year ended December 31,							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Cost of raw materials	403,459	75.4	863,146	75.3	1,644,252	73.3	3,049,348	71.6
— Metal components	126,941	23.7	320,785	28.0	647,896	28.9	818,719	19.2
— Electronic materials . . .	70,233	13.1	147,883	12.9	331,603	14.8	928,725	21.8
— Plastic materials	21,439	4.0	85,304	7.4	237,942	10.6	675,996	15.9
— Packaging materials . . .	81,952	15.3	109,657	9.6	175,573	7.8	374,886	8.8
— Others	102,894	19.3	199,517	17.4	251,238	11.2	251,022	5.9
Labor cost	70,779	13.2	156,833	13.7	334,096	14.9	625,462	14.7
Production overhead	56,860	10.6	114,035	10.0	239,281	10.7	499,548	11.7
Tax and surcharge	4,205	0.8	11,874	1.0	25,575	1.1	83,891	2.0
Total	535,303	100.0	1,145,888	100.0	2,243,204	100.0	4,258,249	100.0

Our total cost of sales increased by 114.1% from RMB535.3 million in 2016 to RMB1,145.9 million in 2017, by 95.8% to RMB2,243.2 million in 2018, and further by 89.8% to RMB4,258.2 million in 2019. The increases during the Track Record Period were primarily driven by the rapid increase in the sales volumes of our products.

Cost of raw materials, labor cost and production overhead represented a significant portion of our cost of sales. The principal raw materials we use in the production of our products include metal components, electronic materials, plastic materials and packaging materials. Our cost of raw materials amounted to RMB403.5 million, RMB863.1 million, RMB1,644.3 million and RMB3,049.3 million, respectively, representing 75.4%, 75.3%, 73.3% and 71.6% of our total cost of sales in 2016, 2017, 2018 and 2019, respectively.

Our labor cost includes direct employees' salaries, bonuses and benefits. Our labor cost amounted to RMB70.8 million, RMB156.8 million, RMB334.1 million and RMB625.5 million, respectively, representing 13.2%, 13.7%, 14.9% and 14.7% of our total cost of sales in 2016, 2017, 2018 and 2019, respectively.

Our production overhead includes indirect employees' salaries and benefits, utilities charges, consumable used, depreciation and amortization, mold expenses and others. Our production overhead amounted to RMB56.9 million, RMB114.0 million, RMB239.3 million and RMB499.5 million, respectively, representing 10.6%, 10.0%, 10.7% and 11.7% of our total cost of sales in 2016, 2017, 2018 and 2019, respectively.

During the Track Record Period, cost of sales as a percentage of our total revenue gradually decreased, representing 75.7%, 73.2%, 65.3% and 56.0% of our total revenue in 2016, 2017, 2018 and 2019, respectively. Such downward trend shows our ability to control and manage our cost of raw materials, labor cost and production overhead to enhance our profitability.

FINANCIAL INFORMATION

As our contract price is based on our estimated cost plus a markup margin at the time when we provide the fee quote to our customers, any fluctuation in the cost of raw materials and labor cost after such time will affect our profitability. The following table sets forth the sensitivity analysis on the impact of changes in cost of raw materials and labor cost on our cost of sales, gross profit and profit and total comprehensive income for the year during the Track Record Period. The sensitivity analysis below is in line with historical fluctuations of our cost of sales, gross profit and profit and total comprehensive income for the year due to fluctuations of cost of raw materials and labor cost during the Track Record Period.

	Year ended December 31,			
	2016	2017	2018	2019
Change in cost of sales if cost of raw materials increases/decreases by 10% . .	+/-7.5%	+/-7.5%	+/-7.3%	+/-7.2%
Change in gross profit if cost of raw materials decreases/increases by 10% . .	+/-23.5%	+/-20.6%	+/-13.8%	+/-9.1%
Change in profit and total comprehensive income for the year if cost of raw materials decreases/increases by 10% . .	+/-38.0%	+/-45.7%	+/-22.4%	+/-14.0%
Change in cost of sales if labor cost increases/decreases by 10%	+/-1.3%	+/-1.4%	+/-1.5%	+/-1.5%
Change in gross profit if labor cost decreases/increases by 10%	+/-4.1%	+/-3.7%	+/-2.8%	+/-1.9%
Change in profit and total comprehensive income for the year if labor cost decreases/increases by 10%	+/-6.7%	+/-8.3%	+/-4.6%	+/-2.9%

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit was RMB172.0 million, RMB419.3 million, RMB1,190.5 million and RMB3,352.4 million in 2016, 2017, 2018 and 2019, respectively. Our gross profit margin was 24.3%, 26.8%, 34.7% and 44.0% during the respective years.

The following table sets forth the breakdown of gross profit and gross profit margin by business segment for the years indicated.

	Year ended December 31,							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Corporate client oriented sales	104,557	20.5	210,597	21.0	868,652	34.9	2,991,020	45.5
— Vaping devices	102,837	20.4	109,046	15.8	291,705	25.9	2,109,559	47.1
— With ceramic heating technology . .	—	—	—	—	154,388	37.2	1,814,122	50.5
— Without ceramic heating technology	102,837	20.4	109,046	15.8	137,317	19.4	295,437	33.5
— Vaping components	1,720	25.5	101,551	32.5	576,947	42.2	881,461	42.1
Retail client oriented sales	67,394	34.2	208,705	37.2	321,853	34.2	361,332	34.7
Total	171,951	24.3	419,302	26.8	1,190,505	34.7	3,352,352	44.0

FINANCIAL INFORMATION

Our gross profit margin increased from 24.3% in 2016 to 26.8% in 2017, primarily due to the increased revenue contribution from our self-branded APV from 27.9% in 2016 to 35.9% in 2017. Our self-branded APV generally have a higher gross profit margin than products sold to corporate clients. The relatively higher gross profit margin of our self-branded APV was primarily due to a change in our product mix with an increase in sales of our high-margin self-branded APV. Our gross profit margin increased from 26.8% in 2017 to 34.7% in 2018 and further to 44.0% in 2019, primarily due to an increase in the percentage of revenue contribution of high-margin vaping devices equipped with ceramic heating technology out of all vaping devices to corporate clients from nil in 2017 to 36.9% in 2018 and further to 80.3% in 2019.

The gross profit margin for our corporate client oriented sales remained relatively stable at 20.5% in 2016 and 21.0% in 2017, but later increased to 34.9% in 2018, primarily due to (i) the sales of relatively low-margin products to certain customers in 2016 and 2017, and (ii) an increase in growing market demands and sales of high-margin vaping devices to corporate clients in relation to our application of ceramic heating technology. The gross profit margin for our corporate client oriented sales further increased to 45.5% in 2019, primarily due to (i) economies of scale and an increase in market demand for and sales of our high-margin vaping devices as a result of our application of ceramic heating technology, (ii) a decrease in defect rate of such high-margin vaping devices, and (iii) an increase in sales of vaping devices without ceramic heating technology in 2019 that have higher margin due to new technology enhancements.

The gross profit margin for our retail client oriented sales increased from 34.2% in 2016 to 37.2% in 2017, primarily due to a change in our product mix with an increase in the sales of our high-margin self-branded APV. The gross profit margin for the retail client oriented sales decreased from 37.2% in 2017 to 34.2% in 2018, primarily due to an increased tariff imposed by the U.S. government on our self-branded APV distributed to the U.S. The gross profit margin for the retail client oriented sales remained relatively stable at 34.2% in 2018 and 34.7% in 2019.

In sum, during the Track Record Period, with our exclusive advantage in ceramic heating technology through the launch of our first and second generation heating technology, we were able to dominate this niche market without any major competitors and increase our margin for products with such technology. The reason for the growing demand for our high-margin products with ceramic heating technology during the Track Record Period was because our number of customers and products equipped with such technology increased over time and, with the increase in product sales, our customers gradually recognized the advantages of such technology on improving user experience. The demand of these high-margin products further increased as we began to promote “FEELM” as a ceramic heating technology brand in 2018. Moreover, in 2018 and 2019, we were able to procure customers that are large-scale tobacco companies and independent brands. We recorded solid performance for sales of relatively high-margin products to these large companies and brands, which generally experienced relatively high business growth in 2019. Therefore, with an increased revenue contribution from these high-margin products, our gross profit margins have increased during the Track Record Period.

FINANCIAL INFORMATION

Other Income

Our other income represents interest income from bank deposits and rental deposits, income from technical consultation services, government grants, compensation income from customers and others. Our income from technical consultation services represents the income from providing technical support services to our customers. The income from technical consultation services in 2016 and 2017 mainly related to research and development service to our customers. Our government grants primarily include business transformation funding, technical equipment and R&D subsidies, and incentives for expansion and higher productivity.

Our other income amounted to RMB18.4 million, RMB4.7 million, RMB15.7 million and RMB48.9 million in 2016, 2017, 2018 and 2019, respectively.

The following table sets forth the breakdown of the key components of our other income, each expressed as an absolute amount and as a percentage of our total other income, for the years indicated.

	Year ended December 31,							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Interest income from bank deposits .	83	0.4	285	6.1	2,115	13.5	3,117	6.4
Interest income from rental deposits	79	0.4	168	3.6	376	2.4	1,041	2.1
Income from technical consultation services	15,306	83.0	387	8.2	—	—	—	—
Government grants	2,499	13.5	3,202	68.1	4,563	29.1	16,459	33.7
Compensation income from customers ⁽¹⁾	—	—	—	—	7,801	49.7	24,093	49.3
Others ⁽²⁾	480	2.7	657	14.0	851	5.3	4,160	8.5
Total	18,447	100.0	4,699	100.0	15,706	100.0	48,870	100.0

Notes:

- (1) Compensation income from customers in 2018 relates to compensation from a customer for the abrupt termination of its contract with us in December 2018. Compensation income from customers in 2019 includes compensation of RMB17.8 million from the aforementioned customer as well as compensation of RMB6.2 million from other customers for the termination of their respective contracts with us. See “Business — Suppliers and Raw Materials — Customer and Supplier Overlapping.”
- (2) Primarily include cash from discounts and the payment balance with our customers and suppliers.

Other Gains and Losses

Our other gains and losses primarily consist of net foreign exchange gain or loss, net gain arising from financial assets at fair value through profit or loss, disposal or write off of property, plant and equipment, reversal of or allowance on inventories, impairment loss recognized on intangible assets, and others. Our financial assets at fair value through profit or loss is comprised of structured bank deposits, which are low risk short-term investments with no pre-determined or guaranteed return, are principal protected. These financial assets have expected rates of return,

FINANCIAL INFORMATION

depending on the movement of market interest rate at the maturity date. To manage credit risk, we only place bank deposits with reputable banks, purchase principal protected wealth management products with our own funds and make short-term investments less than one year. Reversal of or allowance on inventories and impairment loss recognized on intangible asset are assessed based on the recoverable amounts.

We had other gains of RMB9.4 million and RMB3.3 million in 2016 and 2018, respectively. We also had other losses of RMB17.8 million and RMB22.7 million in 2017 and 2019, respectively.

The following table sets forth the breakdown of the key components of our other gains and losses, each expressed as an absolute amount for the years indicated.

	Year ended December 31,			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Net foreign exchange gain (loss)	9,425	(16,862)	1,703	10,789
Net gain arising on financial assets at fair value through profit or loss	—	502	10,066	6,215
Loss on fair value changes of Convertible Promissory Notes	—	—	—	(3,635)
Loss on fair value changes of convertible preferred shares	—	—	—	(400)
Gain on early termination of lease	—	—	—	725
Loss on disposal/write off of property, plant and equipment	(22)	(26)	(7,794)	(13,909)
Allowance on inventories, net	2	(2,108)	(858)	(22,495)
Impairment loss recognized on intangible assets	—	—	(483)	—
Others	(32)	676	667	55
Total	9,373	(17,818)	3,301	(22,655)

We experienced significant fluctuation in our net foreign exchange gain (loss) during the Track Record Period because more than half of our sales transactions were denominated in U.S. dollars, and there were relatively significant fluctuations in its exchange rate against Renminbi. Net exchange gains or losses primarily arose from appreciation or depreciation of U.S. dollars against Renminbi, as the functional currency of our subsidiaries in the PRC is Renminbi while their export sales to customers were mainly settled in U.S. dollars.

Impairment Loss Recognized on Trade Receivables, Net

Our impairment loss recognized on trade receivables, net relates to provision made based on credit risk. Our impairment loss recognized on trade receivables, net amounted to RMB2.2 million, RMB1.2 million, RMB4.3 million and RMB4.9 million in 2016, 2017, 2018 and 2019, respectively.

FINANCIAL INFORMATION

Distribution and Selling Expenses

Our distribution and selling expenses primarily consist of employees' salaries and benefits, marketing expenses, travel expenses, delivery fees, consulting service fees and others.

Our employees' salaries and benefits relate to salaries and benefits to our distribution and selling personnel. Our marketing expenses primarily relate to our marketing and promotion activities corresponding to our rapid business growth. Our travel expenses primarily relate to the attendance of international exhibitions and expos. Our delivery fees primarily relate to product shipment. Our consulting service fees primarily relate to raw material testing fees to third-party consultants.

The following table sets forth the breakdown of the key components of our distribution and selling expenses, each expressed as an absolute amount and as a percentage of our total distribution and selling expenses, for the years indicated.

	Year ended December 31,							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Employees' salaries and benefits . . .	9,169	49.1	28,490	56.3	56,191	56.9	79,761	50.6
Marketing expenses	4,786	25.6	7,422	14.7	16,660	16.9	42,434	26.9
Travel expenses	2,499	13.4	5,999	11.9	5,975	6.1	12,634	8.0
Delivery fees	579	3.1	2,251	4.4	3,469	3.5	5,221	3.3
Consulting service fees	704	3.8	3,307	6.5	6,447	6.5	6,488	4.1
Others ⁽¹⁾	936	5.0	3,142	6.2	9,987	10.1	11,175	7.1
Total	18,673	100.0	50,611	100.0	98,729	100.0	157,713	100.0

Note:

(1) Primarily includes depreciation and amortization, insurance, utilities charges, office expenses, sampling fees, customs duties and others.

Our distribution and selling expenses amounted to RMB18.7 million, RMB50.6 million, RMB98.7 million and RMB157.7 million, representing 2.6%, 3.2%, 2.9% and 2.1% of our total revenue in 2016, 2017, 2018 and 2019, respectively. Our distribution and selling expenses increased as an absolute amount during the Track Record Period, primarily due to (i) the constant growth of our sales driven by our sales and marketing efforts, and (ii) an increase in employees' salaries and benefits resulting from the increased headcounts for distribution and selling personnel and their associated wages.

Administrative Expenses

Our administrative expenses primarily consist of employees' salaries and benefits, office expenses, professional fees, depreciation and amortization and others.

FINANCIAL INFORMATION

The following table sets forth the breakdown of the key components of our administrative expenses, each expressed as an absolute amount and as a percentage of our total administrative expenses, for the years indicated.

	Year ended December 31,							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Employees' salaries and benefits . . .	17,556	52.5	35,450	56.0	68,782	56.1	182,438	55.8
Office expenses	4,675	14.0	10,528	16.6	27,479	22.4	44,697	13.7
Professional fees	1,123	3.4	4,749	7.5	8,749	7.1	42,242	12.9
Depreciation and amortization	3,300	9.9	1,192	1.9	6,577	5.4	13,821	4.2
Others ⁽¹⁾	6,781	20.2	11,382	18.0	10,958	9.0	43,850	13.4
Total	33,435	100.0	63,301	100.0	122,545	100.0	327,048	100.0

Note:

(1) Primarily include security expenses, insurance expenses, vehicle usage fees, gardening fees, communication expenses and others.

Our administrative expenses amounted to RMB33.4 million, RMB63.3 million, RMB122.5 million and RMB327.0 million, representing 4.7%, 4.0%, 3.6% and 4.3% of our total revenue in 2016, 2017, 2018 and 2019, respectively. Our administrative expenses increased as an absolute amount during the Track Record Period primarily due to increases in employees' salaries and benefits and office expenses associated with an increase in the total number of our office and administration employees from 269 in 2018 to 566 in 2019 caused by our business expansion.

Research and Development Expenses

Our research and development expenses primarily consist of employees' salaries and benefits, development costs, depreciation and amortization, rental expenses, utility charges and others.

The following table sets forth the breakdown of the key components of our research and development expenses, each expressed as an absolute amount and as a percentage of our total research and development expenses, for the years indicated.

	Year ended December 31,							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Employees' salaries and benefits . . .	7,137	48.2	37,015	60.5	60,901	57.3	137,108	49.4
Development costs	4,845	32.7	14,655	24.0	34,204	32.2	106,479	38.4
Depreciation and amortization	1,321	8.9	2,828	4.6	2,068	1.9	6,845	2.5
Rental expenses	263	1.8	849	1.4	1,809	1.7	4,035	1.4
Utility charges	136	0.9	342	0.6	957	0.9	2,188	0.8
Others ⁽¹⁾	1,117	7.5	5,470	8.9	6,376	6.0	20,746	7.5
Total	14,819	100.0	61,159	100.0	106,315	100.0	277,401	100.0

Note:

(1) Primarily include travel expenses, training fees, office usage fees, conference fees, gardening fees, transportation fees, courier fees, consulting service fees and others.

FINANCIAL INFORMATION

Our research and development expenses amounted to RMB14.8 million, RMB61.2 million, RMB106.3 million and RMB277.4 million, representing 2.1%, 3.9%, 3.1% and 3.6% of our total revenue in 2016, 2017, 2018 and 2019, respectively. Our research and development expenses increased as an absolute amount during the Track Record Period primarily due to an increase in employees' salaries and benefits resulting from the increased headcounts of research and development personnel, which was the result of our continuous focus on research of key technologies. As of December 31, 2016, 2017, 2018 and 2019, our R&D department consisted of 203, 237, 344 and 615 personnel, which included both research personnel and administrative staff, respectively.

Expenditure on research activities is recognized as an expense in the period in which it is incurred. The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets our recognition criteria. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are measured cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately. For details, see Note 4 to the Accountants' Report in Appendix I.

Finance Costs

Our finance costs primarily consist of interest expenses on lease liabilities. Our finance costs amounted to RMB1.0 million, RMB3.3 million, RMB8.2 million and RMB18.2 million in 2016, 2017, 2018 and 2019, respectively.

Income Tax Expenses

Income tax expenses primarily represent our total current and deferred tax expenses under the relevant PRC and Hong Kong income tax rules and regulations. Current income tax consists of PRC enterprise income tax, which is generally assessed at a rate of 25% and paid by our PRC subsidiaries on their taxable income, and Hong Kong profits tax, which is generally assessed at a rate of 16.5%. Smoore Shenzhen, our major operating subsidiary in China, was qualified as a high and new technology enterprise and is entitled to a preferential income tax rate of 15% during the Track Record Period. We will be entitled to this preferential income tax rate as long as we are qualified as a high and new technology enterprise. In 2016, 2017, 2018 and 2019, our effective tax rate was 18.1%, 16.6%, 15.5% and 15.3%, respectively.

Our income tax expenses amounted to RMB23.4 million, RMB37.6 million, RMB134.7 million and RMB393.3 million in 2016, 2017, 2018 and 2019, respectively. During the Track Record Period and up to the Latest Practicable Date, we had fulfilled all of our tax obligations and did not have any unresolved tax disputes.

FINANCIAL INFORMATION

The following table sets forth the components of income tax expense in absolute amounts for the years indicated:

	Year ended December 31,			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Current tax:				
— PRC enterprise income tax	23,291	39,057	137,067	383,727
— Hong Kong profits tax	—	—	—	19,191
	23,291	39,057	137,067	402,918
Under (over) provision in prior years				
— PRC enterprise income tax	294	(393)	141	132
	23,585	38,664	137,208	403,050
Deferred tax	(138)	(1,060)	(2,530)	(9,788)
	<u>23,447</u>	<u>37,604</u>	<u>134,678</u>	<u>393,262</u>

Although our products were exported to the U.S., Japan and other countries during the Track Record Period, we believe that we are not exposed to taxes in these overseas jurisdictions based on the following reasons relating to our business model and supply chain activities:

- (i) our sales to overseas customers were under FOB or similar terms, where the title transfer of the goods occur in China;
- (ii) we did not carry out any marketing activities except for limited visits to obtain market feedbacks and occasional exhibition attendance, during which the relevant personnel only stayed in the destination countries for a very short period of time;
- (iii) the negotiation and closing of sales contracts were performed outside of the overseas countries;
- (iv) we did not have any warehouse or sales agent in the overseas countries; and
- (v) we did not provide any after-sales service in the overseas countries.

FINANCIAL INFORMATION

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

	Year ended December 31,			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Profit before tax	129,647	226,584	868,630	2,567,051
Income tax expense calculated at 15% ⁽¹⁾	19,447	33,988	130,295	385,058
Tax effect of expense not deductible for tax purpose ⁽²⁾	5,575	11,031	16,095	31,342
Tax effect of income not taxable for tax purpose	(1,334)	(3,030)	—	(341)
Utilization of tax losses previously not recognized	—	(782)	—	—
Tax effect of tax losses not recognized	380	—	8	1,624
Effect of different tax rates of subsidiaries operating in the PRC and Hong Kong	(212)	40	(3,196)	1,778
Tax relief related to additional tax deduction on research and development costs incurred ⁽³⁾	(1,085)	(4,311)	(11,330)	(28,212)
Under (over) provision in prior years	294	(393)	141	132
Others	382	1,061	2,665	1,881
	<u>23,447</u>	<u>37,604</u>	<u>134,678</u>	<u>393,262</u>

Notes:

- (1) The PRC enterprise income tax rate of Smoore Shenzhen that accounts for a substantial portion of our operation is 15% for the years ended December 31, 2016, 2017, 2018 and 2019.
- (2) The tax effect of expense not deductible for tax purpose was mainly comprised of (i) provision for social insurance fund and housing provident fund contributions and the relevant penalties, (ii) allowance on inventories and trade receivables, (iii) share-based payments and (iv) listing expenses.
- (3) Pursuant to Caishui [2015] circular No. 119 for the years ended December 31, 2016 and 2017 and Caishui [2018] circular No. 99 for the years ended December 31, 2018 and 2019, Smoore Shenzhen is entitled to additional tax deduction on qualifying research and development expenditures.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATION

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Revenue

Our revenue increased by 121.6% from RMB3,433.7 million in 2018 to RMB7,610.6 million in 2019, primarily due to an increase in the orders we received from our existing and new corporate clients for vaping devices with our ceramic heating technology, which received positive market feedback.

Our revenue generated from corporate client oriented sales increased by 163.6% from RMB2,492.0 million in 2018 to RMB6,568.7 million in 2019, primarily due to an increase in the orders we received from our existing and new corporate clients for vaping devices with our ceramic

FINANCIAL INFORMATION

heating technology, which received positive market feedback. For example, we started to work with RELX in January 2018 and have gradually expanded our cooperation with them. For the same reason, our revenue generated from vaping devices increased significantly by 298.3% from RMB1,124.2 million in 2018 to RMB4,477.0 million in 2019. Further, sales of vaping components increased significantly by 52.9% from RMB1,367.8 million in 2018 to RMB2,091.7 million in 2019, primarily due to the positive market feedback for our vaping components with our ceramic heating technology, which resulted in increased purchases from our large corporate clients.

Our revenue generated from retail client oriented sales increased by 10.6% from RMB941.7 million in 2018 to RMB1,041.9 million in 2019, primarily due to our self-branded APV gaining more market awareness and the marketing efforts of our new self-branded APV.

In sum, the significant growth of our revenue was the combined result of multiple factors. The global vaping device market has experienced rapid growth mainly a result of technological advancement, which has improved vaping experiences, increased functionality and enhanced safety, as well as consumers' increased familiarity with and access to information regarding vaping devices. The rapidly growing market generates more purchase demands from our corporate clients and distributors, who in turn placed more orders with us. In addition, due to our well-perceived industry reputation and award-winning heating technology, we were able to attract new customers who are well-known industry players. For example, our fourth largest customer in 2019, Customer J, was our new client in 2018. In its cooperation with us in 2019, it contributed a revenue of RMB877.6 million, which was equivalent to 11.5% of our total revenue during the same year. See "Industry Overview — Vaping Device Market Overview" and "Business — Sales and Distribution — Our Customers."

Cost of Sales

Our cost of sales increased by 89.8% from RMB2,243.2 million in 2018 to RMB4,258.2 million in 2019, primarily due to the rapid expansion of our sales. Our cost of sales as a percentage of our total revenue decreased from 65.3% in 2018 to 56.0% in 2019, primarily due to our enhanced ability to control and manage our cost of raw materials, labor cost and production overhead to improve our profitability.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 181.6% from RMB1,190.5 million in 2018 to RMB3,352.4 million in 2019. Our gross profit margin increased from 34.7% in 2018 to 44.0% in 2019, primarily due to an increase in the proportion of revenue contribution from our corporate client oriented sales, which include sales of high-margin vaping devices equipped with our ceramic heating technology to corporate clients and sales of products without ceramic heating technology that have higher margin due to new technology enhancements, from 72.6% in 2018 to 86.3% in 2019.

Our gross profit for corporate client oriented sales increased by 244.3% from RMB868.7 million in 2018 to RMB2,991.0 million in 2019. Our gross profit margin for corporate client oriented sales increased from 34.9% in 2018 to 45.5% in 2019, primarily due to (i) economies of

FINANCIAL INFORMATION

scale and an increase in market demand for and sales of our high-margin vaping devices as a result of our application of ceramic heating technology, (ii) a decrease in defect rate of such high-margin vaping devices, and (iii) an increase in sales of products without ceramic heating technology that have higher margin due to new technology enhancements. The reason for the growing demand for our high-margin products with ceramic heating technology was because our number of customers increased. In particular, in 2019, we were able to procure customers that are large-scale tobacco companies and independent brands. We recorded solid performance for sales of relatively high-margin products to these large companies and brands, which generally experienced relatively high business growth in 2019. Moreover, among our corporate client oriented sales, our gross profit for sales of vaping components increased significantly by 52.8% from RMB576.9 million in 2018 to RMB881.5 million in 2019. Our gross profit margin for sales of vaping components remained relatively stable at 42.2% in 2018 and 42.1% in 2019.

Our gross profit for retail client oriented sales increased by 12.3% from RMB321.9 million in 2018 to RMB361.3 million in 2019. Our gross profit margin for retail client oriented sales remained relatively stable at 34.2% in 2018 and 34.7% in 2019.

Other Income

Our other income increased by 211.2% from RMB15.7 million in 2018 to RMB48.9 million in 2019, primarily due to increases in interest income from bank deposits and rental deposits, government grants and compensation income from customers.

Other Gains and Losses

We had other gains of RMB3.3 million in 2018, but incurred other losses of RMB22.7 million in 2019, primarily due to increases in loss on disposal/write off of property, plant and equipment and loss on fair value changes of Convertible Promissory Notes, as well as an increase in allowance on inventories, net. The increase in allowance on inventories was due to an increase in the number of product models, causing an increase in impairment provision for slow-moving products.

Impairment Loss Recognized on Trade Receivables, Net

Our impairment loss recognized on trade receivables, net increased from RMB4.3 million in 2018 to RMB4.9 million in 2019, primarily due to an increase in trade and bills receivables in 2019.

Distribution and Selling Expenses

Our distribution and selling expenses increased by 59.7% from RMB98.7 million in 2018 to RMB157.7 million in 2019, primarily due to (i) an increase in employees' salaries and benefits resulting from the increased headcounts for distribution and selling personnel and their associated wages and (ii) an increase in marketing expenses attributable to the expansion of our sales team and increased spending on marketing activities. Our distribution and selling expenses as a percentage of our total revenue decreased from 2.9% in 2018 to 2.1% in 2019.

FINANCIAL INFORMATION

Administrative Expenses

Our administrative expenses increased by 166.9% from RMB122.5 million in 2018 to RMB327.0 million in 2019, primarily due to increases in (i) employees' salaries and benefits, (ii) office expenses and (iii) professional fees. The increases employees' salaries and benefits as well as office expenses were associated with our business expansion, which led to the increase in the total number of our employees, especially at the management level for our human resources, finance, information technology and legal departments. The increase in professional fees was mainly due to more spending on hiring external professional organizations to provide consultancy services in areas such as human resources management, finance management, strategic planning, etc. Our administrative expenses as a percentage of our total revenue increased from 3.6% in 2018 to 4.3% in 2019.

Research and Development Expenses

Our research and development expenses increased by 160.9% from RMB106.3 million in 2018 to RMB277.4 million in 2019, primarily due to our substantial investment in the R&D of ceramic heating technology, including the establishment of a dedicated research center, as well as an increase in employees' salaries and benefits resulting from the increased headcounts in our R&D department from 344 as of December 31, 2018 to 615 as of December 31, 2019 and their associated wages, which was the result of our continuous focus on research of key technologies. We continued to focus our investments in the R&D field, and as a result, our research and development expenses as a percentage of our total revenue increased from 3.1% in 2018 to 3.6% in 2019.

Finance Costs

Our finance costs increased from RMB8.2 million in 2018 to RMB18.2 million in 2019, primarily due to an increase in interest expenses on lease liabilities, which was mainly the result of the increase in factory leases in 2019. Our interest expense on lease liabilities increased by approximately RMB10.6 million in 2019 as compared with that of 2018.

Profit Before Tax

As a result of the foregoing, our profit before tax increased by 195.5% from RMB868.6 million in 2018 to RMB2,567.1 million in 2019.

Income Tax Expenses

Our income tax expenses increased by 192.0% from RMB134.7 million in 2018 to RMB393.3 million in 2019, primarily due to an increase in the taxable profits in 2019 and the addition of the Hong Kong profits tax. Our effective tax rate was 15.3% in 2019, which is lower than the PRC statutory income tax rate of 25% due to the preferential income tax rate of 15% that we are entitled to.

FINANCIAL INFORMATION

Profit and Total Comprehensive Income for the Year

As a result of the foregoing, our profit and total comprehensive income for the year increased by 196.2% from RMB734.0 million in 2018 to RMB2,173.8 million in 2019. Our net profit margin increased from 21.4% in 2018 to 28.6% in 2019.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenue

Our revenue increased by 119.4% from RMB1,565.2 million in 2017 to RMB3,433.7 million in 2018, primarily due to an increase in the corporate client oriented sales and retail client oriented sales of self-branded APV.

Our revenue generated from corporate client oriented sales increased by 148.3% from RMB1,003.7 million in 2017 to RMB2,492.0 million in 2018, primarily due to an increase in the orders we received from our existing and new corporate clients for vaping devices with our ceramic heating technology, such as the addition of Reynolds Asia-Pacific as a new corporate client in 2018. In particular, among our corporate client oriented sales, our revenue generated from sales of vaping components increased significantly by 338.3% from RMB312.1 million in 2017 to RMB1,367.8 million in 2018, primarily due to an increase in demands for our vaping components.

Our revenue generated from retail client oriented sales increased by 67.7% from RMB561.5 million in 2017 to RMB941.7 million in 2018, primarily due to the growing market demands for our self-branded APV.

In sum, the significant growth of our revenue was the combined result of multiple factors. The global vaping device market grew from US\$4.0 billion in 2017 to US\$5.1 billion in 2018, representing an increase of 27.5%. Such market growth has been mainly a result of technological advancement, which has improved vaping experiences, increased functionality and enhanced safety, as well as consumers' increased familiarity with and access to information regarding vaping devices. The rapidly growing market generates more purchase demands from our corporate clients and distributors, who in turn placed more orders with us. For example, the revenue derived from one of our top five customers, Customer A, increased from RMB397.6 million in 2017 to RMB711.2 million in 2018, representing an increase of 78.8%. In addition, due to our well-perceived industry reputation and award-winning heating technology, we were able to attract new customers who are well-known industry players. For example, our third largest customer in 2018, Customer H, was our new client in 2018. In the first year of its cooperation with us, it contributed a revenue of RMB292.6 million, which was equivalent to 8.5% of our total revenue in 2018. See "Industry Overview — Vaping Device Market Overview" and "Business — Sales and Distribution — Our Customers."

FINANCIAL INFORMATION

Cost of Sales

Our cost of sales increased by 95.8% from RMB1,145.9 million in 2017 to RMB2,243.2 million in 2018, primarily due to increases in cost of raw materials and labor cost, which were in line with our business growth. Our cost of sales as a percentage of our total revenue decreased from 73.2% in 2017 to 65.3% in 2018, primarily due to our ability to control and manage our cost of raw materials, labor cost and production overhead to enhance our profitability.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 183.9% from RMB419.3 million in 2017 to RMB1,190.5 million in 2018. Our gross profit margin increased from 26.8% in 2017 to 34.7% in 2018, primarily due to an increase in the proportion of revenue contribution from corporate client oriented sales, which include sales of high-margin vaping devices equipped with our ceramic heating technology, from 64.1% in 2017 to 72.6% in 2018.

Our gross profit for corporate client oriented sales increased by 312.5% from RMB210.6 million in 2017 to RMB868.7 million in 2018. Our gross profit margin for corporate client oriented sales increased from 21.0% in 2017 to 34.9% in 2018, primarily due to (i) the sales of relatively low-margin products to certain customers in 2016 and 2017, and (ii) an increase in market demand for and sales of high-margin vaping devices as a result of our application of ceramic heating technology. We were able to achieve higher margin with such vaping devices as our ceramic heating technology was more advanced than what was offered by our competitors and was generally well-received by customers. The reason for the growing demand for our high-margin products with ceramic heating technology was because our number of customers increased. In particular, in 2018, we were able to procure customers that are large-scale tobacco companies and independent brands. We recorded solid performance for sales of relatively high-margin products to these large companies and brands. The demand of these high-margin products further increased as we began to promote “FEELM” as a ceramic heating technology brand in 2018. Moreover, among our corporate client oriented sales, our gross profit for sales of vaping components increased significantly by 468.1% from RMB101.6 million in 2017 to RMB576.9 million in 2018. Our gross profit margin for sales of vaping components increased from 32.5% in 2017 to 42.2% in 2018, primarily because, along with the growing market demands for our vaping components, we were able to expand our business in these profitable emerging markets.

Our gross profit for retail client oriented sales increased by 54.2% from RMB208.7 million in 2017 to RMB321.9 million in 2018. Our gross profit margin for retail client oriented sales decreased from 37.2% in 2017 to 34.2% in 2018, primarily due to the tariffs imposed on our products by the U.S. government.

Other Income

Our other income increased by 234.2% from RMB4.7 million in 2017 to RMB15.7 million in 2018, primarily due to increases in interest income from bank deposits and financial assets at fair value through profit or loss as well as compensation income from customers.

FINANCIAL INFORMATION

Other Gains and Losses

We had other losses of RMB17.8 million in 2017 while we had other gains of RMB3.3 million in 2018, primarily because we incurred foreign exchange loss in 2017 and had foreign exchange gain in 2018.

Impairment Loss Recognized on Trade Receivables, Net

Our impairment loss recognized on trade receivables, net increased from RMB1.2 million in 2017 to RMB4.3 million in 2018, primarily due to an increase in trade receivables.

Distribution and Selling Expenses

Our distribution and selling expenses increased by 95.1% from RMB50.6 million in 2017 to RMB98.7 million in 2018, primarily due to an increase in employees' salaries and benefits resulting from the increased headcounts for distribution and selling personnel and their associated wages. Our distribution and selling expenses as a percentage of our total revenue decreased from 3.2% in 2017 to 2.9% in 2018.

Administrative Expenses

Our administrative expenses increased by 93.6% from RMB63.3 million in 2017 to RMB122.5 million in 2018, primarily due to increases in employees' salaries and benefits and office expenses associated with an increase in the total number of our employees caused by our business expansion. Our administrative expenses as a percentage of our total revenue decreased from 4.0% in 2017 to 3.6% in 2018.

Research and Development Expenses

Our research and development expenses increased by 73.8% from RMB61.2 million in 2017 to RMB106.3 million in 2018, primarily due to an increase in employees' salaries and benefits resulting from the increased headcounts in our R&D department from 237 as of December 31, 2017 to 344 as of December 31, 2018 and their associated wages, which was the result of our continuous focus on research of key technologies. Our research and development expenses as a percentage of our total revenue decreased from 3.9% in 2017 to 3.1% in 2018 because a portion of our research and development expenses was capitalized in 2018. To ensure sustainable business growth, we will continue to focus on investing resources in our R&D field.

Finance Costs

Our finance costs increased by 148.2% from RMB3.3 million in 2017 to RMB8.2 million in 2018, primarily due to an increase in interest expenses on lease liabilities.

Profit Before Tax

As a result of the foregoing, our profit before tax increased by 283.4% from RMB226.6 million in 2017 to RMB868.6 million in 2018.

FINANCIAL INFORMATION

Income Tax Expenses

Our income tax expenses increased by 258.1% from RMB37.6 million 2017 to RMB134.7 million in 2018, primarily due to an increase in the taxable profits in 2018. Our effective tax rate was 15.5% in 2018, which is lower than the PRC statutory income tax rate of 25% due to the preferential income tax rate of 15% that we are entitled to as a high and new technology enterprise.

Profit and Total Comprehensive Income for the Year

As a result of the foregoing, our profit and total comprehensive income for the year increased by 288.4% from RMB189.0 million in 2017 to RMB734.0 million in 2018. Our net profit margin increased from 12.1% in 2017 to 21.4% in 2018.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Revenue

Our revenue increased by 121.3% from RMB707.3 million in 2016 to RMB1,565.2 million in 2017, primarily due to an increase in the corporate client oriented sales and retail client oriented sales of self-branded APV.

Our revenue generated from corporate client oriented sales increased by 96.8% from RMB510.0 million in 2016 to RMB1,003.7 million in 2017, primarily due to an increase in sales from customers located in the U.S. and Japan. In particular, among our corporate client oriented sales, our revenue generated from sales of vaping components increased significantly by 4,526.4% from RMB6.7 million in 2016 to RMB312.1 million in 2017, primarily because we started to provide HNB vaping components to Japan Tobacco, a global tobacco company and one of our key customers, in May 2017 to tap into the HNB market.

Our revenue generated from retail client oriented sales increased by 184.6% from RMB197.3 million in 2016 to RMB561.5 million in 2017, primarily due to the growing market demands for our self-branded APV.

In sum, the significant growth of our revenue was the combined result of multiple factors. The global vaping device market grew from US\$3.1 billion in 2016 to US\$4.0 billion in 2017, representing an increase of 29.0%. Such market growth has been mainly a result of technological advancement, which has improved vaping experiences, increased functionality and enhanced safety, as well as consumers' increased familiarity with and access to information regarding vaping devices. The rapidly growing market generates more purchase demands from our corporate clients and distributors, who in turn placed more orders with us. For example, the revenue derived from one of our top five customers, Customer A, increased from RMB215.9 million in 2016 to RMB397.6 million in 2017, representing an increase of 84.2%. In addition, due to our well-perceived industry reputation and award-winning heating technology, we were able to attract new customers who are well-known industry players. See "Industry Overview — Vaping Device Market Overview" and "Business — Sales and Distribution — Our Customers."

FINANCIAL INFORMATION

Cost of sales

Our cost of sales increased by 114.1% from RMB535.3 million in 2016 to RMB1,145.9 million in 2017, primarily due to increases in cost of raw materials and labor cost, which were in line with our business growth. Our cost of sales as a percentage of our total revenue decreased from 75.7% in 2016 to 73.2% in 2017, primarily due to our ability to control and manage our cost of raw materials, labor cost and production overhead to enhance our profitability.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 143.8% from RMB172.0 million in 2016 to RMB419.3 million in 2017. Our gross profit margin increased from 24.3% in 2016 to 26.8% in 2017, primarily due to an increase in the proportion of revenue contribution from self-branded APV, which generally have higher gross profit margin than products sold to corporate clients, from 27.9% in 2016 to 35.9% in 2017.

Our gross profit for corporate client oriented sales increased by 101.4% from RMB104.6 million in 2016 to RMB210.6 million in 2017. Our gross profit margin for corporate client oriented sales remained relatively stable at 20.5% in 2016 and 21.0% in 2017. However, among our corporate client oriented sales, our gross profit margin for sales of vaping devices decreased from 20.4% in 2016 to 15.8% in 2017, primarily because we sold relatively low-margin products to certain customers in 2017. On the other hand, our gross profit for sales of vaping components increased significantly by 5,804.1% from RMB1.7 million in 2016 to RMB101.6 million in 2017. Our gross profit margin for sales of vaping components increased from 25.5% in 2016 to 32.5% in 2017, primarily because (i) we started to work with Japan Tobacco, a global tobacco company and one of our key customers, in May 2017 to tap into the high-margin HNB market, and (ii) we had a relatively low revenue contribution from our high-margin vaping components in 2016 as compared to 2017 since 2016 was the first year we entered such market. Moreover, demand for these high-margin products, which were equipped with ceramic heating technology, grew because our number of customers and products equipped with such technology increased and, with the increase in product sales, our customers gradually recognized the advantages of such technology on improving user experience.

Our gross profit for retail client oriented sales increased by 209.7% from RMB67.4 million in 2016 to RMB208.7 million in 2017. Our gross profit margin for retail client oriented sales increased from 34.2% in 2016 to 37.2% in 2017, primarily due to an increase in the sales of our high-margin self-branded APV. The increase in demand for our high-margin self-branded APV was the result of our market development and branding efforts beginning in 2016, which increased our brand awareness, sales channels and product lines.

Other Income

Our other income decreased by 74.5% from RMB18.4 million in 2016 to RMB4.7 million in 2017, primarily due to a decrease in our income from technical service.

FINANCIAL INFORMATION

Other Gains and Losses

We had other gains of RMB9.4 million in 2016 while we incurred other losses of RMB17.8 million in 2017, primarily because (i) we had foreign exchange gain in 2016 and incurred foreign exchange loss in 2017; and (ii) our allowance on inventories increased in 2017.

Impairment Loss Recognized on Trade Receivables, Net

Our impairment loss recognized on trade receivables, net decreased from RMB2.2 million in 2016 to RMB1.2 million in 2017, primarily due to our enhanced credit control policy.

Distribution and Selling Expenses

Our distribution and selling expenses increased by 171.0% from RMB18.7 million in 2016 to RMB50.6 million in 2017, primarily due to an increase in (i) employees' salaries and benefits resulting from the increased headcounts for distribution and selling personnel and their associated wages. Our distribution and selling expenses as a percentage of our total revenue increased from 2.6% in 2016 to 3.2% in 2017.

Administrative Expenses

Our administrative expenses increased by 89.3% from RMB33.4 million in 2016 to RMB63.3 million in 2017, primarily due to increases in employees' salaries and benefits and office expenses associated with an increase in the total number of our employees caused by our business expansion. Our administrative expenses as a percentage of our total revenue decreased from 4.7% in 2016 to 4.0% in 2017.

Research and Development Expenses

Our research and development expenses increased by 312.7% from RMB14.8 million in 2016 to RMB61.2 million in 2017, primarily due to an increase in employees' salaries and benefits resulting from the increased headcounts in our R&D department from 203 as of December 31, 2016 to 237 as of December 31, 2017 and their associated wages, which was the result of our continuous focus on research of key technologies. Our research and development expenses as a percentage of our total revenue increased from 2.1% in 2016 to 3.9% in 2017 as we continued focus on investing resources in our R&D field.

Finance Costs

Our finance costs increased by 235.2% from RMB1.0 million in 2016 to RMB3.3 million in 2017, primarily due to an increase in interest expenses on lease liabilities.

Profit Before Tax

As a result of the foregoing, our profit before tax increased by 74.8% from RMB129.6 million in 2016 to RMB226.6 million in 2017.

FINANCIAL INFORMATION

Income Tax Expenses

Our income tax expenses increased by 60.4% from RMB23.4 million in 2016 to RMB37.6 million in 2017, primarily due to an increase in the taxable profits in 2017. Our effective tax rate was 16.6% in 2017, which is lower than the PRC statutory income tax rate of 25%.

Profit and Total Comprehensive Income for the Year

As a result of the foregoing, our profit and total comprehensive income for the year increased by 77.9% from RMB106.2 million in 2016 to RMB189.0 million in 2017. Our net profit margin decreased from 15.0% in 2016 to 12.1% in 2017.

ANALYSIS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets forth our consolidated statements of financial position as of the dates indicated.

	As of December 31,			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	89,515	203,163	522,091	886,953
Intangible assets	22,408	12,186	17,361	58,796
Deposits paid for acquisition of property, plant and equipment . . .	3,996	32,324	30,953	148,464
Rental deposits	1,395	3,989	13,715	24,146
Deferred tax assets	<u>315</u>	<u>1,375</u>	<u>4,016</u>	<u>13,804</u>
Total non-current assets	<u>117,629</u>	<u>253,037</u>	<u>588,136</u>	<u>1,132,163</u>
Current assets				
Inventories	127,211	171,343	391,487	548,012
Financial assets at fair value through profit or loss	41,622	93,068	—	—
Trade and bills receivables	108,546	139,389	352,887	659,006
Other receivables, deposits and prepayments	37,187	87,729	139,214	231,328
Restricted bank deposits	—	—	15,564	—
Bank balances and cash	<u>104,387</u>	<u>333,242</u>	<u>941,964</u>	<u>731,394</u>
Total current assets	<u>418,953</u>	<u>824,771</u>	<u>1,841,116</u>	<u>2,169,740</u>

FINANCIAL INFORMATION

	As of December 31,			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Current liabilities				
Trade payables	171,509	368,327	571,179	441,747
Other payables and accrued expenses	41,882	127,635	299,727	572,557
Tax payables	13,092	20,613	112,937	94,288
Contract liabilities	19,290	48,346	208,543	386,003
Lease liabilities.	9,885	21,350	56,079	106,566
Convertible Promissory Notes	—	—	—	367,838
Deferred income	—	—	—	708
Advances drawn on bills receivables discounted with recourse	—	—	—	79,536
Total current liabilities	255,658	586,271	1,248,465	2,049,243
Net current assets	163,295	238,500	592,651	120,497
Total assets less current liabilities	280,924	491,537	1,180,787	1,252,660
Non-current liabilities				
Lease liabilities	20,713	81,086	211,829	282,903
Convertible preferred shares	—	—	—	232,432
Deferred income	—	—	—	2,652
Total non-current liabilities	20,713	81,086	211,829	517,987
Net assets	260,211	410,451	968,958	734,673
Capital and reserves				
Share capital	63,300	63,300	63,300	4
Reserves	196,911	347,151	905,658	734,669
Total equity	260,211	410,451	968,958	734,673

FINANCIAL INFORMATION

Property, Plant and Equipment

Our property, plant and equipment is comprised of right-of-use assets for buildings and land use rights, leasehold improvements, plant and machinery, furniture and fixture, electronic equipment, motor vehicles and construction in progress. Our property, plant and equipment increased from RMB89.5 million as of December 31, 2016 to RMB203.2 million as of December 31, 2017, to RMB522.1 million as of December 31, 2018, and further to RMB887.0 million as of December 31, 2019, primarily due to (i) our expansion of leased manufacturing facilities, amounting to an increase of RMB107.7 million in 2019, (ii) purchase of new production machineries and leasehold improvements, which led to an increase of RMB230.1 million in 2019, (iii) construction of the Jiangmen industrial park in 2019 with amounts of RMB9.1 million, and (iv) purchase of land use right of Jiangmen industrial park with net amounts of RMB54.3 million. See “Business — Strategies — Increase production capacity and operational and production efficiency.”

Intangible Assets

Our intangible assets is comprised of development costs and technology know-how, which are internally generated, as well as softwares, which are acquired from third parties. Our intangible assets decreased from RMB22.4 million in 2016 to RMB12.2 million in 2017 mainly due to the amortization of technology know-how and softwares. Our intangible assets increased from RMB12.2 million in 2017 to RMB17.4 million in 2018, and further to RMB58.8 million in 2019, mainly due to (i) the completion of R&D projects and the patents obtained by us, and (ii) the purchase of softwares.

Deposits Paid for Acquisition of Property, Plant and Equipment

Our deposits paid for acquisition of property, plant and equipment increased from RMB4.0 million in 2016 to RMB32.3 million in 2017 and from RMB31.0 million in 2018 to RMB148.5 million in 2019, mainly because the expansion of our business led us to purchase more property, plant and equipment. Our deposits paid for acquisition of property, plant and equipment decreased from RMB32.3 million in 2017 to RMB31.0 million in 2018, mainly because we settled a number of payments for the acquisition of property, plant and equipment in 2018. For details of our property, plan and equipment, please see “— Property, Plant and Equipment.”

Inventories

Our inventories consist of raw materials, work in progress and finished goods. To minimize the risk of inventory build-up, we review our inventory levels on a monthly basis. Maintaining appropriate inventory levels can help us better plan raw material procurement and deliver our products to meet customer demands in a timely manner without straining our liquidity. The value of our inventories accounted for 30.4%, 20.8%, 21.3% and 25.3% of our total current assets as of December 31, 2016, 2017, 2018 and 2019, respectively.

FINANCIAL INFORMATION

The following table sets forth a summary of our inventory balances as of the dates indicated.

