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Vesync Co., Ltd

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2148)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2021

FINANCIAL HIGHLIGHTS

	Six months ended June 30,		Year-on- year change
	2021	2020	
	(Unaudited)	(Audited)	
	US\$'000	US\$'000	
Revenue	199,290	129,254	54.2%
Gross profit	88,570	61,768	43.4%
Profit before tax	36,982	27,128	36.3%
Profit for the period attributable to owners of the parent	31,981	22,481	42.3%
Earnings per share attributable to ordinary equity holders of the parent			
Basic (US cent)	2.75	2.81	(2.1)%
Diluted (US cent)	2.73	2.81	(2.8)%

INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2021

The board (“**Board**”) of directors (the “**Directors**”) of Vesync Co., Ltd (the “**Company**”, together with its subsidiaries, the “**Group**”) is pleased to announce the unaudited consolidated interim results of the Group for the six months ended June 30, 2021.

The financial information below is an extract of the unaudited interim condensed consolidated financial information of the Group for the six months ended June 30, 2021.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

		For the six months ended 30 June	
		2021	2020
		(Unaudited)	(Audited)
	<i>Notes</i>	US\$'000	US\$'000
REVENUE	4	199,290	129,254
Cost of sales		<u>(110,720)</u>	<u>(67,486)</u>
Gross profit		88,570	61,768
Other income and gains	4	3,202	185
Selling and distribution expenses		(30,311)	(19,525)
Administrative expenses		(22,530)	(13,139)
Impairment losses on financial assets, net		(396)	(227)
Other expenses		(1,159)	(1,291)
Finance cost		<u>(394)</u>	<u>(643)</u>
PROFIT BEFORE TAX	5	36,982	27,128
Income tax expense	6	<u>(5,001)</u>	<u>(4,647)</u>
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT		<u>31,981</u>	<u>22,481</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial statements		(161)	(536)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		<u>(161)</u>	<u>(536)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT		<u>31,820</u>	<u>21,945</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		<u>US2.75 cents</u>	<u>US2.81 cents</u>
Diluted		<u>US2.73 cents</u>	<u>US2.81 cents</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2021

		30 June 2021 (Unaudited) US\$'000	31 December 2020 (Audited) US\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		2,720	1,858
Right-of-use assets		11,440	11,056
Other intangible assets		403	406
Deferred tax assets		17,841	17,002
Other non-current assets		119	280
Total non-current assets		32,523	30,602
CURRENT ASSETS			
Inventories		125,748	95,598
Trade receivables	9	53,369	35,241
Prepayments, other receivables and other assets		23,272	24,577
Tax recoverable		252	256
Cash and cash equivalents		194,805	183,450
Total current assets		397,446	339,122
CURRENT LIABILITIES			
Trade payables	10	30,302	45,617
Other payables and accruals		42,354	27,217
Provision		1,968	1,999
Interest-bearing bank and other borrowings		16,058	2,888
Lease liabilities		3,260	2,634
Tax payable		21,317	17,040
Total current liabilities		115,259	97,395
NET CURRENT ASSETS		282,187	241,727
TOTAL ASSETS LESS CURRENT LIABILITIES		314,710	272,329

		30 June 2021 (Unaudited) US\$'000	31 December 2020 (Audited) US\$'000
	<i>Note</i>		
NON-CURRENT LIABILITIES			
Lease liabilities		9,147	9,183
Provision		<u>3,075</u>	<u>3,015</u>
Total non-current liabilities		<u>12,222</u>	<u>12,198</u>
Net assets		<u>302,488</u>	<u>260,131</u>
EQUITY			
Equity attributable to owners of the parent			
Share capital	13	1,503	1,449
Share premium		199,523	189,587
Treasury shares		(42)	—
Other reserves		<u>101,504</u>	<u>69,095</u>
Total equity		<u>302,488</u>	<u>260,131</u>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2021 has been prepared in accordance with HKAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2020.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

Amendments to HKAS 9, HKAS 39, HKFRS 7,
HKAS 4 and HKFRS 16

Interest Rate Benchmark Reform — Phase 2

Amendment to HKFRS 16

Covid-19-Related Rent Concessions beyond 30 June 2021
(early adopted)

The nature and impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("RFR"). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

The Group had no interest-bearing bank borrowings denominated in Hong Kong dollars and foreign currencies based on the Hong Kong Interbank Offered Rate and the London Interbank Offered Rate (“LIBOR”) as at 30 June 2021. Since the interest rates of these borrowings were not replaced by RFRs during the period, the amendment did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings provided that the “economically equivalent” criterion is met.