	As of December 31,			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	52,726	70,719	108,160	167,097
Work in progress	47,419	42,132	112,967	153,914
Finished goods	<u>27,066</u>	<u>58,492</u>	<u>170,360</u>	<u>227,001</u>
Total	<u>127,211</u>	<u>171,343</u>	<u>391,487</u>	<u>548,012</u>

Our inventory increased from RMB127.2 million as of December 31, 2016 to RMB171.3 million as of December 31, 2017, primarily due to increases in raw materials and finished goods associated with increased customer orders for our self-branded APV.

Our inventory increased from RMB171.3 million as of December 31, 2017 to RMB391.5 million as of December 31, 2018, primarily due to increases in work in progress and finished goods associated with increased semi-finished and finished products for self-branded APV and new corporate clients.

Our inventory increased from RMB391.5 million as of December 31, 2018 to RMB548.0 million as of December 31, 2019, primarily due to our increased sales revenue in 2019. The increased sales caused us to elevate our production output, which in turn caused us to hold an increased amount of raw materials in our inventories.

As of April 30, 2020, RMB456.2 million, or 83.2% of our inventories as of December 31, 2019, had been used, consumed or sold subsequent to December 31, 2019.

The following table sets forth our inventory turnover days for the years indicated.

	Year ended December 31,			
	2016	2017	2018	2019
Inventory turnover days ⁽¹⁾	74.8	47.5	45.8	40.3

Note:

- (1) Calculated based on the average balance of inventory (after allowance) divided by the cost of sales for the relevant year multiplied by 365 days for the year. Average balance of inventory is calculated as the sum of the beginning balance and ending balance for the relevant year divided by two.

Our inventory turnover days decreased from 74.8 days in 2016 to 47.5 days in 2017, to 45.8 days in 2018, and further to 40.3 days in 2019, primarily due to our ability to sell our products in a rapid speed relating to high demands for our products. We aim to continue to actively manage our inventory turnover days in the future.

FINANCIAL INFORMATION

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined based on the weighted average cost method. The net realizable value of inventories represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. The following table sets forth the movements of our reversal of or allowance for inventories for the years indicated.

	Year ended December 31,			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of the year	99	97	2,205	3,063
(Reversal)/addition	(2)	2,108	858	22,495
End of the year	<u>97</u>	<u>2,205</u>	<u>3,063</u>	<u>25,558</u>

Allowance for inventories relates to raw materials, work in progress and finished goods. As of December 31, 2016, 2017, 2018 and 2019, allowance for inventories totaled RMB0.1 million, RMB2.2 million, RMB3.1 million and RMB25.6 million, respectively, of which (i) nil, RMB0.6 million, RMB0.1 million and RMB4.9 million, respectively, were allowance for raw materials; (ii) nil, RMB1.1 million, RMB1.8 million and RMB15.3 million, respectively, were allowance for work in progress; and (iii) RMB0.1 million, RMB0.5 million, RMB1.2 million and RMB5.4 million, respectively, were allowance for finished goods. The significant increase in allowance for inventories was due to (i) the increase in sales revenue, which led to an increase in the amount of inventories, and (ii) an increase in the number of product models, causing an increase in impairment provision for slow-moving products.

Our Directors believe that our inventory allowance policy is in compliance with the HKFRSs and that the inventory allowance recognized during the Track Record Period were adequate.

Trade and Bills Receivables

Our trade and bills receivables represent receivables from our customers. Trade and bills receivables increased from RMB108.5 million as of December 31, 2016 to RMB139.4 million as of December 31, 2017, to RMB352.9 million as of December 31, 2018, and further to RMB659.0 million as of December 31, 2019, primarily due to an increase in the sales of our products. Bill receivables amounted to RMB220.9 million in 2019 because we received a bank acceptance bill from Customer J, one of our top five customers in 2019.

FINANCIAL INFORMATION

The following table sets forth the key components of our trade and bills receivables as of the dates indicated.

	As of December 31,			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables from contracts with customers				
— Third parties	110,759	142,738	361,099	446,908
— Related parties	—	94	—	—
Less: allowance for doubtful debts/credit losses	(2,213)	(3,443)	(8,212)	(8,802)
Bills receivables	—	—	—	220,900
	108,546	139,389	352,887	659,006

The following table sets forth our trade and bills receivables turnover days for the years indicated.

	Year ended December 31,			
	2016	2017	2018	2019
Trade and bills receivables turnover days ⁽¹⁾	41.1	28.9	26.2	24.3

Note:

- (1) Calculated based on the average of the beginning and ending trade and bills receivables balances (after impairment) divided by total revenue for the year and multiplied by 365 days.

We allow a credit period of 0 to 60 days to our trade customers. In 2016, 2017, 2018 and 2019, our trade and bills receivables turnover days were 41.1 days, 28.9 days, 26.2 days and 24.3 days, respectively, which were within the range of credit period granted to our customers. The downward trend in our trade and bills receivables turnover days during the Track Record Period were due to our increased bargaining power with our customers. We will continue to undertake measures aimed at reducing our trade and bills receivables turnover days.

FINANCIAL INFORMATION

The following table sets forth the aging analysis of our trade and bills receivables, net of allowance for credit losses/doubtful debts as of the dates indicated, based on the date of revenue recognized:

	As of December 31,			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	69,834	105,535	218,831	245,901
31 to 60 days	12,270	19,838	115,878	408,284
61 to 90 days	9,279	1,834	14,876	2,668
Over 90 days	17,163	12,182	3,302	2,153
	108,546	139,389	352,887	659,006

The following table sets forth the aging analysis of our trade and bills receivables that were past due but not impaired as of the dates indicated.

	As of December 31,			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	16,774	19,244	109,665	5,716
31 to 60 days	11,202	1,617	15,553	1,771
61 to 90 days	8,584	1,626	1,584	578
Over 90 days	16,393	9,731	900	37
	52,953	32,218	127,702	8,102

We consider an amount that is not paid on schedule pursuant to the agreement with us to be past due. Our trade and bills receivables past due were primarily due to late payments. As of December 31, 2016, 2017, 2018 and 2019, the amounts of our trade and bills receivables past due but not impaired were RMB53.0 million, RMB32.2 million, RMB127.7 million and RMB8.1 million, respectively, accounting for 48.8%, 23.1%, 36.2% and 1.2% of our total trade and bills receivables, respectively. The fluctuation in the amounts of our trade and bills receivables past due but not impaired during the Track Record Period was primarily due to the changes in our trade and bills receivables and our collection speed. We regularly review our customers' payment history and also review the aging of our trade receivables on a monthly basis. We believe our credit control policy is appropriate.

As of the Latest Practicable Date, RMB664.8 million, or 99.5% of our total trade and bills receivables before impairment as of December 31, 2019, had been settled subsequent to December 31, 2019.

FINANCIAL INFORMATION

Allowance for doubtful debts/credit losses

Allowance for doubtful debts/credit losses increased from RMB2.2 million as of December 31, 2016 to RMB3.4 million as of December 31, 2017, and further to RMB8.2 million as of December 31, 2018, primarily due to an increase in uncollectable trade receivables from a customer for quality disputes. Our allowance for doubtful debts/credit losses further increased to RMB8.8 million as of December 31, 2019, primarily because we collected a number of trade receivables from customers with lower credit ratings in the previous year. The expected credit loss as a percentage of our trade receivables was lower in 2019 because the customers that owed account receivables to us mainly had high credit ratings, and therefore, the amount of bad debts provided under expected credit loss was relatively small.

Other Receivables, Deposits and Prepayments

Our other receivables, deposits and prepayments consist of value added tax recoverable, prepayments, rental deposits, other receivables from a related party, deferred issue cost and others. As of December 31, 2016, 2017, 2018 and 2019, our other receivables, deposits and prepayments amounted to RMB37.2 million, RMB87.7 million, RMB139.2 million and RMB231.3 million, respectively.

The following table sets forth the key components of our other receivables, deposits and prepayments as of the dates indicated.

	As of December 31,			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Value added tax recoverable	32,573	67,719	113,436	172,025
Prepayments	2,133	10,670	17,891	34,755
Rental deposits	1,588	5,168	17,142	33,466
Other receivables from a related party	—	—	62	—
Deferred issue cost	—	—	269	5,233
Others ⁽¹⁾	<u>2,288</u>	<u>8,161</u>	<u>4,129</u>	<u>9,995</u>
	38,582	91,718	152,929	255,474
Less: rental deposits (non-current portion)	<u>(1,395)</u>	<u>(3,989)</u>	<u>(13,715)</u>	<u>(24,146)</u>
Total	<u>37,187</u>	<u>87,729</u>	<u>139,214</u>	<u>231,328</u>

Note:

(1) Primarily include freight advance paid by us on behalf of customers and other miscellaneous receivables.

FINANCIAL INFORMATION

Value added tax recoverable

Value added tax recoverable increased from RMB32.6 million as of December 31, 2016 to RMB67.7 million as of December 31, 2017, to RMB113.4 million as of December 31, 2018, and further to RMB172.0 million as of December 31, 2019. Such increasing trend was primarily due to increases in export rebates associated with our sales to overseas markets.

Prepayments

Prepayments increased from RMB2.1 million as of December 31, 2016 to RMB10.7 million as of December 31, 2017, to RMB17.9 million as of December 31, 2018, and further to RMB34.8 million as of December 31, 2019, primarily due to (i) increases in the prepayments for consulting service fees and training fees to meet the need of our business expansion, and (ii) our increased demands for prepaid materials as a result of our production expansion.

Rental deposits

Rental deposits (including non-current portion) increased from RMB1.6 million as of December 31, 2016 to RMB5.2 million as of December 31, 2017, to RMB17.1 million as of December 31, 2018, and further to RMB33.5 million as of December 31, 2019, primarily due to an increase in rental deposits for the leases of our plants and dormitories to meet the need of our business expansion.

Bank Balances and Cash

Bank balances and cash comprise cash at bank and in hand. As of December 31, 2016, 2017, 2018 and 2019, bank balances and cash amounted to RMB104.4 million, RMB333.2 million, RMB942.0 million and RMB731.4 million, respectively. Our bank balances and cash were primarily denominated in RMB.

Trade Payables

Our trade payables primarily represent payables to our raw material suppliers. Trade payables increased from RMB171.5 million as of December 31, 2016 to RMB368.3 million as of December 31, 2017, and further to RMB571.2 million as of December 31, 2018, primarily due to an increase in payables for raw material procurements associated with our increased sales. Our trade payables later decreased to RMB441.7 million as of December 31, 2019, primarily due to an increase in our payment speed in order to maintain the strategic relationships with our suppliers.

FINANCIAL INFORMATION

The following table sets forth the key components of our trade payables as of the dates indicated.

	As of December 31,			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables				
— Third parties	158,681	356,823	548,559	418,769
— Related parties	12,828	11,504	22,620	22,978
	<u>171,509</u>	<u>368,327</u>	<u>571,179</u>	<u>441,747</u>

Among our trade payables, our trade payables due to related parties primarily represent payables due to battery procurement from Eve Energy, a Controlling Shareholder. Trade payables due to related parties amounted to RMB12.8 million as of December 31, 2016 and RMB11.5 million as of December 31, 2017, and later increased to RMB22.6 million as of December 31, 2018 and RMB23.0 million as of December 31, 2019. Such increase was primarily due to increases in sales, which would affect procurement amount from related parties.

The following table sets forth our trade payables turnover days for the years indicated.

	Year ended December 31,			
	2016	2017	2018	2019
Trade payables turnover				
days ⁽¹⁾	89.9	86.0	76.4	43.4

Note:

- (1) Calculated based on the average of the beginning and ending trade payables balances, divided by total cost of sales for that year, multiplied by 365 days.

We are normally granted credit terms of 30 to 60 days. In 2016, 2017, 2018 and 2019, our trade payables turnover days were 89.9 days, 86.0 days, 76.4 days and 43.4 days, respectively. The downward trend in our trade payables turnover days during the Track Record Period were due to an increase in our payment speed in order to maintain the strategic relationships with our suppliers. We have financial risk management policies in place to ensure that all payables are within the credit timeframe.

FINANCIAL INFORMATION

The following table sets forth the aging analysis of our trade payables as of the dates indicated, based on the invoice date.

	As of December 31,			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	115,679	276,269	446,014	347,068
31 to 60 days	34,416	55,761	103,931	78,952
61 to 90 days	9,042	21,174	12,006	14,843
Over 90 days	<u>12,372</u>	<u>15,123</u>	<u>9,228</u>	<u>884</u>
Total	<u>171,509</u>	<u>368,327</u>	<u>571,179</u>	<u>441,747</u>

As of the Latest Practicable Date, RMB441.2 million, or 99.9% of our trade payables as of December 31, 2019, had been settled subsequent to December 31, 2019.

Other Payables and Accrued Expenses

Our other payables and accrued expenses consist of accrued staff costs and benefits, other payables, accrued expenses, other tax payables, accrued issue costs and others. As of December 31, 2016, 2017, 2018 and 2019, our other payables and accrued expenses amounted to RMB41.9 million, RMB127.6 million, RMB299.7 million and RMB572.6 million, respectively.

The following table sets forth the key components of our other payables and accrued expenses as of the dates indicated.

	As of December 31,			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Accrued staff costs and				
benefits	33,957	104,927	212,871	365,707
Other payables	3,135	10,305	42,947	91,546
Accrued expenses	850	5,274	22,482	61,818
Other tax payables	3,940	7,129	20,350	34,100
Accrued listing expenses and				
issue costs	<u>—</u>	<u>—</u>	<u>1,077</u>	<u>19,386</u>
Total	<u>41,882</u>	<u>127,635</u>	<u>299,727</u>	<u>572,557</u>

Note:

(1) Primarily include freight advance paid for us by customers and other miscellaneous payables.

FINANCIAL INFORMATION

Accrued staff costs and benefits

Accrued staff costs and benefits increased from RMB34.0 million as of December 31, 2016 to RMB104.9 million as of December 31, 2017, to RMB212.9 million as of December 31, 2018, and further to RMB365.7 million as of December 31, 2019, primarily due to an increase in the number of employees as a result of our business expansion.

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that we did not default in payment of any trade and other payables.

Contract Liabilities

Our contract liabilities represented advances received from our customers. We typically receive a deposit ranging from 20% to 100% of total consideration from customers when they place orders with us. We determine the requirements for deposits based on the customer's order size and payment history. The general utilization period of our contract liabilities during the Track Record Period was within one year. Our contract liabilities increased from RMB19.3 million as of December 31, 2016 to RMB48.3 million as of December 31, 2017, and further to RMB208.5 million as of December 31, 2018, primarily due to increases in sales of goods and prepayments for research and development and equipment from our major customers. Our contract liabilities continued to increase to RMB386.0 million as of December 31, 2019, which was in line with our sales revenue growth in 2019.

The following table sets forth the aging analysis of our contract liabilities as of the dates indicated:

	As of December 31,			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	14,214	44,864	80,368	177,411
31 to 60 days	1,065	1,602	83,074	12,240
61 to 90 days	445	212	26,253	6,277
91 to 365 days	3,009	1,277	8,773	153,243
Over 365 days	<u>557</u>	<u>391</u>	<u>10,075</u>	<u>36,832</u>
	<u>19,290</u>	<u>48,346</u>	<u>208,543</u>	<u>386,003</u>

As of April 30, 2020, RMB143.7 million, or approximately 37.2% of our contract liabilities as of December 31, 2019, had been recognized as sales subsequent to December 31, 2019.

FINANCIAL INFORMATION

Tax Payables

Our tax payables increased from RMB13.1 million as of December 31, 2016 to RMB20.6 million as of December 31, 2017, and further to RMB112.9 million as of December 31, 2018, primarily due to an increase in our taxable income as a result of our increased revenue from sales. Our tax payables decreased from RMB112.9 million as of December 31, 2018 to RMB94.3 million as of December 31, 2019, primarily because the tax authority allowed us to defer our income tax payment for the third quarter of 2018 to 2019.

Convertible Promissory Notes

Our Convertible Promissory Notes amounted to nil, nil, nil and RMB367.8 million as of December 31, 2016, 2017, 2018 and 2019, respectively. The Convertible Promissory Notes increased significantly in 2019 as compared to the previous years because we issued Convertible Promissory Notes to three Pre-IPO CN Investors in October 2019. For details, see “Our History and Development — Pre-IPO Investments — Issue of Convertible Promissory Notes to Pre-IPO CN Investors.”

Advances Drawn on Bills Receivables Discounted with Recourse

Our advances drawn on bills receivables discounted with recourse amounted to nil, nil, nil and RMB79.5 million as of December 31, 2016, 2017, 2018 and 2019, respectively. Our advances drawn on bills receivables discounted with resources increased significantly in 2019 as compared to the previous years because we got bills receivables from one of our customers in 2019. The bills receivables were discounted at the bank on a full recourse basis.

Convertible Preferred Shares

Our convertible preferred shares amounted to nil, nil, nil and RMB232.4 million as of December 31, 2016, 2017, 2018 and 2019, respectively. The convertible preferred shares increased sharply in 2019 as compared to the previous years because we had issued Preferred Shares of US\$0.01 each to a Pre-IPO (Equity) Investor. For details, see “Our History and Development — Pre-IPO Investments — Equity investments by Pre-IPO (Equity) Investors — Series A-1 Preferred Shares.”

FINANCIAL INFORMATION

NET CURRENT ASSETS

We recorded net current assets of RMB163.3 million, RMB238.5 million, RMB592.7 million, RMB120.5 million and RMB1,029.5 million as of December 31, 2016, 2017, 2018, 2019 and April 30, 2020, respectively. The following table sets forth the breakdown of our current assets and liabilities as of the dates indicated.

	As of December 31,				As of April 30,
	2016	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current assets					
Inventories	127,211	171,343	391,487	548,012	353,678
Financial assets at fair value					
through profit or loss	41,622	93,068	—	—	—
Trade and bills receivables	108,546	139,389	352,887	659,006	944,953
Other receivables, deposits and					
prepayments	37,187	87,729	139,214	231,328	289,721
Restricted bank deposits	—	—	15,564	—	—
Bank balances and cash	104,387	333,242	941,964	731,394	1,050,971
Total current assets	418,953	824,771	1,841,116	2,169,740	2,639,323
Current liabilities					
Trade payables	171,509	368,327	571,179	441,747	495,424
Other payables and accrued					
expenses	41,882	127,635	299,727	572,557	571,162
Tax payables	13,092	20,613	112,937	94,288	95,509
Contract liabilities	19,290	48,346	208,543	386,003	345,334
Lease liabilities	9,885	21,350	56,079	106,566	101,002
Convertible Promissory Notes . . .	—	—	—	367,838	—
Deferred income	—	—	—	708	1,416
Advances drawn on bills					
receivables discounted with					
recourse	—	—	—	79,536	—
Total current liabilities	255,658	586,271	1,248,465	2,049,243	1,609,847
Net current assets	163,295	238,500	592,651	120,497	1,029,476

Our net current assets increased from RMB120.5 million as of December 31, 2019 to RMB1,029.5 million as of April 30, 2020, primarily due to (i) a decrease in Convertible Promissory Notes of RMB367.8 million, which was mainly because the Convertible Promissory Notes had been converted to Series A-2 Preferred Shares as of April 30, 2020, (ii) an increase in bank balances and cash of RMB319.6 million, (iii) an increase in trade and bills receivables of RMB286.0 million, (iv) a decrease in advances drawn on bills receivables discounted with recourse of RMB79.5 million, and (v) a decrease in contract liabilities of RMB40.7 million, partially offset by (i) a decrease in inventories of RMB194.3 million and (ii) an increase in trade payables of RMB53.7 million.

FINANCIAL INFORMATION

Our net current assets decreased from RMB592.7 million as of December 31, 2018 to RMB120.5 million as of December 31, 2019, primarily due to (i) the increase of Convertible Promissory Notes amounting to RMB367.8 million, (ii) an increase of other payables and accrued expenses of RMB272.8 million, and (iii) a decrease in bank balances and cash of RMB210.6 million, partially offset by (i) an increase in trade and bills receivables of RMB306.1 million, (ii) an increase in inventories of RMB156.5 million, (iii) a decrease in trade payables of RMB129.4 million, and (iv) an increase in lease liabilities of RMB50.5 million.

Our net current assets increased from RMB238.5 million as of December 31, 2017 to RMB592.7 million as of December 31, 2018, primarily due to increases in (i) bank balances and cash of RMB608.7 million, (ii) inventories of RMB220.1 million, (iii) trade and bills receivables of RMB213.5 million, and (iv) other receivables, deposits and prepayments of RMB51.5 million, partially offset by increases in (i) trade payables of RMB202.9 million, (ii) other payables and accrued expenses of RMB172.1 million, and (iii) contract liabilities of RMB160.2 million.

Our net current assets increased from RMB163.3 million as of December 31, 2016 to RMB238.5 million as of December 31, 2017, primarily due to increases in (i) bank balances and cash of RMB228.9 million, (ii) other receivables, deposits and prepayments of RMB50.5 million, (iii) inventories of RMB44.1 million, and (iv) trade receivables of RMB30.8 million, partially offset by increases in (i) trade payables of RMB196.8 million, (ii) other payables and accrued expenses of RMB85.8 million, and (iii) contract liabilities of RMB29.1 million.

Working Capital Sufficiency

In 2019, we secured a banking facility of RMB50.0 million from Bank of China Limited, effective from February 21, 2019 to August 31, 2020. In the same year, we secured a banking facility of RMB200.0 million from Bank of Shanghai Co., Ltd., effective from November 28, 2019 to September 9, 2020. As of April 30, 2020, the total amount of unutilized banking facilities was RMB212.0 million. As of April 30, 2020, the utilized banking facilities had been used for the issuance of letter of credit and guarantee for customs authorities in the amounts of RMB11.9 million and RMB26.1 million, respectively. As of the Latest Practicable Date, the utilized banking facilities had been used for the issuance of letter of credit, entering into a forward contract and guarantee for customs authorities in the amounts of RMB36.8 million, RMB2.7 million and RMB28.3 million, respectively.

Taking into account cash and cash equivalents on hand, our operating cash flows, the available bank facilities, the estimated net proceeds available to us from the Global Offering and the adverse effects that the COVID-19 outbreak has had and will have on our business, our Directors believe that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

Our future cash requirements will depend on many factors, including our operating income, capital expenditures on property, plant and equipment and intangible assets, market acceptance of our products or other changing business conditions and future developments, including any investments or acquisitions we may decide to pursue. We may require additional cash due to changing business conditions or other future developments. If our existing cash is insufficient to meet our requirements, we may seek to issue debt securities or borrow from lending institutions. See “Risk Factors — Risks Relating to Our Business and Industry — Failure to successfully execute our equipment upgrade and capacity expansion plans may have a material adverse effect on our business, financial conditions and results of operations.”

FINANCIAL INFORMATION

LIQUIDITY AND CAPITAL RESOURCES

Historically, we funded our operations primarily with net cash generated from our operations. As of December 31, 2019, we had RMB731.4 million in cash and cash equivalents, most of which were denominated in RMB. Our cash and cash equivalents primarily consist of cash on hand and bank balances.

Consolidated Statements of Cash Flows

The following table sets forth a summary of our consolidated statements of cash flows for the years indicated.

	Year ended December 31,			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Operating cash flows before				
movements in working capital . . .	130,686	258,719	896,549	2,721,344
Changes in working capital	<u>10,599</u>	<u>211,246</u>	<u>108,314</u>	<u>(115,294)</u>
Cash generated from operations . . .	141,285	469,965	1,004,863	2,606,050
PRC enterprise income tax paid . . .	<u>(12,009)</u>	<u>(31,143)</u>	<u>(44,884)</u>	<u>(421,699)</u>
Net cash from operating activities . .	129,276	438,822	959,979	2,184,351
Net cash used in investing activities	(80,142)	(140,368)	(127,853)	(489,460)
Net cash from (used in) financing				
activities	<u>25,830</u>	<u>(58,536)</u>	<u>(215,001)</u>	<u>(1,899,820)</u>
Net increase (decrease) in cash and				
cash equivalents	74,964	239,918	617,125	(204,929)
Cash and cash equivalents at the				
beginning of the year	25,102	104,387	333,242	941,964
Effect of foreign exchange rate				
changes	<u>4,321</u>	<u>(11,063)</u>	<u>(8,403)</u>	<u>(5,641)</u>
Cash and cash equivalents at the				
end of the year	<u>104,387</u>	<u>333,242</u>	<u>941,964</u>	<u>731,394</u>

Operating activities

We derive our cash inflows from operations principally from the receipts in respect of the sales of our products. Our cash outflows from operations are principally payments for purchases of products and raw materials, distribution and selling expenses, administrative expenses, research and development expenses and other operating expenses.

FINANCIAL INFORMATION

Cash generated from operations reflects our profit before income tax, adjusted for (i) the cash flow effects of non-cash items, including depreciation of property, plant and equipment, amortization of intangible assets, finance costs, loss on disposal of property, plant and equipment, interest income, allowance for inventories, impairment loss recognized on trade receivables and intangible assets, gain on fair value changes of financial assets at fair value through profit or loss, unrealized exchange gain or loss and written off of intangible assets, and (ii) the effects of changes in our working capital, including increases in inventories, trade and other receivables, trade and other payables and contract liabilities.

In 2019, our net cash flows generated from operating activities was RMB2,184.4 million. During this year, our operating cash flows before working capital changes but after adjustments for non-cash income and expenses was RMB2,721.3 million. Positive working capital adjustments reflected primarily an increase in (i) other payables of RMB267.2 million and (ii) contract liabilities of RMB180.0 million. Such positive adjustments were partially offset by cash outflows including (i) an increase in trade and bills receivables of RMB311.9 million, (ii) a decrease in trade payables of RMB131.8 million, and (iii) an increase in inventories of RMB35.4 million.

In 2018, our net cash flows generated from operating activities was RMB960.0 million. During this year, our operating cash flows before working capital changes but after adjustments for non-cash income and expenses was RMB896.5 million. Positive working capital adjustments reflected primarily (i) an increase in trade payables of RMB199.6 million, (ii) an increase in other payables of RMB172.9 million, and (iii) an increase in contract liabilities of RMB159.0 million. Such positive adjustments were partially offset by cash outflows including (i) an increase in trade and bills receivables of RMB211.2 million, and (ii) an increase in inventories of RMB161.7 million.

In 2017, our net cash flows generated from operating activities was RMB438.8 million. During this year, our operating cash flows before working capital changes but after adjustments for non-cash income and expenses was RMB258.7 million. Positive working capital adjustments reflected primarily (i) an increase in trade payables of RMB201.8 million, and (ii) an increase in other payables of RMB90.0 million. Such positive adjustments were partially offset by cash outflows including (i) an increase in other receivables, deposits and prepayment of RMB49.6 million, (ii) an increase in trade and bills receivables of RMB44.2 million, and (iii) an increase in inventories of RMB15.9 million.

In 2016, our net cash flows generated from operating activities was RMB129.3 million. During this year, our operating cash flows before working capital changes but after adjustments for non-cash income and expenses was RMB130.7 million. Positive working capital adjustments reflected primarily an increase in trade payables of RMB76.8 million. Such positive adjustments were partially offset by cash outflows including (i) an increase in trade receivables of RMB52.8 million, (ii) an increase in other receivables, deposits and prepayment of RMB22.4 million, and (iii) an increase in inventories of RMB20.4 million.

FINANCIAL INFORMATION

Investing activities

Our cash outflows used in investing activities reflect payment for acquisition of property, plant and equipment, purchase of intangible assets, development costs paid, placement of restricted bank deposits, placement of financial assets at fair value through profit and loss, and payments for rental deposits. Our cash inflows generated from investing activities reflect withdrawal of restricted bank deposits, withdrawal of financial assets at fair value through profit and loss, proceeds from disposal of property, plant and equipment, interest received, increase in amount due from a related party, and increase in deferred income.

Net cash used in investing activities in 2019 was RMB489.5 million, which was primarily attributable to (i) placement of financial assets at fair value through profit or loss of RMB2,160.0 million, and (ii) payment for acquisition of property, plant and equipment of RMB455.9 million, partially offset by withdrawal of financial assets at fair value through profit or loss of RMB2,166.2 million.

Net cash used in investing activities in 2018 was RMB127.9 million, which was primarily attributable to (i) placement of financial assets at fair value through profit or loss of RMB2,904.3 million, and (ii) payment for acquisition of property, plant and equipment of RMB194.3 million, partially offset by withdrawal of financial assets at fair value through profit or loss of RMB3,007.5 million.

Net cash used in investing activities in 2017 was RMB140.4 million, which was primarily attributable to (i) placement of financial assets at fair value through profit or loss of RMB574.3 million, and (ii) payment for acquisition of property, plant and equipment of RMB83.7 million, partially offset by withdrawal of financial assets at fair value through profit or loss of RMB523.3 million.

Net cash used in investing activities in 2016 was RMB80.1 million, which was primarily attributable to (i) placement of financial assets at fair value through profit or loss of RMB41.6 million, (ii) payment for acquisition of property, plant and equipment of RMB26.5 million, and (iii) development costs paid of RMB11.5 million.

Financing activities

Our cash inflows from financing activities primarily include issue of share of Smoore Shenzhen and proceeds from bank borrowings. Our cash outflows from financing activities primarily include repayment of banking borrowings, dividends paid, interest paid, and repayment of lease liabilities.

Net cash used in financing activities in 2019 was RMB1,899.8 million, which was primarily attributable to (i) dividends paid of RMB1,142.0 million, and (ii) acquisition of Smoore Shenzhen by Smoore HK, which cost RMB1,095.4 million. See “Our History and Development — Development of Our Group Structure and the Reorganization — (4) Acquisition of Smoore Shenzhen.”

FINANCIAL INFORMATION

Net cash used in financing activities in 2018 was RMB215.0 million, which was primarily attributable to (i) dividends paid of RMB175.1 million, (ii) repayment of lease liabilities of RMB31.7 million, and (iii) repayment of banking borrowings of RMB31.2 million, partially offset by proceeds from bank borrowings of RMB31.2 million.

Net cash used in financing activities in 2017 was RMB58.5 million, which was primarily attributable to (i) dividends paid of RMB38.7 million, and (ii) repayment of lease liabilities of RMB16.5 million.

Net cash generated from financing activities in 2016 was RMB25.8 million, which was primarily attributable to issue of share of Smoore Shenzhen of RMB38.4 million, partially offset by (i) repayment of lease liabilities of RMB7.4 million, and (ii) dividends paid of RMB4.2 million.

CAPITAL EXPENDITURES

Our capital expenditures amounted to RMB25.0 million, RMB57.0 million, RMB200.9 million and RMB396.8 million in 2016, 2017, 2018 and 2019, respectively. Our capital expenditures were primarily used for the purchases of fixed assets used in daily operation. Our purchase of property, plant and equipment in 2019 mainly included the purchase of equipment as well as the purchase of state-owned land use rights for and the construction of the Jiangmen production base, which mostly occurred in the second half of the year. The following table sets forth our capital expenditures for the years indicated.

	Year ended December 31,			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Addition to:				
— Purchase of property, plant and equipment	24,614	55,412	195,665	392,832
— Purchase of intangible assets	405	1,631	5,217	3,961
Total	<u>25,019</u>	<u>57,043</u>	<u>200,882</u>	<u>396,793</u>

During the Track Record Period, we financed our capital expenditures primarily with cash generated from operations. For 2020, our planned capital expenditure was RMB1,236.8 million, primarily for the purchases of property, plant, equipment, and other intangible or long-term assets, IT system and infrastructure upgrades, PMTA research, as well as for the construction of our Jiangmen industrial park, subject to adjustment based on market conditions. We plan to fund our planned capital expenditure primarily by using the cash on our consolidated statements of financial position, the cash generated from our operations and the net proceeds from the Global Offering. See “Future Plans and Use of Proceeds — Use of Proceeds” for the portion of capital expenditures to be funded by the proceeds from the Global Offering.

FINANCIAL INFORMATION

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

Capital Commitments

Our capital commitments during the Track Record Period primarily related to capital expenditure in respect of the acquisition of property, plant and equipment contracted for. As of December 31, 2016, 2017, 2018 and 2019, the total amount of our capital expenditure contracted for but not yet provided was RMB4.2 million, RMB20.7 million, RMB22.0 million and RMB61.6 million, respectively.

INDEBTEDNESS

We lease properties to operate our business. These leases are typically made for fixed terms of one to six years. The weighted average incremental borrowing rate applied ranges from 4.79% to 5.32% during the Track Record Period. All leases are entered at fixed prices. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purpose. We do not face a significant liquidity risk with regards to our lease liabilities. Lease liabilities are monitored within our treasury function.

The following table sets forth our lease liabilities, Convertible Promissory Notes and preferred shares as of the dates indicated:

	As of December 31,				As of April 30,
	2016	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Non-current liabilities					
Lease liabilities	20,713	81,086	211,829	282,903	234,678
Convertible preferred shares	—	—	—	232,432	666,301
	<u>20,713</u>	<u>81,086</u>	<u>211,829</u>	<u>515,335</u>	<u>900,979</u>
Current liabilities					
Lease liabilities	9,885	21,350	56,079	106,566	101,002
Convertible Promissory Notes . .	—	—	—	367,838	—
	<u>9,885</u>	<u>21,350</u>	<u>56,079</u>	<u>474,404</u>	<u>101,002</u>
Total	<u>30,598</u>	<u>102,436</u>	<u>267,908</u>	<u>989,739</u>	<u>1,001,981</u>

FINANCIAL INFORMATION

We issued Convertible Promissory Notes on October 30, 2019. The Convertible Promissory Notes with a carrying amount of RMB406.3 million had been converted to the Series A-2 Preferred Shares as of April 30, 2020, and the convertible preferred shares of RMB666.3 million are unsecured and unguaranteed. See “Our History and Development — Pre-IPO Investments — Issue of Convertible Promissory Notes to Pre-IPO CN Investors.”

As of April 30, 2020, the lease liabilities of approximately RMB335.7 million were secured by rental deposits and unguaranteed and approximately RMB25,000 was unsecured and unguaranteed. Except as disclosed above, we did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptance (other than normal trade bills), acceptance credits, debentures, mortgages, charges, lease liabilities or hire purchase commitments, guarantees or other contingent liabilities as of April 30, 2020.

Since April 30, 2020 and up to the date of this prospectus, there has not been any material and adverse change in our indebtedness and contingent liabilities, and our Directors confirm that we did not have any external financing plans as of the Latest Practicable Date. Our Directors do not foresee any potential difficulty in obtaining bank facilities should the need arise.

KEY FINANCIAL RATIOS

The following table sets forth a summary of our key financial ratios as of the dates or for the years indicated.

Key Financial Ratios ⁽¹⁾	As of/for the year ended December 31,			
	2016	2017	2018	2019
Profitability ratios:				
1. Gross profit margin ⁽²⁾	24.3%	26.8%	34.7%	44.0%
2. Net profit margin ⁽³⁾	15.0%	12.1%	21.4%	28.6%
3. Return on equity ⁽⁴⁾	55.9%	56.4%	106.4%	255.2%
4. Return on total assets ⁽⁵⁾	26.6%	23.4%	41.9%	75.9%
Liquidity ratios:				
1. Current ratio ⁽⁶⁾	1.6	1.4	1.5	1.1
2. Quick ratio ⁽⁷⁾	1.1	1.1	1.2	0.8

Notes:

- (1) The financial ratios are not a measure of performance under the HKFRS.
- (2) Calculated as: gross profit/revenue × 100%.
- (3) Calculated as: profit and total comprehensive income for the year/revenue × 100%.
- (4) Calculated as: profit and total comprehensive income for the year/average total equity × 100%.
- (5) Calculated as: profit and total comprehensive income for the year/average total assets × 100%.
- (6) Calculated as: current assets/current liabilities.
- (7) Calculated as: (current assets – inventories)/current liabilities.

FINANCIAL INFORMATION

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have significant contingent liabilities.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our major financial instruments include financial assets at fair value through profit or loss, trade and bills receivables, other receivables, restricted bank deposits, bank balances and cash and trade payables, other payables and lease liabilities. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Our management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency Risk

We undertake certain transactions denominated in foreign currencies which are different from RMB, our functional currency. We currently do not have a foreign exchange hedging policy. However, we will monitor our foreign currency exposure closely and will consider hedging significant currency exposure should the need arise.

The carrying amounts of our foreign currency denominated monetary assets and monetary liabilities as of December 31, 2016, 2017, 2018 and 2019 are as follows.

	Assets				Liabilities			
	As of December 31,				As of December 31,			
	2016	2017	2018	2019	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
U.S. dollars . . .	206,873	374,620	301,328	516,076	26,161	33,355	30,170	657,789
GBP	—	1	748	346	—	—	—	—
HK dollars	—	—	388	204	—	—	—	614
Euro	40	21	1,777	—	—	—	—	—
Russian Ruble . .	3	3	—	—	—	—	—	—
JPY	—	3	—	—	—	—	—	—
	<u>206,916</u>	<u>374,648</u>	<u>304,241</u>	<u>516,626</u>	<u>26,161</u>	<u>33,355</u>	<u>30,170</u>	<u>658,403</u>

Other Price Risk

We are exposed to other price risk arising from Convertible Promissory Notes and convertible preferred shares. For Convertible Promissory Notes outstanding as of December 31, 2019, if our equity value increases or decreases by 5%, our post-tax profit for 2019 would decrease by approximately RMB5.9 million or increase by approximately RMB5.1 million, respectively, as a result. For convertible preferred shares outstanding as of December 31, 2019, if our equity value increases or decreases by 5%, our post-tax profit would increase or decrease by approximately RMB10.4 million as a result.

FINANCIAL INFORMATION

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. We are exposed to fair value interest rate risk in relation to lease liabilities and advances drawn on bills receivables discounted with recourse as well as cash flow interest rate risk in relation to variable-rate financial assets at fair value through profit or loss and bank balances due to the fluctuation of the prevailing market interest rate. Our management considers that reasonable changes in market interest rates would have insignificant impact to our profit or loss.

Credit Risk

Our credit risk is primarily attributable to our trade receivables. To minimize our credit risk, we have established a team responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we review the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. Through these measures, our management considers that our credit risk is significantly reduced.

As of December 31, 2016, 2017, 2018 and 2019, 25%, 47%, 35% and 64%, respectively, of our total gross trade receivables were due from our largest debtor, and 71%, 84%, 75% and 95%, respectively, of our total gross trade receivables were due from our top five debtors.

Our credit risk on liquid funds is limited, because the counterparties are banks with good reputations.

Liquidity Risk

In the management of our liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flows.

FINANCIAL INFORMATION

The following table details our remaining contractual maturity for financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities and the earliest date on which we can be required to pay.

	Weighted average effective interest rate	On demand or less than 1 month	1 to 3 months	3 months to 1 year	1-5 years	> 5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>As of December 31, 2016</i>								
Trade payables	—	171,509	—	—	—	—	171,509	171,509
Other payables	—	3,135	—	—	—	—	3,135	3,135
Lease liabilities	4.84	951	1,903	8,293	20,141	2,722	34,010	30,598
		175,595	1,903	8,293	20,141	2,722	208,654	205,242
<i>As of December 31, 2017</i>								
Trade payables	—	368,327	—	—	—	—	368,327	368,327
Other payables	—	10,305	—	—	—	—	10,305	10,305
Lease liabilities	4.87	2,456	4,645	18,744	86,073	3,290	115,208	102,436
		381,088	4,645	18,744	86,073	3,290	493,840	481,068
<i>As of December 31, 2018</i>								
Trade payables	—	571,179	—	—	—	—	571,179	571,179
Other payables	—	44,024	—	—	—	—	44,024	44,024
Lease liabilities	5.32	4,717	11,032	51,982	229,953	—	297,684	267,908
		619,920	11,032	51,982	229,953	—	912,887	883,111
<i>As of December 31, 2019</i>								
Trade payables	—	426,498	15,029	220	—	—	441,747	441,747
Other payables	—	110,932	—	—	—	—	110,932	110,932
Advances drawn on bills receivables discounted with recourse	2.58	—	79,541	—	—	—	79,541	79,536
Lease liabilities	4.79	10,078	20,358	92,454	284,493	20,482	427,865	389,469
Convertible Promissory Notes	8.00	—	—	377,647	—	—	377,647	367,838
		547,508	114,928	470,321	284,493	20,482	1,437,732	1,389,522

RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family member are also considered as related parties.

FINANCIAL INFORMATION

During the Track Record Period, we had the following transactions with related parties.

Name of Related Party	Name of Transactions	Year ended December 31,			
		2016	2017	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000
Eve Energy	Sales	—	274	82	—
	Purchase of raw materials	25,183	71,691	114,453	208,704
	Rental income	80	120	123	41

As of December 31, 2017 and 2018, Mr. Chen had provided guarantees to secure the banking facilities granted to Smoore Shenzhen to the extent of approximately RMB23,000,000 and RMB100,000,000, respectively. Smoore Shenzhen utilized part of the banking facility of RMB100,000,000 in 2018 and fully repaid as of December 31, 2018. The guarantee of RMB100,000,000 was released in June 2019. The banking facility of RMB23,000,000 had not been utilized and the guarantee was released in 2018. As of the Latest Practicable Date, Mr. Chen no longer provided any guarantee to Smoore Shenzhen.

Our Directors confirm that our related party transactions did not cause any distortion of our results of operations or make our historical results not reflective in the Track Record Period, and that all non-trade balances and guarantees with related parties will be settled and released before Listing. For a discussion of related party transactions, see Note 35 to the Accountants' Report in Appendix I.

DIVIDEND POLICY

We have adopted a general annual dividend policy of declaring and paying dividends on an annual basis of no less than 30% of our total net profit attributable to us for any particular year. Assuming the Listing occurs in 2020, 2020 will be the first year for which our total net profit attributable to us will be used for purposes of declaring and paying dividends in accordance with the aforementioned general annual dividend policy.

The declaration of dividends is subject to the discretion of our Directors, and, if necessary, the approval of our Shareholders. The amount of dividends actually declared and paid will also depend upon our earnings and cash flow, financial condition, capital requirements, investment requirements and any other conditions our Directors may deem relevant. Any declaration and payment, as well as the amount, of any dividend will also be subject to the Articles of Association and the Cayman Companies Law. Our future declarations of dividends may or may not reflect our historical declarations of dividends. In addition, our Directors may reassess our dividend policy in the future.

We may distribute dividends by way of cash or by other means that we consider appropriate. We are a holding company incorporated in the Cayman Islands. Our ability to pay dividends depends substantially on the payment of dividends to us by our subsidiaries in China. In particular, each of our PRC subsidiaries may pay dividends only out of its accumulated distributable profits, if any, determined in accordance with its articles of association, and the accounting standards and regulations in China. Moreover, pursuant to relevant PRC laws and regulations applicable to our subsidiaries in China, each of our PRC subsidiaries is required to set aside a certain amount of its

FINANCIAL INFORMATION

accumulated after tax profits each year, if any, to fund statutory reserves. These reserves may not be distributed as cash dividends. Furthermore, if we or any of our subsidiaries incur debt on our or its own behalf in the future, the instruments governing the debt may restrict our or their ability to pay dividends or make other payments to our Shareholders or to us.

We declared dividends of RMB4.2 million, RMB38.7 million, RMB175.1 million and RMB1,142.0 million in 2016, 2017, 2018 and 2019, respectively. As of December 31, 2019, we had completed the payment of the declared dividends. In addition to the abovementioned declared dividends, we once declared dividends of RMB728.0 million, but the dividends were later waived by shareholders' resolutions on December 16, 2019. Such waiver was granted by the shareholders to allow us to have a healthy capital to better mitigate the risks brought on by industry and regulatory changes.

DISTRIBUTABLE RESERVES

Our Company was incorporated on July 22, 2019 and is an investment holding company. There were no reserves available for distribution to the Shareholders as of the Latest Practicable Date.

SUBSEQUENT EVENTS

In December 2019, a novel strain of coronavirus was reported to have surfaced in Wuhan, China. COVID-19 now affects other cities in China and many countries globally. The Chinese central government and local governments in Wuhan and other cities in China have introduced various temporary measures to contain the COVID-19 outbreak, such as extension of the Lunar New Year holiday and travel restrictions, which have impacted and may continue to impact national and local economy to different degrees. The overall financial effect of the above cannot be reliably estimated. We will pay close attention to the development of the COVID-19 outbreak and continue to evaluate its impact on our financial position and operating results.

NO MATERIAL ADVERSE CHANGE

The COVID-19 outbreak and subsequent quarantine measures imposed by the PRC government as well as the travel restrictions imposed by other countries in early 2020 have had a substantial impact on the global economy and the market sentiment of the e-cigarette market. In addition, our operations since January 2020 have been adversely affected, as most of our operations are located in China. However, we do not consider such negative effects to be material as we are still able to manufacture or deliver our products under existing contracts, and the outbreak has had no material impact on our short-term liquidity requirements or our long-term commercial prospects. Our Directors are still assessing the financial impact that the COVID-19 will have on our future consolidated financial statements.

After due and careful consideration, our Directors confirm that, up to the date of this prospectus, there has not been any material adverse change in our financial or trading position or prospects since December 31, 2019, and there is no event since December 31, 2019 which would materially affect the information shown in Accountants' Report in Appendix I.

FINANCIAL INFORMATION

LISTING EXPENSE INCURRED AND TO BE INCURRED

During the Track Record Period, we incurred listing expenses of RMB32.3 million (HK\$35.3 million), of which RMB27.1 million (HK\$29.6 million) was recognized as listing expenses in our consolidated statements of profit or loss and other comprehensive income and RMB5.2 million (HK\$5.7 million) was recognized as deferred issue costs under other receivable, deposits and prepayment in our consolidated statements of financial position. We expect to incur additional listing expenses of RMB210.1 million (HK\$229.8 million) after December 31, 2019 (assuming that the Global Offering is conducted at the mid-point of the Offer Price range), of which RMB35.6 million (HK\$39.0 million) is expected to be recognized as listing expenses in 2020 and RMB174.5 million (HK\$190.8 million) is expected to be recognized as a deduction in equity directly. The listing expenses amounted to 4.2% of our estimated gross proceeds of HK\$6,317.9 million from the Global Offering, assuming an Offer Price of HK\$11.00 per Offer Share (being the mid-point of the Offer Price range). Our Directors do not expect such expenses to have a material adverse impact on our financial results in 2020.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of our Group as of December 31, 2019 as if the Global Offering had taken place on such date.

The unaudited pro forma statement of adjusted consolidated net tangible assets of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group as of December 31, 2019 or at any future dates following the Global Offering. It is prepared based on the audited consolidated net tangible assets of our Group as of December 31, 2019 as shown in the Accountants' Report in Appendix I to this prospectus and adjusted as described below.

	Audited consolidated net tangible assets of our Group as of December 31, 2019	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of our Group as of December 31, 2019	Unaudited pro forma adjusted consolidated net tangible assets of our Group as of December 31, 2019 per share	
	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on an Offer Price of					
HK\$9.60 per share	<u>675,877</u>	<u>4,848,005</u>	<u>5,523,882</u>	<u>0.99</u>	<u>1.08</u>
Based on an Offer Price of					
HK\$12.40 per share	<u>675,877</u>	<u>6,274,301</u>	<u>6,950,178</u>	<u>1.25</u>	<u>1.36</u>

FINANCIAL INFORMATION

Notes:

1. The audited consolidated net tangible assets of our Group as of December 31, 2019 is based on the consolidated net assets of our Group amounting to RMB734,673,000, deducted by intangible assets of RMB58,796,000 extracted from the Accountants' Report in Appendix I to this prospectus.
2. The estimated net proceeds from the Global Offering are based on 574,352,000 Offer Shares at indicative Offer Prices of HK\$9.60 and HK\$12.40 per Offer Share, being the low-end and high-end of the stated offer price range, respectively, after deduction of the estimated underwriting commissions and fees and other related expenses incurred, and to be incurred, by our Group (excluding approximately RMB27,107,000 of listing expenses recognized in profit or loss prior to December 31, 2019). It does not take into account of any Shares which may be issued upon the exercise of Options which have been/may be granted under the Share Option Schemes, any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued or repurchased by our Company pursuant to our Company's general mandates.

For the purpose of this unaudited pro forma financial information, the estimated net proceeds from the Global Offering is converted from Hong Kong dollars into RMB at an exchange rate of HK\$1.0937 to RMB1.00. No representation is made that Hong Kong dollar amounts have been, could have been or may be converted to RMB, or vice versa, at that rate or at all.