- (b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021 and applied the practical expedient during the period ended 30 June 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before 30 June 2022 as a direct consequence of the covid-19 pandemic. Since there was no rent concession granted by the lessors, the amendment did not have any impact on the financial position and performance of the Group.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their products and only has one reportable operating segment. Management monitors the operating results of the Group’s operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

Geographical information

(a) *Revenue from external customers:*

	For the six months ended	
	30 June	
	2021	2020
	(Unaudited)	(Audited)
	US\$’000	US\$’000
North America	160,228	109,661
Europe	33,488	17,125
Asia	<u>5,574</u>	<u>2,468</u>
Total	<u>199,290</u>	<u>129,254</u>

The revenue information above is based on the combination of the locations of the Amazon accounts and the locations of the customers.

(b) *Non-current assets*

	30 June 2021 (Unaudited) US\$'000	31 December 2020 (Audited) US\$'000
North America	7,790	8,471
Mainland China	6,213	4,359
Hong Kong	468	519
Europe	151	166
Other	60	85
Total	<u>14,682</u>	<u>13,600</u>

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets.

Information about a major customer

Revenue of approximately US\$134,132,000 for the six months ended 30 June 2021 (2020: US\$79,125,000), was derived from sales to a single retailer, including sales to a group of entities which are known to be under common control with that customer.

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	For the six months ended 30 June 2021 (Unaudited) US\$'000	2020 (Audited) US\$'000
Revenue from contracts with customers	<u>199,290</u>	<u>129,254</u>

Revenue from contracts with customers

(a) *Disaggregated revenue information*

	For the six months ended 30 June	
	2021 (Unaudited) US\$'000	2020 (Audited) US\$'000
Type of goods or services		
Sale of products	<u>199,290</u>	<u>129,254</u>
Timing of revenue recognition		
Goods transferred at a point in time	<u>199,290</u>	<u>129,254</u>

(b) *Performance obligation*

Information about the Group's performance obligation is summarised below:

Sale of products

The performance obligation of Vendor Central program is satisfied upon delivery of goods and payment is generally due within 30 to 90 days from delivery. The performance obligation of Seller Central program is satisfied upon receipt of products by customers and payment is generally received when customers place orders on the platform. Seller central program provides customers with a right of return within 30 days, which sometimes extending up to 60 days.

At the end of the reporting period, the remaining performance obligations (unsatisfied or partially unsatisfied) are expected to be recognised within one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

An analysis of other income and gains is as follows:

	For the six months ended	
	30 June	
	2021	2020
	(Unaudited)	(Audited)
	US\$'000	US\$'000
Other income		
Bank interest income	361	6
Loan forgiveness	2,727	—
Government grants*	71	85
Others	43	94
	<u>3,202</u>	<u>185</u>
Gains		
Foreign exchange gains, net	—	—
	<u>3,202</u>	<u>185</u>

* The amount represents grants received from the government authorities of Mainland China by the Group's subsidiaries in connection with certain financial support to local business enterprises for the purpose of encouraging business development. There are no unfulfilled conditions or contingencies relating to these grants.

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	For the six months ended	
	30 June	
	2021	2020
	(Unaudited)	(Audited)
	US\$'000	US\$'000
Cost of inventories sold	84,327	51,438
Amazon fulfilment fee	8,320	8,393
Commission to platform	9,150	7,283
Listing expenses	—	2,247
Impairment of trade receivable, net	396	227
Impairment of inventories, net	466	1,048
Foreign exchange difference, net	945	63

6. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The Cayman Islands and the BVI

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Company and its subsidiary are not subject to any income tax in the Cayman Islands and the BVI.

Hong Kong

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 of assessable profits of this subsidiary are taxed at 8.25% (2020: 8.25%) and the remaining assessable profits are taxed at 16.5% (2020: 16.5%).

Mainland China

The provision for current income tax in Mainland China is based on the statutory rate of 25% of the assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law, which was approved and became effective on 1 January 2008, except for certain subsidiaries of the Group in Mainland China which are granted tax concession and are taxed at preferential tax rates.

Shenzhen Chenbei is qualified as a High and New Technology Enterprise and was subject to tax at a preferential income tax rate of 15% (2020: 15%) during the year

Chongqing Xiaodao is entitled to a preferential income tax rate of 5% (2020: 5%) for the taxable income less than or equal to RMB1,000,000 and a preferential income tax rate of 10% (2020: 10%) for the taxable income between RMB1,000,000 and RMB3,000,000 during the year.