3. The unaudited pro forma adjusted consolidated net tangible assets of our Group as of December 31, 2019 per Share has been arrived on the basis of a total of 5,571,314,480 Shares, taking into account 62,462 Shares were issued as of December 31, 2019, and assuming (i) 4,996,900,018 Shares pursuant to the Capitalization Issue had been issued; and (ii) 574,352,000 Offer Shares to be issued pursuant to the Global Offering had been completed on December 31, 2019. It does not take into account of any Shares which may be issued upon conversion of Convertible Promissory Notes or preferred shares, any Shares which may be issued upon the exercise of options which have been/may be granted under the Share Option Schemes, any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued or repurchased by our Company pursuant to our Company's general mandates.
4. The unaudited pro forma statement of adjusted consolidated net tangible assets of our Group per Share as of December 31, 2019 is converted from RMB to Hong Kong dollars at an exchange rate of RMB1.00 to HK\$1.0937. No representation is made that RMB amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.
5. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of our Group as of December 31, 2019 to reflect any trading result or other transaction of our Group entered into subsequent to December 31, 2019. In particular, the unaudited pro forma adjusted consolidated net tangible assets of our Group as shown above have not been adjusted to illustrate the effect of the conversion of the Convertible Promissory Notes and Preferred Shares into ordinary shares. Had the conversion of Convertible Promissory Notes and Preferred Shares been completed on December 31, 2019, RMB367,838,000 Convertible Promissory Notes and RMB232,432,000 Preferred Shares would be reclassified from liabilities to equity. The conversion of Convertible Promissory Notes and Preferred Shares and related Capitalization Issue would have

FINANCIAL INFORMATION

increased the total share in issue assumption stated in note 3 by 172,198,240 shares to a total of 5,743,512,720 shares in issue. The adjustment to the unaudited pro forma adjusted consolidated net tangible assets of our Group after conversion of Convertible Promissory Notes and Preferred Shares would be as follows:

	Unaudited pro forma adjusted consolidated net tangible assets of our Group as of December 31, 2019 after conversion of the Convertible Promissory Notes and Preferred Shares	Unaudited pro forma adjusted consolidated net tangible assets of our Group as of December 31, 2019 per share after conversion of the Convertible Promissory Notes and Preferred Shares	
	RMB'000	RMB	HK\$ (Note 4)
Based on an Offer Price of			
HK\$9.60 per share	<u>6,124,152</u>	<u>1.07</u>	<u>1.17</u>
Based on an Offer Price of			
HK\$12.40 per share	<u>7,550,448</u>	<u>1.31</u>	<u>1.44</u>

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

OUR CORNERSTONE INVESTORS

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements (the “**Cornerstone Investment Agreements**”, each a “**Cornerstone Investment Agreement**”) with the cornerstone investors set out below (the “**Cornerstone Investors**”, each a “**Cornerstone Investor**”) who have agreed to subscribe for such number of our Offer Shares (rounded down to the nearest whole board lot of 1,000 Shares) which may be purchased with an aggregate amount of approximately HK\$2,636 million (the “**Cornerstone Placing**”).

Assuming an Offer Price of HK\$9.60 (being at the low end of the Offer Price range set out in this prospectus), the total number of Shares to be subscribed by the Cornerstone Investors would be approximately 274,539,000 Shares, representing approximately (i) 47.80% of the Offer Shares, assuming that the Over-allotment Option is not exercised, (ii) 4.78% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is not exercised, and (iii) 4.71% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is fully exercised.

Assuming an Offer Price of HK\$11.00 (being at the approximate mid-point of the Offer Price range set out in this prospectus), the total number of Shares to be subscribed by the Cornerstone Investors would be approximately 239,598,000 Shares, representing approximately (i) 41.72% of the Offer Shares, assuming that the Over-allotment Option is not exercised, (ii) 4.17% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is not exercised, and (iii) 4.11% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is fully exercised.

Assuming an Offer Price of HK\$12.40 (being at the high end of the Offer Price range set out in this prospectus), the total number of Shares to be subscribed by the Cornerstone Investors would be approximately 212,543,000 Shares, representing approximately (i) 37.01% of the Offer Shares, assuming that the Over-allotment Option is not exercised, (ii) 3.70% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is not exercised, and (iii) 3.65% of the Shares in issue upon completion of the Global Offering and assuming that the Over-allotment Option is fully exercised.

Our Company is of the view that introducing the Cornerstone Investors to the Global Offering and securing the subscription of a significant number of Offer Shares sets a very solid platform for the launch of the Global Offering by demonstrating the Cornerstone Investors’ confidence in the Global Offering.

To the best knowledge of our Company, (i) each of the Cornerstone Investors is an independent third party and is not a connected person of our Company and its close associate (as defined in the Listing Rules); (ii) none of the subscriptions of the relevant Offer Shares by the Cornerstone Investors is financed directly or indirectly by our Company, Directors, chief executive of our Company, Controlling Shareholders, substantial Shareholders or existing Shareholders, or any of its subsidiaries or their respective close associates; and (iii) the Cornerstone Investors are not accustomed to take instructions from our Company, Directors, Controlling Shareholders, substantial Shareholders or existing Shareholders or any of its subsidiaries or their respective close associates

OUR CORNERSTONE INVESTORS

in relation to the acquisition, disposal, voting or other disposition of the Offer Shares. The Cornerstone Investors will acquire the Offer Shares pursuant to, and as part of, the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the other fully paid Shares in issue and will be counted towards the public float of our Company. None of the Cornerstone Investors will have any representation on the Board or becomes a substantial Shareholder of our Company upon completion of the Global Offering and will not subscribe for any Offer Shares under the Global Offering other than pursuant to the Cornerstone Investment Agreements referred to below.

As confirmed by the Cornerstone Investors, their subscription under the Cornerstone Placing would be financed by their respective internal resources and/or own funds and/or pooled investment fund/vehicles (where applicable). There are no side agreements/arrangement between our Company and the Cornerstone Investors or any benefit, direct or indirect, conferred on the Cornerstone Investors by virtue of or in relation to the Cornerstone Placing, other than a guaranteed allocation of the relevant Offer Shares at the Offer Price.

No preferential treatment has been granted by our Company to the Cornerstone Investors other than the preferential treatment of assured entitlement to the Cornerstone Investors following the principles as set out in the Guidance Letter HKEx-GL51-13. The Offer Shares to be subscribed for by the Cornerstone Investors might be affected by the reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering. If the total demand for Offer Shares in the Hong Kong Public Offering falls within the circumstance as set out in the section headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offering — Reallocation” in this prospectus, the number of Offer Shares under the International Offering may be deducted on a pro rata basis to satisfy the public demands under the Hong Kong Public Offering. Further, the Joint Global Coordinators and the Company can adjust the allocation of the number of Offer Shares to be subscribed by the Cornerstone Investors in their sole and absolute discretion for the purpose of satisfying Rule 8.08(3) of the Listing Rules which provides that no more than 50% of the Shares in public hands on the Listing Date can be beneficially owned by the three largest public shareholders. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by us on or around July 9, 2020.

OUR CORNERSTONE INVESTORS

The following information on the Cornerstone Investors was provided to the Company by the Cornerstone Investors.

Huaneng Trust

Huaneng Guicheng Trust Co., Ltd.* (華能貴誠信託有限公司) (“**Huaneng Trust**”), as the trustee of the trust scheme, has engaged Caitong Fund Management Co., Ltd.* (財通基金管理有限公司) (“**Caitong Fund Management**”) and Hwabao WP Fund Management Co., Ltd.* (華寶基金管理有限公司), each, an asset manager that is a qualified domestic institutional investor (“**QDII**”) as approved by the relevant PRC authority, in the name of Caitong Fund Caitong Overseas Single Asset Management Plan 60* (財通基金財通海外60號單一資產管理計劃) and Hwabao Fund Hong

OUR CORNERSTONE INVESTORS

Kong Stock New Opportunity Single Asset Management Plan Seven* (華寶基金港股新機會七號單一資產管理計劃), respectively, to subscribe the Offer Shares at the Offer Price on behalf of Huaneng Trust.

Huaneng Trust is a national trust financial institution owned by China Huaneng Group Co., Ltd. (中國華能集團有限公司) (“**Huaneng Group**”), the controlling shareholder of Huaneng Trust, and several other large state-owned enterprises. The ultimate beneficial owner of Huaneng Group is the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會). Huaneng Group is a pilot state-owned institution approved by the State Council to carry out investment activities authorized by the state. Huaneng Group is an enterprise legal entity that mainly engaged in the electricity business as well as general industrial development and is also one of the world’s largest electricity generation enterprises. As of the end of 2019, Huaneng Trust had a registered capital of RMB6,195 million and net assets of RMB20.468 billion.

Huaneng Trust holds approximately 4.75% shareholdings in Eve Energy. Save as the above, Huaneng Trust has no other relationship with our Company, any connected person of our Company and its close associate (as defined in the Listing Rules).

Prime Capital Funds

Dragon Billion China Master Fund (“**DBCMF**”), Dragon Billion Select Master Fund (“**DBSMF**”) and Map 147 Segregated Portfolio (“**MAP 147**”) (collectively the “**Prime Capital Funds**”) are investment funds or accounts managed or advised by Prime Capital Management Company Limited in its full discretion as investment manager or adviser. Prime Capital Management Company Limited, a company organized in Hong Kong with limited liability, is licensed with the SFC and registered with the U.S. Securities and Exchange Commission. Each of DBCMF and DBSMF is an investment fund established in the Cayman Islands as an exempted company with limited liability. MAP 147 is a segregated portfolio of LMA SPC, an exempted segregated portfolio company organized in the Cayman Islands.

Beijing Stoneylake, Sail Stoneylake and Sure Skill

Stoneylake Asset Management Limited* (北京磐澤資產管理有限公司) (“**Beijing Stoneylake**”) has engaged Caitong Fund Management, who is an asset manager that is a QDII as approved by the relevant PRC authority, in the name of Caitong Fund Management Company Caitong Overseas No. 66 Single-Client SMA* (財通基金財通海外66號單一資產管理計劃) to subscribe for the Offer Shares at the Offer Price on behalf of Beijing Stoneylake. Concurrently, Sail Stoneylake Limited (“**Sail Stoneylake**”) and Sure Skill Limited (“**Sure Skill**”) will also subscribe for the Offer Shares at the Offer Price. Sail Stoneylake is the investment adviser of Sure Skill. Both Beijing Stoneylake and Sail Stoneylake are founded by Mr. Zhang Fan (張帆). Beijing Stoneylake and Sail Stoneylake are companies established in Beijing and BVI respectively, whose main business is asset management and investment holding. Sure Skill is a limited liability company established in the BVI and whose main business is investment holding. Beijing Stoneylake is owned by Mr. Zhang Fan and Mr. Xiong Dongmin (熊東民) as to 90% and 10%, respectively. Sail Stoneylake is wholly owned by Mr. Zhang Fan. Sure Skill is wholly owned by Mr. Yang Ningen (楊寧恩).

OUR CORNERSTONE INVESTORS

IvyRock

IvyRock Asset Management (HK) Limited (“**IvyRock**”) is incorporated in Hong Kong with limited liability and licensed by the SFC to carry out type 9 (asset management) regulated activity. IvyRock has agreed to procure certain investors, namely Ivyrock China Focus Master Fund, IvyRock China Equity Master Fund and Asia Series 6, an institutional separate managed account that IvyRock has investment management or advisory power over, to subscribe for such number of the Offer Shares. Ivyrock China Focus Master Fund and IvyRock China Equity Master Fund are managed by IvyRock as investment manager, and Asia Series 6 is advised by IvyRock as investment advisor. Ivyrock China Focus Master Fund, IvyRock China Equity Master Fund and Asia Series 6 pursue to achieve long-term capital appreciation by investing primarily in the listed securities of companies which have great exposure in or material impact on the Greater China region (which includes the PRC, Hong Kong, Macau and Taiwan).

3W Fund

3W Fund Management Limited (“**3W Fund**”) is incorporated in Hong Kong with limited liability and licensed by the SFC to carry out type 9 (asset management) regulated activity. 3W Fund has agreed to procure certain investors, namely 3W Greater China Focus Fund and 3W Global Fund, that 3W Fund has discretionary investment management power over, to subscribe for such number of the Offer Shares. 3W Greater China Focus Fund and 3W Global Fund pursue to maximize absolute return and seek long-term capital growth primarily through fundamental investment principle with value approach.

YR Asset Management

Yong Rong (HK) Asset Management Limited (涌容(香港)資產管理有限公司) (“**YR Asset Management**”) is an asset management company founded in 2012 and is licensed to carry out type 9 (asset management) regulated activities under the SFO. YR Asset Management currently manages multiple hedge funds which were formed in Cayman Islands and are regulated by Cayman Islands Monetary Authority. Such hedge funds primarily invest in U.S. and Hong Kong stock markets, A-share market and futures in global market.

Chaos Investment

Chaos Investment Limited (“**Chaos Investment**”) is established in 2009 and is wholly owned by Shanghai Chaos Investment (Group) Co., Ltd.* (上海混沌投資(集團)有限公司) (“**Shanghai Chaos**”). Shanghai Chaos is a professional investment institution established in Shanghai in 2005 and its investment fields include securities investment, commodity, and equity investment.

GSC Fund 1 and Vision Fund 1

Foresight Orient Global Superior Choice SPC — Global Superior Choice Series Fund 1 SP (“**GSC Fund 1**”) and Foresight Orient Global Superior Choice SPC — Vision Fund 1 SP (“**Vision Fund 1**”, together with GSC Fund 1, the “**Funds**”) are both sub-funds of Foresight Orient Global Superior Choice SPC, which was incorporated in the Cayman Islands. The Funds are managed in

OUR CORNERSTONE INVESTORS

full discretion by Orient Asset Management (Hong Kong) Limited, a subsidiary of Orient Finance Holdings (Hong Kong) Limited, and a licensed corporation as defined under the SFO for Type 9 (asset management) regulated activities as defined under the SFO. Orient Finance Holdings (Hong Kong) Limited is a wholly owned subsidiary of Orient Securities Co., Ltd.* (東方證券股份有限公司) (“**DFZQ**”), which is listed on the Stock Exchange (stock code: 3958) and Shanghai Stock Exchange (stock code: 600958). DFZQ’s shareholders’ approval is not required for the subscription by the Funds for the Offer Shares pursuant to the relevant Cornerstone Investment Agreement. Foresight Fund Management Co., Ltd. (“**Foresight**”) is the investment advisor of the Funds. Foresight is a Shanghai-based asset management company and was founded by Mr. Chen Guangming.

DFZQ has confirmed that it is not required to obtain any approval from the Stock Exchange and Shanghai Stock Exchange or its shareholders to invest in our Company or to subscribe for the Offer Shares by the Funds.

Qianhe Capital

Qianhe Capital Management Co., Ltd.* (千合資本管理有限公司) (“**Qianhe Capital**”) was incorporated in Sanya, Hainan, China in September 2012 with a registered capital of RMB50 million, which is owned by Mr. Wang Yawei (王亞偉) and Ms. Tao Qin (陶勤) as to 90% and 10%, respectively. Qianhe Capital is principally engaged in the management of entrusted asset management and investment management. Mr. Wang Yawei (王亞偉), the founder of Qianhe Capital, has approximately 30 years of experience in investment. Qianhe Capital upholds the principle of value investment, provides absolute returns for institutional and individual clients, and by leveraging its diversified values, Qianhe Capital aims to discover investment targets with core competitiveness and underestimated growth potential. With the application of investment instruments and technologies, Qianhe Capital has achieved sustainable and steady growth of the net assets under its management.

GF Fund

GF Fund Management Co., Ltd.* (廣發基金管理有限公司) (“**GF Fund**”), headquartered in Guangzhou, was established on August 5, 2003 upon approval of the CSRC with a registered capital of RMB126.88 million, which is the 30th fund management company established in the industry. GF Fund is a large fund management company with the comprehensive capabilities and experiences in asset management. GF Fund and its subsidiaries have been granted requisite licenses to provide fund management services, including mutual funds, domestic social security funds entrusted investment management, basic pension plan funds securities investment management, specific customers’ assets management, QDII, Renminbi qualified foreign institutional investor programs, qualified foreign institutional investor programs, insurance funds entrusted investment management and insurance protection funds entrusted investment management.

As confirmed by the Company and the relevant Cornerstone Investor, the Company became acquainted with each of the Cornerstone Investors through its introduction of the opportunity to participate in the Cornerstone Placing by the relevant Underwriters.

OUR CORNERSTONE INVESTORS

The table below sets forth details of the Cornerstone Placing:

Cornerstone Investor	Total investment Amount ⁽¹⁾	Assuming a final Offer Price of HK\$9.60 per Share (being the low-end of the indicative Offer Price range)				Assuming a final Offer Price of HK\$11.00 per Share (being the mid-point of the indicative Offer Price range)				Assuming a final Offer Price of HK\$12.40 per Share (being the high-end of the indicative Offer Price range)						
		Number of Offer Shares to be acquired ⁽²⁾	Assuming the Over-allotment Option is not exercised		Assuming the Over-allotment Option is fully exercised	Number of Offer Shares to be acquired ⁽²⁾	Assuming the Over-allotment Option is not exercised		Assuming the Over-allotment Option is fully exercised	Number of Offer Shares to be acquired ⁽²⁾	Assuming the Over-allotment Option is not exercised		Assuming the Over-allotment Option is fully exercised			
			Approximate % of the Offer Shares ownership ⁽³⁾	Approximate % of the Offer Shares ownership ⁽³⁾			Approximate % of the Offer Shares ownership ⁽³⁾	Approximate % of the Offer Shares ownership ⁽³⁾			Approximate % of the Offer Shares ownership ⁽³⁾	Approximate % of the Offer Shares ownership ⁽³⁾				
Huaneng Trust	US\$80,000,000 HK\$619,992,000	64,582,000	11.24	1.12	9.78	1.11	56,362,000	9.81	0.98	8.53	0.97	49,999,000	8.71	0.87	7.57	0.86
Prime Capital Funds	US\$50,000,000 HK\$387,495,000	40,364,000	7.03	0.70	6.11	0.69	35,226,000	6.13	0.61	5.33	0.60	31,249,000	5.44	0.54	4.73	0.54
Beijing Stonelyake, Sail Stonelyake and Sure Skill.	US\$35,084,324 HK\$271,900,000	28,322,000	4.93	0.49	4.29	0.49	24,718,000	4.30	0.43	3.74	0.42	21,927,000	3.82	0.38	3.32	0.38
IvyRock	US\$35,000,000 HK\$271,246,500	28,254,000	4.92	0.49	4.28	0.48	24,658,000	4.29	0.43	3.73	0.42	21,874,000	3.81	0.38	3.31	0.38
3W Fund	US\$30,000,000 HK\$232,497,000	24,218,000	4.22	0.42	3.67	0.42	21,136,000	3.68	0.37	3.20	0.36	18,749,000	3.26	0.33	2.84	0.32
YR Asset Management	US\$30,000,000 HK\$232,497,000	24,218,000	4.22	0.42	3.67	0.42	21,136,000	3.68	0.37	3.20	0.36	18,749,000	3.26	0.33	2.84	0.32
Chaos Investment	US\$30,000,000 HK\$232,497,000	24,218,000	4.22	0.42	3.67	0.42	21,136,000	3.68	0.37	3.20	0.36	18,749,000	3.26	0.33	2.84	0.32
GSC Fund 1 and Vision Fund 1	US\$20,000,000 HK\$154,998,000	16,145,000	2.81	0.28	2.44	0.28	14,090,000	2.45	0.25	2.13	0.24	12,499,000	2.18	0.22	1.89	0.21
Qianhe Capital	US\$15,000,000 HK\$116,248,500	12,109,000	2.11	0.21	1.83	0.21	10,568,000	1.84	0.18	1.60	0.18	9,374,000	1.63	0.16	1.42	0.16
GF Fund	US\$15,000,000 HK\$116,248,500	12,109,000	2.11	0.21	1.83	0.21	10,568,000	1.84	0.18	1.60	0.18	9,374,000	1.63	0.16	1.42	0.16

Notes:

- (1) Calculated based on an exchange rate of US\$1.00 to HK\$7.7499 as described in the section headed “Information about this Prospectus and the Global Offering — Exchange Rate Conversion”. The actual investment amount of each Cornerstone Investor in Hong Kong dollars may vary due to the actual exchange rate prescribed in the relevant Cornerstone Investment Agreement.
- (2) Subject to rounding down to the nearest whole board lot of 1,000 Shares.
- (3) Immediately upon the completion of the Capitalization Issue and the Global Offering.

OUR CORNERSTONE INVESTORS

CONDITIONS PRECEDENT

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent:

- (a) the underwriting agreements for the Hong Kong Public Offering and the International Offering being entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in these underwriting agreements, and neither of the aforesaid underwriting agreements having been terminated;
- (b) the Offer Price having been agreed upon between the Company and the Joint Global Coordinators (on behalf of the Underwriters);
- (c) the Listing Committee having granted the listing of, and permission to deal in, the Shares (including the Offer Shares to be subscribed by the Cornerstone Investors as well as other applicable waivers and approvals) and that such approval, permission or waiver having not been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (d) no relevant laws or regulations shall have been enacted or promulgated by any governmental authority which prohibits the consummation of the transactions contemplated in the Global Offering or in the Cornerstone Investment Agreements, and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions; and
- (e) the respective representations, warranties, undertakings and confirmations of the relevant Cornerstone Investor under the relevant Cornerstone Investment Agreement are accurate and true in all respects and not misleading and that there is no material breach of the relevant Cornerstone Investment Agreement on the part of the relevant Cornerstone Investor.

RESTRICTIONS ON DISPOSAL OF SHARES BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that it will not, and it will procure the relevant funds managed or advised by it (“**Funds**”) not (if applicable), whether directly or indirectly, at any time during the period of six (6) months following the Listing Date (the “**Lock-up Period**”), (i) dispose of any of the Shares they have purchased pursuant to the relevant Cornerstone Investment Agreements (“**Cornerstone Shares**”) or any interest in any company or entity holding any Cornerstone Shares, (ii) allow itself or procure the Funds (if applicable) to undergo a change of control (as defined in The Codes on Takeovers and Mergers and Share Buy-backs promulgated by the SFC) at the level of its ultimate beneficial owner, or (iii) enter into any transactions directly or indirectly with the same economic effect as any aforesaid transaction save for the circumstances that the transfer is made to any of its wholly-owned subsidiaries or funds managed or advised by such Cornerstone Investor or its subsidiary (if any) which will be bound by the same obligations of such Cornerstone Investor, including the Lock-up Period restriction.

OUR CORNERSTONE INVESTORS

OTHER CIRCUMSTANCES

Each Cornerstone Investor has agreed that our Company and the Joint Global Coordinators may in their sole discretion determine that delivery of all or any part of the Offer Shares it has subscribed for should be made on a date later than the Listing Date. The deferred delivery arrangement was in place to facilitate the over-allocation in the International Offering. Notwithstanding the deferred delivery arrangement, each Cornerstone Investor has agreed that it shall nevertheless pay for the relevant Offer Shares on the Listing Date.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See “Business — Strategies” for a detailed description of our future plans.

USE OF PROCEEDS

We estimate the net proceeds of the Global Offering which we will receive, assuming an Offer Price of HK\$11.00 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$6,052.6 million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering and 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.

We intend to use the net proceeds of the Global Offering for the following purposes assuming the Offer Price is fixed at HK\$11.00 per Offer Share (being the mid-point of the Offer Price range).

- Approximately 50%, or HK\$3,026.3 million, will be used to expand our production capacity, including the establishment of industrial parks in Jiangmen and Shenzhen, Guangdong province.
- We intend to construct our Jiangmen industrial park in two phases with a total estimated investment amount of approximately RMB2.7 billion to RMB3.0 billion. For the first phase, we will invest a total of approximately RMB1.2 billion, out of which RMB54.5 million has been used for the acquisition of state-owned land use rights and approximately RMB1,154.4 million will be used for construction of production facilities. We have already entered into a land grant agreement with the local government in October 2019. We also obtained the state-owned land use right certificate, permit for planning parcels of land for construction purpose and permit for planning construction projects in November 2019 as well as all qualification certificate for construction blueprints by January 2020. As of the Latest Practicable Date, the first phase was undergoing planning and construction procedures as required by the relevant PRC laws and regulations. We expect to complete the main structure of the production base in December 2020 and complete the indoor and outdoor decorations in December 2021. Electromechanical installation and equipment installation and testing are expected to be completed by June 2022, and the production base will commence operations in the same month. The first phase covers a GFA of approximately 330,000 sq.m. and will have 96 automated production and assembly lines as well as approximately 2,600 employees. With the first phase coming into operation, we expect to see a decrease in our production cost per equivalent unit and an increase in our capacity by approximately 90 million equivalent units for corporate client oriented sales per month.

FUTURE PLANS AND USE OF PROCEEDS

For the second phase, we are in the process of negotiation with the local government for the purchase of state-owned land use right, and plan to start the construction in 2021. The second phase will cover a GFA of approximately 440,000 sq.m., and have automated production and assembly lines. The estimated total cost of the second phase is approximately RMB1.6 billion, out of which RMB74.5 million will be used for the acquisition of state-owned land use rights and RMB1,502.6 million will be used for construction of production facilities. Once the second phase commences operation in around 2023, we expect it to further increase our capacity by approximately 120 million equivalent units for corporate client oriented sales per month.

- The industrial park that we intend to establish in Shenzhen will cover a GFA of approximately 187,000 sq.m. As of the Latest Practicable Date, we had started to communicate with the local government regarding this project and had submitted an industry selection report and a feasibility report to the relevant governmental authorities. We expect that it will take around two years from the acquisition of state-owned land use right to the commencement of operation of our Shenzhen industrial park, which is estimated to be by 2024. This industrial park will cost an estimated total of approximately RMB1.0 billion. Moreover, this industrial park is expected to further increase our production capacity by approximately 51.9 million equivalent units per month and replace a portion of our leased factories. The industrial park will mainly produce newly launched products, as it will benefit from the convenience of communication with the R&D center in Shenzhen. The type of products that the new Shenzhen industrial park will primarily focus on is vaping devices that are suitable for mass production.

Sufficient Market Demand

Our expansion plan is determined based on a number of strategic considerations, including market demands and price for the relevant products, utilization of the existing production facilities, competitive landscape for the target market, estimated development cost, availability and cost of capital resources, our historical results of operations and growth potential as well as our ongoing communications with our customers. We believe that there will be sufficient market demand to support our expansion plan based on several reasons, including (i) the market size (by ex-factory price) of the vaping industry is estimated by Frost & Sullivan to increase by 7.7%, 26.5% and 31.5% in 2020, 2021 and 2022, respectively; (ii) during the Track Record Period, our revenue grew at a CAGR of 120.8%, higher than the global market size CAGR (by ex-factory price) of 28.3% in the same period; and (iii) the demand from our customers remained relatively strong in the four months ended April 30, 2020 even as we faced the COVID-19 outbreak. With the large scale of our new production bases, we will be able to fulfill customer demand and the needs of our rapid business growth.

FUTURE PLANS AND USE OF PROCEEDS

Production Base Replacement and Expansion Plan

We expect to replace most of our leased factories with the new production bases as the leases expire from 2022 to 2024. In particular, based on the current estimate of our revenue growth in the next four years, we plan to replace production bases 1, 4 and 6 when those leases expire in 2022, replace production bases 3, 5, 7, 8 and 9 upon the expiration of their respective leases in 2023, and further replace production base 10 when its lease expires in 2024. See “Business — Production — Production Facilities” for details regarding these production bases. This plan is subject to change based on market trends and actual demand from customers. Our production capacity is expected to increase by approximately 162% to 262% with a CAGR ranging from approximately 12.8% to 27.2% in the next five years. Considering that our revenue grew at a CAGR of 120.8% from 2016 to 2019 and the rapid growth of the global vaping industry, the increase in production capacity is supported by adequate growth in demand for our products. Moreover, since our expansion is conducted in phases, we will be able to adjust our expansion plan should there be unforeseeable changes in market demand. We will assess the necessity to renew existing lease agreements as they expire. If we have sufficient demand, we may choose to renew some of our lease agreements.

We will initially use the new production bases for the production of generalized products, including our self-branded APV and ceramic atomizers without specification from customers, as well as products for certain of our customers who agree to have their products manufactured in the new production bases. As we gradually replace more of our leased factories, our new production bases will begin to manufacture our other products. We also plan to increase our operational and production efficiency at the same time by consolidating more similar production lines into one production base. Since the replacement of our leased factories with the new production bases will be conducted gradually as their respective leases expire, we expect the potential operational and financial impact to be immaterial.

Cost and Benefit Analysis

With our own factories, we would be able to tailor the design of the factories to our use and have more flexibilities to upgrade our facilities or install new equipment. Based on the relatively small size of existing production bases, there is limited flexibility for us to change the structure of these leased buildings or optimize the production layout, and therefore we cannot fully realize the desired efficiency improvement. Further, we can also avoid rent increases, spending time and effort on finding new suitable leased production bases and incurring expensive relocation costs when leases expire or are terminated.

FUTURE PLANS AND USE OF PROCEEDS

The following table illustrates the monthly cost savings of establishing Jiangmen phase one versus leasing a comparable production base:

	Depreciation period	2022	2023	2024	2025
	Years	RMB'000	RMB'000	RMB'000	RMB'000
Jiangmen phase one					
Estimated monthly depreciation charges ⁽¹⁾					
— Land ⁽²⁾	40	114	114	114	114
— Production facilities ⁽³⁾	40	2,100	2,100	2,100	2,100
— Decoration ⁽⁴⁾	5	394	394	394	394
— Fixtures ⁽⁵⁾	5	158	158	158	158
		<u>2,766</u>	<u>2,766</u>	<u>2,766</u>	<u>2,766</u>
Comparable leased production base					
Estimated monthly rental costs ⁽⁶⁾		<u>13,169</u>	<u>13,933</u>	<u>14,499</u>	<u>15,323</u>
Monthly cost saving of establishing Jiangmen phase one					
		<u>10,403</u>	<u>11,167</u>	<u>11,733</u>	<u>12,557</u>

Notes:

- (1) The estimated monthly depreciation charges are determined by depreciating over land and production facilities' estimated useful life of 40 years, decoration's useful life of five years and fixtures' useful life of five years on a straight-line basis.
- (2) Calculated as: total cost of land acquisition/number of months of useful life.
- (3) Calculated as: (total cost of production facilities – residual value)/number of months of useful life.
- (4) Calculated as: total cost of decoration/number of months of useful life.
- (5) Calculated as: (total cost of fixtures – residual value)/number of months of useful life.
- (6) The estimated monthly rental costs are determined with reference to the current average rental rate of existing production facilities and the average increase in annual rental rates based on our existing lease agreements. Specifically, the estimated monthly rental costs are calculated as: estimated average monthly rental per sq.m. × GFA of Jiangmen phase one.

FUTURE PLANS AND USE OF PROCEEDS

The following table illustrates the cost savings of owning the production bases versus leasing the production bases:

	2022 ⁽¹⁾	2023 ⁽²⁾	2024	2025
	RMB'000	RMB'000	RMB'000	RMB'000
Owning production bases				
Estimated depreciation charges ⁽³⁾				
— Jiangmen phase one	16,597	33,194	33,194	33,194
— Jiangmen phase two	—	10,823	43,294	43,294
— Shenzhen production base	—	—	27,880	27,880
	<u>16,597</u>	<u>44,017</u>	<u>104,368</u>	<u>104,368</u>
Leasing production bases				
Estimated rental costs ⁽⁴⁾	<u>79,012</u>	<u>211,602</u>	<u>496,374</u>	<u>524,560</u>
Cost saving of owning production bases	<u>62,415</u>	<u>177,586</u>	<u>392,006</u>	<u>420,192</u>

Notes:

- (1) Assuming Jiangmen phase one begins operation in July 2022.
- (2) Assuming Jiangmen phase two begins operation in October 2023.
- (3) The estimated depreciation charges are determined by depreciating over land and production facilities' estimated useful life of 40 years, decoration's useful life of five years and fixtures' useful life of five years on a straight-line basis. Specifically, the estimated depreciation charges for each of Jiangmen phase one, Jiangmen phase two and the Shenzhen production base are calculated as: sum of estimated monthly depreciation charges of land, production facilities, decoration and fixtures × number of months that the production base will be in operation during the year. The calculation method for the estimated monthly depreciation charges of land, production facilities, decoration and fixtures can be found in notes (2) to (5) in the table above.
- (4) The estimated rental costs are determined with reference to the current rental rate of a comparable production facility in the same area and the average increase in annual rental rates based on our existing lease agreements. Specifically, the estimated rental costs are the sum of the estimated rental costs for the three new production bases, each of which are calculated as: estimated average monthly rental per sq.m. × number of months that the production base will be in operation during the year × total GFA of the production base.

According to our cost-benefit analysis, using our own production bases will also reduce our manufacturing costs in the long term. The average rent allocated to the cost of producing a standard product at one of our leased production bases is approximately RMB15.8 cents, whereas based on our investment in and the expected production capacity of the first phase of our Jiangmen industrial park, the depreciation of plant

FUTURE PLANS AND USE OF PROCEEDS

allocated to the cost of producing a standard product at our own production bases is approximately RMB3.1 cents. The land and construction cost for our own production bases is approximately RMB3,900 per sq.m., and the expected rental cost for our leased production bases is approximately RMB42.0 per sq.m. per month. Our investment payback period for the new production bases, which refers to the length of time required to recover the initial investment cost based on net cash inflow to be generated from the production bases starting from the commencement date of operation, is expected to be around nine years, assuming that (i) our revenue will increase in line with the overall market growth as predicted by Frost & Sullivan, (ii) our gross profit margin will be similar to the gross profit margin achieved with our existing production bases in 2019, (iii) there will be no material adverse impact on our sales due to fluctuation in exchange rates, inflation, raw material prices and labor cost, and (iv) phase one of the Jiangmen production base will start production only after existing leased production bases are unable to satisfy demand. In particular, for the phase one of our Jiangmen production base, assuming that all the production areas are installed with automated assembly lines, we estimate that the breakeven revenue will be approximately RMB19.0 million per month. Considering that our current monthly revenue is much higher than that, we expect that the first phase of Jiangmen industrial park will break even in one or two months. See “Business — Strategies — Increase production capacity and operational and production efficiency.”

- Approximately 25%, or HK\$1,513.1 million, will be used to (i) implement automated production and assembly lines at our new production bases, (ii) upgrade our group-level ERP system, and (iii) upgrade our existing factories.
- The implementation of the automated production and assembly lines will cost approximately RMB740.0 million and RMB920.0 million for phase one and phase two of our Jiangmen industrial park, respectively. The automated production and assembly lines will be installed once the new production bases are constructed. Specifically, automated production and assembly lines will be installed in phases one and two of the Jiangmen industrial park by 2022 and 2024, respectively. These automated production and assembly lines will help the Jiangmen industrial park increase our production output by the amounts stated above. We also expect to gradually install new automated production and assembly lines at the new industrial park in Shenzhen by 2025.
- The upgrade of our group-level ERP system will cost approximately RMB50.0 million. Although our existing ERP system can meet our current needs, as our business expand and develop, our ERP system will need to be upgraded in order to be able to support our operations. The upgrade of our ERP system will further integrate and help us manage our major enterprise functions, including, among others, human resources, procurement, sales, customer relations and finance. We expect the ERP system to greatly lower our operation costs and improve our operational efficiency.

FUTURE PLANS AND USE OF PROCEEDS

- The upgrade of our existing factories is expected to cost approximately RMB150.0 million. As Jiangmen phase one is scheduled to commence operations in June 2022, it is necessary to improve the operational efficiency and quality control of our existing factories in the time being in order to meet customer expectations. This will be accomplished by improving the intelligent features and IT systems of our existing factories, establishing testing centers and repairing or maintaining our equipment. Specifically, the intelligent features and IT system upgrades will involve implementing or improving features relating to intelligent warehouse management, intelligent inspections, quality management, production planning, procurement management, inventory and sales management, among others. Further, we will gradually increase the level of automation and intelligence of the existing production lines by replacing the original semi-automatic production equipment with fully automatic production equipment. We will only invest in new equipment that have a payback period shorter than two years. These upgrades will involve both our in-house IT team and third-party vendors.

See “Business — Strategies — Increase production capacity and operational and production efficiency.”

- Approximately 20%, or HK\$1,210.5 million, will be used to invest in research and development, including building a group-level research center in Shenzhen, developing new heating technology and paying for product certification expenses.
- To establish the group-level research center in Shenzhen, we expect to spend approximately RMB700.0 million, which includes the costs of state-owned land use right and construction. The GFA of the group level research center will be approximately 60,000 sq.m. As of the Latest Practicable Date, we had started to communicate with the local government regarding this project and had submitted an industry selection report to the relevant governmental authorities. We expect to purchase the state-owned land use rights by 2021. We may need around six months to complete the design of the group-level research center and obtain all related government approval before starting the construction. We expect to take around two years to complete the construction and another six months to complete decorations and equipment installation as well as to obtain the related government approval for operation. If the above can be executed on time, we expect the group-level research center to start operation by 2025.

The new group-level research center will replace the current leased basic research center in Shenzhen, which can no longer meet our growing R&D needs in terms of area and property structure. We currently have approximately 500 R&D personnel in Shenzhen, but the current leased basic research center in Shenzhen can only accommodate approximately 20% of these personnel. The remaining 80% and some equipment are temporarily situated in other offices or production bases, making it difficult for team members to communicate, cooperate and share resources. Moreover, compared to the current leased research center, having a group-level

FUTURE PLANS AND USE OF PROCEEDS

research center which we own will give us more flexibility to customize the facilities and install large equipment, which will provide our R&D team with optimal environment to perform their tasks and be more attractive to prospective talents in Shenzhen, the R&D hub for vaping industry in China. In addition to taking over the R&D responsibilities of the current leased research center in Shenzhen, the new group-level research center will be responsible for coordinating and managing the research work of the other research centers and will formulate the research direction of each research center based on their respective resources and advantages. Further, a central testing center will be established inside the new group-level research center to provide a full range of testing analysis support, including performance and safety verification. See “Business — Research and Development — R&D Capabilities” for details on the three basic research centers.

- Approximately RMB825.0 million is expected to be put towards researching and developing new heating technology, establishing overseas laboratories, obtaining product certification and submitting PMTAs to the FDA. The R&D direction of our new heating technology includes: (i) R&D of a new low-power heating element meant to improve the speed and accuracy of temperature control of smaller atomizers, and (ii) R&D of high-power heating element meant to improve taste and temperature control of open system high-power atomizers. For our preparation of PMTAs, we have hired a law firm for literature review and a consulting firm in the U.S. with expertise in the requirements of PMTAs and knowledge of the concerns of the FDA to assist us with and review our PMTAs. In terms of internal personnel arrangement, we have established a specific team, which includes members with experience in filing applications with the FDA, to carry out the preparation of PMTAs.

See “Business — Strategies — Strengthen R&D capabilities to maintain our leading position and support long-term business growth” and “Business — Licenses, Regulatory Approvals and Compliance Record.”

- Approximately 5%, or HK\$302.7 million, will be used to provide funding for our working capital and other general corporate purposes.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the estimated Offer Price range or the Over-allotment Option is exercised.

If the Offer Price is fixed at HK\$12.40 per Offer Share (being the high end of the Offer Price range stated in this prospectus) and 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, we will receive net proceeds of approximately HK\$6,832.5 million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering.

FUTURE PLANS AND USE OF PROCEEDS

If the Offer Price is fixed at HK\$9.60 per Offer Share (being the low end of the Offer Price range stated in this prospectus) and 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 net proceeds we receive will be approximately HK\$5,272.6 million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering.

In the event that the Over-allotment Option is exercised in full, we will receive additional net proceeds ranging from approximately HK\$802.2 million (assuming an Offer Price of HK\$9.60 per Share, being the low end of the proposed Offer Price range) to HK\$1,036.2 million (assuming an Offer Price of HK\$12.40 per Share, being the high end of the proposed Offer Price range), after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into short-term demand deposits. We will make an appropriate announcement if there is any change to the above proposed use of proceeds or if any amount of the proceeds will be used for general corporate purpose.

UNDERWRITING

HONG KONG UNDERWRITERS

Hong Kong Underwriters

CLSA Limited
China International Capital Corporation Hong Kong Securities Limited
Guotai Junan Securities (Hong Kong) Limited
Daiwa Capital Markets Hong Kong Limited

Joint Global Coordinators

CLSA Limited
China International Capital Corporation Hong Kong Securities Limited
Guotai Junan Securities (Hong Kong) Limited

Joint Bookrunners and Joint Lead Managers

CLSA Limited
China International Capital Corporation Hong Kong Securities Limited
Guotai Junan Securities (Hong Kong) Limited
Daiwa Capital Markets Hong Kong Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

The Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 68,924,000 Hong Kong Offer Shares (subject to reallocation) for subscription by the public in Hong Kong on the terms and subject to the conditions in this prospectus and the Application Forms at the Offer Price.

Subject to the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering as mentioned herein (including any additional Shares which may be issued pursuant to the Capitalization Issue upon the exercise of the Over-allotment Option and the Options granted under the Pre-IPO Share Option Scheme or any Options which may be granted under the Post-IPO Share Option Scheme) and the ordinary Shares to be issued upon the reclassification and redesignation of the Series A-1 Preferred Shares and the Series A-2 Preferred Shares, and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed to subscribe, or procure subscribers to subscribe for the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and conditions as set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to, amongst other things, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

UNDERWRITING

Grounds for termination

The Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and the Sole Sponsor shall be entitled by notice (orally or in writing) to our Company to terminate the Hong Kong Underwriting Agreement with immediate effect if, at any time prior to 8:00 a.m. on the Listing Date:

- (i) there develops, occurs, exists or comes into effect:
 - (a) any events or series of events in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of infectious disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting the PRC, Hong Kong, the United States, the United Kingdom, Japan, any members of the European Union or any other jurisdiction relevant to any member of the Group or the Global Offering (collectively, the “**Relevant Jurisdictions**”); or
 - (b) any change, or any development involving a prospective change, or any event or series of events likely to result in or represent a change or development, or prospective change (whether or not permanent) or development, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets, and inter-bank markets and credit markets, or any monetary or trading settlement system, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the RMB against any foreign currencies) in or affecting any of the Relevant Jurisdictions; or
 - (c) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
 - (d) any general moratorium on commercial banking activities in any Relevant Jurisdiction or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in or affecting any Relevant Jurisdiction; or

UNDERWRITING

- (e) any new law, or any change or any development involving a prospective change or any event or circumstance likely to result in a change or a development involving a prospective change in (or in the interpretation or application by any court or other competent authority of) existing laws, in each case, in or affecting any of the Relevant Jurisdictions; or
- (f) the imposition of economic sanctions, or the withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or
- (g) any change or development involving a prospective change in or affecting taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar, United States dollar, Euro or the RMB against any foreign currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions adversely affecting an investment in the Shares; or
- (h) any actions, suits and proceedings (including, without limitation, any investigation or inquiry by or before any authority), demands, judgments, awards and claims (whether or not any such claim involves or results in any action, suit or proceeding) of any third party being threatened or instigated against any member of our Group, our executive Directors, and/or the Controlling Shareholders not disclosed in this prospectus; or
- (i) an executive Director being charged with an indictable offense or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (j) the chairman or chief executive officer of our Company vacating his or her office; or
- (k) the commencement by any regulatory or political body or organization of any investigation or action against an executive Director or an announcement by any authority or political body or organization that it intends to investigate or take any such action; or
- (l) a contravention by any member of our Group of the Listing Rules or applicable laws; or
- (m) a prohibition on our Company for whatever reason from offering, allotting, issuing or selling any of the Shares (including any additional Shares which may be allotted and issued by our Company upon the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or

UNDERWRITING

- (n) any non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws; or
- (o) an order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group; or
- (p) any change or prospective change in, or a materialization of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (q) a valid demand by any creditor for repayment or payment of any indebtedness of our Group or in respect of which our Group is liable prior to its stated maturity; or
- (r) the issue by our Company of a supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer of the Offer Shares) pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC,

which, individually or in the aggregate, in the sole and absolute opinion of the Joint Global Coordinators and the Sole Sponsor (1) has or will have or is likely to have a material adverse effect on our assets, liabilities, business, general affairs, management, prospects, shareholders’ equity, profits, losses, results of operations, financial or trading position, or performance of the Group as a whole; or (2) has or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering or dealings in the Offer Shares in the secondary market; or (3) makes or will make or is likely to make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or (4) has or will have or is likely to have the material adverse effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing or materially delaying the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

UNDERWRITING

(ii) there has come to the notice of any of the Joint Global Coordinators or the Sole Sponsor:

- (a) that any statement contained in any of the Application Forms, this prospectus and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect, inaccurate in any material respect or misleading in any respect, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of the Application Forms, this prospectus and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions; or
- (b) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, result in a material misstatement therein, or constitute a material omission from any of the Application Forms, this prospectus and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
- (c) any material breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters); or
- (d) any event, act or omission which gives or is likely to give rise to any liability of any of the indemnifying parties under the Hong Kong Underwriting Agreement; or
- (e) any material adverse change or any development involving a prospective material adverse change in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, financial or trading position, or performance of any member of our Group as a whole; or
- (f) any breach of, or any event or circumstance rendering untrue or incorrect or misleading, any of the warranties set out in the Hong Kong Underwriting Agreement; or
- (g) approval by the Listing Committee of the listing of, and permission to deal in, the Shares in issue and to be issued under the Global Offering (including any additional Shares that may be issued pursuant to the capitalization issue and upon the exercise of the Over-allotment Option and the Options granted under the Pre-IPO Share Option Scheme or any Options which may be granted under the Post-IPO Share Option Scheme) and the ordinary Shares to be issued upon the reclassification and

UNDERWRITING

redesignation of the Series A-1 Preferred Shares and the Series A-2 Preferred Shares is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

- (h) our Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or
- (i) any person (other than the Sole Sponsor) has withdrawn or is subject to withdrawal of its consent to being named in this prospectus or to the issue of this prospectus.

Restrictions pursuant to the Listing Rules

(i) Restriction on further issue of Shares by us

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that we will not issue any further Shares or securities convertible into our equity securities (whether or not of a class already listed) or enter into any agreement to such issue within six months from the date on which our Shares commence dealing on the Stock Exchange (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealing), except: (a) in certain circumstances prescribed by Rule 10.08 of the Listing Rules; or (b) pursuant to the Global Offering (including the Over-allotment Option).

(ii) Restriction on disposal of Shares by the Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of the Controlling Shareholders has undertaken to each of the Stock Exchange and our Company that, except pursuant to the Global Offering (including the Over-allotment Option), he/it shall not and shall procure that the relevant registered Shareholder(s) shall not, without the prior written consent of the Stock Exchange or unless otherwise in compliance with the Listing Rules:

- (a) in the period commencing on the date by reference to which disclosure of his/its shareholding is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares or securities of our Company in respect of which he/it is shown by this prospectus to be the beneficial owner; and
- (b) in the period of six months commencing on the date on which the period referred to in paragraph (a) expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be a Controlling Shareholder.

UNDERWRITING

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders have further undertaken to the Stock Exchange and to our Company that within the period commencing on the date by reference to which disclosure of his/its shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date, it/he will:

- (a) when he/it pledges or charges any Shares or securities of our Company or interests therein beneficially owned by it/him in favor of any authorized institution as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company of such pledge or charge together with the number of securities so pledged or charged; and
- (b) when he/it receives indications, either verbal or written, from the pledgee or chargee that any of Shares or the securities of our Company pledged or charged will be disposed of, immediately inform our Company of such indications.

We will inform the Stock Exchange as soon as we have been informed of the above matters (if any) by the Controlling Shareholders and disclose such matters by way of an announcement to be published as required under the Listing Rules.

Undertakings pursuant to the Hong Kong Underwriting Agreement

(i) Undertaking by us

We have undertaken to each of the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that our Company shall, and each of the Warranting Shareholders undertake to the Hong Kong Underwriters to procure that our Company shall, at any time during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date which is six months from the Listing Date (the “**First Six-month Period**”), except offer, allotment and issue of Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option, at any time) and the Capitalization Issue, ordinary Shares to be issued upon the reclassification and redesignation of the Series A-1 Preferred Shares and the Series A-2 Preferred Shares and any Shares which may be issued upon the exercise of Options granted under the Pre-IPO Share Option Scheme and any Options which may be granted under the Post-IPO Share Option Scheme, not without the prior written consent of the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or contract or agree to transfer or dispose of or create an encumbrance over, in each case either directly or indirectly, conditionally or unconditionally, or repurchase, any legal or beneficial interest in the Shares or other equity securities of our Company, or any interest in any of the foregoing (including,

UNDERWRITING

without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to subscribe for or purchase, any Shares or other equity securities of our Company, or any interest in any of the foregoing), or deposit any Shares or other securities of our Company, with a depository in connection with the issue of depository receipts; or

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other equity securities of our Company, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other equity securities of our Company or any interest in any of the foregoing); or
- (c) enter into any transaction with the same economic effect as any transaction specified above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified above,

in each case, whether any of the transactions specified above is to be settled by delivery of Shares or other equity securities of our Company, or in cash or otherwise (whether or not the issue of such Shares or other securities convertible into equity securities will be completed within the First Six-month Period).

During the period of six months commencing on the date on which the First Six-month Period expires (the “**Second Six-month Period**”), our Company shall not enter into any of the transactions specified above or offer to or agree to or announce any intention to effect any such transactions such that any Controlling Shareholder, directly or indirectly, would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

In the event that our Company enters into any transactions specified above or offers to or agrees to or announces any intention to effect any such transaction during the Second Six-month Period, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

UNDERWRITING

(ii) *Undertaking by the Warranting Shareholders*

Each of the Warranting Shareholders jointly and severally undertake to each of us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, without the prior written consent of the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and unless in compliance with the requirements of the Listing Rules, each of them:

- (a) will not, at any time during the First Six-month Period, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, in each case either directly or indirectly, conditionally or unconditionally, any Shares or other equity securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any such other equity securities of our Company;) or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any interest therein; or (iii) enter into any transaction with the same economic effect as any transaction specified in (a)(i) or (a)(ii) of this paragraph; or (iv) offer to or agree to or announce any intention to effect any transaction specified in (a)(i), (a)(ii) or (a)(iii) of this paragraph, in each case, whether any of the transactions specified in (a)(i), (a)(ii) or (a)(iii) of this paragraph is to be settled by delivery of Shares or other securities of our Company or in cash or otherwise;
- (b) will not, during the Second Six-month Period, enter into any of the transactions specified in (a)(i), (a)(ii) or (a)(iii) above or agree or contract to or announce any intention to effect any such transaction if, immediately following such transaction, it will cease to be a controlling shareholder (as defined in the Listing Rules) of our Company; and
- (c) until the expiry of the Second Six-month Period, in the event that it enters into any of the transactions specified in (a)(i), (a)(ii) or (a)(iii) above or offers to or agrees to or announces any intention to effect any such transaction, will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company,

provided nothing in the above shall prevent the Warranting Shareholders from facilitating the share lending arrangement as described in this prospectus and undertaking any action in connection with the Over-allotment Option, subject to the Warranting Shareholders complying with the requirements of the Listing Rules.

The restrictions in the above do not apply to any pledge or charge or any Shares or other equity securities of our Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other

UNDERWRITING

equity securities of our Company) after the Global Offering in favor of an authorized institution as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan.

Indemnity

Our Company and the Warranting Shareholders have agreed to indemnify the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by our Company and the Warranting Shareholders of the Hong Kong Underwriting Agreement.

The International Offering

International Underwriting Agreement

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with, amongst others, the International Underwriters and the Joint Global Coordinators. Under the International Underwriting Agreement, the International Underwriters, subject to certain conditions set out therein, will agree to procure subscribers or purchasers for the International Offer Shares, failing which it agrees to subscribe for or purchase the International Offer Shares which are not taken up under the International Offering.

We expect to grant the Over-allotment Option to the International Underwriters and exercisable by the Stabilizing Manager on or before Sunday, August 2, 2020, being the 30th day from the last day for the lodging of Application Forms under the Hong Kong Public Offering, to require us to issue and allot up to an aggregate of 86,152,000 Offer Shares, representing in aggregate 15% of the Offer Shares initially available under the Global Offering at the Offer Price to cover over-allocations, if any, in the International Offering, or undertake stabilization action as described in the section headed “Structure of the Global Offering — Over-allotment Option — Stabilization Action” in this prospectus.

Indemnity

We and the Warranting Shareholders have agreed to indemnify the International Underwriters against certain liabilities, including losses arising from their performance of their obligations under the International Underwriting Agreement and any breach by our Company and the Warranting Shareholders of the International Underwriting Agreement.

Grounds for termination

It is expected that the International Underwriting Agreement may be terminated on similar grounds as those in the Hong Kong Underwriting Agreement. Potential investors are reminded that if the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

UNDERWRITING

Underwriting Commissions and Expenses

The Hong Kong Underwriters will receive from us an underwriting commission of 2.0% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering (including any International Offer Shares reallocated to the Hong Kong Public Offering and any Hong Kong Offer Shares reallocated to the International Offering). For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters. Our Company may also in its sole discretion pay one or all of the Hong Kong Underwriters an additional incentive fee of up to 1.0% of the aggregate of the sale proceeds of the Offer Shares under the Global Offering (including pursuant to the exercise of the Over-allotment Option).

The aggregate commissions and fees (excluding the discretionary incentive fee), together with the listing fees, SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees, printing and other expenses payable by us relating to the Global Offering are estimated to amount to approximately HK\$202.1 million in total (based on an Offer Price of HK\$11.00 being the mid-point of our indicative price range of the Global Offering and 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).

Hong Kong Underwriters' Interests in Our Group

Save as disclosed in this prospectus and other than its obligations pursuant to the Hong Kong Underwriting Agreement, as of the Latest Practicable Date, the Hong Kong Underwriters were not interested, legally or beneficially, directly or indirectly, in any Shares or other securities in our Company or any other member of the Group or had any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any Shares or other securities in our Company or any other member of the Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliates may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement. Buyers of the Offer Shares sold by the Underwriters may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the Offer Price.

Sole Sponsor's Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsor as set out in Rule 3A.07 of the Listing Rules.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering of 574,352,000 Shares comprises:

- (a) the Hong Kong Public Offering of initially 68,924,000 Shares (subject to reallocation) in Hong Kong as described below in the paragraph headed “— Conditions of the Hong Kong Public Offering — The Hong Kong Public Offering”; and
- (b) the International Offering of an aggregate of 505,428,000 Shares (subject to reallocation and the Over-allotment Option) (i) in the United States solely to QIBs in reliance on Rule 144A or pursuant to an exemption from, in a transaction not subject to, the registration requirements of the U.S. Securities Act and (ii) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in accordance with Regulation S.

Investors may either:

- (i) apply for Hong Kong Offer Shares under the Hong Kong Public Offering; or
- (ii) apply for or indicate an interest for International Offer Shares under the International Offering,

but may not do both.

The Offer Shares will represent approximately 10.0% of the total issued share capital of the Company immediately following the completion of the Capitalization Issue and the Global Offering, 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.

PRICING AND ALLOCATION

Offer Price Range

The Offer Price will be not more than HK\$12.40 per Offer Share and is expected to be not less than HK\$9.60 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as explained below. Prospective investors should be aware that the offer price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.

Price Payable on Application

Applicants for Hong Kong Offer Shares under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$12.40 for each Hong Kong Offer Share. If the Offer Price is less than HK\$12.40 per Share, appropriate refund payments (including the brokerage,

STRUCTURE OF THE GLOBAL OFFERING

SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applications. Please refer to the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

Determining the Offer Price

The Offer Price is expected to be fixed by agreement with the Joint Global Coordinators and us on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Friday, July 3, 2020 and in any event, no later than Monday, July 6, 2020.

If for any reason, the Joint Global Coordinators and us are unable to reach an agreement on the Offer Price on or before Monday, July 6, 2020, the Global Offering will not proceed.

Reduction in Offer Price Range and/or Number of Offer Shares

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Joint Global Coordinators and with our consent, considers it appropriate, the indicative Offer Price range and/or the number of Offer Shares may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering.

In such a case, we will, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese), our Company’s website and the Stock Exchange’s website, notice of the reduction in the indicative Offer Price range and/or number of Offer Shares. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed “Summary” in this prospectus and any other financial information which may change as a result of such reduction. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of any such notice, the Offer Price shall under no circumstances be set outside the Offer Price range indicated in this prospectus. If an indicative offer price range and/or the number of Offer Shares is reduced, we will issue a supplemental prospectus updating investors of the change in the indicative offer price together with an update of all financial and other information in connection with such change; extend the period under which the Hong Kong Public Offering was open for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their submitted subscriptions; and give potential investors who had applied for the Shares the right to withdraw their applications. Details of the arrangement will then be announced by the Company as soon as practicable.

Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

Allocation

The Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

Allocation of the Shares pursuant to the International Offering will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after the listing of the Offer Shares on the Stock Exchange. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants, although the allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

Announcement of Offer Price and Basis of Allocations

The Offer Price, the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering, and the basis of allocations of the Hong Kong Offer Shares are expected to be announced on Thursday, July 9, 2020 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for the Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

- (i) the Listing Committee granting listing of, and permission to deal in, the Shares to be issued pursuant to the Global Offering;
- (ii) the Offer Price having been duly agreed between us and the Joint Global Coordinators;
- (iii) the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the Hong Kong Public Offer Underwriting Agreement and the International Underwriting Agreement having become unconditional and not having been terminated in accordance with the terms of the respective agreements,

STRUCTURE OF THE GLOBAL OFFERING

in each case on or before the dates and times specified in such Underwriting Agreements (unless and to the extent such conditions are waived on or before such dates and times) and in any event, not later than the date that is 30 days after the date of this prospectus.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived, prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be caused to be published by us in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving banker or other bank(s) in Hong Kong licensed under the Hong Kong Banking Ordinance.

Share certificates for the Hong Kong Offer Shares are expected to be issued on Thursday, July 9, 2020 but will only become valid certificates of title at 8:00 a.m. on Friday, July 10, 2020, provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed “Underwriting — Underwriting Arrangements and Expenses — The Hong Kong Public Offering — Grounds for termination” in this prospectus has not been exercised.

The Hong Kong Public Offering

We are initially offering 68,924,000 Hong Kong Offer Shares (subject to the re-allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering) at the Offer Price, representing approximately 12% of the 574,352,000 Offer Shares initially available under the Global Offering, for subscription by the public in Hong Kong. The total number of Hong Kong Offer Shares available under the Hong Kong Public Offering will initially be divided equally into two pools for allocation purposes as follows:

- Pool A: The Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee) of HK\$5 million or less; and
- Pool B: The Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee) of more than HK\$5 million and up to the value of pool B.

STRUCTURE OF THE GLOBAL OFFERING

Applicants should be aware that applications in pool A and pool B are likely to receive different allocation ratios. If Hong Kong Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly.

Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 50% of 68,924,000 Offer Shares initially included in the Hong Kong Public Offering (that is 34,462,000 Offer Shares) will be rejected.

Reallocation

The allocation of the Offers Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares to be offered in the Global Offering if certain prescribed total demand levels in the Hong Kong Public Offering are reached. We have applied for, and the Stock Exchange has granted to us, a waiver from strict compliance with paragraph 4.2 of Practice Note 18 of the Listing Rules to the effect as further described below (the “**Mandatory Reallocation**”):

- (i) 68,924,000 Offer Shares are initially available in the Hong Kong Public Offering, representing approximately 12% of the Offer Shares initially available under the Global Offering;

in the event that the International Offer Shares are fully subscribed or oversubscribed

- (ii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 10 times or more but less than 20 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 100,512,000 Offer Shares, representing approximately 17.5% of the Offer Shares initially available under the Global Offering;
- (iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 20 times or more but less than 55 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 143,588,000 Offer Shares, representing 25% of the Offer Shares initially available under the Global Offering;

STRUCTURE OF THE GLOBAL OFFERING

- (iv) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 55 times or more than the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 212,512,000 Offer Shares, representing approximately 37% of the Offer Shares initially available under the Global Offering.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators (for themselves and on behalf of the Underwriters). Subject to the foregoing paragraph, the Joint Global Coordinators may in their discretion reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In addition, if the Hong Kong Public Offering is not fully subscribed for, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate.

In addition to any Mandatory Reallocation which may be required, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, at their discretion, reallocate Offer Shares initially allocated for the International Offering to the Hong Kong Public Offering to satisfy valid applications in pool A and pool B under the Hong Kong Public Offering.

In the event that (i) the International Offer Shares are undersubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed irrespective of the number of times; or (ii) the International Offer Shares are fully subscribed or oversubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed as to less than 10 times of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering provided that, in accordance with the Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, the Offer Price would be set at HK\$9.60 (low-end of the indicative Offer Price range), and up to 68,924,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offer will be increased to 137,848,000 Offer Shares, representing approximately 24% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option).

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the Application Form submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any International Offering, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue.

Our Company, our Directors and the Hong Kong Underwriters will take reasonable steps to identify and reject applications under the Hong Kong Public Offering from investors who have received Shares in the International Offering and to identify and reject indications of interest in the International Offering from investors who have received Shares in the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

The Joint Global Coordinators may require any investor who has been offered Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offering.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

The International Offering will consist of initially 505,428,000 Shares, representing approximately 88% of the total number of Offer Shares initially available under the Global Offering, and is subject to reallocation and the Over-allotment Option, to be offered by us (i) in the United States to QIBs in reliance on Rule 144A or pursuant to an exemption from, in a transaction not subject to, the registration requirements of the U.S. Securities Act and (ii) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in accordance with Regulation S.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, it is expected that our Company will grant the Over-allotment Option to the International Underwriters, exercisable by the Stabilizing Manager on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Stabilizing Manager (on behalf of the International Underwriters) at any time from the Listing Date until the 30th day from the last day for lodging applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 86,152,000 additional Shares, representing approximately 15% of the initial Offer Shares, at the same price per Share under the International Offering, to cover over-allocations in the International Offering (if any). In the event that the Over-allotment Option is exercised, a press announcement will be made.

Stabilization Action

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to minimize and, if possible, prevent a decline in the initial Hong Kong Public Offering prices. In Hong Kong and certain other jurisdictions, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilizing Manager, or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period commencing from the Listing Date or otherwise subject to compliance with applicable legal and regulatory requirements. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws

STRUCTURE OF THE GLOBAL OFFERING

and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to do this. Such stabilization, if commenced, will be conducted at the absolute discretion of the Stabilizing Manager or any person acting for it and may be discontinued at any time, and must be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering (i.e. on or before Sunday, August 2, 2020). The number of Shares that may be over-allocated will not be greater than the number of Shares which may be sold by the Stabilizing Manager upon exercise of the Over-allotment Option, being 86,152,000 Shares in aggregate, which is approximately 15% of the Offer Shares initially being offered by us under the Global Offering.

The Stabilizing Manager or any person acting for it may take all or any of the following stabilizing actions in Hong Kong during the stabilization period:

- (i) purchase, or agree to purchase, any of our Shares or offer or attempt to do so for the sole purpose of preventing or minimizing any reduction in the market price of our Shares; and/or
- (ii) in connection with any action described in paragraph (i) above:
 - (a) (1) over-allocate our Shares; or (2) sell or agree to sell our Shares so as to establish a short position in them, for the sole purpose of preventing or minimizing any reduction in the market price of our Shares;
 - (b) exercise the Over-allotment Option and purchase or subscribe for or agree to purchase or subscribe for our Shares in order to close out any position established under paragraph (a) above;
 - (c) sell or agree to sell any of our Shares acquired by it in the course of the stabilizing action referred to in paragraph (i) above in order to liquidate any position that has been established by such action; and/or
 - (d) offer or attempt to do anything as described in paragraph (ii)(a)(2), (ii)(b) or (ii)(c) above.

The Stabilizing Manager, or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the Shares, and there is no certainty as to the extent to which and the time period for which it will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by the Stabilizing Manager or any person acting for it, which may include a decline in the market price of our Shares.

Stabilization cannot be used to support the price of our Shares for longer than the stabilization period, which begins on the day on which dealings in our Shares commence on the Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering (i.e. on or before Sunday, August 2, 2020). The stabilization period is expected to expire on Sunday, August 2, 2020. After this date, when no further stabilizing action may be taken,

STRUCTURE OF THE GLOBAL OFFERING

demand for our Shares, and therefore their market price, could fall. A public announcement will be made within seven days after the end of the stabilizing period in accordance with the Securities and Futures (Price Stabilizing) Rules of the SFO.

Any stabilizing action taken by the Stabilizing Manager, or any person acting for it, may not necessarily result in the market price of our Shares staying at or above the Offer Price either during or after the stabilization period. Stabilization bids or market purchases effected in the course of the stabilizing action may be made at any price at or below the Offer Price and can therefore be done at a price below the price investors have paid in acquiring our Shares.

Over-allocation

Following any over-allocation of Shares in connection with the Global Offering, the Stabilizing Manager or any person acting for it may cover such over-allocations by (among other methods) exercising the Over-allotment Option in full or in part, by using Shares purchased by the Stabilizing Manager or any person acting for it in the secondary market at prices that do not exceed the Offer Price, or through the stock borrowing arrangement as detailed below or a combination of these means.

Stock Borrowing Agreement

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilizing Manager may choose to enter into the Stock Borrowing Agreement with BVI 1, to borrow, whether on its own or through its affiliates, up to 86,152,000 Shares, representing approximately 15% of the Offer Shares, to cover over-allotments (being the maximum number of additional Shares which may be sold upon exercise of the Over-allotment Option). The stock borrowing arrangements under the Stock Borrowing Agreement, if entered into, will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules, being that the Stock Borrowing Agreement will be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option in connection with the International Offering, are complied with.

The maximum number of Shares to be borrowed from BVI 1 by the Stabilizing Manager is the maximum number of Shares that may be issued or sold upon full exercise of the Over-allotment Option. The same number of Offer Shares so borrowed must be returned to BVI 1 or their nominees on or before the third business day following the earlier of (a) the last day on which the Over-allotment Option may be exercised, or (b) the day on which the Over-allotment Option is exercised in full. The stock borrowing arrangement will be effected in compliance with all applicable laws, rules and other regulatory requirements. No payment will be made to BVI 1 by the Stabilizing Manager or any person acting for it in relation to such stock borrowing arrangement.

STRUCTURE OF THE GLOBAL OFFERING

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, July 10, 2020, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, July 10, 2020. The Shares will be traded in board lots of 1,000 Shares.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** Service Provider in the **IPO App** (which can be downloaded by searching “**IPO App**” in App Store or Google Play or downloaded at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp) or at www.hkeipo.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- (i) are 18 years of age or older;
- (ii) have a Hong Kong address;
- (iii) are outside the United States and (within the meaning of Regulation S); and
- (iv) are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid email address and a contact telephone number.

If you are a firm, the application must be in the individual members’ names. If you are a body corporate, the Application Form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation’s chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney’s authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Offer Shares.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- (i) an existing beneficial owner of Shares in the Company and/or any of its subsidiaries;
- (ii) a Director or chief executive officer of the Company and/or any of its subsidiaries;
- (iii) a close associate (as defined in the Listing Rules) of any of the above;
- (iv) a core connected person (as defined in the Listing Rules) of the Company or will become a core connected person of the Company immediately upon completion of the Global Offering; and
- (v) have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online in the **IPO App** or at www.hkeipo.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours between 9:00 a.m. on Monday, June 29, 2020 until 12:00 noon, Friday, July 3, 2020 from:

- (i) any of the following offices of the Joint Global Coordinators:

CLSA Limited

18/F, One Pacific Place
88 Queensway
Hong Kong

China International Capital Corporation Hong Kong Securities Limited

29th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

Guotai Junan Securities (Hong Kong) Limited

27/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

(ii) any of the following branches of the receiving banks:

Bank of China (Hong Kong) Limited

<u>District</u>	<u>Branch</u>	<u>Address</u>
Hong Kong	Taikoo Shing Branch	Shop G1006, Hoi Shing Mansion, Taikoo Shing, Hong Kong
Kowloon	Kowloon Plaza Branch	Unit 1, Kowloon Plaza, 485 Castle Peak Road, Kowloon
	Olympian City Branch	Shop 133, 1/F, Olympian City 2, 18 Hoi Ting Road, Kowloon
New Territories	Tai Po Plaza Branch	Unit 4, Level 1 Tai Po Plaza, 1 On Tai Road, Tai Po, New Territories
	Kwai Chung Plaza Branch	A18–20, G/F Kwai Chung Plaza, 7–11 Kwai Foo Road, Kwai Chung, New Territories

CMB Wing Lung Bank Limited

<u>District</u>	<u>Branch</u>	<u>Address</u>
Hong Kong	Head Office	45 Des Voeux Road Central
	Kennedy Town Branch	28 Catchick Street
Kowloon	Mongkok Branch	B/F CMB Wing Lung Bank Centre, 636 Nathan Road

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m., Monday, June 29, 2020 until 12:00 noon, Friday, July 3, 2020 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to **BANK OF CHINA (HONG KONG) NOMINEES LIMITED — SMOORE INTERNATIONAL PUBLIC OFFER** for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- 9:00 a.m. to 5:00 p.m., Monday, June 29, 2020
- 9:00 a.m. to 5:00 p.m., Tuesday, June 30, 2020
- 9:00 a.m. to 5:00 p.m., Thursday, July 2, 2020
- 9:00 a.m. to 12:00 noon, Friday, July 3, 2020

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, July 3, 2020, the last application day or such later time as described in “— Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists” below.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

- (a) undertake to execute all relevant documents and instruct and authorize the Company and/or the Joint Global Coordinators (or their agents or nominees), as agent of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (b) agree to comply with the Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (c) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and in the **IPO App** and on the designated website under the **HK eIPO White Form** service and agree to be bound by them;
- (d) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (e) confirm that you are aware of the restrictions on the Global Offering in this prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (f) agree that none of the Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (g) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (h) agree to disclose to the Company, our Hong Kong Share Registrar, receiving bank, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (i) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form and in the **IPO App** and on the designated website under the **HK eIPO White Form** service;
- (j) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (k) agree that your application will be governed by the laws of Hong Kong;
- (l) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (m) warrant that the information you have provided is true and accurate;
- (n) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (o) authorize the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any Share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the

HOW TO APPLY FOR HONG KONG OFFER SHARES

address stated on the application, unless you have fulfilled the criteria mentioned in “— 14. Dispatch/Collection of Share Certificates and Refund Monies — Personal Collection” section in this prospectus to collect the Share certificate(s) and/or refund cheque(s) in person;

- (p) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (q) understand that the Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (r) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (s) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for **YELLOW** Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH THE **HK eIPO WHITE FORM SERVICE**

General

Individuals who meet the criteria in “— 2. Who can apply” section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the **IPO App** or the designated website at www.hkeipo.hk.

Detailed instructions for application through the **HK eIPO White Form** service are in the **IPO App** and on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the **IPO App** or the designated website, you authorize the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Time for Submitting Applications under the HK eIPO White Form service

You may submit your application to the **HK eIPO White Form** Service Provider in the **IPO App** or at www.hkeipo.hk (24 hours daily, except on the last application day) from 9:00 a.m., Monday, June 29, 2020 until 11:30 a.m., Friday, July 3, 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon, Friday, July 3, 2020 or such later time under the “— 10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists” in this section.

No Multiple Applications

If you apply by means of the **HK eIPO White Form** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under the **HK eIPO White Form** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System <https://ip.ccass.com> (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HOW TO APPLY FOR HONG KONG OFFER SHARES

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Center
1/F, One & Two Exchange
Square 8 Connaught Place
Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Global Coordinators and our Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (a) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (b) HKSCC Nominees will do the following things on your behalf:
 - (i) agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant stock account;
 - (ii) agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - (iii) undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (iv) (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- (v) (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
- (vi) confirm that you understand that the Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- (vii) authorize the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- (viii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- (ix) confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- (x) agree that none of the Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- (xi) agree to disclose your personal data to the Company, the Hong Kong Share Registrar, receiving bank, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents;
- (xii) agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- (xiii) agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong

HOW TO APPLY FOR HONG KONG OFFER SHARES

Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- (xiv) agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- (xv) agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving of **electronic application instructions** to apply for Hong Kong Offer Shares;
- (xvi) agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- (xvii) agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- (i) instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- (ii) instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- (iii) instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions for a minimum of 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions⁽¹⁾

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

9:00 a.m. to 8:30 p.m., Monday, June 29, 2020
8:00 a.m. to 8:30 p.m., Tuesday, June 30, 2020
8:00 a.m. to 8:30 p.m., Thursday, July 2, 2020
8:00 a.m. to 12:00 noon, Friday, July 3, 2020

- (1) The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

HOW TO APPLY FOR HONG KONG OFFER SHARES

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Monday, June 29, 2020 until 12:00 noon on Friday, July 3, 2020 (24 hours daily, except on Friday, July 3, 2020, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, July 3, 2020, the last application day or such later time as described in “— 10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists” below.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving banker, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead

HOW TO APPLY FOR HONG KONG OFFER SHARES

Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, July 3, 2020.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- (i) an account number; or
- (ii) some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**).

If an application is made by an unlisted company and:

- (i) the principal business of that company is dealing in securities; and
- (ii) you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- (i) control the composition of the board of directors of the company;
- (ii) control more than half of the voting power of the company; or
- (iii) hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW TO APPLY FOR HONG KONG OFFER SHARES

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified in the **IPO App** and on the designated website at www.hkeipo.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

Please refer to the section headed “Structure of the Global Offering — Pricing and Allocation” in this prospectus for further details regarding the Offer Price.

10. EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- (i) a tropical cyclone warning signal number 8 or above; or
- (ii) a “black” rainstorm warning; and/or
- (iii) Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, July 3, 2020. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, July 3, 2020 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Thursday, July 9, 2020 in South China

HOW TO APPLY FOR HONG KONG OFFER SHARES

Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the Company's website at www.smooreholdings.com and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- (i) in the announcement to be posted on the Company's website at www.smooreholdings.com and the Stock Exchange's website at www.hkexnews.hk by no later than 9:00 a.m. on Thursday, July 9, 2020;
- (ii) from the "Allotment Result" function in the **IPO App** and the designated results of allocations website at www.tricor.com.hk/ipo/result (alternatively: www.hkeipo.com.hk/IPOResult) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Thursday, July 9, 2020 to 12:00 midnight on Wednesday, July 15, 2020;
- (iii) by telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Thursday, July 9, 2020 to Tuesday, July 14, 2020 (excluding Saturday, Sunday and public holiday in Hong Kong);
- (iv) in the special allocation results booklets which will be available for inspection during opening hours from Thursday, July 9, 2020 to Saturday, July 11, 2020 at all the receiving bank designated branches.

If the Company accepts your offer to purchase (in whole or in part), which it may do so by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(a) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(b) If the Company or its agents exercise their discretion to reject your application:

The Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(c) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- (i) within three weeks from the closing date of the application lists; or

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (ii) within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(d) If:

- (i) you make multiple applications or suspected multiple applications;
- (ii) you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- (iii) your Application Form is not completed in accordance with the stated instructions;
- (iv) your electronic application instructions through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions in the **IPO App** and on the designated website;
- (v) your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- (vi) the Underwriting Agreements do not become unconditional or are terminated;
- (vii) the Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- (viii) your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$12.40 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure of the Global Offering — Conditions of the Hong Kong Public Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Thursday, July 9, 2020.

14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- (i) Share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and
- (ii) refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or before Thursday, July 9, 2020. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, July 10, 2020 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Personal Collection

(i) *If you apply using a WHITE Application Form*

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from the Hong Kong Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, July 9, 2020 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on or before Thursday, July 9, 2020, by ordinary post and at your own risk.

(ii) *If you apply using a YELLOW Application Form*

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above for the collection of refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Thursday, July 9, 2020 by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, July 9, 2020 or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Hong Kong Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- *If you are applying as a CCASS investor participant*

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "— 11. Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, July 9, 2020 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) *If you apply through the HK eIPO White Form service*

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from Hong Kong Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, July 9, 2020, or such other date as notified by the Company in the newspapers as the date of dispatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Thursday, July 9, 2020 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) *If you apply via electronic application instructions to HKSCC*

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Deposit of Share Certificates into CCASS and Refund of Application Monies

- (i) If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, July 9, 2020, or, on any other date determined by HKSCC or HKSCC Nominees.
- (ii) The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "— 11. Publication of Results" above on Thursday, July 9, 2020. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, July 9, 2020 or such other date as determined by HKSCC or HKSCC Nominees.
- (iii) If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- (iv) If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, July 9, 2020. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- (v) Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, July 9, 2020.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.**德勤**

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

**ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION
TO THE DIRECTORS OF SMOORE INTERNATIONAL HOLDINGS LIMITED AND
CLSA CAPITAL MARKETS LIMITED**

Introduction

We report on the historical financial information of Smoore International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-3 to I-70, which comprises the consolidated statements of financial position of the Group as at 31 December 2016, 2017, 2018 and 2019, the statement of financial position of the Company as of 31 December 2019, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the four years ended 31 December 2019 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-3 to I-70 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 29 June 2020 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at 31 December 2016, 2017, 2018 and 2019, of the Company's financial position as at 31 December 2019 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance***Adjustments***

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

Dividends

We refer to note 12 to the Historical Financial Information which contains information about the dividends declared and paid by the group entities comprising the Group in respect of the Track Record Period and states that no dividend was declared or paid by the Company since its incorporation.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

29 June 2020

HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA (the "Underlying Financial Statements") and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			
		2016	2017	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000
Notes					
Revenue	6	707,254	1,565,190	3,433,709	7,610,601
Cost of sales		(535,303)	(1,145,888)	(2,243,204)	(4,258,249)
Gross profit		171,951	419,302	1,190,505	3,352,352
Other income	7(a)	18,447	4,699	15,706	48,870
Other gains and losses	7(b)	9,373	(17,818)	3,301	(22,655)
Impairment loss recognised on trade receivables, net		(2,213)	(1,230)	(4,301)	(4,882)
Distribution and selling expenses		(18,673)	(50,611)	(98,729)	(157,713)
Administrative expenses		(33,435)	(63,301)	(122,545)	(327,048)
Research and development expenses		(14,819)	(61,159)	(106,315)	(277,401)
Finance costs	8	(984)	(3,298)	(8,184)	(18,173)
Listing expenses		—	—	(808)	(26,299)
Profit before tax		129,647	226,584	868,630	2,567,051
Income tax expense	9	(23,447)	(37,604)	(134,678)	(393,262)
Profit and total comprehensive income for the year	10	<u>106,200</u>	<u>188,980</u>	<u>733,952</u>	<u>2,173,789</u>
Earnings per share	13				
Basic (RMB cents)		<u>2.12</u>	<u>3.73</u>	<u>14.49</u>	<u>43.03</u>
Diluted (RMB cents)		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>42.75</u>

		THE GROUP				THE COMPANY
		As at 31 December				As at 31 December
		2016	2017	2018	2019	2019
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets						
Investments in subsidiaries . . .	38	—	—	—	—	480,919
Property, plant and equipment .	14	89,515	203,163	522,091	886,953	—
Intangible assets	15	22,408	12,186	17,361	58,796	—
Deposits paid for acquisition of property, plant and equipment		3,996	32,324	30,953	148,464	—
Rental deposits	20	1,395	3,989	13,715	24,146	—
Deferred tax assets	16	315	1,375	4,016	13,804	—
		<u>117,629</u>	<u>253,037</u>	<u>588,136</u>	<u>1,132,163</u>	<u>480,919</u>
Current assets						
Inventories	17	127,211	171,343	391,487	548,012	—
Financial assets at fair value through profit or loss	18	41,622	93,068	—	—	—
Trade and bills receivables . . .	19	108,546	139,389	352,887	659,006	—
Other receivables, deposits and prepayments	20	37,187	87,729	139,214	231,328	6,002
Amount due from a subsidiary	39	—	—	—	—	782
Restricted bank deposits	21(a)	—	—	15,564	—	—
Bank balances and cash	21(b)	<u>104,387</u>	<u>333,242</u>	<u>941,964</u>	<u>731,394</u>	<u>1,118</u>
		<u>418,953</u>	<u>824,771</u>	<u>1,841,116</u>	<u>2,169,740</u>	<u>7,902</u>
Current liabilities						
Trade payables	22	171,509	368,327	571,179	441,747	—
Other payables and accrued expenses	23	41,882	127,635	299,727	572,557	19,617
Amounts due to subsidiaries . .	39	—	—	—	—	61,481
Tax payables		13,092	20,613	112,937	94,288	—
Contract liabilities	24	19,290	48,346	208,543	386,003	—
Lease liabilities	25	9,885	21,350	56,079	106,566	—
Convertible promissory notes .	26	—	—	—	367,838	367,838
Deferred income	28	—	—	—	708	—
Advances drawn on bills receivables discounted with recourse	29	<u>—</u>	<u>—</u>	<u>—</u>	<u>79,536</u>	<u>—</u>
		<u>255,658</u>	<u>586,271</u>	<u>1,248,465</u>	<u>2,049,243</u>	<u>448,936</u>
Net current assets (liabilities)		<u>163,295</u>	<u>238,500</u>	<u>592,651</u>	<u>120,497</u>	<u>(441,034)</u>
Total assets less current liabilities		280,924	491,537	1,180,787	1,252,660	39,885

		THE GROUP				THE COMPANY
		As at 31 December				As at 31 December
		2016	2017	2018	2019	2019
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Notes						
Non-current liabilities						
	25	20,713	81,086	211,829	282,903	—
	27	—	—	—	232,432	232,432
	28	—	—	—	2,652	—
		<u>20,713</u>	<u>81,086</u>	<u>211,829</u>	<u>517,987</u>	<u>232,432</u>
Net assets (liabilities)		<u>260,211</u>	<u>410,451</u>	<u>968,958</u>	<u>734,673</u>	<u>(192,547)</u>
Capital and reserves						
	30	63,300	63,300	63,300	4	4
		<u>196,911</u>	<u>347,151</u>	<u>905,658</u>	<u>734,669</u>	<u>(192,551)</u>
Total equity		<u>260,211</u>	<u>410,451</u>	<u>968,958</u>	<u>734,673</u>	<u>(192,547)</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Share- based payments reserve	Statutory reserve	Other reserve	Retained profits	Total
	RMB'000 (Note i)	RMB'000	RMB'000	RMB'000 (Note ii)	RMB'000 (Note iv)	RMB'000	RMB'000
THE GROUP							
At 1 January 2016	60,000	34,942	—	1,367	—	23,515	119,824
Profit and total comprehensive income for the year	—	—	—	—	—	106,200	106,200
Dividend recognised as distribution (note 12)	—	—	—	—	—	(4,221)	(4,221)
Transfer to statutory reserve	—	—	—	11,978	—	(11,978)	—
Issue of shares of Smoore Shenzhen	3,300	35,108	—	—	—	—	38,408
At 31 December 2016	63,300	70,050	—	13,345	—	113,516	260,211
Profit and total comprehensive income for the year	—	—	—	—	—	188,980	188,980
Dividend recognised as distribution (note 12)	—	—	—	—	—	(38,740)	(38,740)
Transfer to statutory reserve	—	—	—	18,305	—	(18,305)	—
At 31 December 2017	63,300	70,050	—	31,650	—	245,451	410,451
Adoption of HKFRS 9 (Note iii)	—	—	—	—	—	(357)	(357)
Adjusted balance at 1 January 2018 (restated)	63,300	70,050	—	31,650	—	245,094	410,094
Profit and total comprehensive income for the year	—	—	—	—	—	733,952	733,952
Dividend recognised as distribution (note 12)	—	—	—	—	—	(175,088)	(175,088)
At 31 December 2018	63,300	70,050	—	31,650	—	803,958	968,958
Profit and total comprehensive income for the year	—	—	—	—	—	2,173,789	2,173,789
Recognition of equity-settled share-based payments	—	—	61,268	—	—	—	61,268
Issuance of ordinary shares of Smoore Shenzhen	3,332	54,318	—	—	—	—	57,650
Issuance of ordinary shares of the Company	4	—	—	—	—	—	4
Issuance of convertible preferred shares as deemed distribution (note 27)	—	—	—	—	(232,032)	—	(232,032)
Effect of Reorganisation (as defined in note 2(c) & (e))	(66,632)	(124,368)	—	—	(962,000)	—	(1,153,000)
Dividend recognised as distribution (note 12)	—	—	—	—	—	(1,141,964)	(1,141,964)
Transfer to statutory reserve	—	—	—	2,059	—	(2,059)	—
At 31 December 2019	4	—	61,268	33,709	(1,194,032)	1,833,724	734,673

Notes:

- (i) Share capital as at 31 December 2016, 2017 and 2018 represents the share capital of Shenzhen Smoore Technology Co., Ltd.[#] (深圳麥克韋爾科技有限公司) (formerly known as 深圳麥克韋爾股份有限公司) ("Smoore Shenzhen") prior to Reorganisation as defined in note 2 to the Historical Financial Information.
- (ii) Pursuant to the relevant laws in the People's Republic of China (the "PRC"), each of the subsidiaries established in the PRC is required to transfer at least 10% of its profit after taxation to the statutory reserve until the reserve reaches 50% of their registered capital. Transfer to this reserve must be made before distributing dividends to equity holders. The statutory reserve can be used to make up for previous years' losses, expand the existing operations or convert into additional capital of the subsidiaries.
- (iii) Upon adoption of HKFRS 9 "Financial Instruments" on 1 January 2018, an impairment loss on financial assets recognised under expected credit loss model net of related deferred tax assets amounting to RMB357,000 was recorded as an adjustment to retained profits at 1 January 2018.
- (iv) As at 31 December 2019, other reserve represents i) the difference between the share capital and share premium of Smoore Shenzhen, a subsidiary of the Company, of RMB66,632,000 and RMB124,368,000, respectively, and cash considerations of RMB1,095,350,000 and RMB57,650,000 for the acquisition of 95% and 5% interest in Smoore Shenzhen by Smoore (Hong Kong) Limited ("Smoore HK") and Smile Baby Investment Limited ("SBI Limited") respectively; and ii) the difference between the par value and fair value of convertible preferred shares of the Company as detailed in note 27.

[#] English name is for identification purpose only

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
OPERATING ACTIVITIES				
Profit before tax	129,647	226,584	868,630	2,567,051
Adjustments for:				
Depreciation of property, plant and equipment	4,746	4,648	11,918	28,217
Amortisation of intangible assets	817	861	990	1,637
Finance costs	984	3,298	8,184	18,173
Loss on disposal/write-off of property, plant and equipment	22	26	7,794	13,909
Interest income	(162)	(453)	(2,491)	(4,158)
(Reversal of) allowance for inventories, net	(2)	2,108	858	22,495
Net impairment loss recognised on trade receivables	2,213	1,230	4,301	4,882
Impairment loss recognised on intangible assets	—	—	483	—
Fair value loss on convertible promissory notes	—	—	—	3,635
Fair value loss on convertible preferred shares	—	—	—	400
Share-based payment expenses	—	—	—	61,268
Gain on termination of leases	—	—	—	(725)
Gain on fair value changes of financial assets at fair value through profit or loss ("FVTPL")	—	(502)	(10,066)	(6,215)
Unrealised exchange (gain) loss, net	(9,106)	13,930	5,948	11,313
Written off of intangible assets	1,527	6,989	—	—
Release of deferred income	—	—	—	(538)
Operating cash flows before movements in working capital	130,686	258,719	896,549	2,721,344
Increase in inventories	(20,434)	(15,885)	(161,716)	(35,367)
Increase in trade and bills receivables	(52,774)	(44,156)	(211,198)	(311,945)
Increase in other receivables, deposits and prepayment . .	(22,356)	(49,556)	(50,295)	(83,374)
Increase (decrease) in trade payables	76,815	201,784	199,565	(131,811)
Increase in other payables	18,067	90,003	172,919	267,223
Increase in contract liabilities	11,281	29,056	159,039	179,980
Cash generated from operations	141,285	469,965	1,004,863	2,606,050
PRC Enterprise Income Tax paid	(12,009)	(31,143)	(44,884)	(421,699)
NET CASH FROM OPERATING ACTIVITIES	129,276	438,822	959,979	2,184,351

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
INVESTING ACTIVITIES				
Payment for acquisition of property, plant and equipment	(26,533)	(83,740)	(194,294)	(455,856)
Upfront payment of land use rights in the PRC	—	—	—	(54,487)
Purchase of intangible assets	(405)	(1,631)	(5,217)	(3,961)
Development costs paid	(11,475)	—	(5,495)	(46,028)
Placement of restricted bank deposits	—	—	(15,564)	—
Withdrawal of restricted bank deposits	—	—	—	15,564
Placement of financial assets at FVTPL	(41,622)	(574,266)	(2,904,319)	(2,160,000)
Withdrawal of financial assets at FVTPL	—	523,322	3,007,453	2,166,215
Proceeds from disposal of property, plant and equipment	79	—	1,348	59,488
Payments for rental deposits	(269)	(4,338)	(13,942)	(17,348)
Interest received	83	285	2,115	3,117
Advances from (repayment to) a related party	—	—	62	(62)
Government grants received	—	—	—	3,898
NET CASH USED IN INVESTING ACTIVITIES	<u>(80,142)</u>	<u>(140,368)</u>	<u>(127,853)</u>	<u>(489,460)</u>
FINANCING ACTIVITIES				
Dividends paid	(4,221)	(38,740)	(175,088)	(1,141,964)
Repayment of lease liabilities	(7,373)	(16,498)	(31,729)	(86,029)
Issue of shares of Smoore Shenzhen	38,408	—	—	—
Issue of shares of the Company	—	—	—	4
Proceeds from bank borrowings	—	—	31,213	1,000
Repayment of bank borrowings	—	—	(31,213)	(1,000)
Advances drawn on bills receivables discounted with recourse	—	—	—	79,536
Interest paid	(984)	(3,298)	(8,184)	(18,173)
Payment of issue costs	—	—	—	(2,047)
Proceeds on issue of convertible promissory notes	—	—	—	364,203
Capital injection to Smoore Shenzhen	—	—	—	57,650
Acquisition of SBI Limited as part of the Reorganisation	—	—	—	(57,650)
Acquisition of Smoore HK as part of the Reorganisation	—	—	—	<u>(1,095,350)</u>
NET CASH FROM (USED IN) FINANCING ACTIVITIES	<u>25,830</u>	<u>(58,536)</u>	<u>(215,001)</u>	<u>(1,899,820)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	74,964	239,918	617,125	(204,929)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	25,102	104,387	333,242	941,964
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>4,321</u>	<u>(11,063)</u>	<u>(8,403)</u>	<u>(5,641)</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash . .	<u>104,387</u>	<u>333,242</u>	<u>941,964</u>	<u>731,394</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1. GENERAL INFORMATION**

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 addresses of the Company's registered office and principal place of business are disclosed in the section headed "Corporate Information" in the Prospectus.

The Company is an investment holding company. The principal activities of 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.

2. GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies set out in note 4 which conform with HKFRSs issued by the HKICPA and are expressed in RMB, which is also the functional currency of the Company.

Historically and throughout the Track Record Period, the Group's operations were conducted by an existing group of entities headed by Smoore Shenzhen which has always been the holding company of all operating and non-operating subsidiaries.

In preparation for the listing of the Company's shares on the Stock Exchange, the entities now comprising the Group underwent a group reorganisation (the "Reorganisation") which involves major steps as follows:

- (a) At the time of incorporation, the Company had an authorised share capital of US\$100,000,000 divided into 10,000,000,000 shares of US\$0.01 each, of which one share was allotted and issued nil paid to a subscriber. Subsequently on the same date, the subscriber transferred one share to SMR & Alon Limited ("SMR & Alon"), which is owned by Mr. Chen Zhiping ("Mr. Chen"), a major shareholder of the Company. The Company further allotted and issued 99 shares nil paid to SMR & Alon on 22 July 2019. The 100 nil paid shares were subsequently fully paid by SMR & Alon on 29 November 2019.
- (b) On 11 September 2019, pursuant to a joint venture agreement and a capital injection agreement entered into between Smoore Shenzhen, the existing shareholders of Smoore Shenzhen ("Existing Shareholders") and SBI Limited, which is owned by Vision Knight Fund ("VKF") and Vision Knight Entrepreneur ("VKE"), the registered share capital of Smoore Shenzhen would be increased from RMB63.30 million to RMB66.63 million at a consideration of US\$8,148,525 (equivalent to approximately RMB57,650,000). The consideration was fully settled on 30 October 2019. Upon the execution of the joint venture agreement and the capital injection agreement, Smoore Shenzhen became a sino-foreign joint venture entity, with a total registered capital of RMB66.63 million and was held as to 95% by the Existing Shareholders and 5% by SBI Limited.
- (c) On 18 October 2019, the Company entered into an equity transfer agreement with VKF and VKE, pursuant to which, the Company agreed to acquire 100% equity interest in SBI Limited for a total consideration of US\$8,148,525 (equivalent to approximately RMB57,650,000). The consideration was fully settled on 8 November 2019. As a result, the Company, through its acquisition of SBI Limited, acquired the 5% equity interest in Smoore Shenzhen.
- (d) On 25 October 2019, the Company issued an aggregate of 61,831.650 ordinary shares and rights to subscribe 530.381 ordinary shares and 837.969 preferred shares of US\$0.01 each to the Existing Shareholders, which has been settled in full as of 29 November 2019.

- (e) Pursuant to equity transfer agreements dated 30 October 2019 between Smoore HK, a wholly-owned subsidiary of the Company, and the Existing Shareholders, Smoore HK acquired an aggregate of 95% equity interests of Smoore Shenzhen from the Existing Shareholders at a total consideration of RMB1,095.35 million. The consideration was fully settled in cash on 16 December 2019 and the transaction represented a deemed distribution to the Existing Shareholders.

Pursuant to the Reorganisation detailed above, which was completed by interspersing the Company and some intermediate companies between the Existing Shareholders and Smoore Shenzhen, the Company has become the holding company of the companies now comprising the Group on 30 October 2019 with 62,462,031 ordinary shares of US\$0.01 each and 837,969 preferred shares of US\$0.01. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity, accordingly, the Historical Financial Information has been prepared as if the Company had always been the holding company of the Group.

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

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period include the results and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the Track Record Period or since the date of incorporation, where this is a shorter period.

The consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates, taking into account the respective dates of incorporation, where applicable.

No statutory audited financial statements have been prepared for the Company since its date of incorporation as it was incorporated in a jurisdiction where there are no statutory audit requirements.

3. APPLICATION OF HKFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently adopted the accounting policies which conform with HKFRSs, Hong Kong Accounting Standards ("HKASs"), amendments and interpretations ("HK(IFRIC)-Int") issued by the HKICPA, which are effective for the accounting period beginning on 1 January 2019 throughout the Track Record Period except that the Group adopted HKFRS 9 "Financial Instruments" on 1 January 2018 and HKAS 39 "Financial Instruments: Recognition and Measurement" up to 31 December 2017. The accounting policies for these HKFRSs are set out in note 4 below.

On 1 January 2018, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirement to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits without restating financial information for the years ended 31 December 2016 and 2017.

Accordingly, certain financial information for the years ended 31 December 2016 and 2017 may not be comparable as the information was prepared under HKAS 39.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 4.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018. Line items that were not affected by the changes have not been included.

		Financial assets previously classified as loans and receivables	Financial assets designated at FVTPL	Financial assets at FVTPL required by HKFRS 9	Financial assets at amortised cost	Deferred tax assets	Retained profits
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Closing balance at							
31 December 2017 —							
HKAS 39		485,960	93,068	—	—	1,375	243,974
Effect arising from initial application of HKFRS 9:							
Reclassification							
From loans and receivables	(a)	(485,960)	—	—	485,960	—	—
From designated at FVTPL	(b)	—	(93,068)	93,068	—	—	—
Remeasurement							
Impairment under ECL							
model	(c)	—	—	—	(468)	111	(357)
Opening balance at							
1 January 2018		<u>—</u>	<u>—</u>	<u>93,068</u>	<u>485,492</u>	<u>1,486</u>	<u>243,617</u>

Notes:

- (a) From loans and receivables to financial assets at amortised cost

All loans and receivables were reclassified as financial assets at amortised cost since the Group's business model is to hold these financial assets for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest on the principal amount outstanding.

- (b) Financial assets at FVTPL and/or designated at FVTPL

At the date of initial application, the Group no longer applied designation as measured at FVTPL for the structured deposits, as these financial assets are required to be measured at FVTPL under HKFRS 9. As a result, the fair value of the structured deposits of approximately RMB93,068,000 were reclassified from financial assets designated at FVTPL to financial assets at FVTPL.

- (c) Impairment under ECL model

As at 1 January 2018, additional credit loss allowance net of related deferred tax assets amounting to approximately RMB357,000 has been recognised against retained profits. The additional loss allowance of approximately RMB468,000 is charged against trade receivables.

At the date of this report, 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 ²
Amendment to HKFRS 16	COVID-19-Related Rent Concessions ⁵
Amendments to HKFRS 3	Definition of a Business ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁴
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁴

¹ Effective for annual periods beginning on or after a date to be determined

² Effective for annual periods beginning on or after 1 January 2021

³ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

⁴ Effective for annual periods beginning on or after 1 January 2020

⁵ Effective for annual periods beginning on or after 1 June 2020

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

The directors of the Company anticipate that the application of the above new and amendments to HKFRSs will have no material impact to the Group's financial position and financial performance in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with accounting policies which conform with HKFRSs. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis except for certain financial instruments which are measured at fair value 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 the Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKFRS 16 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

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

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

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The Historical Financial Information incorporates 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 statements 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.

Investment in subsidiaries

Investment in subsidiaries included in the Company's statement of financial position is stated at cost less any identified impairment loss.

Revenue from contracts with customers

Under HKFRS 15 "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.

For technical consultation services, such services are recognised at a point in time when the control of assets created is transferred to the customer. Income from technical consultation services is included in the "other income" line item.

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

Leasing

Definition of a lease

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

The Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Allocation of consideration to components of a contract

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

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

Short-term leases

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

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

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

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

Refundable rental deposits

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

Lease liabilities

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

The lease payments include:

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

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 statements of financial position.

Lease modifications

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

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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

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

The Group as a lessor*Classification and measurement of leases*

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

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

Foreign currencies

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

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

Borrowing costs

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

Government grants

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

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

Government grants 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.

Retirement benefit costs

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

Short-term employee benefits

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

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

Share-based payments***Equity-settled share-based payment transactions******Share options granted to employees***

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

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

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

Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information 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 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.

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

Current and deferred tax are recognised in profit or loss.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be used by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Property, plant and equipment

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

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

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

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

Leasehold land and building

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

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets — research and development expenditure

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

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

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

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

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

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

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

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

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

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

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

Inventories

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

Provisions

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

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

Financial instruments

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

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

Effective interest method

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

Financial assets***Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)***

Financial assets are classified as financial assets at FVTPL and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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 marketplace.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is designated as at FVTPL.

A financial asset may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets designated as at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest earned on the financial assets and is included in the "other gains and losses" line item. Fair value is determined in the manner described in note 33c.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, amount due from a subsidiary and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the respective credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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.

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 on 1 January 2018 in accordance with transitions in note 3)

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

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

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

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

All other financial assets are subsequently measured at FVTPL.

Amortised cost and interest income

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

Financial assets at FVTPL

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

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

Impairment under ECL model (upon application of HKFRS 9 on 1 January 2018 with transitions in accordance with note 3)

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

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based

on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

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

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

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

(iv) Write-off policy

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

(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.

*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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Financial liabilities at FVTPL

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39/ HKFRS 9 permits the entire combined contract to be designated as at FVTPL.

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

Convertible promissory notes

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

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

Convertible preferred shares

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

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

Derecognition of financial liabilities

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the management of the Group are 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 following is the key assumption 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.

Provision of ECL for trade receivables (upon application of HKFRS 9)

Management estimates the amount of provision of ECL for trade receivables that are measured at amortised cost based on the credit risk of the debtors. The provision amount is measured as the carrying amount of trade receivables and the present value of estimated future cash flows with the consideration of expected future credit loss of trade receivables. The assessment of the credit risk of the debtors involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment may arise accordingly.

The information about the ECL and the Group's trade receivables are disclosed in notes 19 and 33(b).

Fair value of convertible promissory notes and convertible preferred shares

The convertible promissory notes and convertible preferred shares issued by the Company are classified as financial liabilities at FVTPL. No quoted prices in an active market are available for these financial liabilities. These financial liabilities were valued by the directors of the Company with reference to valuations carried out by an independent qualified professional valuer. The fair value of these financial liabilities is established by using valuation techniques as set out in notes 26 and 27. Valuation models established by the valuer maximise the use of market inputs to the extent possible. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions changed, it may lead to a change in the fair value to be recognised in profit or loss. The fair values of the convertible promissory notes and convertible preferred shares as at 31 December 2019 are RMB367,838,000 and RMB232,432,000 respectively. Details of the estimates and assumptions applied are stated in notes 26, 27 and 33(c).

6. REVENUE AND SEGMENT INFORMATION

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

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

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

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

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Vaping devices and components, other than APV				
— Vaping devices	503,233	691,644	1,124,168	4,477,005
— Vaping components	6,745	312,052	1,367,822	2,091,656
	509,978	1,003,696	2,491,990	6,568,661
APV	197,276	561,494	941,719	1,041,940
	<u>707,254</u>	<u>1,565,190</u>	<u>3,433,709</u>	<u>7,610,601</u>
Timing of revenue recognition				
A point in time	<u>707,254</u>	<u>1,565,190</u>	<u>3,433,709</u>	<u>7,610,601</u>

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

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	<u>707,254</u>	<u>1,565,190</u>	<u>3,433,709</u>	<u>7,610,601</u>
Segment profit	129,647	226,584	869,438	2,597,834
Unallocated expenses	—	—	—	(449)
Listing expenses	—	—	(808)	(26,299)
Loss on fair value changes of convertible promissory notes	—	—	—	(3,635)
Loss on fair value changes of convertible preferred shares	<u>—</u>	<u>—</u>	<u>—</u>	<u>(400)</u>
Profit before tax	<u>129,647</u>	<u>226,584</u>	<u>868,630</u>	<u>2,567,051</u>

Geographical information

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

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
United States of America	354,613	668,766	1,386,966	1,661,981
The PRC (excluding Hong Kong)	120,203	187,115	407,686	1,588,703
Hong Kong (<i>note</i>)	60,597	240,255	546,987	2,010,165
Japan	66	153,749	443,356	605,003
Switzerland	127,156	110,860	174,520	606,957
United Kingdom	8,138	22,519	66,264	508,675
France	8,567	62,587	93,646	146,291
Others	<u>27,914</u>	<u>119,339</u>	<u>314,284</u>	<u>482,826</u>
	<u>707,254</u>	<u>1,565,190</u>	<u>3,433,709</u>	<u>7,610,601</u>

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

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

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:

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Customer A	215,886	397,649	711,169	959,739
Customer B	N/A ¹	N/A ¹	418,536	N/A ¹
Customer C	206,189	262,573	N/A ¹	N/A ¹
SVI Global Tech Limited	N/A ¹	N/A ¹	N/A ¹	1,192,888
Customer E	N/A ¹	N/A ¹	N/A ¹	1,147,565
Customer F	N/A ¹	N/A ¹	N/A ¹	877,619

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

7. OTHER INCOME AND OTHER GAINS AND LOSSES**(a) Other income**

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Interest income from bank deposits	83	285	2,115	3,117
Interest income from rental deposits	79	168	376	1,041
Income from technical consultation services	15,306	387	—	—
Government grants (<i>note</i>)	2,499	3,202	4,563	16,459
Compensation income from customers	—	—	7,801	24,093
Others	480	657	851	4,160
	<u>18,447</u>	<u>4,699</u>	<u>15,706</u>	<u>48,870</u>

Note: Except for the government grants as described in note 28, 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

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Net foreign exchange gain (loss)	9,425	(16,862)	1,703	10,789
Net gain arising on financial assets at				
FVTPL	—	502	10,066	6,215
Loss on fair value changes of convertible				
promissory notes	—	—	—	(3,635)
Loss on fair value changes of convertible				
preferred shares	—	—	—	(400)
Gain on early termination of lease	—	—	—	725
Loss on disposal/write off of property, plant				
and equipment	(22)	(26)	(7,794)	(13,909)
Reversal of (allowance on) inventories, net .	2	(2,108)	(858)	(22,495)
Impairment loss recognised on intangible				
assets	—	—	(483)	—
Others	(32)	676	667	55
	<u>9,373</u>	<u>(17,818)</u>	<u>3,301</u>	<u>(22,655)</u>

8. FINANCE COSTS

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Interest expense on bank borrowings	—	—	619	21
Interest expense on lease liabilities	984	3,298	7,565	18,152
	<u>984</u>	<u>3,298</u>	<u>8,184</u>	<u>18,173</u>

9. INCOME TAX EXPENSE

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Current tax:				
— PRC Enterprise Income Tax ("EIT")	23,291	39,057	137,067	383,727
— Hong Kong Profits Tax	—	—	—	19,191
	23,291	39,057	137,067	402,918
Under (over) provision in prior years				
— PRC EIT	294	(393)	141	132
	23,585	38,664	137,208	403,050
Deferred tax (<i>note 16</i>)	(138)	(1,060)	(2,530)	(9,788)
	<u>23,447</u>	<u>37,604</u>	<u>134,678</u>	<u>393,262</u>

Hong Kong

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the Track Record Period.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime.

The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Accordingly, starting from the year of assessment 2018/19, the Hong Kong Profits Tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million for the qualifying group entity.

PRC

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% except that Smoore Shenzhen, a major operating subsidiary in the PRC, was qualified as High Technology and New Enterprise in November 2015 which was subsequently renewed in November 2018, and therefore Smoore Shenzhen is entitled to a preferential income tax rate of 15% for the four years ended 31 December 2016, 2017, 2018 and 2019. The qualification as a High and New Technology Enterprise is subject to review by the relevant tax authority in the PRC for every three years.

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

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

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Profit before tax	129,647	226,584	868,630	2,567,051
Income tax expense calculated at 15% (<i>Note i</i>) . .	19,447	33,988	130,295	385,058
Tax effect of expense not deductible for tax purpose	5,575	11,031	16,095	31,342
Tax effect of income not taxable for tax purpose .	(1,334)	(3,030)	—	(341)
Utilisation of tax losses previously not recognised	—	(782)	—	—
Tax effect of tax losses not recognised	380	—	8	1,624
Effect of different tax rates of subsidiaries operating in the PRC and Hong Kong	(212)	40	(3,196)	1,778
Tax relief related to additional tax deduction on research and development costs incurred (<i>Note ii</i>)	(1,085)	(4,311)	(11,330)	(28,212)
Under (over) provision in prior years	294	(393)	141	132
Others	382	1,061	2,665	1,881
	23,447	37,604	134,678	393,262

Notes:

- i. The PRC EIT rate of Smoore Shenzhen that accounts for substantial operation of the Group is 15% for the years ended 31 December 2016, 2017, 2018 and 2019.
- ii. Pursuant to Caishui [2015] circular No. 119 for the years ended 31 December 2016 and 2017 and Caishui [2018] circular No. 99 for the years ended 31 December 2018 and 2019, Smoore Shenzhen is entitled to additional tax deduction on qualifying research and development costs expenditures.

10. PROFIT FOR THE YEAR

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Profit before tax has been arrived at after charging (crediting):				
Directors' remuneration: (<i>note 11</i>)	1,026	1,054	3,673	7,559
Other staff costs:				
— Salaries, bonus and other benefits	154,001	284,640	609,616	1,216,380
— Retirement benefit scheme contributions	19,133	35,229	63,629	136,862
— Share-based payment expense	—	—	—	57,347
	173,134	319,869	673,245	1,410,589
Less: amounts capitalised as cost of inventories manufactured	(118,026)	(199,154)	(472,600)	(933,808)
amounts capitalised in intangible assets	(3,496)	—	(2,822)	(23,821)
	<u>51,612</u>	<u>120,715</u>	<u>197,823</u>	<u>452,960</u>
Depreciation of right-of-use assets for buildings and land use rights	7,883	18,590	39,048	102,874
Depreciation of property, plant and equipment	8,019	12,410	28,092	62,079
Amortisation of intangible asset	<u>4,172</u>	<u>4,864</u>	<u>5,054</u>	<u>8,554</u>
	20,074	35,864	72,194	173,507
Less: amounts capitalised as cost of inventories manufactured	<u>(14,511)</u>	<u>(30,355)</u>	<u>(59,286)</u>	<u>(143,653)</u>
	<u>5,563</u>	<u>5,509</u>	<u>12,908</u>	<u>29,854</u>
Expenses related to short-term leases	824	1,872	16,375	8,214
Auditor's remuneration	159	366	1,461	4,266
Cost of inventories recognised as expense	<u>535,303</u>	<u>1,145,888</u>	<u>2,243,204</u>	<u>4,258,249</u>

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive's emoluments

Details of the emoluments paid or payable to the directors of the Company (including emoluments for the services as employees of the group entities prior to becoming the directors of the Company) by the group entities during the Track Record Period are as follows:

	Date of appointment as a director of the Company	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
<i>For the year ended</i>						
<i>31 December 2016</i>						
Executive directors:						
— Mr. Chen	22 July 2019	—	516	32	—	548
— Mr. Xiong Shaoming . . .	25 October 2019	—	449	29	—	478
		—	965	61	—	1,026
<i>For the year ended</i>						
<i>31 December 2017</i>						
Executive directors:						
— Mr. Chen	22 July 2019	—	521	46	—	567
— Mr. Xiong Shaoming . . .	25 October 2019	—	451	36	—	487
		—	972	82	—	1,054
<i>For the year ended</i>						
<i>31 December 2018</i>						
Executive directors:						
— Mr. Chen	22 July 2019	—	522	57	—	579
— Mr. Xiong Shaoming . . .	25 October 2019	—	797	39	—	836
— Mr. Wang Guisheng . . .	25 October 2019	—	2,213	45	—	2,258
		—	3,532	141	—	3,673
<i>For the year ended</i>						
<i>31 December 2019</i>						
Executive directors:						
— Mr. Chen	22 July 2019	—	526	51	—	577
— Mr. Xiong Shaoming . . .	25 October 2019	—	524	54	—	578
— Mr. Wang Guisheng . . .	25 October 2019	—	2,429	54	3,921	6,404
		—	3,479	159	3,921	7,559

Note: 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.

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

During the Track Record Period, a director of the Company was granted share options, in respect of this services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in note 31.

(b) Employees' emoluments

The five highest paid individuals of the Group during the Track Record Period included one director of the Company for the years ended 31 December 2016, 2017, 2018 and 2019, respectively, details of his emolument is set out above. Details of the remuneration of the remaining four highest paid employees who are neither a director nor chief executive of the Company for the years ended 31 December 2016, 2017, 2018 and 2019, respectively, are as follows:

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Salaries, bonus and other allowances	2,400	2,458	5,297	2,261
Retirement benefit scheme contributions . . .	105	184	214	178
Share-based payment expense	—	—	—	22,579
	<u>2,505</u>	<u>2,642</u>	<u>5,511</u>	<u>25,018</u>

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			
	Year ended 31 December			
	2016	2017	2018	2019
Nil to HK\$1,000,000	4	4	—	—
HK\$1,000,001 to HK\$1,500,000	—	—	3	—
HK\$1,500,001 to HK\$2,000,000	—	—	1	—
HK\$2,000,001 to HK\$2,500,000	—	—	—	1
HK\$2,500,001 to HK\$3,000,000	—	—	—	1
HK\$3,000,001 to HK\$3,500,000	—	—	—	1
HK\$3,500,001 to HK\$4,000,000	—	—	—	1
HK\$4,000,001 to HK\$4,500,000	—	—	—	1
HK\$4,500,001 to HK\$5,000,000	—	—	—	1
HK\$5,000,001 to HK\$5,500,000	—	—	—	1
HK\$5,500,001 to HK\$6,000,000	—	—	—	1
HK\$6,000,001 to HK\$6,500,000	—	—	—	1
HK\$6,500,001 to HK\$7,000,000	—	—	—	1
HK\$7,000,001 to HK\$7,500,000	—	—	—	1
HK\$7,500,001 to HK\$8,000,000	—	—	—	1
HK\$8,000,001 to HK\$8,500,000	—	—	—	1
HK\$8,500,001 to HK\$9,000,000	—	—	—	1
	<u>—</u>	<u>—</u>	<u>—</u>	<u>1</u>

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

12. DIVIDENDS

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Smoore Shenzhen	<u>4,221</u>	<u>38,740</u>	<u>175,088</u>	<u>1,141,964</u>

The rate of dividend and number of shares ranking for dividend are not presented as such information is not meaningful having regards to the purpose of this report.

No dividend was paid or declared by the Company since its incorporation.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the Track Record Period is as follow:

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Earnings:				
Earnings for the purpose of basic earnings per share	<u>106,200</u>	<u>188,980</u>	<u>733,952</u>	<u>2,173,789</u>
Effect of dilutive potential ordinary shares:				
Loss on fair value changes of convertible promissory notes	N/A	N/A	N/A	3,635
Loss on fair value changes of convertible preferred shares	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>400</u>
Earnings for the purpose of diluted earnings per share	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>2,177,824</u>
	'000	'000	'000	'000
Number of shares:				
Weighted average number of ordinary shares for the purpose of calculating earnings per share	<u>5,000,131</u>	<u>5,064,000</u>	<u>5,064,000</u>	<u>5,051,511</u>
Effect of dilutive potential ordinary shares:				
Convertible promissory notes	N/A	N/A	N/A	18,151
Convertible preferred shares	N/A	N/A	N/A	12,489
Share options	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>12,233</u>
	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>5,094,384</u>

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Reorganisation and the Capitalisation Issue as referred to in the section headed "Share Capital" in the prospectus and as disclosed in note 42 had been effected since 1 January 2016.

No diluted earnings per share for the years ended 31 December 2016, 2017 and 2018 were presented as there were no potential ordinary shares in issue for the relevant year.

14. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets for buildings	Right-of-use assets for land use rights	Leasehold improvements	Plant and machinery	Furniture and fixtures	Electronic equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST									
At 1 January 2016	24,162	—	13,023	17,185	8,628	3,624	886	8,241	75,749
Additions	21,042	—	3,675	4,144	2,101	2,766	324	11,604	45,656
Transfer	—	—	—	14,619	—	—	—	(14,619)	—
Disposals	(1,062)	—	—	(79)	(14)	(45)	—	—	(1,200)
At 31 December 2016	44,142	—	16,698	35,869	10,715	6,345	1,210	5,226	120,205
Additions	89,262	—	10,837	22,978	3,307	1,359	—	16,931	144,674
Transfer	—	—	—	12,140	—	—	—	(12,140)	—
Disposals/termination of leases	(2,064)	—	—	—	(36)	(31)	—	—	(2,131)
At 31 December 2017	131,340	—	27,535	70,987	13,986	7,673	1,210	10,017	262,748
Additions	199,545	—	95,571	56,163	12,954	10,075	2,459	18,443	395,210
Transfer	—	—	—	6,311	—	—	—	(6,311)	—
Disposals/termination of leases	(19,446)	—	—	(7,792)	(5,730)	(786)	—	—	(33,754)
At 31 December 2018	311,439	—	123,106	125,669	21,210	16,962	3,669	22,149	624,204
Additions	278,846	54,487	112,829	89,094	23,856	61,060	2,206	49,300	671,678
Transfer	—	—	—	22,224	—	—	—	(22,224)	—
Disposals/written-off/ termination of leases	(85,288)	—	(58,406)	(33,659)	(4,320)	(4,983)	—	—	(186,656)
At 31 December 2019	504,997	54,487	177,529	203,328	40,746	73,039	5,875	49,225	1,109,226
DEPRECIATION									
At 1 January 2016	7,710	—	3,126	2,055	1,505	1,182	309	—	15,887
Provided for the year	7,883	—	3,290	2,037	1,644	823	225	—	15,902
Eliminated on disposals	(1,062)	—	—	—	(7)	(30)	—	—	(1,099)
At 31 December 2016	14,531	—	6,416	4,092	3,142	1,975	534	—	30,690
Provided for the year	18,590	—	4,524	4,648	1,933	1,061	244	—	31,000
Eliminated on disposals/ termination of leases	(2,064)	—	—	—	(18)	(23)	—	—	(2,105)
At 31 December 2017	31,057	—	10,940	8,740	5,057	3,013	778	—	59,585
Provided for the year	39,048	—	14,505	9,032	2,629	1,675	251	—	67,140
Eliminated on disposals/ termination of leases	(19,446)	—	—	(1,997)	(2,499)	(670)	—	—	(24,612)
At 31 December 2018	50,659	—	25,445	15,775	5,187	4,018	1,029	—	102,113
Provided for the year	102,692	182	33,753	15,822	5,294	6,618	592	—	164,953
Eliminated on disposals/ written-off/termination of leases	(16,822)	—	(19,179)	(5,909)	(1,031)	(1,852)	—	—	(44,793)
At 31 December 2019	136,529	182	40,019	25,688	9,450	8,784	1,621	—	222,273
CARRYING VALUES									
At 31 December 2016	29,611	—	10,282	31,777	7,573	4,370	676	5,226	89,515
At 31 December 2017	100,283	—	16,595	62,247	8,929	4,660	432	10,017	203,163
At 31 December 2018	260,780	—	97,661	109,894	16,023	12,944	2,640	22,149	522,091
At 31 December 2019	368,468	54,305	137,510	177,640	31,296	64,255	4,254	49,225	886,953

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 at the following useful lives:

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

The Group as lessee

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

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

In addition, the Group acquired leasehold lands in Jiangmen to establish new production bases for a cash consideration of approximately RMB54,487,000 and its production facilities were under construction as at 31 December 2019. The Group is the registered owner of these property interests, including the underlying leasehold lands. The leasehold land components of these owned properties are presented separately.

The Group regularly entered into short-term leases for certain leasehold land and buildings. At the end of each reporting period, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed in note 10.

Restrictions or covenants on leases

In addition, lease liabilities of RMB30,598,000, RMB102,436,000, RMB267,908,000 and RMB389,469,000 are recognised as at 31 December 2016, 2017, 2018 and 2019 respectively. 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.

The Group as lessor

The Group leases out a motor vehicle to EVE Energy Co., Ltd.[#] (惠州億緯鋰能股份有限公司) (“EVE Energy”) for rental income. Lease contract is entered into for fixed term of 3 years.

[#] English name is for identification purpose only

15. INTANGIBLE ASSETS

	Development costs	Technology know-how	Softwares	Total
	RMB'000	RMB'000	RMB'000	RMB'000
COST				
At 1 January 2016	2,883	15,238	1,846	19,967
Additions	11,475	—	405	11,880
Write off	(1,527)	—	—	(1,527)
Transfer	(5,842)	5,842	—	—
At 31 December 2016	6,989	21,080	2,251	30,320
Additions	—	—	1,631	1,631
Write-off	(6,989)	—	—	(6,989)
At 31 December 2017	—	21,080	3,882	24,962
Additions	5,495	—	5,217	10,712
Transfer	(5,495)	5,495	—	—
At 31 December 2018	—	26,575	9,099	35,674
Additions	46,028	—	3,961	49,989
Transfer	(46,028)	46,028	—	—
Written-off	—	(6,142)	(1,626)	(7,768)
At 31 December 2019	—	66,461	11,434	77,895
AMORTISATION AND IMPAIRMENT				
At 1 January 2016	—	3,298	442	3,740
Provided for the year	—	3,765	407	4,172
At 31 December 2016	—	7,063	849	7,912
Provided for the year	—	4,268	596	4,864
At 31 December 2017	—	11,331	1,445	12,776
Provided for the year	—	3,967	1,087	5,054
Impairment loss recognised in the year	—	483	—	483
At 31 December 2018	—	15,781	2,532	18,313
Provided for the year	—	6,542	2,012	8,554
Written-off	—	(6,142)	(1,626)	(7,768)
At 31 December 2019	—	16,181	2,918	19,099
CARRYING VALUES				
At 31 December 2016	6,989	14,017	1,402	22,408
At 31 December 2017	—	9,749	2,437	12,186
At 31 December 2018	—	10,794	6,567	17,361
At 31 December 2019	—	50,280	8,516	58,796

Development costs and technology know-how are internally generated. All of the Group's softwares were acquired from third parties.

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

16. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised and movements thereon during the Track Record Period.

	Right-of-use assets/lease liabilities	Allowance for credit losses/ doubtful debts	Allowance for inventories	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	152	—	25	177
Credit (charge) to profit or loss	95	44	(1)	138
At 31 December 2016	247	44	24	315
Credit to profit or loss	291	242	527	1,060
At 31 December 2017	538	286	551	1,375
Adjustment (Note 3)	—	111	—	111
At 1 January 2018 (restated)	538	397	551	1,486
Credit to profit or loss	1,243	1,072	215	2,530
At 31 December 2018	1,781	1,469	766	4,016
Credit to profit or loss	3,469	695	5,624	9,788
At 31 December 2019	5,250	2,164	6,390	13,804

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the Historical Financial Information in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB106,172,000, RMB240,426,000, RMB841,264,000 and RMB1,836,757,000, respectively, as at 31 December 2016, 2017, 2018 and 2019, 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 2016, 2017, 2018 and 2019, the Group had unused tax losses of RMB3,128,000, nil, RMB34,000 and RMB10,861,000, respectively, 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:

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
2019	1,164	—	—	—
2020	445	—	—	—
2021	1,519	—	—	—
2022	—	—	—	—
2023	—	—	34	34
2024	—	—	—	10,827
	3,128	—	34	10,861

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

17. INVENTORIES

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	52,726	70,719	108,160	167,097
Work in progress	47,419	42,132	112,967	153,914
Finished goods	27,066	58,492	170,360	227,001
	<u>127,211</u>	<u>171,343</u>	<u>391,487</u>	<u>548,012</u>

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets designated at FVTPL:				
— structured bank deposits	<u>41,622</u>	<u>93,068</u>	<u>—</u>	<u>—</u>

As at 31 December 2016 and 2017, structured bank deposits are short-term investments with no predetermined or guaranteed return and are principal protected. These financial assets are with expected rates of return (not guarantee), depending on the movement of market interest rate at the maturity date. The deposits may be withdrawn by the Group at any time.

19. TRADE AND BILLS RECEIVABLES

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables from contracts with customers				
— third parties	110,759	142,738	361,099	446,908
— related parties	<u>—</u>	<u>94</u>	<u>—</u>	<u>—</u>
	110,759	142,832	361,099	446,908
Less: allowance for doubtful debts/credit losses . . .	<u>(2,213)</u>	<u>(3,443)</u>	<u>(8,212)</u>	<u>(8,802)</u>
	108,546	139,389	352,887	438,106
Bills receivables	<u>—</u>	<u>—</u>	<u>—</u>	<u>220,900</u>
	<u>108,546</u>	<u>139,389</u>	<u>352,887</u>	<u>659,006</u>

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

As at 1 January 2016, trade receivables from contracts with customers amounted to RMB50,730,000.

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

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables				
Within 30 days	69,834	105,535	218,831	220,001
31 to 60 days	12,270	19,838	115,878	213,284
61 to 90 days	9,279	1,834	14,876	2,668
Over 90 days	<u>17,163</u>	<u>12,182</u>	<u>3,302</u>	<u>2,153</u>
	<u>108,546</u>	<u>139,389</u>	<u>352,887</u>	<u>438,106</u>

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB52,953,000, RMB32,218,000, RMB127,702,000 and RMB8,102,000 as at 31 December 2016, 2017, 2018 and 2019, respectively, which are past due at the end of each reporting period for which the Group has not provided for impairment loss as the Group considers such balances could be recovered based on historical experience. The Group does not hold any collateral over these balances.

The maturity dates of bills receivables are within six months as at 31 December 2019.

Ageing of trade receivables which are past due but not impaired:

	As at 31 December	
	2016	2017
	RMB'000	RMB'000
Within 30 days	16,774	19,244
31 to 60 days	11,202	1,617
61 to 90 days	8,584	1,626
Over 90 days	<u>16,393</u>	<u>9,731</u>
	<u>52,953</u>	<u>32,218</u>

As at 31 December 2018 and 2019, RMB900,000 and RMB37,000 have been past due over 90 days or more and is not considered as in default because there had not been significant change in credit quality and the amounts are still considered recoverable.

The management assessed at 31 December 2016 and 2017 whether there is objective evidence that trade receivables are impaired. The Group would provide for individual receivable that were considered to be impaired based on management assessment performed at 31 December 2016 and 2017.

Movements in the allowance on trade receivables for the two years ended 31 December 2016 and 2017:

	Year ended 31 December	
	2016	2017
	RMB'000	RMB'000
Balance at the beginning of the year	—	2,213
Impairment loss recognised	2,213	1,230
Closing at the end of the year	2,213	3,443

Details of impairment assessment of trade receivables for the years ended 31 December 2018 and 2019 are set out in note 33(b).

At the end of each 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.

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
US dollars ("US\$")	65,360	128,967	203,850	359,248
Euro ("EUR")	—	—	35	—

20. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Value added tax recoverable	32,573	67,719	113,436	172,025
Prepayments	2,133	10,670	17,891	34,755
Rental deposits	1,588	5,168	17,142	33,466
Other receivable from a related party (<i>note</i>)	—	—	62	—
Deferred issue costs	—	—	269	5,233
Others	2,288	8,161	4,129	9,995
	38,582	91,718	152,929	255,474
Less: rental deposits (non-current portion)	(1,395)	(3,989)	(13,715)	(24,146)
	37,187	87,729	139,214	231,328

Note: Particular of other receivable from a related party is disclosed as follows:

						<u>Maximum amount outstanding</u>			
	<u>As at</u>		<u>As at 31 December</u>			<u>Year ended 31 December</u>			
	<u>1 January</u>								
	<u>2016</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
EVE Energy	—	—	—	62	—	10	10	62	70

The amount due from EVE Energy, being the shareholder of the Company, was non-trade in nature, interest free and repayable on demand.

The Company

The amount represents deferred issue costs and prepayments of expenses as at 31 December 2019.

21. RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

The Group

(a) *Restricted bank deposits*

As at 31 December 2018, bank balances of approximately RMB15,564,000 were pledged to a bank to secure bank guarantees which were given to the PRC custom authority for importing raw materials from overseas to the PRC. The restricted bank deposits do not carry any interest and are expected to be released within one year.

(b) **Bank balances and cash**

The Group's bank balances carry interests at prevailing market rates which range from 0% to 0.3%, 0% to 0.3%, 0% to 0.3% and 0% to 0.3% per annum as at 31 December 2016, 2017, 2018 and 2019, respectively.

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.

	<u>As at 31 December</u>			
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
US\$	99,891	232,585	97,478	156,826
EUR	40	21	1,742	—
GBP	—	1	748	346
Hong Kong dollars ("HK\$")	—	—	388	34
Russian Ruble ("RUB")	3	3	—	—
Japanese Yen ("JPY")	—	3	—	—
	<u>99,934</u>	<u>232,613</u>	<u>100,356</u>	<u>157,206</u>

The Company

The bank balances of the Company carry interest at market rates of 0.25% as at 31 December 2019 and denominated in RMB and US\$.

22. TRADE PAYABLES

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables				
— third parties	158,681	356,823	548,559	418,769
— related parties	12,828	11,504	22,620	22,978
	<u>171,509</u>	<u>368,327</u>	<u>571,179</u>	<u>441,747</u>

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

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

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	115,679	276,269	446,014	347,068
31–60 days	34,416	55,761	103,931	78,952
61–90 days	9,042	21,174	12,006	14,843
Over 90 days	12,372	15,123	9,228	884
	<u>171,509</u>	<u>368,327</u>	<u>571,179</u>	<u>441,747</u>

23. OTHER PAYABLES AND ACCRUED EXPENSES

	The Group				The Company
	As at 31 December				As at 31 December 2019
	2016	2017	2018	2019	RMB'000
	RMB'000	RMB'000	RMB'000	RMB'000	
Accrued staff costs and benefits	33,957	104,927	212,871	365,707	—
Other payables	3,135	10,305	42,947	91,546	—
Accrued expenses	850	5,274	22,482	61,818	231
Other tax payables	3,940	7,129	20,350	34,100	—
Accrued listing expenses and issue costs	—	—	1,077	19,386	19,386
	<u>41,882</u>	<u>127,635</u>	<u>299,727</u>	<u>572,557</u>	<u>19,617</u>

24. CONTRACT LIABILITIES

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

Revenue recognised during each reporting period included the whole amount of contract liabilities at the beginning of the respective reporting period. There was no revenue recognised during the Track Record Period that related to performance obligations that were satisfied in prior years.

As at 1 January 2016, contract liabilities amounted to RMB8,009,000.

25. LEASE LIABILITIES

The exposure of the Group's lease liabilities are as follows:

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Analysed for reporting purposes as:				
— Current liabilities	9,885	21,350	56,079	106,566
— Non-current liabilities	20,713	81,086	211,829	282,903
	<u>30,598</u>	<u>102,436</u>	<u>267,908</u>	<u>389,469</u>
	Present value of minimum lease payments			
	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Lease liabilities:				
— Within one year	9,885	21,350	56,079	106,566
— More than one year, but not exceeding two years	6,237	20,222	60,710	110,941
— More than two years but not exceeding five years	11,806	57,601	151,119	153,273
— More than five years	2,670	3,263	—	18,689
	<u>30,598</u>	<u>102,436</u>	<u>267,908</u>	<u>389,469</u>
Less: Amounts due for settlement within twelve months (shown under current liabilities)	<u>(9,885)</u>	<u>(21,350)</u>	<u>(56,079)</u>	<u>(106,566)</u>
Amounts due for settlement after twelve months	<u>20,713</u>	<u>81,086</u>	<u>211,829</u>	<u>282,903</u>

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 2016, 2017, 2018 and 2019, the weighted average incremental borrowing rate applied is 4.84%, 4.87%, 5.32% and 4.79%, respectively. 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.

The total cash outflows for leases including the payments of lease liabilities for the years ended 31 December 2016, 2017, 2018 and 2019 were approximately RMB9,181,000, RMB21,668,000, RMB55,669,000 and RMB112,395,000, respectively.

26. CONVERTIBLE PROMISSORY NOTES

On 30 October 2019 ("Issuance Date"), the Company issued convertible promissory notes (the "Notes") to three Pre-IPO investors namely, Nall Technology Holdings LP ("Nall Technology"), On Ride Investments Limited ("On Ride") and Osborne Investment Limited ("Osborne"), for a total consideration of approximately US\$51,600,000 (equivalent to approximately RMB364,203,000).

The Notes are denominated in US\$, non-redeemable, unsecured and bear interest of 8% per annum on the principal outstanding amount.

At maturity date, the holders shall have the right, at its sole and absolute discretion, to convert all the principal amount of the Notes into: (i) convertible preferred shares ("Series A-2 Preferred Shares"); (ii) ordinary shares immediately prior to the closing of a Qualified IPO (as defined and detailed below) if the Qualified IPO occurs before maturity date; or (iii) ordinary shares or Series A-2 Preferred Shares on another date as mutually agreed by the holders and the Company at the conversion price of US\$ 39,254 per share before the Capitalisation Issue.

The maturity date of the Notes is the earlier of (i) 180 days following the Issuance Date of the Notes; or (ii) the date upon which an event of default, a trade sale or a Qualified IPO occurs. No interest shall be payable in the event that the Notes are converted into the ordinary shares or Series A-2 Preferred Shares of the Company.

Each of the holders of the Series A-2 Preferred Shares shall have the rights to convert Series A-2 Preferred Shares into ordinary shares of the Company at any time after the issuance date and shall automatically be converted into ordinary shares of the Company upon the completion of the Capitalisation Issue and the Global Offering (as defined in the section headed "Structure of the Global Offering" in the prospectus) at the then effective conversion price. The conversion price shall be subject to adjustments and the initial conversion ratio for Series A-2 Preferred Shares to ordinary shares is 1:1.

Upon completion of the Capitalisation Issue and the Global Offering (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 (as defined in note 27 and detailed in note 31), any options which may be granted under the Post-IPO share option scheme (as defined in the section headed "Share Capital" in the prospectus) or any adjustment of the conversion ratio for Preferred Shares (as defined in note 27), each of Nall Technology, On Ride and Osborne will directly hold 57,064,000, 19,360,960 and 28,735,760 ordinary shares of the Company, representing approximately 0.99%, 0.34% and 0.50% of the total issued capital of the Company at the date of conversion, respectively.

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

The convertible promissory notes were valued by the directors with reference to valuation report carried out by an independent qualified professional valuer, Ravia Global Appraisal Advisory Limited, whose address is Unit B, 12/F, CKK Commercial Centre, 289 Hennessy Road, Wan Chai, Hong Kong. The valuer is not connected to the Group and has appropriate qualifications and experiences in valuation of similar instruments.

The Company used the discounted cash flow model to determine the underlying equity value of the Company and used the binomial pricing model to arrive the fair value of the convertible promissory notes as of the date of issuance and at the end of each reporting period.

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

	At 30 October 2019	At 31 December 2019
Risk-free rate	1.61%	1.56%
Volatility	40%	40%
Dividend yield	1.50%	1.50%
Possibilities under Qualified IPO within 180 days scenario	20%	20%
Possibilities under no-qualifying IPO within 180 days scenario	80%	80%

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

The movement of the convertible promissory notes for the year ended 31 December 2019 is set out as below:

	RMB'000
At 1 January 2019	—
Issuance	364,203
Loss arising on changes of fair value (<i>Note</i>)	3,635
At 31 December 2019	367,838

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

27. CONVERTIBLE PREFERRED SHARES

As part of the Reorganisation as disclosed in note 2, the Company had issued rights to subscribe 837.969 preferred shares of US\$0.01 each (the “Rights”) to an existing shareholder of Smoore Shenzhen. On 25 October 2019, the Rights were transferred from an entity controlled by the existing shareholder of Smoore Shenzhen to five Pre-IPO investors, namely CCG China Dancing L.P. (“CCG China”), Dora Medical HK Limited (“Dora Medical”), EVOLUT CAPITAL FUND SPC (“EVOLUT CAPITAL”), Hero Might Investments Limited (“Hero Might”) and Islandwide Holdings (“Islandwide”) and the Pre-IPO investors exercised its rights to convert into preferred shares (“Series A-1 Preferred Shares”). The Series A-1 Preferred shares are non-redeemable and non-interest bearing.

Each of the holders of the Series A-1 Preferred Shares shall have the rights to convert Series A-1 Preferred Shares into ordinary shares of the Company at any time after the issuance date and shall automatically be converted into ordinary shares of the Company upon the completion of the Capitalisation Issue and the Global Offering at the then effective conversion price. The conversion ratio shall be subject to adjustments and the initial conversion ratio for Series A-1 Preferred Shares to ordinary shares is 1:1. Upon completion of the Capitalisation Issue and the Global Offering (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 (the “Scheme”) or any options which may be granted under the post-IPO share option scheme), each of CCG China, Dora Medical, EVOLUT CAPITAL, Hero Might and Islandwide will hold 10,499,840, 17,769,040, 6,461,440, 8,076,800 and 24,230,400 ordinary shares, respectively, representing approximately 0.18%, 0.31%, 0.11%, 0.14% and 0.42% of the total issued capital of the Company at the date of conversion.

The holders of Series A-1 Preferred Shares and Series A-2 Preferred Shares (collectively, the “Preferred Shares”) are entitled to the following rights:

(a) Dividends rights

The Preferred Shares shall be entitled to receive a proportionate share of any such dividend or distribution, based on the number of shares then held by each member on an as-converted basis. The Company cannot declare, pay or set aside any dividends on ordinary shares unless the Preferred Shares holders shall first receive, or simultaneously receive, such dividends. Such dividends are not cumulative. No dividends have been declared up to the date of this report.

(b) Liquidation preferences

In the event of any liquidation of any group entities (except any insignificant subsidiary of the Company), the holders of Preferred Shares shall be entitled to, among others, (i) receive an amount equal to the issue price of such outstanding Preferred Shares with a simple interest of 8% per annum before any distribution or payment shall be made to the holders of any ordinary shares of our Company; and (ii) participate in the distribution of the remaining assets or funds of our Company with the holders of ordinary shares of our Company ratably based on their respective shareholding (on as-converted basis) prior to the occurrence of a liquidation event of the any group entities.

(c) Anti-dilution rights

In the event that the Company issues any new Shares without consideration or for a consideration per share less than the then-effective conversion price per share, the holders of Preferred Shares have the right to reduce its then-effective conversion price to the price per share at which such new shares were issued, concurrently with such diluting issue, or at their sole discretion, elect to receive compensation from the Company and/or Mr. Chen and Mr. Xiong, collectively in the form of cash.

The convertible preferred shares are financial liabilities measured at FVTPL. The change in fair value of the convertible preferred shares is charged to profit or loss and is included under the “other gains and losses” line item. Management considered that there is no credit risk of the financial liability that drives the change of the fair value of the financial liability.

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

The Company used the discounted cash flow model to determine the underlying equity value of the Company and performed an equity allocation based on Black-Scholes model to arrive the fair value of the convertible preferred shares as of the date of issuance and at the end of each reporting period.

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

	At 25 October 2019	At 31 December 2019
Risk-free rate	1.60%	1.58%
Volatility	40%	40%
Dividend yield	1.50%	1.50%
Possibilities under liquidation scenario	10%	10%
Possibilities under Qualified IPO scenario	90%	90%

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

	RMB'000
At 1 January 2019	—
Issuance (<i>Note i</i>)	232,032
Loss arising on changes of fair value (<i>Note ii</i>)	400
At 31 December 2019	232,432

Notes:

- (i) The issuance of convertible preferred shares are part of the Reorganisation as disclosed in note 2 and there are no cash proceeds received.
- (ii) Changes of fair value presented in RMB include offset of exchange on translation from USD balances.

28. DEFERRED INCOME

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at beginning of the year	—	—	—	—
Government grants received	—	—	—	3,898
Released to profit or loss	—	—	—	(538)
Balance at end of the year	—	—	—	3,360
Less: Amount to be recognised as income within one year included in current liabilities . . .	—	—	—	(708)
Amount to be recognised as income after one year included in non-current liabilities	—	—	—	2,652

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

29. TRANSFERS OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2016, 2017, 2018 and 2019 that were transferred to banks by discounting bills receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a collateralised borrowing. These financial assets are carried at amortised cost in the Group's consolidated statements of financial positions.

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount of bills receivables				
discounted to bank with full recourse	—	—	—	79,536
Carrying amount of associated liabilities	—	—	—	(79,536)
Net position	—	—	—	—

30. SHARE CAPITAL**The Group**

The share capital as at 1 January 2016, 31 December 2016, 31 December 2017 and 31 December 2018 represented the share capital of Smoore Shenzhen of RMB60,000,000, RMB63,300,000, RMB63,300,000 and RMB63,300,000, respectively.

The share capital as at 31 December 2019 represented the share capital of the Company.

The Company

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

Issued and fully paid	Number of share	Share Capital	
		US\$'000	RMB'000
At 22 July 2019 (date of incorporation)	1.000	—*	—*
Issuance of ordinary shares (<i>Note ii</i>)	62,461.031	—*	4
At 31 December 2019	62,462.031	—*	4

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

Notes:

- (i) On 25 October 2019, the Company redesignated and reclassified 100,000,000 shares and 200,000,000 shares in its authorised capital into Series A-1 Preferred Shares and Series A-2 Preferred Shares, respectively.
- (ii) On 22 July 2019, the Company issued 1 ordinary share to the initial subscriber, which was subsequently transferred to an entity ("BVI 1") wholly owned by Mr. Chen and issued additional 99 ordinary shares to BVI 1. On 25 October 2019, the Company issued an aggregate of 61,831.65 ordinary shares to the Existing Shareholders and rights to subscribe 530.381 ordinary shares to one of the Existing Shareholders. The rights were subsequently exercised and all ordinary shares were fully paid up at cash consideration of approximately US\$624 on 29 November 2019.

31. SHARE-BASED PAYMENT TRANSACTIONS

The Scheme was adopted pursuant to a resolution passed on 30 September 2019 for the purpose of incentivising and retaining directors, senior management and other employees for their contribution to the Group. Under the 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 30 September 2019, options to subscribe for an aggregate of 202,919,000 shares of the Company, representing approximately 3.3% of the issued share capital of the Company (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 Scheme or any options which may be granted under the post-IPO share option scheme), at an exercise price of RMB0.38 per share, have been granted under the Scheme conditionally upon the listing of shares of the Company. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of the initial listing of shares of the Company on the Stock Exchange (the "Listing Date"), without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue as at the Listing Date, without prior approval from the Company's shareholders.

The number of shares in respect of which options had been granted and the exercise price are presented based on the assumption that the Capitalisation Issue had been effective on the grant date. The number of share options granted shall be subject to adjustment in case of any changes in the Capitalisation Issue.

The following table discloses movement of the Company's share options held by a director of the Company and certain employees during the year ended 31 December 2019:

	Number of share options		
	Director	Employees	Total
Granted on 30 September 2019:			
Lot I	6,000,000	76,806,000	82,806,000
Lot II	1,800,000	34,039,000	35,839,000
Lot III	1,800,000	36,777,000	38,577,000
Lot IV	2,400,000	32,530,000	34,930,000
Lot V	—	10,767,000	10,767,000
Total outstanding at 31 December 2019	12,000,000	190,919,000	202,919,000
Exercisable at the end of the year			—
Exercise price			RMB0.38

Details of specific categories of options are as follows:

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 (<i>Note</i>)			RMB484,140,000
Total expenses charged to consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019			RMB61,268,000

Note: 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.

In respect of the share options granted on 30 September 2019, the key inputs into the model were as follows:

Weighted average share prices	RMB3.11
Exercise price	RMB0.38
Risk-free rate	3.14%
Expected volatility	40%
Expected dividend yield	1.50%

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

32. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which include advances drawn on bills receivables discounted with recourse, convertible promissory notes and convertible preferred shares, net of cash and cash equivalents and equity of the Group, comprising share capital, retained earnings 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.

33. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	The Group				The Company
	As at 31 December				As at 31 December
	2016	2017	2018	2019	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets					
Loans and receivables					
(including bank balances					
and cash)	216,809	485,960	—	—	—
Amortised cost	—	—	1,331,748	1,433,861	1,900
Designated at FVTPL	41,622	93,068	—	—	—
	<u>258,431</u>	<u>579,028</u>	<u>1,331,748</u>	<u>1,433,861</u>	<u>1,900</u>
Financial liabilities					
Amortised cost	174,644	378,632	615,203	632,215	80,867
FVTPL					
— Convertible promissory					
notes	—	—	—	367,838	367,838
— Convertible preferred					
shares	—	—	—	232,432	232,432
Lease liabilities	30,598	102,436	267,908	389,469	—
	<u>205,242</u>	<u>481,068</u>	<u>883,111</u>	<u>1,621,954</u>	<u>681,137</u>

b. Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL, trade and bills receivables, other receivables, restricted bank deposits, bank balances and cash, trade payables, other payables, convertible promissory notes, convertible preferred shares, 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 and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk***Currency risk***

The Group and the Company undertakes certain transactions denominated in foreign currencies which are different from RMB, the functional currency of the group entities and the Company. 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.

The carrying amounts of the Group and the Company's foreign currency denominated monetary assets and monetary liabilities as at 31 December 2016, 2017, 2018 and 2019 are as follows.

	Assets					Liabilities				
	The Group				The Company	The Group				The Company
	As at 31 December				As at 31 December	As at 31 December				As at 31 December
	2016	2017	2018	2019	2019	2016	2017	2018	2019	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
US\$	206,873	374,620	301,328	516,076	4	26,161	33,355	30,170	657,789	616,352
GBP	—	1	748	346	—	—	—	—	—	—
HK\$	—	—	388	204	—	—	—	—	614	614
EUR	40	21	1,777	—	—	—	—	—	—	—
RUB	3	3	—	—	—	—	—	—	—	—
JPY	—	3	—	—	—	—	—	—	—	—
	<u>206,916</u>	<u>374,648</u>	<u>304,241</u>	<u>516,626</u>	<u>4</u>	<u>26,161</u>	<u>33,355</u>	<u>30,170</u>	<u>658,403</u>	<u>616,966</u>

Sensitivity analysis

The above GBP, HK\$, EUR, RUB and JPY denominated assets are insignificant to the Group. Accordingly, no sensitivity analysis is prepared in management's opinion.

The following table details the Group and the Company's sensitivity to a 10% increase and decrease in US\$, against the functional currency of the respective group entities. 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 period end for 10% change in foreign currency rates. A positive number below indicates an increase in post-tax profit where the US\$ strengthens 10% against the functional currency. For a 10% weakening of the US\$ against the functional currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	The Group				The Company
	Year ended 31 December				Year ended 31 December
	2016	2017	2018	2019	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
US\$	15,361	29,008	22,990	(21,291)	(61,635)

Interest rate risk

The Group

The Group is exposed to fair value interest rate risk in relation to lease liabilities and advances drawn on bills receivables discounted with recourse and cash flow interest rate risk in relation to variable-rate financial assets at FVTPL and 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.

The Company

The Company is exposed to cash flow interest rate risk in relation to bank balances. No sensitivity analysis is presented as the exposure is considered to be immaterial.

Other price risk

The Group and the Company is exposed to other price risk arising from convertible promissory notes and convertible preferred shares.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at end of the reporting period for convertible promissory notes and convertible preferred shares.

For convertible promissory notes outstanding at 31 December 2019, if the equity value of the Company had been 5% higher/lower, the post-tax profit of the Group for the year ended 31 December 2019 would decrease by RMB5,940,000 and increase by RMB5,104,000, as a result of the changes in fair value of the Company's equity value.

For convertible preferred shares outstanding at 31 December 2019, if the equity value of the Company had been 5% higher/lower, the post-tax profit of the Group for the year ended 31 December 2019 would decrease by RMB10,375,000 and increase by RMB10,372,000, as a result of the changes in fair value of the Company's equity value.

Credit risk and impairment assessment

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

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

At 31 December 2016, 2017, 2018 and 2019, the Group had concentration risk as 25%, 47%, 35% and 64%, respectively, of the total gross trade receivables was due from the Group's largest debtor, and 71%, 84%, 75% and 95%, respectively, of the total gross trade receivables was due from the five largest debtors.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Group's exposure to credit risk after adoption of HKFRS 9

After the adoption of HKFRS 9, 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.

Other receivables

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

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

Bank balances and restricted bank deposits

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

Bill receivables

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

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

Internal credit rating	Description	Trade receivables	Other financial assets/other items
Group A	The counterparty has a low risk of default based on historical repayment records and has a good reputation	Lifetime ECL — not credit-impaired	12-month ECL — not credit-impaired
Group B	The counterparty has higher 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

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

					Gross carrying amounts	
					As at	As at
					31 December	31 December
					2018	2019
					RMB'000	RMB'000
	Notes	External credit rating	Internal credit rating	12-month or lifetime ECL		
Financial assets at amortised cost						
Trade receivables	19	N/A	Group A	Lifetime ECL	115,451	21,986
				— not credit-impaired		
			Group B	Lifetime ECL	205,217	271,660
				— not credit-impaired		
			Group C	Lifetime ECL	35,630	150,503
				— not credit-impaired		
			Group D	Lifetime ECL	4,801	2,759
				— credit-impaired		
Bills receivables	19	(Note ii)	N/A	12-month ECL	—	220,900
				— not credit-impaired		
Other receivables	20	N/A	(Note i)	12-month ECL	21,333	43,461
				— not credit-impaired		
Restricted bank deposits	21(a)	(Note ii)	N/A	12-month ECL	15,564	—
				— not credit-impaired		
Bank balances	21(b)	(Note ii)	N/A	12-month ECL	941,964	731,394
				— not credit-impaired		

Notes:

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

As at 31 December 2018 and 2019, the gross carrying amount of rental deposits amounted to approximately RMB17,142,000 and RMB33,466,000 and the management of the Group makes periodic individual assessment on the recoverability of rental deposits based on the landlord's credit quality.

- ii. The external credit ratings range from A2 to Bal quoted from the rating scale of an international credit rating agency.

For trade receivables which are not credit-impaired, lifetime ECL of RMB3,411,000 and RMB6,043,000 were made as at 31 December 2018 and 2019, respectively, for average loss rates below 5.9% and below 2.8%.

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

In the opinion of the management of the Group, the trade receivables within Group A, B, and C at the end of each 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)	Lifetime ECL (credit- impaired)	Total
	RMB'000	RMB'000	RMB'000
As at 31 December 2017 under HKAS 39	—	3,443	3,443
Adjustment upon application of HKFRS 9	468	—	468
As at 1 January 2018 — As restated	468	3,443	3,911
Transfer to credit-impaired	(19)	19	—
New financial assets originated	3,411	1,339	4,750
Impairment losses reversed	(449)	—	(449)
As at 31 December 2018	3,411	4,801	8,212
New financial assets originated	6,043	3,075	9,118
Impairment losses reversed	(3,411)	(825)	(4,236)
Write-offs	—	(4,292)	(4,292)
As at 31 December 2019	<u>6,043</u>	<u>2,759</u>	<u>8,802</u>

Liquidity risk

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

The following tables detail the Group and the Company's remaining contractual maturity for financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

As the convertible preferred shares issued by the Company do not contain any redemption feature, the contractual maturity for convertible preferred shares is not presented in the table below. The directors of the Company are satisfied that the Group will have sufficient financial resource to meet its financial obligation as they fall due for the foreseeable future after taking into account of the expected working capital requirements for the next twelve months from the end of the reporting period.

Liquidity tables

	Weighted average effective interest rate	On demand or less than 1 month	1 to 3 months	3 months to 1 year	1–5 years	> 5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The Group								
<i>As at 31 December 2016</i>								
Trade payables	—	171,509	—	—	—	—	171,509	171,509
Other payables	—	3,135	—	—	—	—	3,135	3,135
Lease liabilities	4.84	951	1,903	8,293	20,141	2,722	34,010	30,598
		<u>175,595</u>	<u>1,903</u>	<u>8,293</u>	<u>20,141</u>	<u>2,722</u>	<u>208,654</u>	<u>205,242</u>
<i>As at 31 December 2017</i>								
Trade payables	—	368,327	—	—	—	—	368,327	368,327
Other payables	—	10,305	—	—	—	—	10,305	10,305
Lease liabilities	4.87	2,456	4,645	18,744	86,073	3,290	115,208	102,436
		<u>381,088</u>	<u>4,645</u>	<u>18,744</u>	<u>86,073</u>	<u>3,290</u>	<u>493,840</u>	<u>481,068</u>
<i>As at 31 December 2018</i>								
Trade payables	—	571,179	—	—	—	—	571,179	571,179
Other payables	—	44,024	—	—	—	—	44,024	44,024
Lease liabilities	5.32	4,717	11,032	51,982	229,953	—	297,684	267,908
		<u>619,920</u>	<u>11,032</u>	<u>51,982</u>	<u>229,953</u>	<u>—</u>	<u>912,887</u>	<u>883,111</u>
<i>As at 31 December 2019</i>								
Trade payables	—	426,498	15,029	220	—	—	441,747	441,747
Other payables	—	110,932	—	—	—	—	110,932	110,932
Advance drawn on bills receivables discounted with recourse	2.58	—	79,541	—	—	—	79,541	79,536
Convertible promissory notes . .	8.00	—	—	377,647	—	—	377,647	367,838
Lease liabilities	4.79	10,078	20,358	92,454	284,493	20,482	427,865	389,469
		<u>547,508</u>	<u>114,928</u>	<u>470,321</u>	<u>284,493</u>	<u>20,482</u>	<u>1,437,732</u>	<u>1,389,522</u>
The Company								
<i>As at 31 December 2019</i>								
Other payables	—	19,386	—	—	—	—	19,386	19,386
Amounts due to subsidiaries . .	—	61,481	—	—	—	—	61,481	61,481
Convertible promissory notes . .	8.00	—	—	377,647	—	—	377,647	367,838
		<u>80,867</u>	<u>—</u>	<u>377,647</u>	<u>—</u>	<u>—</u>	<u>458,514</u>	<u>448,705</u>

c. Fair value measurements of financial instruments

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

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

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

	Fair values as at				Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31 December							
	2016	2017	2018	2019				
	RMB'000	RMB'000	RMB'000	RMB'000				
Financial assets								
The Group								
Financial assets at FVTPL	41,622	93,068	—	—	Level 2	Discounted cash flow method. Future cash flows are estimated based on estimated return and market interest rate.	N/A	N/A
Financial liabilities								
The Group and Company								
Convertible promissory notes	—	—	—	367,838	Level 3	Binomial pricing model — the key inputs are: risk-free rate, volatility and dividend yield	Volatility	Higher the volatility, higher the fair value (note a)
Convertible preferred shares	—	—	—	232,432	Level 3	Equity allocation model and Black-Scholes model — the key inputs are: risk-free rate, volatility and dividend yield	Possibilities under liquidation scenario: 10% Possibilities under successful listing scenario: 90%	Higher the possibilities under successful listing scenario, lower the fair value (note b)

There is no transfer between different levels of the fair value hierarchy during the Track Record Period.

Notes:

- (a) A 5% increase/decrease in volatility, while all other variables keep constant (including the equity value of the Company), would increase the carrying amount of convertible promissory notes as at 31 December 2019 by RMB2,193,000, or decrease the amount as at 31 December 2019 by RMB2,195,000, respectively.
- (b) A 5% increase/decrease in the possibility under successful listing scenario, while all other variables keep constant (including the equity value of the Company), would decrease the carrying amount of convertible preferred shares as at 31 December 2019 by RMB12,430,000, or increase the amount as at 31 December 2019 by RMB12,426,000, respectively.

(ii) ***Reconciliation of Level 3 fair value measurement***

Details of reconciliation of Level 3 fair value measurement for convertible promissory notes and convertible preferred shares are set out in notes 26 and 27, respectively.

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

The management of the Group considers the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information 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.

34. 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 statements of cash flows from financing activities.

	Dividend payable	Interest payable	Advance drawn on bills receivables discounted with recourse	Convertible promissory notes	Convertible preferred shares	Lease liabilities	Accrued issue costs	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	—	—	—	—	—	17,062	—	17,062
Financing cash flows	(4,221)	—	—	—	—	(8,357)	—	(12,578)
Dividend declared (note 12)	4,221	—	—	—	—	—	—	4,221
Recognition of lease liabilities	—	—	—	—	—	20,909	—	20,909
Interest expenses	—	—	—	—	—	984	—	984
At 31 December 2016	—	—	—	—	—	30,598	—	30,598
Financing cash flows	(38,740)	—	—	—	—	(19,796)	—	(58,536)
Dividend declared (note 12)	38,740	—	—	—	—	—	—	38,740
Recognition of lease liabilities	—	—	—	—	—	88,336	—	88,336
Interest expenses	—	—	—	—	—	3,298	—	3,298
At 31 December 2017	—	—	—	—	—	102,436	—	102,436
Financing cash flows	(175,088)	(619)	—	—	—	(39,294)	—	(215,001)
Dividend declared (note 12)	175,088	—	—	—	—	—	—	175,088
Recognition of lease liabilities	—	—	—	—	—	197,201	—	197,201
Interest expenses	—	619	—	—	—	7,565	—	8,184
Shares issue costs accrued	—	—	—	—	—	—	269	269
At 31 December 2018	—	—	—	—	—	267,908	269	268,177
Financing cash flows	(1,141,964)	(21)	79,536	364,203	—*	(104,181)	(2,047)	(804,474)
Dividend declared (note 12)	1,141,964	—	—	—	—	—	—	1,141,964
Recognition of lease liabilities	—	—	—	—	—	276,022	—	276,022
Early termination of leases	—	—	—	—	—	(68,432)	—	(68,432)
Issuance of convertible preferred shares (note 27)	—	—	—	—	232,032	—	—	232,032
Interest expenses	—	21	—	—	—	18,152	—	18,173
Loss on fair value changes of convertible promissory notes	—	—	—	3,635	—	—	—	3,635
Loss on fair value changes of convertible preferred shares	—	—	—	—	400	—	—	400
Shares issue costs accrued	—	—	—	—	—	—	4,964	4,964
At 31 December 2019	—	—	79,536	367,838	232,432	389,469	3,186	1,072,461

* less than RMB1,000

35. RELATED PARTY TRANSACTIONS

- (a) Save as disclosed in notes 19, 20 and 22, the Group entered into the following transactions with the related parties during the Track Record Period:

Name of related parties	Name of transactions	Year ended 31 December			
		2016	2017	2018	2019
		RMB'000	RMB'000	RMB'000	RMB'000
EVE Energy	Sales	—	274	82	—
	Purchase of raw material	25,183	71,691	114,453	208,704
	Rental income	80	120	123	41

(b) Compensation of key management personnel

The remuneration of key management personnel, including members of the board of directors and other members of senior management, during the Track Record Period were as follows:

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Salaries and other benefits	2,792	2,783	6,865	5,145
Retirement benefit schemes contributions . . .	136	220	311	293
Share-based payment expenses	—	—	—	11,344
	<u>2,928</u>	<u>3,003</u>	<u>7,176</u>	<u>16,782</u>

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

(c) Guarantee provided by a related party

As at 31 December 2017 and 2018, Mr. Chen had provided a guarantee to a bank to secure a banking facility granted to Smoore Shenzhen to the extent of approximately RMB23,000,000 and RMB100,000,000, respectively. The guarantee of RMB23,000,000 was released during the year ended 31 December 2018 and of RMB100,000,000 was released during the year ended 31 December 2019 upon renewal of the banking facility.

36. 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 Track Record Period are disclosed in notes 10 and 11.

37. MAJOR NON-CASH TRANSACTIONS

Lease liabilities for buildings with a total amount of RMB20,909,000, RMB88,336,000, RMB197,201,000 and RMB276,022,000 were recognised and the corresponding amount of RMB21,042,000, RMB89,262,000, RMB199,545,000 and RMB278,846,000 were adjusted to right-of-use assets during the years ended 31 December 2016, 2017, 2018 and 2019 respectively.

38. INVESTMENTS IN SUBSIDIARIES/PARTICULARS OF SUBSIDIARIES

	As at 31 December
	2019
	RMB'000
Unlisted shares, at cost	480,919

Investments in subsidiaries represent investment costs in Smoore Group Limited and SBI Limited.

Particular of the Company's subsidiaries at the date of this report are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Principal place of operation	Issued and fully paid capital/ registered capital	Attributable equity interest to the Group as at				Date of this report	Principal activities	Notes
				31 December						
				2016	2017	2018	2019			
Smoore Group Limited	23 July 2019 BVI	BVI	US\$100	N/A	N/A	N/A	100%	100%	Investment holding	(e)
Smoore HK	21 August 2019 Hong Kong	Hong Kong	HK\$10,000	N/A	N/A	N/A	100%	100%	Investment holding and export sales of vaping devices	(g)
SBI Limited	18 September 2018 BVI	BVI	US\$22,000	N/A	N/A	N/A	100%	100%	Investment holding	(e)
Smoore Shenzhen	21 September 2009 The PRC	The PRC	RMB66,631,579	100%	100%	100%	100%	100%	Investment holding, research and development, manufacturing and sales of vaping devices	(a)
東莞市麥克電子科技有限公司	16 September 2013 The PRC	The PRC	RMB3,000,000	100%	100%	100%	100%	100%	Manufacturing of vaping devices	(a)
深圳市麥克兄弟科技有限公司	1 April 2014 The PRC	The PRC	RMB3,000,000	100%	100%	100%	100%	100%	Manufacturing of vaping devices	(a)
東莞市思摩爾新材料科技有限公司	10 April 2018 The PRC	The PRC	RMB500,000	N/A	N/A	100%	100%	100%	Manufacturing of vaping devices	(b)
深圳市韋普萊思科技有限公司	29 May 2018 The PRC	The PRC	RMB1,000,000	N/A	N/A	100%	100%	100%	Manufacturing of vaping devices	(b)
SMOORE INDUSTRY LIMITED	12 March 2014 Hong Kong	Hong Kong	HK\$50,000	100%	100%	100%	100%	100%	Export sales of vaping devices	(c)
SVR INC.	9 May 2016 United States	United States	US\$75,000	100%	100%	100%	100%	100%	Inactive	(d)
江門摩爾科技有限公司 (previously known as 江門市尚維芯電子科技有限公司)	15 November 2018 The PRC	The PRC	RMB1,000,000	N/A	N/A	100%	100%	100%	Manufacturing and sales of vaping devices	(b)
東莞市麥克新材料科技有限公司	17 May 2019 The PRC	The PRC	RMB500,000	N/A	N/A	N/A	100%	100%	Manufacturing of vaping devices	(f)
深圳麥時科技有限公司	8 August 2019 The PRC	The PRC	RMB1,000,000	N/A	N/A	N/A	100%	100%	Manufacturing of vaping devices	(f)
長沙思摩爾電子科技有限公司	6 November 2019 The PRC	The PRC	RMB500,000	N/A	N/A	N/A	100%	100%	Inactive	(e)
江門思摩爾科技有限公司	13 November 2019 The PRC	The PRC	RMB1,000,000	N/A	N/A	N/A	100%	100%	Manufacturing and sales of vaping devices	(f)

All the companies comprising the Group are limited liability companies and have adopted 31 December as their financial year end date.

Notes:

- (a) The statutory financial statements for each of the years ended 31 December 2016, 2017 and 2018 were audited by 致同會計師事務所(特殊普通合夥). The statutory financial statements for the year ended 31 December 2019 were audited by 深圳市中資旗會計事務所(普通合夥).
- (b) The statutory financial statements for the period ended 31 December 2018 were audited by 致同會計師事務所(特殊普通合夥). The statutory financial statements for the year ended 31 December 2019 were audited by 深圳市中資旗會計事務所(普通合夥).
- (c) The statutory financial statements for each of the years ended 31 December 2016, 2017 and 2018 were audited by Lee Chi Fai & Company. The statutory audited financial statements for the year ended 31 December 2019 have not yet been due to be issued.
- (d) No statutory financial statements for each of the year ended 31 December 2016, 2017, 2018 and 2019 as there was no requirement to issue audited financial statements by local authorities.
- (e) No statutory financial statements for the period from date of incorporation/establishment to 31 December 2019 as there was no requirement to issue audited financial statements by local authorities.
- (f) The statutory financial statements for the period ended 31 December 2019 were audited by 深圳市中資旗會計師事務所(普通合夥).
- (g) No statutory financial statements have been prepared for the period since the date of incorporation as they are not yet due to issue.

39. AMOUNTS DUE FROM (TO) SUBSIDIARIES

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

40. RESERVES OF THE COMPANY

	Share Capital	Share-based payments reserve	Other reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At date of incorporation	—	—	—	—	—
Issuance of ordinary shares	4	—	—	—	4
Loss and total comprehensive expense for the period	—	—	—	(21,787)	(21,787)
Recognition of equity-settled share-based payments	—	61,268	—	—	61,268
Issuance of convertible preferred shares (note 27)	—	—	(232,032)	—	(232,032)
At 31 December 2019	<u>4</u>	<u>61,268</u>	<u>(232,032)</u>	<u>(21,787)</u>	<u>(192,547)</u>

41. COMMITMENTS

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the Historical Financial Information	4,237	20,747	21,996	61,596

At 31 December 2016, 2017, 2018 and 2019, the Group has commitment for future minimum lease payments in respect of short term leases.

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	—	1,167	4,552	1,780

42. SUBSEQUENT EVENTS

Save as disclosed in the Historical Financial Information, subsequent events of the Group are detailed as below.

- (i) On 30 April 2020, all the principal amount of the Notes held by Nall Technology, On Ride and Osborne were converted into 713,300, 242,012 and 359,197 Series A-2 Preferred Shares of US\$0.01 each, respectively.
- (ii) On 1 May 2020, the Company granted 116,113,000 share options to eligible directors, management and employees under the Pre-IPO share option scheme, on the assumption that the capitalisation issue as described in the section "Share Capital" of the Prospectus had been effective as of the date of acceptance.
- (iii) 5,169,096,105.491 shares (assuming all potential ordinary shares are issued upon conversion of convertible preferred shares) will be issued upon capitalisation of certain sums standing to the credit of the share premium account of the Company on the day preceding the Global Offering as referred to in the paragraph headed "A. Further Information About Our Group — 3. Resolutions in Writing of the Shareholders of Our Company Passed on June 15, 2020" in Appendix IV to this Prospectus.

Upon the completion of Capitalisation Issue, the Company shall have an aggregate of 5,169,160,720 ordinary shares representing the interests of 62,462,031 ordinary shares, 837,969 Series A-1 Preferred Shares, 1,314,509 Series A-2 Preferred Shares before capitalisation.

- (iv) The outbreak of the 2019 Novel Coronavirus ('COVID-19') in the world and the subsequent quarantine measures imposed by the Chinese government as well as the travel restrictions imposed by other countries in early 2020 have had a negative impact on the operations of the Group since February 2020, as most of the Group's operations are located in the PRC. It has substantially reduced China's manufacturing capability, resulting in significant disruption to global supply chains and worldwide trade, posing a significant threat to the global economy. It has a negative impact on the market sentiment of the e-cigarette market. The Directors are still assessing the financial impact that the COVID-19 will have on the Group's financial position and operating results as at the date of the report.

43. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31 December 2019.

The information set forth in this appendix does not form part of the accountants' report on historical financial information of the Group for each of the four years ended 31 December 2019 (the "Accountants' Report") prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set forth in Appendix I to this prospectus and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" to this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group prepared in accordance with Rules 4.29 of the Listing Rules is for illustrative purpose only, and is set out below to illustrate the effect of the Global Offering (as defined in this prospectus) on the consolidated net tangible assets of the Group as at 31 December 2019, as if the Global Offering had taken place on such date.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 31 December 2019 or at any future dates following the Global Offering. It is prepared based on the audited consolidated net tangible assets of the Group as at 31 December 2019 as shown in the Accountants' Report as set out in Appendix I to this prospectus and adjusted as described below.

	Audited consolidated net tangible assets of the Group as at 31 December 2019	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of the Group as at 31 December 2019	Unaudited pro forma adjusted consolidated net tangible assets of the Group as at 31 December 2019 per share	
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000	RMB (Note 3)	HK\$ (Note 4)
Based on an Offer Price of					
HK\$9.60 per share	675,877	4,848,005	5,523,882	0.99	1.08
Based on an Offer Price of					
HK\$12.40 per share	675,877	6,274,301	6,950,178	1.25	1.36

Notes:

1. The audited consolidated net tangible assets of the Group as at 31 December 2019 is based on the consolidated net assets of the Group amounted to RMB734,673,000, deducted by intangible assets of RMB58,796,000 extracted from the accountants' report set out in Appendix I to this prospectus.

2. The estimated net proceeds from the Global Offering are based on 547,352,000 Offer Shares at indicative Offer Prices of HK\$9.60 and HK\$12.40 per Offer Share, being the low-end and high-end of the stated offer price range, respectively, after deduction of the estimated underwriting commissions and fees and other related expenses incurred and to be incurred by the Group (excluding approximately RMB27,107,000 of listing expenses recognised in profit or loss prior to 31 December 2019). It does not take into account of any Shares which may be issued upon the exercise of options which have been/may be granted under the Share Option Scheme, any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued or repurchased by the Company pursuant to the Company's general mandates.

For the purpose of this unaudited pro forma financial information, the estimated net proceeds from the Global Offering is converted from Hong Kong dollars into Renminbi at an exchange rate of HK\$1.0937 to RMB1.00. No representation is made that Hong Kong dollar amounts have been, could have been or may be converted to Renminbi, or vice versa, at that rate or at all.

3. The unaudited pro forma adjusted consolidated net tangible assets of the Group as at 31 December 2019 per Share has been arrived on the basis of a total of 5,571,314,480 Shares, taking into account 62,462,031 Shares were issued as at 31 December 2019; and assuming (i) 4,996,900,017.969 Shares pursuant to the Capitalisation Issue had been issued; and (ii) 574,352,000 Offer Shares to be issued pursuant to the Global Offering had been completed on 31 December 2019. It does not take into account of any Shares which may be issued upon conversion of convertible promissory notes or Preferred Shares, any Shares which may be issued upon the exercise of options which have been/may be granted under the Share Option Scheme, any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued or repurchased by the Company pursuant to the Company's general mandates.
4. The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group per Share as at 31 December 2019 is converted from Renminbi to Hong Kong dollars at an exchange rate of RMB1.00 to HK\$1.0937. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.
5. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group as at 31 December 2019 to reflect any trading result or other transaction of the Group entered into subsequent to 31 December 2019. In particular, the unaudited pro forma adjusted consolidated net tangible assets of the Group as shown on II-1 have not been adjusted to illustrate the effect of the conversion of the convertible promissory notes and Preferred Shares into ordinary shares. Had the conversion of convertible promissory notes and Preferred Shares been completed on 31 December 2019, RMB367,838,000 convertible promissory notes and RMB232,432,000 Preferred Shares would be reclassified from liabilities to equity, respectively. The conversion of convertible promissory notes and Preferred Shares and related Capitalisation Issue would have increased the total share in issue assumption stated in note 3 by 172,198,240 shares to a total of 5,743,512,720 shares in issue. The adjustment to the unaudited pro forma adjusted consolidated net tangible assets of the Group after conversion of convertible promissory notes and Preferred Shares would be as follows:

	Unaudited pro forma adjusted consolidated net tangible assets of the Group as at 31 December 2019 after conversion of the convertible promissory notes and Preferred Shares	Unaudited pro forma adjusted consolidated net tangible assets of the Group as at 31 December 2019 per share after conversion of the convertible promissory notes and Preferred Shares	
	RMB'000	RMB	HK\$ (Note 4)
Based on an Offer Price of HK\$9.60 per share	6,124,152	1.07	1.17
Based on an Offer Price of HK\$12.40 per share	7,550,448	1.31	1.44

**B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.

Deloitte.**德勤****INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****To the Directors of Smoore International Holdings Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Smoore International Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets as at 31 December 2019 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 29 June 2020 (the “Prospectus”). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the Global Offering (as defined in the Prospectus) on the Group's financial position as at 31 December 2019 as if the Global Offer had taken place at 31 December 2019. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's historical financial information for each of the four years ended 31 December 2019, on which an accountants' report set out in Appendix I to the Prospectus has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“AG 7”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

29 June 2020

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on July 22, 2019 under the Companies Law. The Company's constitutional documents consist of its Memorandum of Association and its Articles of Association.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on June 15, 2020 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of

that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) *Alteration of capital*

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) *Transfer of shares*

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its

listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Law in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognize any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favor of the Company.

(v) Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

The board may accept the surrender for no consideration of any fully paid share.

(vi) *Power of any subsidiary of the Company to own shares in the Company*

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) *Calls on shares and forfeiture of shares*

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect

of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors

(i) Appointment, retirement and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;

- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in

any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iv) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer

shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or past Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The board may resolve to capitalize all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of

entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/ themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/ are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members

(i) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) *Annual general meetings and extraordinary general meetings*

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may

do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

(iv) *Notices of meetings and business to be conducted*

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers; and
- (ee) the fixing of the remuneration of the directors and of the auditors.

(v) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

(f) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorized by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarized financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarized financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditor at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during

any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different

classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account." At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of

shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorizing civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from July 25, 2019.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) is made available by the Registrar of Companies for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members.

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. The register of members shall contain such particulars as required by Section 40 of the Companies Law. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, 25% or more of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of

the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorizing civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation

thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorized by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

(u) Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Law, 2018 of the Cayman Islands ("ES Law") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Law. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands.

Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Law.

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarizing certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "2. Documents available for inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation of Our Company**

Our Company was incorporated in the Cayman Islands under Cayman Companies Law as an exempted company with limited liability on July 22, 2019. We have established a principal place of business in Hong Kong at Office B, 28/F, EGL Tower, No. 83 Hung To Road, Kowloon, Hong Kong and have been registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on October 30, 2019. Ms. Cheung Yuet Fan and Ms. Cheng Choi Ha have been appointed as the authorized representatives of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company was incorporated in the Cayman Islands, our corporate structure and Memorandum and Articles of Association are subject to the relevant laws and regulations of the Cayman Islands. A summary of the relevant laws and regulations of the Cayman Islands and of the Memorandum and Articles of Association is set out in the section headed “Summary of the Constitution of Our Company and Cayman Companies Law” in Appendix III to this prospectus.

2. Changes in the Share Capital of Our Company

The following changes in the share capital of our Company have taken place since the date of incorporation of our Company up to the date of this prospectus:

- On the date of incorporation, July 22, 2019, the authorized share capital of our Company was US\$100,000,000 divided into 10,000,000,000 ordinary shares of a par value of US\$0.01 each. One (1) ordinary share of par value US\$0.01 was allotted and issued to the initial subscriber and was subsequently transferred to BVI 1. An additional 99 ordinary shares were also allotted and issued to BVI 1. All the 100 ordinary shares were fully paid up by BVI 1 on November 29, 2019.
- On October 25, 2019, our Company re-classified and re-designated its authorized share capital into 10,000,000,000 shares of a par value of US\$0.01 each, of which 100,000,000 are designated as Series A-1 Preferred Shares, 200,000,000 are designated as Series A-2 Preferred Shares and 9,700,000,000 are designated as ordinary shares.
- On October 25, 2019, our Company allotted and issued an aggregate of 61,831.650 ordinary shares at par value to the Principal Holding Companies, EVE BVI and Other Offshore Shareholders.
- On October 25, 2019, Sagittarius acquired from Mr. Chen, through an entity controlled by him, 530.381 ordinary shares of our Company for cash consideration of US\$26,266,843.57.

- On October 25, 2019, CCG China, Dora Medical, EVOLUT CAPITAL, Hero Might and Islandwide acquired from Mr. Chen, through an entity controlled by him, 131.248, 222.113, 80.768, 100.960 and 302.880 Series A-1 Preferred Shares of our Company, respectively, for cash consideration of US\$6,499,989.03, US\$11,000,030.97, US\$3,999,993.25, US\$4,999,991.57 and US\$14,999,947.70, respectively.
- On April 30, 2020, pursuant to conversion notices issued by and the Convertible Promissory Notes with a total principal amount of US\$28,000,012.90, US\$9,499,984.76 and US\$14,099,986.88 held by Nall Technology, On Ride and Osborne, respectively, our Company issued and allotted 713.300, 242.012 and 359.197 Series A-2 Preferred Shares to Nall Technology, On Ride and Osborne, respectively.

Prior to the Capitalization Issue on the Listing Date, (i) all the Series A-1 Preferred Shares and the Series A-2 Preferred Shares will be re-classified and re-designated as ordinary shares of a par value of US\$0.01 each of our Company and (ii) following (i), an aggregate of additional 5,169,096,105.491 ordinary shares will be issued pursuant to the Capitalization Issue.

Immediately following the completion of the Capitalization Issue and the Global Offering (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 authorized share capital of our Company will be US\$100,000,000, divided into 10,000,000,000 ordinary shares of a par value of US\$0.01 each, of which 5,743,512,720 ordinary shares of a par value of US\$0.01 each will be in issue and are fully paid or credited as fully paid and 4,256,487,280 ordinary shares of a par value of US\$0.01 each will remain unissued.

Save as disclosed above and in this prospectus, there has been no alteration in the share capital of our Company since our incorporation.

3. Resolutions in Writing of the Shareholders of Our Company Passed on June 15, 2020

Pursuant to the written resolutions passed by the Shareholders on June 15, 2020:

- (a) prior to the Capitalization Issue on the Listing Date, all the 300,000,000 Series A-1 Preferred Shares and Series A-2 Preferred Shares will be re-classified and re-designated as 300,000,000 ordinary shares and the authorized share capital of our Company will become US\$100,000,000 divided into 10,000,000,000 ordinary shares of a par value of US\$0.01 each after the re-classification and the re-designation of the authorized share capital;
- (b) our Company conditionally adopted the Memorandum of Association and the Articles of Association with effect from the Listing Date;

- (c) conditional on (1) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, (2) the Offer Price being fixed on the Price Determination Date and (3) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:
 - (i) the Global Offering was approved and the Directors were authorized to allot and issue the new Shares pursuant to the Global Offering;
 - (ii) the granting of the Over-allotment Option was approved;
 - (iii) the proposed Listing was approved and the Directors were authorized to implement the Listing;
 - (iv) subject to and conditional upon the share premium account of our Company being credited as a result of the issue of Offer Shares pursuant to the Global Offering, our Directors were authorized to allot and issue a total of 5,169,096,105.491 Shares credited as fully paid at par to the holders of Shares whose names are entered on the principal register of members of the Company maintained in the Cayman Islands prior to the Capitalization Issue (or as they may direct) in proportion to their respective shareholdings by way of capitalization of the sum of approximately US\$51,690,961.06 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares;
 - (v) a general unconditional mandate was granted to the Directors to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate nominal value of Shares allotted or agreed to be allotted by the Directors other than pursuant to (a) a rights issue, (b) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association, (c) the exercise of Options granted under the Pre-IPO Share Option Scheme and any Options which may be granted under the Post-IPO Share Option Scheme or (d) the exercise of any subscription or conversion rights attaching to any warrants or securities which are convertible into Shares or in issue prior to the date of passing the relevant resolution or (e) a specific authority granted by the Shareholders in general meeting, shall not exceed the aggregate of (1) 20% of the total nominal value of the share capital of our Company in issue immediately following the completion of the Capitalization Issue and the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment

Option and the Options granted under the Pre-IPO Share Option Scheme or any Options which may be granted under the Post-IPO Share Option Scheme) and (2) the total nominal value of the share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to in paragraph (vii) below, such mandate to remain in effect during the period from the passing of the resolution until the earliest of the conclusion of our next annual general meeting, the end of the period within which we are required by any applicable law or the Articles of Association to hold our next annual general meeting and the date on which the resolution is varied or revoked by an ordinary resolution of the Shareholders in general meeting (the “**Applicable Period**”);

- (vi) a general unconditional mandate was granted to the Directors to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose Shares with a total nominal value of not more than 10% of the total nominal value of the share capital of our Company in issue immediately following completion of the Capitalization Issue and the Global Offering (but excluding any Shares which may be issued upon the exercise of the Over-allotment Option and the Options granted under the Pre-IPO Share Option Scheme or any Options which may be granted under the Post-IPO Share Option Scheme), such mandate to remain in effect during the Applicable Period; and
 - (vii) the general unconditional mandate mentioned in paragraph (v) above be extended by the addition to the aggregate nominal amount of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (vi) above, provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the Company’s share capital in issue immediately following completion of the Capitalization Issue and the Global Offering; and
- (d) conditional on (1) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the exercise of any Options which were granted under the Pre-IPO Share Option Scheme and any Options which may be granted pursuant to the Post-IPO Share Option Scheme and (2) the commencement of trading of the Shares on the Main Board of the Stock Exchange, (i) the adoption of the Post-IPO Share Option Scheme was approved and (ii) the Board was authorized to allot, issue and deal with Shares pursuant to the exercise of any Options which may be granted pursuant to the Post-IPO Share Option Scheme.

4. Our Corporate Reorganization

The companies comprising the Group underwent the Reorganization in preparation for the Listing. Please see the section headed “Our History and Development” in this prospectus for further details.

5. Changes in the Share Capital of Our Subsidiaries

Our subsidiaries are referred to in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus. Save for the subsidiaries mentioned in the Accountants’ Report, we do not have any other subsidiaries.

The following alterations in the share capital of our subsidiaries have taken place within the two years immediately preceding the date of this prospectus:

(a) *Smoore BVI*

On July 23, 2019, Smoore BVI was incorporated in the BVI as a business company with limited liability and is authorized to issue a maximum of 50,000 ordinary shares of a single class with par value of US\$0.1 each and on the date of incorporation, 100 ordinary shares of par value of US\$0.1 each were allotted and issued to our Company at a consideration of US\$10.

(b) *Smoore HK*

On August 21, 2019, Smoore HK was incorporated in Hong Kong with an issued capital of HK\$10,000 comprising 10,000 ordinary shares, which was allotted and issued to Smoore BVI on the same date.

(c) *Smoore Shenzhen*

On September 11, 2019, the registered capital of Smoore Shenzhen was increased from RMB63,300,000 to RMB66,631,579 by way of capital injection made by Vision Knight Fund and Vision Knight Entrepreneur through SBI Limited.

(d) *Jiangmen Smoore*

On November 13, 2019, Jiangmen Smoore was established in the PRC as a limited liability company with a registered capital of RMB500,000, which is held as to 100% by Jiangmen Moore. On the same day, the registered capital of Jiangmen Smoore was increased to RMB1,000,000.

(e) *Jiangmen Moore*

On November 15, 2018, Jiangmen Moore was established in the PRC as a limited liability company with a registered capital of RMB500,000, which is held as to 100% by Smoore Shenzhen.

On April 25, 2019, the registered capital of Jiangmen Moore was increased to RMB10,000,000.

Save as disclosed above, there have been no alterations in the share capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

6. Repurchases of Our Own Securities

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the more important of which are summarized below:

(i) *Shareholders' Approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our then Shareholders on June 15, 2020, a general unconditional mandate (the “**Repurchase Mandate**”) was given to the Directors authorizing any repurchase by our Company of Shares on the Stock Exchange or on any other stock exchange on which the securities may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, of not more than 10% of the aggregate nominal value of our Company's share capital in issue immediately following the completion of the Capitalization Issue and the Global Offering (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), such mandate to expire at the conclusion of our next annual general meeting, the date by which our next annual general meeting is required by the Cayman Companies Law or by our Articles of Association or any other applicable laws of the Cayman Islands to be held or when revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever first occurs.

(ii) *Trading Restrictions*

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a

repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iii) *Status of Repurchased Shares*

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be canceled and destroyed.

(iv) *Suspension of Repurchase*

A listed company may not make any repurchase of securities at any time after inside information has come to its knowledge until the information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(v) *Reporting Requirements*

Certain information relating to repurchases of securities made by a listed company on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly

analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid. The directors' report shall contain reference to the purchases made during the year and the directors' reasons for making such purchases.

(vi) *Connected Persons*

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "core connected person," that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their associates and a core connected person is prohibited from knowingly selling his securities to the listed company.

(b) *Reasons for Repurchases*

The Directors believe that the ability to repurchase Shares is in the interests of our Company and the Shareholders. Repurchases may, depending on the circumstances, result in an increase in the net assets and/or earnings per Share. The Directors sought the grant of a general mandate to repurchase Shares to give our Company the flexibility to do so if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by the Directors at the relevant time having regard to the circumstances then pertaining.

(c) *Funding of Repurchases*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and the Articles of Association of our Company and the Listing Rules and the applicable laws of the Cayman Islands.

A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Any repurchases of Shares by our Company must be made out of the profits of our Company, the sum standing to the credit of the share premium account of our Company or out of a fresh issue of Shares made for the purpose of the repurchase or, subject to the Cayman Companies Law, out of capital. Any premium payable on a repurchase must be provided for out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, subject to the Cayman Companies Law, out of capital.

There could be a material adverse impact on the working capital and/or gearing position of our Company (as compared with the position disclosed in this prospectus) in the event that the Repurchase Mandate were to be carried out in full at any time during the share repurchase period. However, the Directors do not propose to exercise the

general mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for our Company.

(d) General

The exercise in full of the Repurchase Mandate, on the basis of 5,743,512,720 Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering and 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, could accordingly result in up to approximately 574,351,272 Shares being repurchased by our Company during the period prior to:

- (i) the conclusion of our next annual general meeting; or
- (ii) the end of the period within which we are required by any applicable law or our Articles of Association to hold our next annual general meeting; or
- (iii) the date when the Repurchase Mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

No core connected person of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"). Accordingly, a Shareholder or a group of Shareholders acting in concert (as defined in the Takeovers Code), depending on the level of interests held by such Shareholder(s), could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Any repurchase of Shares that results in the number of Shares held by the public being reduced to less than 25% (or a higher percentage upon completion of the exercise of the Over-allotment Option) of the Shares then in issue could only be implemented if the Stock Exchange agreed to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) the Hong Kong Underwriting Agreement;
- (b) the Deed of Indemnity;
- (c) the Deed of Non-competition;
- (d) a note purchase agreement dated October 30, 2019 entered into by and among the Company, Smoore Group Limited, Smile Baby Investment Limited, Smoore (Hongkong) Limited, Shenzhen Smoore Technology Co., Ltd.* (深圳麥克韋爾科技有限公司), CHEN Zhiping (陳志平), XIONG Shaoming (熊少明), WANG Jianliang (汪建良), LAI Baosheng (賴寶生), QIU Lingyun (邱凌雲), LUO Chunhua (羅春華) and LIU Pingkun (劉平昆) (the “**Principals**”), SMR & Alon Limited, Andy Xiong Holding Limited, Asulike Touzi Limited, Joe&Ethan Limited, Aletech Holding Limited, SMJL C&H Limited and Fancy Kev Ltd (the “**Principal Holding Companies**”), EVE ASIA CO., LIMITED, EVE Energy Co., Ltd.* (惠州億緯鋰能股份有限公司), EVE BATTERY INVESTMENT LTD. and Nall Technology Holdings LP, pursuant to which, the Company desires to issue and sell to Nall Technology Holdings LP, and Nall Technology Holdings LP desires to purchase from the Company, certain convertible promissory note in a principal amount of US\$28,000,012.90 (the “**Nall Technology Note Purchase Agreement**”);

- (e) a note purchase agreement dated October 30, 2019 entered into by and among the Company, Smoore Group Limited, Smile Baby Investment Limited, Smoore (Hongkong) Limited, Shenzhen Smoore Technology Co., Ltd.* (深圳麥克韋爾科技有限公司), the Principals, the Principal Holding Companies, EVE ASIA CO., LIMITED, EVE Energy Co., Ltd.* (惠州億緯鋰能股份有限公司), EVE BATTERY INVESTMENT LTD. and Osborne Investment Limited, pursuant to which, the Company desires to issue and sell to Osborne Investment Limited, and Osborne Investment Limited desires to purchase from the Company, certain convertible promissory note in a principal amount of US\$14,099,986.88 (the “**Osborne Note Purchase Agreement**”);
- (f) a note purchase agreement dated October 30, 2019 entered into by and among the Company, Smoore Group Limited, Smile Baby Investment Limited, Smoore (Hongkong) Limited, Shenzhen Smoore Technology Co., Ltd.* (深圳麥克韋爾科技有限公司), the Principals, the Principal Holding Companies, EVE ASIA CO., LIMITED, EVE Energy Co., Ltd.* (惠州億緯鋰能股份有限公司), EVE BATTERY INVESTMENT LTD. and ON RIDE INVESTMENTS LIMITED, pursuant to which, the Company desires to issue and sell to ON RIDE INVESTMENTS LIMITED, and ON RIDE INVESTMENTS LIMITED desires to purchase from the Company, certain convertible promissory note in a principal amount of US\$9,499,984.76 (the “**On Ride Note Purchase Agreement**”);
- (g) a convertible promissory note dated October 30, 2019 issued by the Company to Nall Technology Holdings LP or its assigns for a principal amount of US\$28,000,012.90;
- (h) a convertible promissory note dated October 30, 2019 issued by the Company to Osborne Investment Limited or its assigns for a principal amount of US\$14,099,986.88;
- (i) a convertible promissory note dated October 30, 2019 issued by the Company to On Ride Investments Limited or its assigns for a principal amount of US\$9,499,984.76;
- (j) a shareholders agreement dated April 30, 2020 entered into by and among the Company, Smoore Group Limited, Smile Baby Investment Limited, Smoore (Hongkong) Limited, Shenzhen Smoore Technology Co., Ltd.* (深圳麥克韋爾科技有限公司), the Principals, the Principal Holding Companies, EVE BATTERY INVESTMENT LTD., EVE ASIA CO., LIMITED, EVE Energy Co., Ltd.* (惠州億緯鋰能股份有限公司), Dora Medical HK Limited, EVOLUT CAPITAL FUND SPC, CCG China Dancing L.P., Hero Might Investments Limited, Islandwide Holdings Limited, Nall Technology Holdings LP, On Ride Investments Limited and Osborne Investment Limited with regard to their respective rights and obligations relating to the Company;

- (k) a capital injection agreement (增資協議) dated September 11, 2019 entered into by and among Shenzhen Smoore Technology Co., Ltd.* (深圳麥克韋爾科技有限公司), the Principals, EVE Energy Co., Ltd.* (惠州億緯鋰能股份有限公司), Shenzhen Maikeweier Information Consulting Partnership Enterprise (Limited Partnership)* (深圳麥克韋爾信息諮詢合夥企業(有限合夥)), Shenzhen Mingdao Zhiyuan No. 2 Investment Partnership Enterprise (Limited Partnership)* (深圳明道致遠貳號投資合夥企業(有限合夥)), Liu Jincheng (劉金成), Ji Qing (吉清), Li Hongbo (李洪波), Cao Shuishui (曹水水), Shenzhen Simoer Information Consulting Partnership Enterprise (Limited Partnership)* (深圳思摩爾信息諮詢合夥企業(有限合夥)), He Ying (何瑛), Chen Jingwu (陳靖吾), Liu Yan (劉豔), Qiu Yu (邱昱), Ding Lingjuan (丁玲娟), Dai Rong (戴榮), Juanfeng Enterprise Management Consulting (Guangzhou) Co., Ltd.* (隽豐企業管理諮詢(廣州)有限公司), Zheng Meixian (鄭梅仙), Zeng Wangwu (曾王武), Sang Weifeng (桑衛峰), Dong Kaihan (董愷瀚), Bi Liming (畢黎明), Zhuang Xueyan (庄雪豔), Qi Yuhua (戚玉華), Liu Meng (劉夢), Guo Ao (郭奧), Hu Hequn (胡合群), Fan Wue (范五峨), Xu Sicong (徐思聰), Nie Qinghua (聶清華), Wang Xiaohui (王曉慧), Yang Qiuming (楊秋明) and Smile Baby Investment Limited, pursuant to which Smile Baby Investment Limited agreed to subscribe for the registered capital of RMB3,331,579 in Shenzhen Smoore Technology Co., Ltd. at a consideration of an amount in U.S. dollar which is equivalent to RMB57,650,000;
- (l) a share transfer agreement (股權轉讓協議) dated October 18, 2019 entered into by and among the Company, Vision Knight Capital (China) GP II, L.P. (as general partner of Vision Knight Capital (China) Fund II, L.P.) and Vision Knight Capital (China) GP II, L.P. (as general partner of Vision Knight Capital (China) Entrepreneur II, L.P.) pursuant to which the Company agreed to purchase the entire issued share capital of Smile Baby Investment Limited, being 22,000 ordinary shares for a par value of US\$1.0 each, which was held as to 95.45% and 4.55% by Vision Knight Capital (China) Fund II, L.P. and Vision Knight Capital (China) Entrepreneur II, L.P., respectively;
- (m) a cornerstone investment agreement dated June 24, 2020 entered into by and among the Company, Huaneng Guicheng Trust Co., Ltd.* (華能貴誠信託有限公司), CLSA Capital Markets Limited (中信里昂證券資本市場有限公司) and China International Capital Corporation Hong Kong Securities Limited (中國國際金融香港證券有限公司), pursuant to which Huaneng Guicheng Trust Co., Ltd.* (華能貴誠信託有限公司) wishes to subscribe for the number of Offer Shares at the final Offer Price, through a qualified domestic institutional investor, in the amount of Hong Kong dollar equivalent of US\$80,000,000;

- (n) a cornerstone investment agreement dated June 24, 2020 entered into by and among the Company, Dragon Billion China Master Fund, Dragon Billion Select Master Fund and LMA SPC, solely on behalf of the Map 147 Segregated Portfolio (collectively, the “**Prime Capital Funds**”), CLSA Capital Markets Limited and CLSA Limited, pursuant to which the Prime Capital Funds wish to subscribe for the number of Offer Shares at the final Offer Price in the aggregate amount of Hong Kong dollar equivalent of US\$50,000,000;
- (o) a cornerstone investment agreement dated June 24, 2020 entered into by and among the Company, Stonelylake Asset Management Limited* (北京磐澤資產管理有限公司), Sail Stonelylake Limited, Sure Skill Limited, CLSA Capital Markets Limited and CLSA Limited, pursuant to which Stonelylake Asset Management Limited* (北京磐澤資產管理有限公司) (through a qualified domestic institutional investor), Sail Stonelylake Limited and Sure Skill Limited wish to subscribe for the number of Offer Shares at the final Offer Price in the aggregate amount of HK\$271,900,000;
- (p) a cornerstone investment agreement dated June 24, 2020 entered into by and among the Company, IvyRock Asset Management (HK) Limited, CLSA Capital Markets Limited and China International Capital Corporation Hong Kong Securities Limited, pursuant to which IvyRock Asset Management (HK) Limited wishes to procure Ivyrock China Focus Master Fund, IvyRock China Equity Master Fund and Asia Series 6 to subscribe for the number of Offer Shares at the final Offer Price in the amount of Hong Kong dollar equivalent of US\$35,000,000;
- (q) a cornerstone investment agreement dated June 24, 2020 entered into by and among the Company, 3W Fund Management Limited, CLSA Capital Markets Limited and CLSA Limited, pursuant to which 3W Fund Management Limited wishes to procure 3W Greater China Focus Fund and 3W Global Fund to subscribe for the number of Offer Shares at the final Offer Price in the amount of Hong Kong dollar equivalent of US\$30,000,000;
- (r) a cornerstone investment agreement dated June 24, 2020 entered into by and among the Company, Yong Rong (HK) Asset Management Limited (涌容(香港)資產管理有限公司) (“**YR Asset Management**”), CLSA Capital Markets Limited and CLSA Limited, pursuant to which YR Asset Management wishes to subscribe for the number of Offer Shares at the final Offer Price in the amount of Hong Kong dollar equivalent of US\$30,000,000;
- (s) a cornerstone investment agreement dated June 24, 2020 entered into by and among the Company, Chaos Investment Limited, Shanghai Chaos Investment (Group) Co., Ltd.* (上海混沌投資(集團)有限公司), CLSA Capital Markets Limited (中信里昂證券資本市場有限公司) and CLSA Limited (中信里昂證券有限公司), pursuant to which Chaos Investment Limited, as the investor, wishes to subscribe for the number of Offer Shares at the final Offer Price in the amount of Hong Kong dollar equivalent of US\$30,000,000 and Shanghai Chaos Investment Group Co., Ltd.* (上

海混沌投資(集團)有限公司), as the guarantor, has agreed to give certain representations, warranties and undertakings in consideration of the Company, Chaos Investment Limited, CLSA Capital Markets Limited (中信里昂證券資本市場有限公司) and CLSA Limited (中信里昂證券有限公司) and to be bound by the terms of the cornerstone investment agreement;



- (t) a cornerstone investment agreement dated June 24, 2020 entered into by and among the Company, Foresight Orient Global Superior Choice SPC — Global Superior Choice Fund 1 SP, Foresight Orient Global Superior Choice SPC — Vision Fund 1 SP, CLSA Capital Markets Limited and CLSA Limited, pursuant to which Foresight Orient Global Superior Choice SPC — Global Superior Choice Fund 1 SP and Foresight Orient Global Superior Choice SPC — Vision Fund 1 SP wish to subscribe for the number of Offer Shares at the final Offer Price in an aggregate amount of Hong Kong dollar equivalent of US\$20,000,000;
- (u) a cornerstone investment agreement dated June 24, 2020 entered into by and among the Company, Qianhe Capital Management Co., Ltd.* (千合資本管理有限公司), CLSA Capital Markets Limited (中信里昂證券資本市場有限公司) and China International Capital Corporation Hong Kong Securities Limited (中國國際金融香港證券有限公司), pursuant to which Qianhe Capital Management Co., Ltd.* (千合資本管理有限公司) wishes to subscribe for the number of Offer Shares, through a qualified domestic institutional investor, at the final Offer Price in the amount of Hong Kong dollar equivalent of US\$15,000,000; and
- (v) a cornerstone investment agreement dated June 24, 2020 entered into by and among the Company, GF Fund Management Co., Ltd.* (廣發基金管理有限公司), CLSA Capital Markets Limited (中信里昂證券資本市場有限公司) and Guotai Junan Securities (Hong Kong) Limited (國泰君安證券(香港)有限公司), pursuant to which GF Fund Management Co., Ltd.* (廣發基金管理有限公司) wishes to subscribe for the number of Offer Shares at the final Offer Price in the amount of Hong Kong dollar equivalent of US\$15,000,000.

2. Intellectual Property Rights of the Group

As of the Latest Practicable Date, we had registered or have applied for the registration of the following intellectual property rights which are material in relation to our business.

(a) Trademarks

As of the Latest Practicable Date, we had registered the following trademarks which are material to our business:

No.	Trademark	Type and class	Registered owner	Place of registration	Registration number	Application Date	Registration date	Expiry date
1.	FEELM	34	Smooore Shenzhen	PRC	37834153	April 26, 2019	January 14, 2020	January 13, 2030
2.	FEELM	34	Smooore Shenzhen	PRC	27387963	November 9, 2017	October 21, 2018	October 20, 2028
3.	Vaporesso	34	Smooore Shenzhen	PRC	26578824	September 22, 2017	September 14, 2018	September 13, 2028
4.	Vaporesso	9	Smooore Shenzhen	PRC	26562514	September 22, 2017	September 14, 2018	September 13, 2028
5.	Vaporesso	35	Smooore Shenzhen	PRC	14967743	July 28, 2014	September 21, 2015	September 20, 2025
6.	Vaporesso	9	Smooore Shenzhen	PRC	14967772	July 28, 2014	September 21, 2015	September 20, 2025
7.	Vaporesso	34	Smooore Shenzhen	PRC	14967738	July 28, 2014	September 14, 2015	September 13, 2025
8.	FEELM	34	Smooore Shenzhen	World Intellectual Property Organization (“WIPO”)	1406604	February 13, 2018	June 14, 2018	February 13, 2028
9.	FEELM	9	Smooore Shenzhen	WIPO	1408721	February 13, 2018	February 13, 2018	February 13, 2028
10.	Vaporesso	9, 34	Smooore Shenzhen	WIPO	1403914	December 6, 2017	December 6, 2017	December 6, 2027
11.	Vaporesso	9, 34, 35	Smooore Shenzhen	WIPO	1265986	December 11, 2014	July 8, 2015	July 7, 2025
12.		34	Smooore Shenzhen	WIPO	1479182	May 15, 2019	May 15, 2019	May 14, 2029
13.	Vaporesso	34	Smooore Shenzhen	WIPO	1484594	April 26, 2019	July 23, 2019	July 22, 2029
14.	Vaporesso	9	Smooore Shenzhen	WIPO	1484620	April 26, 2019	July 23, 2019	July 22, 2029
15.		9	Smooore Shenzhen	Hong Kong	305031945	August 20, 2019	January 10, 2020	August 19, 2029
16.		34	Smooore Shenzhen	Hong Kong	305031936	August 20, 2019	January 10, 2020	August 19, 2029
17.		35	Smooore Shenzhen	Hong Kong	305037985	August 26, 2019	January 10, 2020	August 25, 2029
18.	Smooore	34	Smooore Shenzhen	Hong Kong	304751361	November 28, 2018	June 5, 2019	November 27, 2028
19.	Smooore	9	Smooore Shenzhen	Hong Kong	304751352	November 28, 2018	June 5, 2019	November 27, 2028

No.	Trademark	Type and class	Registered owner	Place of registration	Registration number	Application Date	Registration date	Expiry date
20.	FEELM	9	Smooore Shenzhen	Hong Kong	304898909	April 22, 2019	April 22, 2019	April 21, 2029
21.	FEELM	34	Smooore Shenzhen	Hong Kong	304898891	April 22, 2019	April 22, 2019	April 21, 2029
22.	Vaporesso	9	Smooore Shenzhen	Hong Kong	304898882	April 22, 2019	April 22, 2019	April 21, 2029
23.	Vaporesso	34	Smooore Shenzhen	Hong Kong	304898873	April 22, 2019	April 22, 2019	April 21, 2029
24.		34	Smooore Shenzhen	U.S.	6005347	February 26, 2019	March 10, 2020	March 9, 2030
25.	Vaporesso	9	Smooore Shenzhen	India	3673474	November 9, 2017	November 9, 2017	November 9, 2027
26.	Vaporesso	9,34	Smooore Shenzhen	Indonesia	DI D2017024442	May 31, 2017	August 16, 2018	May 31, 2027
27.	Vaporesso	34	Smooore Shenzhen	Guatemala	2017040238	November 22, 2017	October 23, 2018	October 22, 2028
28.	Vaporesso	9	Smooore Shenzhen	Guatemala	2017040239	November 22, 2017	October 23, 2018	October 22, 2028
29.	Vaporesso	34	Smooore Shenzhen	Costa Rica	2017-10420	October 24, 2017	April 5, 2018	April 5, 2028
30.	Vaporesso	9	Smooore Shenzhen	Costa Rica	2017-10419	October 24, 2017	April 5, 2018	April 5, 2028
31.	Vaporesso	34	Smooore Shenzhen	Panama	261413.01	October 2, 2017	October 2, 2017	October 2, 2027
32.	Vaporesso	9	Smooore Shenzhen	Panama	261415.01	October 2, 2017	October 2, 2017	October 2, 2027
33.	Vaporesso	34	Smooore Shenzhen	Bahrain	121500	December 31, 2017	August 7, 2018	December 31, 2027
34.	Vaporesso	9	Smooore Shenzhen	Bahrain	121499	December 31, 2017	August 7, 2018	December 31, 2027
35.	FEELM	9	Smooore Shenzhen	Argentina	3041606	December 6, 2017	November 7, 2019	November 6, 2029
36.	Vaporesso	34	Smooore Shenzhen	Argentina	3024422	June 22, 2018	September 24, 2019	September 23, 2029
37.	Vaporesso	9	Smooore Shenzhen	Argentina	3024421	June 22, 2018	September 24, 2019	September 23, 2029
38.	Vaporesso	9	Smooore Shenzhen	Brazil	913488550	October 2, 2017	December 26, 2018	December 26, 2028
39.	Vaporesso	34	Smooore Shenzhen	Brazil	913488461	October 2, 2017	December 26, 2018	December 26, 2028
40.	FEELM	9	Smooore Shenzhen	Brazil	913767476	November 22, 2017	January 8, 2019	January 7, 2029
41.	FEELM	34	Smooore Shenzhen	Brazil	913767565	November 22, 2017	January 8, 2019	January 7, 2029
42.	FEELM	9	Smooore Shenzhen	Chile	1270042	November 17, 2017	February 21, 2018	February 21, 2028
43.	FEELM	34	Smooore Shenzhen	Chile	1269192	November 17, 2017	February 7, 2018	February 7, 2028
44.	Vaporesso	9,34	Smooore Shenzhen	Chile	1268564	October 3, 2017	January 5, 2018	January 5, 2028
45.	Vaporesso	9, 34	Smooore Shenzhen	Dominica	261164	May 1, 2019	August 15, 2019	August 14, 2029
46.	Vaporesso	34	Smooore Shenzhen	Pakistan	472196	July 10, 2019	August 29, 2019	October 17, 2027

No.	Trademark	Type and class	Registered owner	Place of registration	Registration number	Application Date	Registration date	Expiry date
47.	FEELM	9	Smooore Shenzhen	Peru	00261014	December 12, 2017	February 5, 2018	February 5, 2028
48.	FEELM	34	Smooore Shenzhen	Peru	00260865	December 12, 2017	February 1, 2018	February 1, 2028
49.	Vaporesso	9	Smooore Shenzhen	Peru	00261061	December 11, 2017	February 5, 2018	February 5, 2028
50.	Vaporesso	34	Smooore Shenzhen	Peru	00261052	February 5, 2018	February 5, 2018	February 5, 2028
51.	Vaporesso	9, 34	Smooore Shenzhen	Philippines	04-2017-007787	May 22, 2017	August 3, 2017	August 3, 2027
52.	FEELM	34	Smooore Shenzhen	Malaysia	2017073686	November 28, 2017	September 22, 2018	November 28, 2027
53.	FEELM	9	Smooore Shenzhen	Malaysia	2017073683	November 28, 2017	November 28, 2017	November 28, 2027
54.	Vaporesso	9	Smooore Shenzhen	Malaysia	2017059305	May 24, 2017	May 24, 2017	May 24, 2027
55.	FEELM	34	Smooore Shenzhen	Saudi Arabia	440023007	May 13, 2019	September 21, 2019	June 2, 2029
56.		34	Smooore Shenzhen	Saudi Arabia	1440030636	August 21, 2019	December 19, 2019	May 2, 2029
57.	Vaporesso	34	Smooore Shenzhen	Malaysia	2017059308	May 24, 2017	May 24, 2017	May 24, 2027
58.	Vaporesso	9	Smooore Shenzhen	Lebanon	182210	November 3, 2017	November 7, 2017	November 6, 2032
59.	Vaporesso	34	Smooore Shenzhen	Lebanon	182301	November 3, 2017	November 10, 2017	November 10, 2032
60.	Vaporesso	34	Smooore Shenzhen	the United Arab Emirates	283726	November 29, 2017	October 27, 2018	November 29, 2027
61.	Vaporesso	9	Smooore Shenzhen	the United Arab Emirates	283722	November 29, 2017	October 27, 2018	November 29, 2027
62.	FEELM	34	Smooore Shenzhen	the United Arab Emirates	311149	May 15, 2019	August 28, 2019	May 15, 2029
63.		34	Smooore Shenzhen	The United Arab Emirates	315846	August 21, 2019	December 29, 2019	August 21, 2029
64.	Vaporesso	34	Smooore Shenzhen	Kuwait	167136	December 28, 2017	February 13, 2019	December 28, 2027
65.	Vaporesso	9	Smooore Shenzhen	Kuwait	167135	December 28, 2017	February 28, 2019	December 28, 2027
66.	FEELM	34	Smooore Shenzhen	South Africa	2017/33458	November 16, 2017	September 25, 2019	November 16, 2027
67.	FEELM	9	Smooore Shenzhen	South Africa	2017/33457	November 16, 2017	September 25, 2019	November 16, 2027

As of the Latest Practicable Date, we had applied for the registration of the following trademarks:

No.	Trademark	Type and class	Name of applicant	Place of application	Application number	Application date
1.	FEELM	9	Smoore Shenzhen	PRC	37519777	April 15, 2019
2.		34	Smoore Shenzhen	PRC	36398444	February 20, 2019
3.	FEELM	34	Smoore Shenzhen	PRC	37825749	April 26, 2019
4.	Vaporesso	9,34	Smoore Shenzhen	Uruguay	504386	May 9, 2019
5.	FEELM	9,34	Smoore Shenzhen	Canada	1868375	November 21, 2017
6.		34	Smoore Shenzhen	Canada	1965181	May 28, 2019
7.	Vaporesso	9,34, 35	Smoore Shenzhen	Canada	1839594	May 27, 2017
8.		34	Smoore Shenzhen	South Africa	2019/23083	August 15, 2019
9.	Vaporesso	34	Smoore Shenzhen	India	3673475	November 9, 2017
10.	FEELM	34	Smoore Shenzhen	Indonesia	DID2017060935	November 20, 2017
11.	Vaporesso	34	Smoore Shenzhen	Venezuela	2019-005293	July 10, 2019
12.	Vaporesso	9	Smoore Shenzhen	Pakistan	472197	July 10, 2019
13.		34	Smoore Shenzhen	Paraguay	1969450	August 23, 2019
14.	Vaporesso	34	Smoore Shenzhen	Morocco	206065	July 2, 2019
15.	Vaporesso	34	Smoore Shenzhen	Saudi Arabia	183593	May 13, 2019
16.	Vaporesso	34	Smoore Shenzhen	Puerto Rico	234131-34-0	May 7, 2019
17.	Vaporesso	9	Smoore Shenzhen	Puerto Rico	234131-09-0	May 7, 2019
18.	Vaporesso	9	Smoore Shenzhen	Bolivia	SM4712-2019	October 16, 2019
19.	Vaporesso	34	Smoore Shenzhen	Bolivia	SM4713-2019	October 16, 2019
20.	FEELM	34	Smoore Shenzhen	Argentina	3-666-908	December 6, 2017
21.		34	Smoore Shenzhen	Malaysia	TM2019018772	May 24, 2019

(b) Domain Names

As of the Latest Practicable Date, we had registered the following domain names which are material to our business:

No.	Domain name	Registrant	Registration date	Expiry date
1.	smooreholdings.com	Smoore Shenzhen	September 18, 2019	September 18, 2022
2.	smoorecig.com	Smoore Shenzhen	September 11, 2009	September 11, 2022
3.	vapresso.com	Smoore Shenzhen	September 18, 2014	September 18, 2021
4.	smoore-oa.com	Smoore Shenzhen	May 28, 2018	May 28, 2023
5.	smoore-erp.com	Smoore Shenzhen	June 29, 2017	June 29, 2022
6.	smoore-hr.com	Smoore Shenzhen	June 26, 2017	June 26, 2022
7.	feelmttech.com	Smoore Shenzhen	March 23, 2018	March 23, 2023
8.	smoorecig-zhaopin.com	Smoore Shenzhen	March 5, 2019	March 5, 2024
9.	metextech.com	Shenzhen Maishi	May 15, 2019	November 7, 2029
10.	metextech.cn	Shenzhen Maishi	May 16, 2019	May 16, 2030
11.	metextech.jp	Shenzhen Maishi	May 17, 2019	May 17, 2029
12.	metextech.kr	Shenzhen Maishi	May 17, 2019	May 17, 2029
13.	cubicecig.com	Shenzhen Maishi	March 16, 2020	March 16, 2025

(c) Patents

As of the Latest Practicable Date, we had registered the following patents which are material to our business:

No.	Title of patent	Patent type	Registered owner	Application number	Publication number	Place of registration	Application date	Expiry date
1.	電子煙及其霧化裝置	Utility Model	Smoore Shenzhen	201821397292.7	CN209346085U	PRC	August 28, 2018	August 28, 2028
2.	霧化裝置及電子煙	Utility Model	Smoore Shenzhen	201821461585.7	CN209403574U	PRC	September 5, 2018	September 5, 2028
3.	電子煙及其霧化器	Utility Model	Smoore Shenzhen	201821630910.8	CN209152363U	PRC	October 8, 2018	October 8, 2028
4.	電子煙霧化裝置及其注液結構	Utility Model	Smoore Shenzhen	201920036919.4	CN209628638U	PRC	January 9, 2019	January 9, 2029
5.	電子煙及其霧化器和電池組件	Utility Model	Smoore Shenzhen	201821503840.X	CN209846169U	PRC	September 13, 2018	September 13, 2028
6.	電子煙及其霧化裝置	Utility Model	Smoore Shenzhen	201821398994.7	CN209768986U	PRC	August 28, 2018	August 28, 2028
7.	電子煙及其霧化器	Invention	Smoore Shenzhen	201810150690.7	CN108185536B	PRC	February 13, 2018	February 13, 2038
8.	電子煙及其發熱組件	Utility Model	Smoore Shenzhen	201790001176.6	CN209983515U	PRC	December 11, 2017	December 11, 2027
9.	電子煙及其霧化器	Invention	Smoore Shenzhen	201711311466.3	CN107951079B	PRC	December 11, 2017	December 11, 2037
10.	霧化裝置及電子煙	Utility Model	Smoore Shenzhen	201820547424.3	CN208113975U	PRC	April 17, 2018	April 17, 2028
11.	霧化裝置和電子煙	Utility Model	Smoore Shenzhen	201820547384.2	CN208338874U	PRC	April 17, 2018	April 17, 2028
12.	電子煙及其霧化裝置	Utility Model	Smoore Shenzhen	201820465521.8	CN208160039U	PRC	March 30, 2018	March 30, 2028
13.	電子煙及其霧化器	Utility Model	Smoore Shenzhen	201820260617.0	CN208113970U	PRC	February 13, 2018	February 13, 2028
14.	電子煙及其霧化器	Utility Model	Smoore Shenzhen	201721713285.9	CN207784278U	PRC	December 11, 2017	December 11, 2027
15.	電子煙及其霧化組件的製造方法	Invention	Smoore Shenzhen	201510689860.5	CN105310114B	PRC	October 21, 2015	October 21, 2035
16.	電子煙	Utility Model	Smoore Shenzhen	201520825978.1	CN205266968U	PRC	October 21, 2015	October 21, 2025
17.	電子煙及其霧化組件和霧化元件	Invention	Smoore Shenzhen	201510854348.1	CN105394816B	PRC	November 27, 2015	November 27, 2035
18.	電子煙及其霧化組件和霧化元件	Utility Model	Smoore Shenzhen	201520972683.7	CN205337599U	PRC	November 27, 2015	November 27, 2035
19.	多孔陶瓷材料的制備方法和多孔陶瓷材料及其應用	Invention	Smoore Shenzhen	201510217823.4	CN106187285B	PRC	April 30, 2015	April 30, 2025
20.	霧化器、霧化組件及吸入器	Invention	Smoore Shenzhen	201410597046.6	CN104366694B	PRC	October 29, 2014	October 29, 2034
21.	霧化器、霧化組件及吸入器	Utility Model	Smoore Shenzhen	201420638441.X	CN204245151U	PRC	October 29, 2014	October 29, 2024
22.	霧化器、霧化組件及吸入器	Utility Model	Smoore Shenzhen	201420638645.3	CN204245152U	PRC	October 29, 2014	October 29, 2024
23.	霧化器、霧化組件及吸入器	Invention	Smoore Shenzhen	201410597265.4	CN104366695B	PRC	October 29, 2014	October 29, 2034
24.	多孔陶瓷的制備方法、 多孔陶瓷及其應用	Invention	Smoore Shenzhen	2014102686307	CN 105294140 B	PRC	June 16, 2014	June 16, 2034

No.	Title of patent	Patent type	Registered owner	Application number	Publication number	Place of registration	Application date	Expiry date
25.	電子煙	Utility Model	Smoore Shenzhen	201420145608.9	CN 203828070 U	PRC	March 27, 2014	March 27, 2024
26.	電子煙	Invention	Smoore Shenzhen	201410121256.8	CN 103948174 B	PRC	March 27, 2014	March 27, 2034
27.	電子煙	Invention	Smoore Shenzhen	201310459597.1	CN 103932401 B	PRC	September 29, 2013	September 29, 2033
28.	電子煙	Utility Model	Smoore Shenzhen	201320612926.7	CN 203523811 U	PRC	September 29, 2013	September 29, 2023
29.	電子煙	Invention	Smoore Shenzhen	201310459545.4	CN 103960782 B	PRC	September 29, 2013	September 29, 2033
30.	ELECTRONIC CIGARETTE AND ATOMIZING ASSEMBLY AND ATOMIZING ELEMENT THEREOF	Invention	Smoore Shenzhen	15/860,822	US10492539B2	U.S.	January 3, 2018	January 3, 2038
31.	ELECTRONIC CIGARETTE AND ATOMIZING ASSEMBLY AND ATOMIZING ELEMENT THEREOF	Invention	Smoore Shenzhen	14/985,658	US 9888722B	U.S.	December 31, 2015	December 31, 2035
32.	電子煙/電子煙 (Tight1) (創新點1為主要創新點)	Invention	Smoore Shenzhen	15/517,196	US 10195370B2	U.S.	July 9, 2015	July 9, 2035
33.	POROUS CERAMIC MATERIAL, MANUFACTURING METHOD AND USE THEREOF/多孔陶瓷制備方法(創新點1為主要創新點)	Invention	Smoore Shenzhen	14/814,093	US 9648909B2	U.S.	July 30, 2015	July 30, 2035
34.	ATOMIZER, ATOMIZING ASSEMBLY AND INHALER/電子煙 (Tight1) (創新點1為主要創新點)	Invention	Smoore Shenzhen	14/666,053	US 9956357B	U.S.	March 23, 2015	March 23, 2035
35.	PREPARATION METHOD OF POROUS CERAMIC, POROUS CERAMIC AND ELECTRONIC CIGARETTE/一種電子煙霧化器用多孔陶瓷及制備方法	Invention	Smoore Shenzhen	14/414,114	US 9861129B2	U.S.	June 16, 2014	June 16, 2034
36.	Electronic Cigarette	Invention	Smoore Shenzhen	14/144,718	US 9603389B2	U.S.	December 31, 2013	December 31, 2033
37.	Electronic Cigarette	Invention	Smoore Shenzhen	14/144,772	US 9572373B2	U.S.	December 31, 2013	December 31, 2033
38.	ELECTRONIC CIGARETTE AND ATOMIZING ASSEMBLY AND ATOMIZING ELEMENT THEREOF	Invention	Smoore Shenzhen	EP18207525.9	EP3466283B1	European Patent Office (“EPO”)	December 23, 2015	December 23, 2035
39.	ELECTRONIC CIGARETTE AND METHOD FOR MANUFACTURING ATOMIZING ASSEMBLY THEREOF	Invention	Smoore Shenzhen	EP15906456.7	EP3292773B1	EPO	October 21, 2015	October 21, 2035
40.	ELECTRONIC CIGARETTE/電子煙 (Tight1) (創新點1為主要創新點)	Invention	Smoore Shenzhen	EP15854111.0	EP3213650B1	EPO	July 9, 2015	July 9, 2035
41.	ATOMIZER, ATOMIZING ASSEMBLY AND INHALER/電子煙 (Tight1) (創新點1為主要創新點)	Invention	Smoore Shenzhen	EP18164558.1	EP3369327B1	EPO	March 19, 2015	March 19, 2035
42.	ATOMIZER, ATOMIZING ASSEMBLY AND INHALER/電子煙 (Tight1) (創新點1為主要創新點)	Invention	Smoore Shenzhen	EP18164559.9	EP3372097B1	EPO	March 19, 2015	March 19, 2035
43.	PREPARATION METHOD OF POROUS CERAMIC, POROUS CERAMIC AND ELECTRONIC CIGARETTE/一種電子煙霧化器用多孔陶瓷及製備方法	Invention	Smoore Shenzhen	EP14814656.6	EP3162778	EPO	June 16, 2014	June 16, 2034

No.	Title of patent	Patent type	Registered owner	Application number	Publication number	Place of registration	Application date	Expiry date
44.	ELECTRONIC CIGARETTE AND ATOMIZING ASSEMBLY AND ATOMIZING ELEMENT THEREOF	Invention	Smooore Shenzhen	EP15202274.5	EP 3158882B1	EPO	February 6, 2019	December 23, 2035
45.	ATOMIZER, ATOMIZING ASSEMBLY AND INHALER/電子煙 (Tight1) (創新點1為主要創新點)	Invention	Smooore Shenzhen	EP 15159785.3	EP 3015010	EPO	June 20, 2018	March 19, 2035
46.	ELECTRONIC CIGARETTE/霧化技術	Invention	Smooore Shenzhen	EP 14731531.1	EP 3127437B1	EPO	December 5, 2018	June 27, 2034

As of the Latest Practicable Date, we had applied for the registration of the following patents:

No.	Title of patent	Patent type	Registered owner	Application number	Place of application	Application date
1.	電子煙霧化裝置及其注液結構	Invention	Smooore Shenzhen	201910020622.3	PRC	January 9, 2019
2.	電子煙及其霧化器和電池組件	Invention	Smooore Shenzhen	201811069480.1	PRC	September 13, 2018
3.	霧化裝置及電子煙	Invention	Smooore Shenzhen	201811033876.0	PRC	September 5, 2018
4.	霧化裝置及電子煙	Invention	Smooore Shenzhen	201810342016.9	PRC	April 17, 2018
5.	霧化裝置和電子煙	Invention	Smooore Shenzhen	201810341985.2	PRC	April 17, 2018
6.	電子煙及其霧化裝置以及霧化裝置的組裝方法	Invention	Smooore Shenzhen	201810289218.1	PRC	March 30, 2018
7.	霧化裝置及電子煙	Invention	Smooore Shenzhen	PCT/CN2019/104577	WIPO	September 5, 2019
8.	霧化裝置及電子煙	Invention	Smooore Shenzhen	US 16/691555	U.S.	November 21, 2019
9.	Electronic Cigarette and Atomizer Thereof	Invention	Smooore Shenzhen	US 16/595511	U.S.	October 8, 2019
10.	電子煙及其霧化裝置	Invention	Smooore Shenzhen	US 16/505531	U.S.	July 8, 2019
11.	電子煙及其霧化裝置	Invention	Smooore Shenzhen	16/380936	U.S.	April 10, 2019
12.	霧化裝置及電子煙	Invention	Smooore Shenzhen	US 16/158322	U.S.	October 12, 2018
13.	霧化裝置和電子煙	Invention	Smooore Shenzhen	US 16/120389	U.S.	September 3, 2018
14.	電子煙、霧化器及其發熱組件	Invention	Smooore Shenzhen	US 15/983108	U.S.	May 18, 2018
15.	電子煙及其霧化器	Invention	Smooore Shenzhen	US 16/073360	U.S.	July 27, 2018
16.	ELECTRONIC CIGARETTE AND METHOD FOR MANUFACTURING ATOMIZING ASSEMBLY THEREOF	Invention	Smooore Shenzhen	US 15/740657	U.S.	October 21, 2015
17.	ATOMIZER, ATOMIZING ASSEMBLY AND INHALER/電子煙 (Tight1) (創新點1為主要創新點)	Invention	Smooore Shenzhen	US 15/926683	U.S.	March 20, 2018
18.	電子煙及其霧化器	Invention	Smooore Shenzhen	CA 3037227	Canada	March 20, 2019
19.	Electronic Cigarette and Atomizer Thereof	Invention	Smooore Shenzhen	EU19200536.1	EU	September 30, 2019
20.	電子煙及其霧化裝置	Invention	Smooore Shenzhen	EP19187464.3	EU	July 20, 2019
21.	電子煙及其霧化裝置	Invention	Smooore Shenzhen	EP19168005.7	EU	April 9, 2019
22.	霧化裝置及電子煙	Invention	Smooore Shenzhen	EP18208704.9	EU	November 27, 2018
23.	霧化裝置和電子煙	Invention	Smooore Shenzhen	EP18191921.8	EU	August 31, 2018
24.	電子煙、霧化器及其發熱組件	Invention	Smooore Shenzhen	EP18174503.5	EU	May 28, 2018
25.	電子煙及其霧化器	Invention	Smooore Shenzhen	EP17892066.6	EU	July 25, 2018
26.	ELECTRONIC CIGARETTE	Invention	Smooore Shenzhen	EP14848352.2	EU	January 23, 2014
27.	電子煙及其霧化器	Invention	Smooore Shenzhen	2019-514271	Japan	March 14, 2019
28.	電子煙及其霧化器	Invention	Smooore Shenzhen	10-2019-7016523	Korea	June 10, 2019

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) *Interests of the Directors and the chief executive officer of our Company*

Immediately following the completion of the Capitalization Issue and the Global Offering (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 interests or short positions of the Directors and chief executive of our Company in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, once the Shares are listed, will be as follows:

(i) *Interest in our Company*

Name of Director	Nature of interest	Immediately following the completion of the Capitalization Issue and the Global Offering ⁽¹⁾	
		Number of Shares held	Approximate percentage of shareholding interest
Mr. Chen	Interest in controlled corporation/ interest of concert party ⁽²⁾	2,291,908,000	39.90%
	Beneficial owner ⁽³⁾	76,073,000	1.32%
Mr. Xiong	Interest in controlled corporation/ interest of concert party ⁽⁴⁾	2,291,908,000	39.90%
Dr. Liu Jincheng	Interest in controlled corporation ⁽⁵⁾	1,950,240,000	33.96%
Mr. Wang Guisheng	Beneficial owner ⁽⁶⁾	12,000,000	0.21%

Notes:

- (1) The calculation is based on the total number of Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering (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 and any Options which may be granted under the Post-IPO Share Option Scheme).

- (2) Mr. Chen holds all the issued shares of BVI 1, which in turn directly holds 1,989,705,600 Shares of the Company immediately following the completion of the Capitalization Issue and the Global Offering (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). Accordingly, Mr. Chen is deemed to be interested in the 1,989,705,600 Shares held by BVI 1. By virtue of the Concert Party Agreement, Mr. Chen and Mr. Xiong are deemed to be interested in each other's interest in the Shares.
- (3) These represent the Shares to be issued upon the exercise of Pre-IPO Share Options granted to Mr. Chen. In addition, subject to the Pre-IPO Share Option Scheme and pursuant to an undertaking dated May 1, 2020, Mr. Chen irrevocably and unconditionally undertakes to our Company that he will only exercise the Pre-IPO Share Options granted to and vested with him when the market capitalization of our Company reaches or exceeds HK\$110 billion.
- (4) Mr. Xiong holds all the issued shares of BVI 2, which in turn directly holds 302,202,400 Shares of the Company immediately following the completion of the Capitalization Issue and the Global Offering (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). Accordingly, Mr. Xiong is deemed to be interested in the 302,202,400 Shares held by BVI 2. By virtue of the Concert Party Agreement, Mr. Chen and Mr. Xiong are deemed to be interested in each other's interest in the Shares.
- (5) 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, immediately following the Capitalization Issue and the Global Offering (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). In addition, Dr. Liu Jincheng through EVE Energy and EVE Asia ultimately controls EVE BVI, which in turn directly holds 1,901,520,000 Shares of the Company immediately following the Capitalization Issue and the Global Offering (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). Accordingly, Dr. Liu Jincheng is deemed to be interested in an aggregate of 1,950,240,000 Shares held by Golden Energy Global Investment Ltd. and EVE BVI.
- (6) These represent the Shares to be issued upon the exercise of Pre-IPO Share Options granted to Mr. Wang Guisheng.

Immediately following the completion of the Capitalization Issue and the Global Offering (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), none of our Directors or the chief executive officer of our Company has any interest in associated corporations of the Company.

(b) *Interests of the Substantial Shareholders*

Save as disclosed in the section headed "Substantial Shareholders" in this prospectus, immediately following the completion of the Capitalization Issue and the Global Offering (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), our Directors or chief executive are not aware of any other person (other than a Director or chief executive of our Company) who will have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2

and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other Member of the Group.

(c) *Interests in other members of the Group*

So far as our Directors are aware, as of the Latest Practicable Date, no other persons (excluding us) were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other Member of the Group.

2. Directors' Service Contracts

Each of our executive Directors has entered into a service contract with our Company on June 15, 2020, and we have issued letters of appointment to each of our independent non-executive Directors. The service contracts with each of our executive Directors are for an initial fixed term of three years commencing from June 29, 2020. The letters of appointment with each of our independent non-executive Directors and non-executive Director are for an initial fixed term of three years. The service contracts and the letters of appointment are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our Articles of Association and the applicable Listing Rules.

Save as disclosed above, none of our Directors has entered, or has proposed to enter, a service contract with any Member of the Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

3. Directors' Remuneration

The aggregate remuneration (including fees, salaries, contributions to pension schemes, share-based payments, housing allowances and other allowances and benefits in kind and discretionary bonuses) paid to the Directors for the years ended December 31, 2016, 2017, 2018 and 2019 were approximately RMB1.0 million, RMB1.1 million, RMB3.7 million and RMB7.6 million, respectively.

Save as disclosed above, no other payments have been made or are payable, in respect of the years ended December 31, 2016, 2017, 2018 and 2019, by any of member of the Group to any of the Directors.

Our independent non-executive Directors have been appointed for a term of three years. The Company intends to pay a director's fee of RMB300,000 per annum to each of the independent non-executive Directors, respectively. Save for the director's fees, none of our independent non-executive Directors is expected to receive any other remuneration for holding his or her office as an independent non-executive Director.

Pursuant to the service contracts entered into between our Company and each of our executive Directors and the appointment letters issued to each of the independent non-executive Directors and non-executive Director, the basic annual salary payable to each of our Directors are as follows:

Director	Remuneration	Performance
	(per annum)	bonus
	RMB	(per annum)
	RMB	RMB
Chen Zhiping	510,000	nil
Xiong Shaoming	511,100	nil
Wang Guisheng	2,400,000	600,000
Dr. Liu Jincheng	nil	nil
Zhong Shan	300,000	nil
Yim Siu Wing, Simon	300,000	nil
Dr. Liu Jie	300,000	nil

Under the arrangements currently in force, the aggregate amount of remuneration, excluding share-based payments and discretionary bonuses, payable to our Directors for the year ending December 31, 2020 is estimated to approximately RMB4.4 million.

There was no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three financial years immediately preceding the issue of this prospectus.

Further details of the terms of the above service contracts are set forth in the paragraph headed “— C. Further Information About Our Directors and Substantial Shareholders — 2. Directors’ Service Contracts” in this Appendix.

4. Directors’ Competing Interests

Save as disclosed in the section headed “Relationship with Our Controlling Shareholders” in this prospectus, none of our Directors are interested in any business apart from the Group’s business which competes or is likely to compete, directly or indirectly, with the business of the Group.

5. Disclaimers

Save as disclosed in this prospectus:

- (a) none of the Directors or chief executive of our Company has any interests or short positions in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions

which he is taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to our Company and the Stock Exchange, once the Shares are listed on the Stock Exchange;

- (b) so far as is known to any Director or chief executive of our Company, no person has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other Member of the Group;
- (c) none of the Directors nor any of the persons listed in the paragraph headed “— E. Other Information — 5. Qualification of Experts” in this Appendix is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to any Member of the Group, or are proposed to be acquired or disposed of by or leased to any Member of the Group;
- (d) none of the Directors nor any of the persons listed in the paragraph headed “— E. Other Information — 5. Qualification of Experts” in this Appendix is materially interested in any contract or arrangement with the Group subsisting at the date of this prospectus which is unusual in its nature or conditions or which is significant in relation to the business of the Group as a whole;
- (e) save in connection with Underwriting Agreements, none of the persons listed in the paragraph headed “— E. Other Information — 5. Qualification of Experts” in this Appendix has any shareholding in any Member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any Member of the Group;
- (f) none of the Directors has entered or has proposed to enter into any service agreements with our Company or any Member of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation); and
- (g) save as contemplated under the Underwriting Agreements, none of our Directors, their respective associates (as defined under the Listing Rules), or Shareholders who are interested in more than 5% of the issued share capital of our Company has any interest in our Company’s top five customers and top five suppliers.

D. SHARE OPTION SCHEMES**1. Pre-IPO Share Option Scheme**

Pursuant to the resolution passed by Shareholders on September 30, 2019, we approved and adopted the rules of the Pre-IPO Share Option Scheme. The principal terms of the Pre-IPO Share Option Scheme are as follows:

(a) Purpose

The purpose of the Pre-IPO Share Option Scheme is to incentivize and reward the 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.

(b) Who may participate

The Board may, at any time during the life of the Pre-IPO Share Option Scheme, offer the grant to an employee (whether full time or part-time) or a director of a Member of the Group (“**Eligible Person**”) as the Board may at its absolute discretion select an Option to subscribe for such number of Shares as the Board may determine.

(c) Duration

The Pre-IPO Share Option Scheme shall be valid and effective for a period from the date of adoption (i.e. September 30, 2019) and expiring on the Listing Date, 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 which are at that time or become thereafter capable of exercise under the rules of this Pre-IPO Share Option Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Pre-IPO Share Option Scheme.

(d) Maximum Number of Shares Available for Subscription

The total number of Shares which may be issued upon exercise of all Options to be granted under the Pre-IPO Share Option Scheme must not exceed 10% of the Shares of the Company in issue as at the Listing Date. Options lapsed in accordance with the terms of this Pre-IPO Share Option Scheme will not be counted for the purpose of calculating this limit.

(e) Acceptance of Offer of Options

Offers of Options shall be open for acceptance in writing or by telex or facsimile transmission or (if the Board agrees) by electronic communication received by the Chairman of the Company (or a person designated by him with the approval of the

Board) for such period as the Board may determine and notify to the Eligible Person concerned provided that no such offer shall be open for acceptance after the expiry of the duration of this Pre-IPO Share Option Scheme. Offers of Options not accepted within this period shall lapse.

The Company shall issue Option Certificates to any Eligible Person who has accepted an offer in accordance with this Pre-IPO Share Option Scheme under the common seal of the Company (or the securities seal of the Company) within seven days after the end of the period for acceptance of the offer referred to the above.

(f) *Payment on Grant*

The amount payable for the acceptance of the grant of an Option shall be the sum of HK\$1 which shall be paid upon such acceptance. This consideration shall not be refundable to the Option-holder and shall not be deemed to be a part payment of the Option Price.

(g) *Option Price*

The exercise price will be RMB0.38 (or the equivalent of HK\$ calculated based on the exchange rate as at the exercise date) per Share and may be adjusted in accordance with rule (t).

(h) *Vesting and Exercise of Options*

Vesting of Options

Any Option shall be vested on an Option-holder immediately upon his acceptance of the offer of Options in accordance with rule (e) above provided that if any vesting schedule and/or conditions are specified in the offer of the Option, such Option shall only be vested on an Option-holder according to such vesting schedule and/or upon the fulfillment of the vesting conditions (as the case may be).

Exercise of Options

Any Options granted thereunder will be exercisable according to the terms of the Pre-IPO Share Option Scheme and at such times and under such conditions as determined by the Board and set forth in the Option Certificate. An Option may not be exercised for a fraction of a Share.

Subject to the exercise restriction set out in rule (j) below and the satisfaction of the conditions set out above, any Option:

- (i) which has vested;

(ii) which conditions have been satisfied or waived by the Board in its sole discretion; and

(iii) which has not lapsed,

may, unless the Board determines otherwise in its absolute discretion, be exercised at any time.

(i) *Manner of Exercise*

An Option-holder may exercise any or all of his Options by notice of exercise in writing in such form as the Board may from time to time require delivered to the Chairman of the Company (or a person designated by him with the approval of the Board). The notice of exercise of the Option must be completed, signed by the Option-holder or by his appointed agent, and must be accompanied by the:

(i) relevant Option Certificate; and

(ii) correct payment in full in cleared funds of the total Option Price for the number of Shares being acquired.

(j) *Restriction on Exercise*

No Option may be exercised in circumstances where such exercise would, in the opinion of the Board, be in breach of a statutory or regulatory requirement.

(k) *Limited Transferability*

Unless determined otherwise by the Board, neither the Option nor any rights in respect of it may be transferred, assigned or otherwise disposed of by any Option-holder to any other person or entity other than by will or by the laws of descent and distribution, and may be exercised, during the lifetime of the Option-holder, only by the Option-holder. If the Board makes an Option transferable, such Option may only be transferred (i) by will, (ii) by the laws of descent and distribution, or (iii) as permitted by applicable laws.

(l) *Lapse on Expiry of Option Period*

An Option will lapse on the earlier of:

(i) the expiry of the Option Period; or

(ii) the date when any circumstance referred to in rule (k) occurs; or

(iii) the expiry of the time provided for in the applicable rule where any of the circumstances provided in rule (m) to rule (q) below apply.

(m) *Lapse on Cessation of Employment****Resignation***

If an Option-holder ceases to be an Eligible Person by reason of his voluntary resignation (other than in circumstances where he is constructively dismissed), any outstanding offer of Options shall continue to be open for acceptance for such period as determined by the Board at its absolute discretion and notified to such Eligible Person, and any unvested Option will lapse on the date the Option-holder ceases to be an Eligible Person, unless as otherwise determined by the Board in its sole discretion. All Options (to the extent vested but not already exercised) will continue to be exercisable for such period as the Board may determine at its absolute discretion and notify to such Eligible Person on the date of cessation of employment of such Eligible Person.

Termination by Employer

If an Option-holder ceases to be an Eligible Person by reason of his:

- (i) employer terminating his contract in accordance with its terms or any right conferred on his employer by law; or
- (ii) contract, being a contract for a fixed term, expiring and not being renewed; or
- (iii) employer terminating his contract for serious or gross misconduct,

then any outstanding offer of an Option and all Options, vested or unvested, will lapse on the date the Option-holder ceases to be an Eligible Person, unless as otherwise determined by the Board in its sole discretion.

Death, Disability, Retirement and Transfer

If an Option-holder ceases to be an Eligible Person by reason of:

- (i) his death; or
- (ii) his serious illness or injury which in the opinion of the Board renders the Option-holder concerned unfit to perform the duties of his employment and which in the normal course would render the Option-holder unfit to continue performing the duties under his contract for the following 12 months provided such illness or injury is not self-inflicted; or
- (iii) his retirement in accordance with the terms of an Option-holder's contract; or

- (iv) his early retirement by agreement with the Option-holder's employer; or
- (v) his employer terminating his contract by reason of redundancy; or
- (vi) his employer ceasing to be a Member of the Group or under the control of the Company; or
- (vii) a transfer of the business, or the part of the business, in which the Option-holder works to a person who is neither under the control of the Company nor a Member of the Group; or
- (viii) if the Board determines in its absolute discretion that circumstances exist which mean that it is appropriate and consistent with the purpose of this Scheme to treat an Option-holder whose Options would otherwise lapse so that such Options do not lapse but continue to subsist in accordance with (and subject to) the provisions of this rule regarding lapse of Options in the event of death, disability, retirement and transfer,

then, unless as otherwise determined by the Board in its sole discretion and subject to rule below regarding lapse of Options after leaving employment, any outstanding offer of an Option which has not been accepted under rule (e) and any unvested Option will lapse and the Option-holder or his personal representatives (if appropriate) may (subject to rule (l)) exercise all his Options (to the extent vested but not already exercised) within a period of three months of the date of cessation of employment. Any Option not exercised prior to the expiry of this period shall lapse, unless as otherwise determined by the Board in its sole discretion.

Leaving Employment

If the Board determines that an Option-holder who ceases to be an Eligible Person in circumstances such that his Options continue to subsist in accordance with the above rule regarding lapse of Options in the event of death, disability, retirement and transfer:

- (i) is guilty of any misconduct which would have justified the termination of his contract for cause but which does not become known to the Company until after he has ceased employment with any Member of the Group; or
- (ii) is in breach of any material term of contract (or other contract or agreement related to his contract), without limitation, any confidentiality agreement or agreement containing non-competition or non-solicitation restrictions between him and any Member of the Group; or
- (iii) has disclosed trade secrets or confidential information of any Member of the Group; or

- (iv) has entered into competition with a Member of the Group or breached any non-solicitation provisions in his contract,

then it may, in its absolute discretion, determine that any unexercised Options, vested or not vested, held by the Option-holder shall immediately lapse upon the Board resolving to make such determination (whether or not the Option-holder has been notified of the determination).

(n) *Lapse on Company Option-holder*

If an Option-holder is a company, the Options granted to such Option-holder, *mutatis mutandis*, as if such Option had been granted to the relevant Eligible Person, and such Option shall accordingly lapse or fail to be exercisable after the relevant termination events referred to in these rules. The Option granted to such Option-holder shall lapse and terminate on the date such Option-holder ceases to be wholly owned by the relevant Eligible Person, provided that the Board may in its absolute discretion decide that such Option or any part thereof shall not so lapse or terminate subject to such conditions or limitations as the Board may impose.

(o) *Lapse on a General Offer*

If as a result of any general offer made to the holders of Shares, the Board becomes aware that the right to cast more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Company has or will become vested in the offeror, any company controlled by the offeror and any person associated with or acting in concert with the offeror, the Board may in its sole discretion to determine how each outstanding Option will be treated without an Option-holder's consent and notify relevant Option-holder accordingly.

In taking any of the actions as permitted in these rules under the Pre-IPO Share Option Scheme, the Board will not be obligated to treat all Options, all Options held by an Option-holder, or all Options of the same type, similarly.

(p) *Lapse on Company Reconstructions*

In the event of a compromise or arrangement, the Company shall give notice to all Option-holders on the same date as it gives notice of the meeting to its shareholders or creditors to consider such a compromise or arrangement and each Option-holder (or his personal representative) may at any time thereafter, but before such time as shall be notified by the Company, exercise all or any of his Options (to the extent vested but not already exercised, unless as otherwise determined by the Board in its sole discretion), and subject to the Company receiving the exercise notice and the Option Price, the Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed general meeting, allot, issue and register

under the name of the Option-holder such number of fully paid Shares which fall to be issued on exercise of such Options. Any Options, vested or unvested, not so exercised will lapse.

(q) *Lapse on Winding Up*

In the event a notice is given by the Company to its shareholders to convene a general meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up the Company, the Company shall on the same date as or soon after it dispatches such notice to its shareholders give notice thereof to all Option-holders and (subject to rules (i) and (k)) each Option-holder (or his personal representative) shall be entitled to exercise all or any of his Options (to the extent vested but not already exercised, unless as otherwise determined by the Board in its sole discretion) at any time no later than seven days prior to the proposed general meeting of the Company, and subject to the Company receiving the exercise notice and the Option Price, the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot, issue and register under the name of the Option-holder such number of fully paid Shares which fall to be issued on exercise of such Options. Any Options, vested or unvested, not so exercised will lapse.

(r) *Cancellation of option*

Notwithstanding any other provision in this Pre-IPO Share Option Scheme, the Board may cancel any Option. Unless the Option-holder otherwise agrees, the Board may only cancel an Option (which has been granted but not yet exercised) if, at the election of the Board, either:

- (i) the Company pays the Option-holder an amount equal to the fair market value of the Option at the date of cancellation as determined by the Board at its absolute discretion, after consultation with the auditors for the time being of the Company (the “**Auditors**”) or an independent financial adviser appointed by the Board; or
- (ii) the Board offers to grant the Option-holder replacement Options (or options under any other share option scheme involving the grant by the Company or any of its subsidiaries of options over new securities issued by the Company or any of its subsidiaries established by the Company or any of its subsidiaries in accordance with the Listing Rules or any other share option scheme which is determined by the Stock Exchange to be analogous to a share option scheme as described in the Listing Rules) or makes such arrangements as the Option-holder may agree to compensate him for the loss of the Option; or
- (iii) the Board makes such arrangements as the Option-holder may agree to compensate him for the cancellation of the Option.

(s) *Shares*

Issue of Shares

Shares to be issued following the exercise of an Option will be issued as soon as reasonably practicable (and, unless otherwise agreed between the Company and the Option-holder, in any event within 30 days after the date on which correct payment in cleared funds of the Option Price for the number of Shares to be issued is received by the Company). However, if the Board considers that any restriction under any law or regulation or the rules of any stock exchange prevents the issue of Shares within this timeframe, the Shares will be issued or transferred within 30 days of the lifting of the restrictions.

Rights

No dividends (and distributions made upon the liquidation of the Company) will be payable and no voting rights will be exercisable in relation to an Option that has not been exercised. Shares allotted and issued on the exercise of an Option will rank equally in all respects with the Shares in issue on the date of allotment. They will not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment.

Consents

All allotments and issues of Shares or grant or exercise of Options will be subject to any necessary consent under any relevant enactments or regulations for the time being in force under any relevant local legislation or regulations. The Option-holder will be responsible for complying with any requirements to be fulfilled in order to obtain (or avoid the necessity for) any such consent.

Articles of Association

Any Shares acquired on the exercise of Options will be subject to the Articles of the Company as amended from time to time.

(t) *Reorganization of Capital Structure*

Adjustments

Subject to the rule below regarding the adjustment of limits, in the event of any alteration in the capital structure of the Company whilst any Option remains exercisable, whether by way of capitalization of profits or reserves, further rights issues of Shares, consolidation or subdivision of shares, or reduction of the share capital of the Company in accordance with applicable laws and regulatory requirements (other than an issue of any share capital as consideration in respect of a transaction), such corresponding adjustments (if any) shall be made to:

- (i) the number of Shares, the subject matter of the Option (insofar as it is unexercised); and/or
- (ii) the price at which the Options are exercisable,

as the Auditors or an independent financial adviser appointed by the Board shall certify in writing to the Board to be in their opinion fair and reasonable.

Adjustment of Limits

The maximum number of Shares referred to in rule (d) will be adjusted, in such manner as the Auditors or independent financial adviser appointed by the Board shall certify in writing to the Board to be fair and reasonable, in the event of any alteration in the capital structure of the Company whether by way of capitalization of profits or reserves, rights issue, consolidation or subdivision of shares, or reduction of the share capital of the Company provided that no such adjustment shall be made in the event of an issue of Shares as consideration in respect of a transaction.

Conditions Governing Adjustment

Any adjustment under the above rule regarding adjustments will be made in accordance with the following:

- (i) any such adjustment shall be made on the basis that an Option-holder shall have the same proportion of the issued share capital of the Company as that to which he was entitled before such adjustment;
- (ii) no such adjustment shall be made the effect of which would be to enable any Share to be issued at less than its nominal value, or to increase the proportion of the issued share capital of the Company for which any Option-holder would have been entitled to subscribe had he exercised all the Options held by him immediately prior to such adjustments; and

- (iii) the Auditors or independent financial adviser selected by the Board (as appropriate) must confirm to the Board in writing that the adjustment satisfies the requirements of the Listing Rules and such applicable guidance and/or interpretation of the Listing Rules from time to time issued by the Stock Exchange, except where such adjustment is made on a capitalization issue.

The capacity of the auditors or financial advisers in this rule (t) is that of experts and not of arbitrators and their certification shall be final and binding on the Company and the Option-holder in the absence of fraud or manifest error. The costs of the auditors or financial advisers shall be borne by the Company.

(u) *Amendments to the Pre-IPO Share Option Scheme*

Subject to the provisions of this rule, the Board may amend any of the provisions of this Pre-IPO Share Option Scheme (including amendments in order to comply with changes in legal or regulatory requirements) at any time (but not so as to affect adversely any rights which have accrued to any Option-holder at that date).

The shareholders of the Company in general meeting must approve in advance by ordinary resolution any proposed amendment which is to the advantage of present or future Option-holders, and which relates to the following:

- (i) the purpose of the Pre-IPO Share Option Scheme;
- (ii) the definition of “Eligible Person”;
- (iii) the limitations on the total number of Shares which may be issued upon exercise of all Options to be granted under the Pre-IPO Share Option Scheme;
- (iv) the definition of “Option Period” under the Pre-IPO Share Option Scheme;
- (v) the terms regarding payment on grant;
- (vi) the basis of determination of the Option Price under the Pre-IPO Share Option Scheme;
- (vii) the voting, dividend, transfer and other rights attaching to the Options and the Shares including those arising on liquidation of the Company;
- (viii) the duration of the Pre-IPO Share Option Scheme;
- (ix) the circumstances under which Options will automatically lapse;

- (x) the adjustments provisions applicable in the event of a capitalization issue, rights issue, sub-division or consolidation of shares or reduction of capital of the Company;
- (xi) the cancelation of Options granted but not exercised;
- (xii) the treatment of Options on termination of this Pre-IPO Share Option Scheme;
- (xiii) the restriction on the transfer of Options under; or
- (xiv) the terms of this rule.

Any amendments to the terms and conditions of the Pre-IPO Share Option Scheme which are of a material nature may only be made with the approval of the shareholders of the Company save where the amendments take effect automatically under the existing terms of the Pre-IPO Share Option Scheme.

Subject to the above, the Board needs not obtain the approval of the shareholders of the Company in general meeting for any minor amendments:

- (i) to benefit the administration of this Pre-IPO Share Option Scheme;
- (ii) to comply with or take account of the provisions of any proposed or existing legislation;
- (iii) to take account of any changes to any legislative or regulatory requirements; or
- (iv) to obtain or maintain favorable tax, exchange control or regulatory treatment of any Member of the Group or any present or future Option-holder.

The Board may at any time make any amendments to the terms of any Options granted.

Any change to the authority of the Board in relation to any amendment of the Pre-IPO Share Option Scheme may only be made with the approval of the shareholders of the Company in general meeting.

(v) *Termination*

This Pre-IPO Share Option Scheme will expire automatically on the Listing Date. The Board may terminate this Pre-IPO Share Option Scheme at any time without shareholders' approval by resolving that no further Options shall be granted under this Pre-IPO Share Option Scheme.

If this Pre-IPO Share Option Scheme terminates in accordance with the above, then no new offers to grant Options under this Pre-IPO Share Option Scheme will be made and any Options which have been granted but not yet exercised shall either:

- (i) continue subject to rules under the Pre-IPO Share Option Scheme; or
- (ii) be canceled in accordance with rule (r).

(w) *Terms of Options*

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. Any terms and conditions determined by the Board must not be contrary to the purpose of this Pre-IPO Share Option Scheme and must be consistent with such guidelines (if any) as may be approved from time to time by the Shareholders of the Company.

As of the date of this prospectus, the Pre-IPO Share Options for an aggregate of 319,032,000 Shares, representing approximately 5.5546% of the issued share capital of our Company immediately following the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the Pre-IPO Share Options granted under the Pre-IPO Share Option Scheme or any Options which may be granted under the Post-IPO Share Option Scheme) have been granted to 558 Grantees. Each Grantee is required to pay HK\$1 as consideration for the acceptance of the grant of the Pre-IPO Share Options.

The following table sets out information on the Grantees who are our Directors or directors/general managers of our subsidiaries:

Name of Grantees		Position(s) in our Group	Date(s) of acceptance of grant	Residential address	Number of Shares to be issued pursuant to the exercise of the Pre-IPO Share Options in full	Percentage of Shares in issue immediately following completion of the Capitalization Issue and the Global Offering (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 and any Options which may be granted under the Post-IPO Share Option Scheme)
1.	Chen Zhiping (陳志平)	Executive Director, chairman of the Board and chief executive officer	May 1, 2020	21B, Unit 1, Building 4 Tian Yu Hao Ting Bao'an District, Shenzhen Guangdong, China	76,073,000 ⁽¹⁾	1.3245%
2.	Wang Guisheng (王貴升).	Executive Director, chief financial officer and joint company secretary	September 30, 2019	2-7D, Yongjing Building Dongfangzunyu, Luosha Road Luohu District, Shenzhen, Guangdong, China	12,000,000	0.2089%
3.	Hu Changhe (胡昌河).	Director of Smoore Shenzhen	September 30, 2019	Room 505, 3 Lane 10, Jinping Road, Changning District, Shanghai, China	21,604,000	0.3761%
4.	Bu Fenqiang (卜奮強).	General manager of Shenzhen Vaporesso	September 30, 2019 and May 1, 2020	Room 4, Unit 2, No. 2 Building, 17 South Kangfu Road, Heshan District, Yiyang, Hunan, China	6,480,000 ⁽²⁾	0.1128%
5.	Bu Zhiqiang (卜志強).	Director of Maike Brothers, Shenzhen Vaporesso, Maike Electronics, Maike Technology and Smoore Dongguan	September 30, 2019	Zhongxin Villager Group 1, Lishuzui Village, Taohuajiang Town, Taojiang County, Hunan, China	1,088,000	0.0189%
6.	Rong Tianjun (榮天君).	General manager of Smoore Dongguan	September 30, 2019	Room 1203, No. 11, 718 Huamu Road, New Pudong District, Shanghai, China	557,000	0.0097%
7.	Lin Youan (林友安).	General manager of Maike Brothers	September 30, 2019	1-2/F Municipal Human Resource Exchange Center Dormitory, 70 Xiangzhou Shuangzhu Street, Xiangzhou District Zhuhai, Guangdong, China	481,000	0.0084%

Name of Grantees		Position(s) in our Group	Date(s) of acceptance of grant	Residential address	Number of Shares to be issued pursuant to the exercise of the Pre-IPO Share Options in full	Percentage of Shares in issue immediately following completion of the Capitalization Issue and the Global Offering (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 and any Options which may be granted under the Post-IPO Share Option Scheme)
8.	Zhang Xingfu (張幸福)	General manager of Shenzhen Maishi	September 30, 2019	2 Cuiyuan West Fourteen Street, Zhonghua Avenue, Panyu District, Guangzhou, Guangdong, China	481,000	0.0084%
9.	Bu Weiqiang (卜偉強)	Director of Jiangmen Moore and Jiangmen Smoore	September 30, 2019	22B Xiangrui, Building B Tianyuelongting, 19 Yalan Road, Bao'an District, Shenzhen, Guangdong, China	481,000	0.0084%
10.	Qiao Qiao (喬嶠)	General manager of Maike Electronics	September 30, 2019	W2-A7 Floor, Hi-tech South 2 Road, Nanshan District, Shenzhen, Guangdong, China	314,000	0.0055%
11.	Luo Qihong (羅其紅)	General manager of Maike Technology	September 30, 2019	Room 603, Building 1, 969 Sanxing Road, Songling Town, Wujiang, Jiangsu, China	314,000	0.0055%
12.	Guo Yi (郭毅)	Director of Changsha Smoore	September 30, 2019	Room 504, No. 24 Building, 241 Ziranling Road, Yuhua District, Changsha, China	299,000	0.0052%
Sub-total					<u>120,172,000</u>	

The following table sets out information on the Grantees who are associates of our Directors:

Name of Grantees	Relationship with our Directors	Date(s) of acceptance of grant	Residential address	Number of Shares to be issued pursuant to the exercise of the Pre-IPO Share Options in full	Percentage of Shares in issue immediately following completion of the Capitalization Issue and the Global Offering (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 and any Options which may be granted under the Post-IPO Share Option Scheme)
13. Li Xiaoping (李小平)	Mr. Chen's cousin	September 30, 2019 and May 1, 2020	3 Gushan North Road, Taohua Town, Taojiang County, Hunan, China	2,484,000 ⁽³⁾	0.0432%
14. Yuan Xiang (袁向)	Mr. Chen's cousin	September 30, 2019	30 Villager Group, Changposhan, Dashiwan Village, Taohuajiang Town, Taojiang County, Hunan, China	177,000	0.0031%
15. Xiong Fei (熊飛)	Mr. Xiong's nephew	September 30, 2019	3 Huangjinshan Road, Hongshan District, Wuhan, Hubei, China	162,000	0.0028%
Sub-total				2,823,000	

Notes:

- (1) Subject to the Pre-IPO Share Option Scheme and pursuant to an undertaking dated May 1, 2020, Mr. Chen irrevocably and unconditionally undertakes to our Company that he will only exercise the Pre-IPO Share Options granted to and vested with him when the market capitalization of our Company reaches or exceeds HK\$110 billion.
- (2) We have granted and Mr. Bu Fenqiang has accepted a total of 6,480,000 Pre-IPO Share Options, of which 5,464,000 Pre-IPO Share Options were granted and accepted on September 30, 2019 and 1,016,000 Pre-IPO Share Options were granted and accepted on May 1, 2020.
- (3) We have granted and Mr. Li Xiaoping has accepted a total of 2,484,000 Pre-IPO Share Options, of which 2,384,000 Pre-IPO Share Options were granted and accepted on September 30, 2019 and 100,000 Pre-IPO Share Options were granted and accepted on May 1, 2020.

The following table sets out information on the Grantees who are members of our senior management team:

						Percentage of Shares in issue immediately following completion of the Capitalization Issue and the Global Offering (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 and any Options which may be granted under the Post-IPO Share Option Scheme)
Name of Grantees	Position(s) in our Group	Date of acceptance of grant	Residential address	Number of Shares to be issued pursuant to the exercise of the Pre-IPO Share Options in full		
16. Pan Weidong (潘衛東).	General Manager of Technology Center	September 30, 2019	12/F Central Unit, Yuehai Building, Nanshan District, Shenzhen, Guangdong, China	22,636,000		0.3941%
	Sub-total			<u>22,636,000</u>		

The following table sets out information on the Grantees receiving Pre-IPO Share Options to subscribe for 1,000,000 Shares or more (other than the Grantees who are our Directors, associates of our Directors, members of our senior management team or directors/general managers of our subsidiaries:

Name of Grantees	Position(s) in our Group	Date of acceptance of grant	Residential address	Number of Shares to be issued pursuant to the exercise of the Pre-IPO Share Options in full	Percentage of Shares in issue immediately following completion of the Capitalization Issue and the Global Offering (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 and any Options which may be granted under the Post-IPO Share Option Scheme)
Other Grantees					
17. Xiao Lingrong (肖令榮)	General Manager of Technology Industrialization Center	September 30, 2019	0420 Sungangxi Road, Futian District, Shenzhen, Guangdong	13,904,000	0.2421%
18. Han Jiyun (韓紀雲)	General Manager of FEELM Business	September 30, 2019	No.91 Room 602, 1288 Lianhuanan Road, Minhang District, Shanghai	12,216,000	0.2127%
19. Shen Su (沈蘇)	Vice General Manager of FEELM Business	September 30, 2019	10 Gaoxinnan four Road, Nanshan District, Shenzhen, Guangdong	9,360,000	0.1630%
20. Zhou Hongming (周宏明)	Vice President of Fundamental Research Institution and President of Changsha Branch	September 30, 2019	509 Building One, Yangguang 100 Guojixincheng Phase Two, Yuelu District, Changsha, Hunan	8,000,000	0.1393%
21. Wu Junlan (吳俊蘭)	General Manager of Human Resource Center	September 30, 2019	Baianju 4008 Baoanbei Road, Luohu District, Shenzhen B&Q Decoration and Construction Material Co., Ltd.	6,592,000	0.1148%

Name of Grantees		Position(s) in our Group	Date of acceptance of grant	Residential address	Number of Shares to be issued pursuant to the exercise of the Pre-IPO Share Options in full	Percentage of Shares in issue immediately following completion of the Capitalization Issue and the Global Offering (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 and any Options which may be granted under the Post-IPO Share Option Scheme)
22.	Wang Xin (王鑫)	Vice General Manager of APV Business	September 30, 2019	4805-4806 & 4808-4810, 168 Shenzhen International Chamber of Commerce, Futian District, Shenzhen, Guangdong	2,856,000	0.0497%
23.	Bie Chaoyong (別抄勇)	Senior Engineer II — Structure	September 30, 2019	110 Dingziquiao Road, Wuchang District, Wuhan, Hubei	2,800,000	0.0488%
24.	Xie Jianwei (謝建偉)	Vice Director of Human Resource Department	September 30, 2019	333, Group 1, Shengli Street, Huangqiao Town, Dongkou County, Hunan	2,728,000	0.0475%
25.	Xiao Congwen (肖從文)	Vice Director of Technology Department	September 30, 2019 and May 1, 2020	2nd Floor, Yingfu Hi-Tech Plant, Shihua Road, Futian District, Shenzhen, Guangdong	2,564,000 ⁽⁴⁾	0.0446%
26.	Wu Shijin (吳詩金)	Director of Production and Operation	September 30, 2019	58 Fuheyuefang Road, Zhongxin Town, Zengcheng, Guangdong	2,544,000	0.0443%
27.	Yang Zhen (楊楨)	Director of Automation	September 30, 2019	0420 Sungangxi Road, Futian District, Shenzhen, Guangdong	2,296,000	0.0400%
28.	Fang Weiming (方偉明)	Director of Research and Development	September 30, 2019	Room 701, Building Five Nanxin Garden, Nanxin Road, Nanshan District, Shenzhen, Guangdong	2,296,000	0.0400%

Name of Grantees	Position(s) in our Group	Date of acceptance of grant	Residential address	Number of Shares to be issued pursuant to the exercise of the Pre-IPO Share Options in full	Percentage of Shares in issue immediately following completion of the Capitalization Issue and the Global Offering (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 and any Options which may be granted under the Post-IPO Share Option Scheme)
29. Qi Siguang (戚思光)	Vice General Manager of HC Business	September 30, 2019	Room 102, Building 3, 113 Baoyaoqiaozi Street, Yuecheng District, Shaoxing, Zhejiang	2,120,000	0.0369%
30. Zuo Lili (左立立)	Director of Regional Marketing	September 30, 2019	165 Huangbai Road, Yanfeng District, Hengyang, Hunan	1,616,000	0.0281%
31. Jiang Zhenlong (蒋振龙)	Senior Engineer III — Material	September 30, 2019	3039 Baoanbei Road, Luohu District, Shenzhen, Guangdong	1,320,000	0.0230%
32. Wu Zhenyu (吴振宇)	Director of Structure	September 30, 2019 and May 1, 2020	136 Chezhan Resident Committee, Tanzi Town, Hengnan County, Hunan	1,320,000 ⁽⁵⁾	0.0230%
33. Qi Wenjian (齐文剑)	Senior Patent Manager	September 30, 2019	2 Yousong Donghuan Second Road, Longhua Street Office, Baoan District, Shenzhen, Guangdong	1,264,000	0.0220%
34. Shi Zhiqiang (石志强)	President of Fundamental Research Institution	September 30, 2019	66 Building Room 84, Gucheng Road, Shijingshan District, Beijing	1,225,000	0.0213%
35. Huang He (黄河)	Director of Marketing	May 1, 2020	Room 401, Unit 3, Meidi Haixing Community Building 1, Beijiao Town, Shunde District, Foshan, Guangdong	1,150,000	0.0200%

				Number of Shares to be issued pursuant to the exercise of the Pre- IPO Share Options in full	Percentage of Shares in issue immediately following completion of the Capitalization Issue and the Global Offering (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 and any Options which may be granted under the Post-IPO Share Option Scheme)
Name of Grantees	Position(s) in our Group	Date of acceptance of grant	Residential address		
36. Yi Changyong (易長勇)	Senior Engineer I — Material	September 30, 2019 and May 1, 2020	210 Baishigang 6, Shifeng District, Zhuzhou, Hunan	1,100,000 ⁽⁶⁾	0.0192%
37. Wang Shouping (王守平)	President of Tangshan Research Institution	September 30, 2019	201 Unit 1, Jinggezhuang Kuangong Building, 44 Maxie Road, Kaiping District, Tangshan, Hebei	1,079,000	0.0188%
38. Feng Yanxia (豐艷霞)	Senior Finance Manager	September 30, 2019	Dabuku 6 Lane Xi 2, Fengxiang Street, Chenghai District, Shantou, Guangdong	1,024,000	0.0178%
39. Liu Qingyu (劉清宇)	Director of Sales	May 1, 2020	Languagnkaili Xiangjiang 5-2- 3802, Jinjiang District, Chengdu	1,000,000	0.0174%
	Subtotal			82,374,000	1.4342%
40. 519 Grantees who are employees of our Group				91,027,000	1.5849%
Total				319,032,000	5.5546%

Notes:

- (4) We have granted and Mr. Xiao Congwen has accepted a total of 2,564,000 Pre-IPO Share Options, of which 1,464,000 Pre-IPO Share Options were granted and accepted on September 30, 2019 and 1,100,000 Pre-IPO Share Options were granted and accepted on May 1, 2020.
- (5) We have granted and Mr. Wu Zhenyu has accepted a total of 1,320,000 Pre-IPO Share Options, of which 1,128,000 Pre-IPO Share Options were granted and accepted on September 30, 2019 and 192,000 Pre-IPO Share Options were granted and accepted on May 1, 2020.
- (6) We have granted and Mr. Yi Changyong has accepted a total of 1,100,000 Pre-IPO Share Options, of which 481,000 Pre-IPO Share Options were granted and accepted on September 30, 2019 and 619,000 Pre-IPO Share Options were granted and accepted on May 1, 2020.

All 558 Grantees are full-time employees of our Group. Assuming that all the Pre-IPO Share Options are exercised in full, our Company will be required to allot and issue an aggregate of 319,032,000 Shares for consideration for each Share representing 95.57% discount to the low end of the stated Offer Price range of HK\$9.60 and 96.57% discount to the high end of the stated Offer Price range of HK\$12.40. On the basis of foregoing, the Grantees who are our Directors, associates of our Directors and directors or general managers of our subsidiaries will hold in aggregate of 122,995,000 Shares issued pursuant to the options granted under the Pre-IPO Share Option Scheme, representing approximately 2.1415% of our Shares in issue immediately after completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of any Options which may be granted under the Post-IPO Share Option Scheme). The Pre-IPO Share Options can be exercised during the period between three-month after the Listing Date and four-year after the Listing Date.

All holders of Pre-IPO Share Options may only exercise their options during a period immediately after the vesting date (periods of vesting of the relevant option are indicated below unless otherwise determined by the Board from time to time in its absolute discretion) and before the 10th anniversary of the grant date.

Period of vesting of the relevant option	Maximum percentage of exercisable Pre-IPO Share Options during the relevant period
During a period of three months immediately after the Listing Date (both days inclusive)	30.98%
During a period of one year immediately after the Listing Date (both days inclusive)	18.57%
During a period of two years immediately after the Listing Date (both days inclusive)	21.41%
During a period of three years immediately after the Listing Date (both days inclusive)	18.97%
During a period of four years immediately after the Listing Date (both days inclusive)	10.07%

Our Directors have agreed not to exercise any Pre-IPO Share Options to the extent that the public float of our Company will as a result of such exercise be less than the minimum requirements under the Listing Rules.

Application has been made to the Listing Committee for the listing of, and permission to deal in, on the Main Board our Shares which may be issued pursuant to the exercise of the Pre-IPO Share Options, that is 319,032,000 Share representing approximately 5.5546% of total Shares in issue immediately following completion of the Capitalization Issue and the Global Offering (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).

Assuming full exercise of the Pre-IPO Share Options, the shareholding of the Shareholders immediately following completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of any Options which may be granted under the Post-IPO Share Option Scheme) would have been diluted by approximately 5.55% and the dilution effect on our earnings per Share would be approximately 5.55%.

Waiver and exemption

Our Company has applied for and has been granted (i) a waiver from the Stock Exchange from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of and paragraph 27 of Appendix 1A to the Listing Rules and (ii) an exemption from the SFC under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting our Company from strict compliance with the disclosure requirements of paragraph 10(d) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance. Further information on the waiver and the exemption is set out in the section headed “Waivers from Compliance with the Listing Rules and Exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance” in this prospectus.

2. Post-IPO Share Option Scheme

The following is a summary of the principal terms of the Post-IPO Share Option Scheme conditionally approved and adopted by our Shareholders on June 15, 2020 and its implementation is conditional on the Listing.

(a) Purpose

The purpose of the Post-IPO Share Option Scheme is to incentivize and reward an Eligible Person for their contribution to our Group and to align their interests with that of our Company so as to encourage them to work towards enhancing the value of our Company.

(b) Who may participate

The Board (including any committee or delegate of the Board appointed by the Board to perform any of its functions pursuant to the rules of the Post-IPO Share Option Scheme) may, at its absolute discretion, offer to grant an option to subscribe for such number of Shares as the Board may determine to an employee (whether full time or part-time) or a director of a Member of the Group or associated companies of our Company (“**Eligible Person**”).

(c) Maximum number of Shares in respect of which options may be granted

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 (the “**Other Schemes**”) of our Company must not in aggregate exceed 10% of the total number of Shares in issue as of the Listing Date, being 574,351,272 Shares, or such higher limit as the Stock Exchange may allow pursuant to a waiver granted at the Stock Exchange’s discretion (the “**Scheme Mandate Limit**”). Options lapsed in accordance with the terms of the Post-IPO Share Option Scheme and any Other Scheme of our Company will not be counted for the purpose of calculating the Scheme Mandate Limit.

The Board may, with the approval of the Shareholders in general meeting refresh, the Scheme Mandate Limit provided that the total number of Shares which may be issued upon the exercise of all options to be granted under the Post-IPO Share Option Scheme and any Other Schemes of our Company under the Scheme Mandate Limit as refreshed must not exceed 10% of the Shares in issue or such higher limit as the Stock Exchange may allow pursuant to a waiver granted at the Stock Exchange's discretion as of the date of on which the Shareholders approve the refreshment of the Scheme Mandate Limit. Options previously granted under the Post-IPO Share Option Scheme and any Other Schemes of our Company (including those outstanding, canceled, lapsed in accordance with the terms of the relevant scheme, or exercised options) will not be counted for the purpose of calculating the Scheme Mandate Limit as "refreshed." The Board may, with the approval of the Shareholders in general meeting, grant options to any Eligible Person specifically identified by them which would cause the Scheme Mandate Limit to be exceeded. Our Company shall send to the Shareholders a circular containing the information required under the Listing Rules for the purpose of seeking the approval of the Shareholders.

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 Schemes of our Company to the Eligible Persons must not exceed 30% of the total number of Shares in issue from time to time.

The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or independent financial adviser appointed by the Board shall certify in writing to the Board to be fair and reasonable, in the event of any alteration in the capital structure of our Company whether by way of capitalization of profits or reserves, rights issue, consolidation or subdivision of shares, or reduction of the share capital of our Company provided that no such adjustment shall be made in the event of an issue of Shares as consideration in respect of a transaction.

(d) *Maximum entitlement of each individual*

No options shall be granted to any Eligible Person under the Post-IPO Share Option Scheme and any Other Schemes of our Company which, if exercised, would result in such Eligible Person becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued or to be issued to him under all options granted to him (including exercised, canceled and outstanding Options) in the 12-month period up to and including the date of offer of such options, exceeds 1% of the Shares in issue at such date or such higher limit as the Stock Exchange may allow pursuant to a waiver granted at the Stock Exchange's discretion.

Any further grant of options to an Eligible Person in excess of this 1% limit or such higher limit as the Stock Exchange may allow pursuant to a waiver granted at the Stock Exchange's discretion shall be subject to the approval of the Shareholders in general

meeting with such Eligible Person and his close associates (or if such Eligible Person is a connected person of our Company, his associates abstaining from voting). Our Company must send a circular to the Shareholders disclosing the identity of the Eligible Person in question, the number and terms of the options to be granted (and options previously granted to such Eligible Person) and such other information required under the Listing Rules.

The number and terms (including the Option Price) of the options to be granted to such Eligible Person must be fixed before the Shareholders' approval and the date of the Board meeting approving such further grant shall be taken as the date of grant for the purpose of determining the Option Price of the options.

(e) *Grant of options to connected persons*

Each grant of options to a Director (including an independent non-executive Director) of any Member of the Group or associated company of our Company, chief executive or substantial shareholder of our Company, or any of their respective associates, under the Post-IPO Share Option Scheme must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the options).

Where any grant of options to a substantial shareholder or an independent non-executive Director of our Company, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted under the Post-IPO Share Option Scheme (including options exercised, canceled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5 million,

such further grant of options by the Board must be approved by the Shareholders in general meeting. Any Shareholder who is a connected person of our Company must abstain from voting on the resolution to approve such further grant of options, except that such a connected person may vote against such resolution subject to the requirements of the Listing Rules. Our Company shall send to the Shareholders a circular containing the information required under the Listing Rules for the purpose of seeking the approval of the Shareholders.

(f) *Acceptance of an offer of options*

An offer of options shall be open for acceptance for such period (not exceeding 30 days inclusive of, and from, the date of offer) as the Board may determine and notify to the Eligible Person concerned provided that no such offer shall be open for acceptance

after the expiry of the duration of the Post-IPO Share Option Scheme. An offer of options not accepted within this period shall lapse. An amount of HK\$1.00 is payable upon acceptance of the grant of an option and such payment shall not be refundable and shall not be deemed to be a part payment of the Option Price.

(g) *Option price*

Subject to any adjustment made as described in sub-paragraph (u) below, the Option Price shall be such price as determined by the Board and notified to an Option-holder and which shall not be less than the higher of:

- (i) 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;
- (ii) 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
- (iii) the nominal value of the Shares.

(h) *Duration of 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, 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.

(i) *Time of vesting and exercise of options*

Any option shall be vested on an Option-holder immediately upon his acceptance of the offer of options provided that if any vesting schedule and/or conditions are specified in the offer of the option, such option shall only be vested on an Option-holder according to such vesting schedule and/or upon the fulfillment of the vesting conditions (as the case may be). Any vested option which has not lapsed and which conditions have been satisfied or waived by the Board in its sole discretion may, unless the Board determines otherwise in its absolute discretion, be exercised at any time from the next business day after the offer of options has been accepted. Any option which remain unexercised shall lapse upon the expiry of the option period, which period shall be determined by the Board and shall not exceed ten years from the offer date of the option or such longer period as the Stock Exchange may allow pursuant to a waiver granted at the Stock Exchange's discretion (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. Such terms and conditions determined by the Board must not be contrary to the purpose of the Post-IPO Share Option Scheme and must be consistent with such guidelines (if any) as may be approved from time to time by the Shareholders.

No option may be exercised in circumstances where such exercise would, in the opinion of the Board, be in breach of a statutory or regulatory requirement.

(j) *Restriction on the time of grant of options*

A grant of options may not be made after inside information has come to our knowledge until such inside information has been announced as required under the Listing Rules. In particular, no option may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of the results for any year, or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement. The period during which no option may be granted will cover any period of delay in the publication of a results announcement.

(k) *Ranking of the Shares*

No dividends (including distributions made upon the liquidation of our Company) will be payable and no voting rights will be exercisable in relation to an option that has not been exercised. Shares allotted and issued on the exercise of an option will rank equally in all respects with the Shares in issue on the date of allotment. They will not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment.

(l) *Restrictions on transfer*

Except for the transmission of an option on the death of an Option-holder to his personal representatives, neither the option nor any rights in respect of it may be transferred, assigned or otherwise disposed of by any Option-holder to any other person or entity. If an Option-holder transfers, assigns or disposes of any such option or rights, whether voluntarily or involuntarily, then the relevant option will immediately lapse.

(m) *Rights on voluntary resignation*

If an Option-holder ceases to be an Eligible Person by reason of his voluntary resignation (other than in circumstances where he is constructively dismissed), any outstanding offer of options shall continue to be open for acceptance for such period as determined by the Board at its absolute discretion and notified to such Eligible Person, and all options (to the extent vested but not already exercised) will continue to be exercisable for such period as the Board may determine at its absolute discretion and notify to such Eligible Person on the date of cessation of employment of such Eligible Person.

(n) *Rights on termination of employment*

If an Option-holder ceases to be an Eligible Person by reason of (i) his employer terminating his contract of employment in accordance with its terms or any right conferred on his employer by law, or (ii) his contract of employment, being a contract for a fixed term, expiring and not being renewed, or (iii) his employer terminating his contract for serious or gross misconduct, then any outstanding offer of an option and all options, vested or unvested, will lapse on the date the Option-holder ceases to be an Eligible Person.

(o) *Rights on death, disability, retirement and transfer*

If an Option-holder ceases to be an Eligible Person by reason of:

- (i) his death; or
- (ii) his serious illness or injury which in the opinion of the Board renders the Option-holder concerned unfit to perform the duties of his employment and which in the normal course would render the Option-holder unfit to continue performing the duties under his contract of employment for the following 12 months provided such illness or injury is not self-inflicted; or
- (iii) his retirement in accordance with the terms of an Option-holder's contract of employment; or
- (iv) his early retirement by agreement with the Option-holder's employer; or

- (v) his employer terminating his contract of employment by reason of redundancy; or
- (vi) his employer ceasing to be a Member of the Group or an associated company of our Company or under the control of our Company; or
- (vii) a transfer of the business, or the part of the business, in which the Option-holder works to a person who is neither under the control of our Company nor a Member of the Group or associated companies of our Company; or
- (viii) if the Board determines in its absolute discretion that circumstances exist which mean that it is appropriate and consistent with the purpose of the Post-IPO Share Option Scheme to treat an Option-holder whose options would otherwise lapse so that such options do not lapse but continue to subsist in accordance with (and subject to) the provisions of the Post-IPO Share Option Scheme,

then, any outstanding offer of an option which has not been accepted and any unvested option will lapse and the Option-holder or his personal representatives (if appropriate) may exercise all his options (to the extent vested but not already exercised) within a period of three months of the date of cessation of employment. Any option not exercised prior to the expiry of this period shall lapse.

If the Board determines that an Option-holder who ceases to be an Eligible Person in circumstances such that his options continue to subsist in accordance with (viii) above:

- (i) is guilty of any misconduct which would have justified the termination of his contract of employment for cause but which does not become known to our Company until after he has ceased employment with any Member of the Group or associated companies; or
- (ii) is in breach of any material term of contract of employment (or other contract or agreement related to his contract of employment), without limitation, any confidentiality agreement or agreement containing non-competition or non-solicitation restrictions between him and any Member of the Group or associated companies; or
- (iii) has disclosed trade secrets or confidential information of any Member of the Group or associated companies; or
- (iv) has entered into competition with any Member of the Group or associated companies or breached any non-solicitation provisions in his contract of employment,

then it may, in its absolute discretion, determine that any unexercised options, vested or not vested, held by the Option-holder shall immediately lapse upon the Board resolving to make such determination (whether or not the Option-holder has been notified of the determination).

(p) *Rights on cessation to be a director*

In the event that any director ceases to be a director of any Member of the Group or associated companies, our Company shall, as soon as practicable thereafter, give notice to the relevant Option-holder who as a result ceases to be an Eligible Person. Any outstanding offer of an option which has not been accepted and any unvested option will lapse on the date the Option-holder ceases to be an Eligible Person. The Option-holder (or his personal representative) may exercise all his options (to the extent vested but not already exercised) within a period of three months of the date of the notification by the Board. Any option not exercised prior to the expiry of this period shall lapse.

(q) *Rights on a general offer*

In as a result of any general offer made to the holders of Shares, the Board becomes aware that the right to cast more than 50% of the votes which may ordinarily be cast on a poll at a general meeting of our Company has or will become vested in the offeror, any company controlled by the offeror and any person associated with or acting in concert with the offeror, the Board will notify every Option-holder of this within 14 days of becoming so aware or as soon as practicable after any legal or regulatory restriction on such disclosure no longer applies. Each Option-holder will be entitled to exercise his options (to the extent vested but not already exercised) during the period of one month starting on the date of the Board's notification to the Option-holders. All options, vested or unvested, not exercised before the end of such period will lapse.

(r) *Rights on company reconstructions*

In the event of a compromise or arrangement, our Company shall give notice to all Option-holders on the same date as it gives notice of the meeting to the Shareholders or creditors to consider such a compromise or arrangement and each Option-holder (or his personal representative) may at any time thereafter, but before such time as shall be notified by our Company, exercise all or any of his options (to the extent vested but not already exercised), and subject to our Company receiving the exercise notice and the Option Price, our Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed general meeting, allot, issue and register under the name of the Option-holder such number of fully paid Shares which fall to be issued on exercise of such options. Any options, vested or not unvested, not so exercised will lapse.

(s) *Rights on winding up*

In the event a notice is given by our Company to the Shareholders to convene a general meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up our Company, our Company shall on the same date as or soon after we dispatch such notice to the Shareholders give notice thereof to all Option-holders and each Option-holder shall be entitled to exercise all or any of his options (to the extent vested but not already exercised) at any time no later than seven days prior to the proposed general meeting of our Company, and subject to our Company receiving the exercise notice and the Option Price, our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot, issue and register under the name of the Option-holder such number of fully paid Shares which fall to be issued on exercise of such options. Any options, vested or not unvested, not so exercised will lapse.

(t) *Lapse of option*

An option will lapse on the earlier of:

- (i) the expiry of the option period as determined by the Board; or
- (ii) the date on which an Option-holder is in breach of sub-paragraph (i); or
- (iii) the expiry of the time provided for in the applicable rule where any of the circumstances provided in sub-paragraphs (m) to (s) above apply.

(u) *Effect of alteration to share capital*

In the event of any alteration in the capital structure of the Company whilst any option remains exercisable, whether by way of capitalization of profits or reserves, further rights issues of Shares, consolidation or subdivision of shares, or reduction of the share capital of our Company in accordance with applicable laws and regulatory requirements (other than an issue of any share capital as consideration in respect of a transaction), such corresponding adjustments (if any) shall be made to the number of Shares, the subject matter of the option (insofar as it is unexercised) and/or the price at which the options are exercisable, as the auditors of our Company or an independent financial adviser appointed by the Board shall certify in writing to the Board to be in their opinion fair and reasonable.

Any such adjustments shall be made on the basis that an Option-holder shall have the same proportion of the issued share capital of our Company as that to which he was entitled before such adjustment. No such adjustment shall be made the effect of which would be to enable any Share to be issued at less than its nominal value, or to increase

the proportion of the issued share capital of our Company for which any Option-holder would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustments.

The auditors of our Company or the independent financial adviser selected by the Board (as appropriate) must confirm to the Board in writing that the adjustment satisfies the requirements of the Note to paragraph 17.03(13) of the Listing Rules and such applicable guidance and/or interpretation of the Listing Rules from time to time issued by the Stock Exchange (including, without limitation, the “Supplemental Guidance on Main Board Listing Rule 17.03(13) and the Notice immediately after the Rule” attached to the letter of the Stock Exchange dated September 5, 2005 to all issuers relating to share option schemes), except where such adjustment is made on a capitalization issue.

The capacity of the auditors or independent financial advisers is that of experts and not of arbitrators and their certification shall be final and binding on our Company and the Option-holders in the absence of fraud or manifest error. The costs of the auditors or independent financial advisers shall be borne by our Company.

(v) *Cancellation of option*

Unless the Option-holder agrees, the Board may only cancel an option (which has been granted but not yet exercised) if, at the election of the Board, either:

- (i) our Company pays to the Option-holder an amount equal to the fair market value of the option at the date of cancellation as determined by the Board at its absolute discretion, after consultation with the auditors of our Company or an independent financial adviser appointed by the Board; or
- (ii) the Board offers to grant the Option-holder replacement options (or options under any other share option scheme of any Member of the Group) or makes such arrangements as the Option-holder may agree to compensate him for the loss of the option; or
- (iii) the Board makes such arrangements as the Option-holder may agree to compensate him for the cancellation of the option.

(w) *Termination of the Post-IPO Share Option Scheme*

The Post-IPO Share Option Scheme will expire automatically on the day immediately preceding the tenth anniversary of the Listing Date. The Board may terminate the Post-IPO Share Option Scheme at any time without Shareholders' approval by resolving that no further options shall be granted under the Post-IPO Share Option Scheme and in such case, no new offers to grant options under the Post-IPO Share Option Scheme will be made and any options which have been granted but not yet exercised shall either (i) continue subject to the Post-IPO Share Option Scheme, or (ii) be canceled in accordance with sub-paragraph (v).

(x) *Amendments to the Post-IPO Share Option Scheme*

The Board may amend any of the provisions of the Post-IPO Share Option Scheme (including amendments in order to comply with changes in legal or regulatory requirements) at any time (but not so as to affect adversely any rights which have accrued to any Option-holder at that date), except that amendments which are to the advantage of present or future Option-holders in respect of matters contained in Rule 17.03 of the Listing Rules must be approved by the Shareholders in general meeting.

Any amendments to the terms and conditions of the Post-IPO Share Option Scheme which are of a material nature or any amendments to the terms of any options granted may only be made with the approval of the shareholders of our Company save where the amendments take effect automatically under the existing terms of the Post-IPO Share Option Scheme.

Any amendments to the terms of options granted to an Option-holder who is a substantial shareholder of our Company or an independent non-executive Director, or any of their respective associates, must be approved by the Shareholders in general meeting. The resolution to approve the amendment must be taken on a poll and any connected person of our Company must abstain from voting on the resolution to approve such amendment, except that such a connected person may vote against such resolution.

Any change to the authority of the Board in relation to any amendment of the rules of the Post-IPO Share Option Scheme may only be made with the approval of the Shareholders in general meeting.

(y) *Conditions of the Post-IPO Share Option Scheme*

The adoption of the Post-IPO Share Option Scheme is conditional on:

- (i) the Listing Committee granting (or agreeing to grant) approval (subject to such conditions as the Stock Exchange may impose) for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of any options which may be granted under the Post-IPO Share Option Scheme; and
- (ii) the commencement of the dealings in the Shares on the Stock Exchange.

If the condition above are not satisfied on or before the date following six months after the date the Post-IPO Share Option Scheme was conditionally adopted:

- (i) the Post-IPO Share Option Scheme shall forthwith determine;
- (ii) any option granted or agreed to be granted pursuant to the Post-IPO Share Option Scheme and any offer of such a grant shall be of no effect; and
- (iii) no person shall be entitled to any rights or benefits or be under any obligation under or in respect of the Post-IPO Share Option Scheme or any option.

An application has been made to the Listing Committee to the Stock Exchange for the listing of, and permission to deal in, the new Shares which may be issued pursuant to the exercise of the options which may be granted pursuant to the Post-IPO Share Option Scheme.

As of the Latest Practicable Date, no option had been granted or agreed to be granted by our Company pursuant to the Post-IPO Share Option Scheme.

Details of the Post-IPO Share Option Scheme, including particulars and movements of the options granted during each financial year of our Company, and our employee costs arising from the grant of the options will be disclosed in our annual report.

E. OTHER INFORMATION

1. Estate duty, tax and other indemnities

Mr. Chen and Mr. Xiong have entered into the Deed of Indemnity whereby Mr. Chen and Mr. Xiong agreed to indemnify our Company (for itself and as trustee for its subsidiaries) against, among other things,

- (i) any liability for estate duty under the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong, or legislation similar thereto in Hong Kong or any jurisdictions outside Hong Kong which might be payable by any member of our Group on or before the Listing Date, and other taxation (including all fines, penalties, costs, charges, expenses and interests relating to taxation) which may be

suffered by any member of our Group in respect of, among other things, any income, profits or gains earned, accrued or received on or before the Listing Date, save:

- (a) to the extent that specific provision or reserve has been made for such taxation in the audited consolidated financial statements of our Group included in the Accountants' Report in Appendix I (the “**Accounts**”) to this prospectus;
 - (b) to the extent that the liability for such taxation would not have arisen but for any act or omission of, or delay by, any member of our Group after the Listing Date; and
 - (c) to the extent such loss arises or is incurred only as a result of a retrospective change in law or regulations or the interpretation or practice thereof by any relevant authority coming into force after the Listing Date.
- (ii) the fines, penalties, claims, costs, expenses and losses (to the extent that provision, reserve or allowance has not been made for such fines, penalties, claims, costs, expenses or losses in the Accounts) incurred by any member of the Group after the Listing resulting from any non-compliance incidents of any member of the Group with applicable laws and regulations on or before the Listing Date.

The Deed of Indemnity shall become effective on the Listing Date and shall continue in full force and effect until it is terminated.

2. Litigation

As of the Latest Practicable Date, save as disclosed in the section headed “Business — Legal and Compliance” in this prospectus, no Member of the Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against the Group, that would have a material adverse effect on its business, financial condition or results of operations.

3. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the Capitalization Issue and the exercise of the Over-allotment Option), and the 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. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. Please refer to the section headed “Underwriting — Underwriting Arrangements and Expenses — Sole Sponsor’s Independence” in this prospectus for details regarding the independence of the Sole Sponsor.

Our Company has entered into an engagement agreement with the Sole Sponsor, pursuant to which our Company agreed to pay the Sole Sponsor a fee of US\$1 million to act as sponsor to our Company in the Global Offering.

4. No Material Adverse Change

The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since December 31, 2019 (being the date to which the latest audited consolidated financial statements of the Group were prepared) and up to the date of this prospectus.

5. Qualification of Experts

The following are the qualifications of the experts (as defined under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given opinions or advice which are contained in this prospectus:

Name	Qualification
CLSA Capital Markets Limited	Licensed to conduct type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
DeHeng Law Offices (Shenzhen)	Legal advisers to Company as to PRC law
Conyers Dill & Pearman	Legal advisers to Company as to Cayman Islands law
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry Consultant

6. Consents of Experts

Each of the above experts, namely, CLSA Capital Markets Limited, Deloitte Touche Tohmatsu, DeHeng Law Offices (Shenzhen), Conyers Dill & Pearman and Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its report and/or letter and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding in our Company or any of our subsidiaries or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

7. Promoter

Our Company has no promoter for the purpose of the Listing Rules. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

8. Preliminary Expenses

The preliminary expenses incurred by our Company were approximately US\$11,375 and were payable by us.

9. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

10. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

11. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
 - (i) neither we nor any of our subsidiaries has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any Member of the Group;

- (iv) no commission has been paid or payable (except commission to sub-underwriters) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of our Company or any of our subsidiaries;
 - (v) no founder, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued; and
 - (vi) there is no arrangement under which future dividends are waived or agreed to be waived.
- (b) Save as disclosed in this prospectus, none of the persons named in the paragraph headed “— E. Other Information — 6. Consents of Experts” in this Appendix is interested beneficially or otherwise in any shares of any Member of the Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any Member of the Group;
- (c) The branch register of members of the Company will be maintained in Hong Kong by its Hong Kong Share Registrar, Tricor Investor Services Limited. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by the Company’s share register in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted to CCASS.
- (d) Our Directors confirm that:
- (i) there has not been any interruption in the business of our Company which may have or have had a significant effect on the financial position of our Company in the 12 months immediately preceding the date of this prospectus; and
 - (ii) save as disclosed in this prospectus our Company has no outstanding convertible debt securities or debentures.
- (e) No company within our Group is presently listed on any stock exchange or traded on any trading system.
- (f) The English version of this prospectus shall prevail over the Chinese version.

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

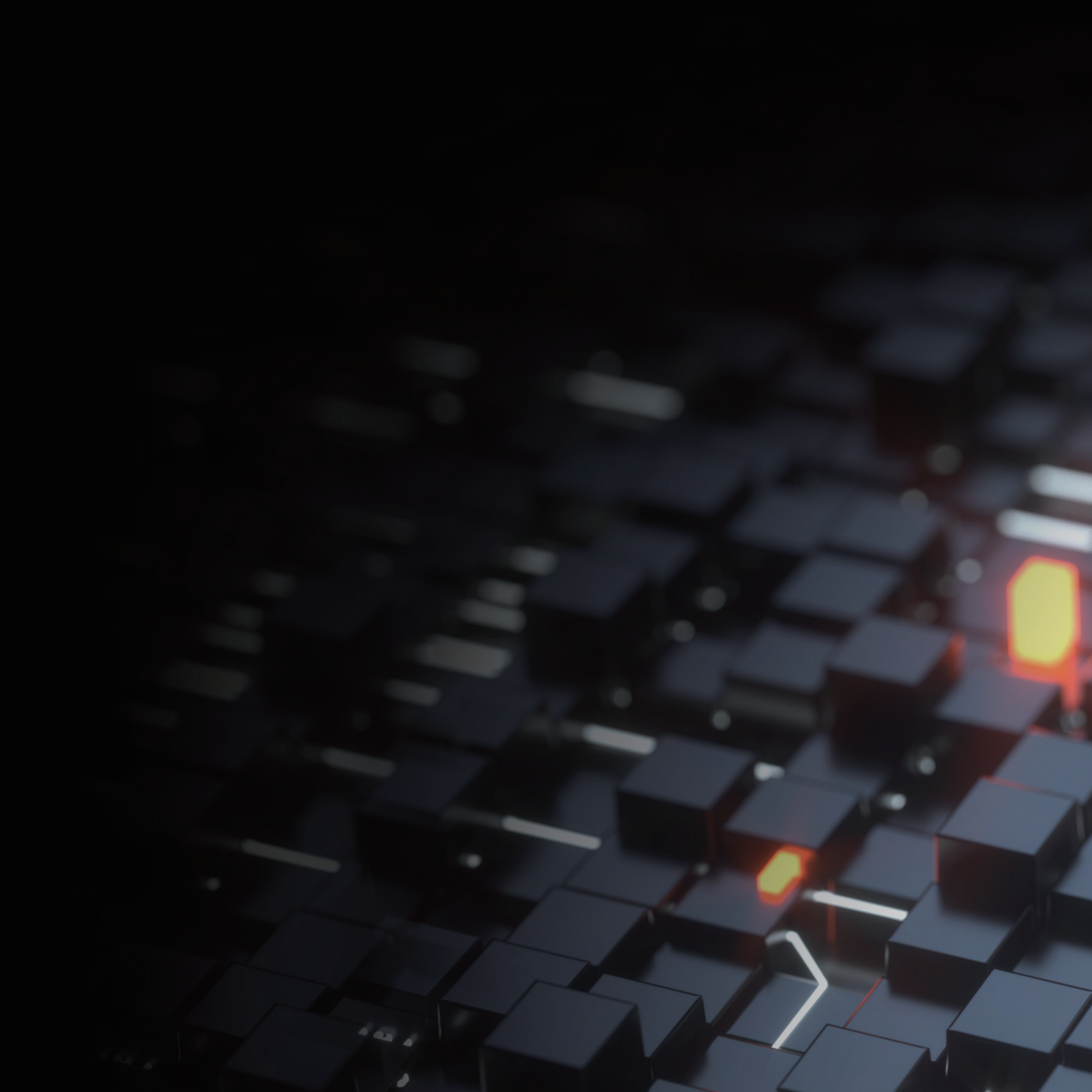
- (a) copies of each of the **WHITE**, **YELLOW** and **GREEN** Application Forms;
- (b) a copy of each of the material contracts referred to in the section headed “B. Further Information About Our Business — 1. Summary of Material Contracts” in Appendix IV to this prospectus; and
- (c) the written consents referred to in the section headed “E. Other Information — 6. Consents of Experts” in Appendix IV to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Simpson Thacher & Bartlett, 35/F, ICBC Tower, 3 Garden Road, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles of Association of our Company;
- (b) the audited consolidated financial statements of the Company for the years ended December 31, 2016, 2017, 2018 and 2019;
- (c) the Accountants’ Report and the report on the unaudited pro forma financial information prepared by Deloitte Touche Tohmatsu, the text of which are set out in Appendices I and II to this prospectus;
- (d) the legal opinions issued by DeHeng Law Offices (Shenzhen), our PRC Legal Advisers, in respect of certain aspects of the Group and the property interests of the Group;
- (e) the letter of advice prepared by Conyers Dill & Pearman, our Cayman legal advisers, summarizing certain aspects of the Cayman Companies Law referred to in Appendix III to this prospectus;
- (f) the material contracts referred to in the section headed “B. Further Information About Our Business — 1. Summary of Material Contracts” in Appendix IV to this prospectus;
- (g) the written consents referred to in the section headed “E. Other Information — 6. Consents of Experts” in Appendix IV to this prospectus;
- (h) the service contracts and letters of appointment referred to in the section headed “C. Further Information about Our Directors and Substantial Shareholders — 2. Directors’ Service Contracts” in Appendix IV to this prospectus;
- (i) the Industry Report;

- (j) the rules of the Pre-IPO Share Option Scheme;
- (k) the full list of all the grantees who have been granted options to subscribe for Shares under the Pre-IPO Share Option Scheme, containing all the details as required under Rule 17.02(1)(b) of and paragraph 27 of Appendix 1A to the Listing Rules and paragraph 10 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (l) the rules of the Post-IPO Share Option Scheme; and
- (m) the Cayman Companies Law.



SMOORE