United States

Pursuant to the relevant tax laws of the United States, tax at a maximum of 21% (2020: 21%) federal corporate income tax rate and 8.84% (2020: 8.84%) California state tax rate have been provided on the taxable income arising in the United States during the year.

Netherlands and Germany

Pursuant to the relevant tax laws of the Netherlands, a subsidiary which operate in the Netherlands was subject to corporate income tax at a rate of 15% (2020: 16.5%) on the first EUR245,000 (2020: EUR200,000) and 25% (2020: 25%) on the remaining taxable income arising in the Netherlands during the year. Pursuant to the relevant tax laws of the Germany, a subsidiary which operate in the Germany was subject to corporate income tax at a rate of 15% (2020: 15%) on the taxable income arising in the Germany during the year.

Macau

Pursuant to the relevant tax law of the Administrative Especial de Macau, Macau profits tax is provided at the rate of 12% on the estimated assessable profits arising in Macau.

The income tax expense of the Group during the period is analysed as follows:

	For the six months ended	
	30 June	
	2021	2020
	(Unaudited)	(Audited)
	US\$'000	US\$'000
Current		
— Mainland China	684	231
— Hong Kong	1,074	3,785
— Macau	2,158	—
— United States	1,459	620
— Netherlands and Germany	465	33
Deferred	(839)	(22)
Total tax charge for the period	<u>5,001</u>	<u>4,647</u>

7. DIVIDENDS

	For the six months ended 30 June	
	2021	2020
	(Unaudited)	(Audited)
	US\$'000	US\$'000
Final declared — HK12.74 cents per ordinary share	<u>19,121</u>	<u>4,210</u>

On 21 May 2021, the board of directors declared a final dividend of HK12.74 cents (equivalent to approximately US1.64 cents) per share for the year ended 31 December 2020 to the shareholders of the Company, amounting to a total of approximately HK\$148,453,000 (equivalent to approximately US\$19,121,000) (six months ended 30 June 2020: US\$4,210,000).

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,162,444,800 (2020: 800,000,000) in issued during the period, on the assumption that the capitalisation issue had been completed on 1 January 2020.

The calculation of the diluted earnings per share amounts is based on the profit attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued on the deemed exercise of all dilutive potential ordinary shares into ordinary shares arising from awarded shares granted by the Company.

The calculations of basic and diluted earnings per share are based on:

	For the six months ended	
	30 June	
	2021	2020
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	<u>31,981</u>	<u>22,481</u>
Shares		
Weighted average number of ordinary shares during the period used in the basic earnings per share calculation	1,162,444,800	800,000,000
Effect of dilution — weighted average number of ordinary shares arising from shares awarded	<u>7,999,992</u>	<u>—</u>
	<u>1,170,444,792</u>	<u>800,000,000</u>

9. TRADE RECEIVABLES

An ageing analysis of the trade receivables as at the end of the reporting period, based on the transaction date and net of loss allowance, is as follows:

	30 June	31 December
	2021	2020
	(Unaudited)	(Audited)
	US\$'000	US\$'000
Less than 3 months	53,150	34,965
Between 3 and 6 months	162	245
Between 6 and 12 months	57	23
Between 1 and 2 years	<u>—</u>	<u>8</u>
	<u>53,369</u>	<u>35,241</u>

10. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the transaction date, is as follows:

	30 June 2021 (Unaudited) US\$'000	31 December 2020 (Audited) US\$'000
Within 3 months	28,821	37,741
3 to 12 months	1,236	7,630
Over 12 months	245	246
	<u>30,302</u>	<u>45,617</u>

Trade payables are non-interest-bearing and are normally settled on 90-day terms.

11. EVENTS AFTER THE REPORTING PERIOD

On 20 July 2021, the Company has resolved to adopt the Post-IPO Share Award Scheme, which shall be valid and effective for a term of 10 years commencing on the adoption date.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

With our mission to “build a better living”, we are dedicated to continuously improving consumers’ daily lives in small but meaningful ways with innovative and user-friendly products.

We primarily design, develop and sell small home appliances and smart home devices under our three core brands, namely, “Levoit” for home environment appliances, “Etekcity” for smart home gadgets, health monitoring devices, outdoor recreation products and personal care products, and “Cosori” for kitchen appliances and dining ware. By constantly introducing new products and iterating existing products with new technology, functionality, features and design, as well as building up our VeSync app which enables users to achieve centralized control of smart home devices for home automation experience, we could make our customers’ daily life more convenient, efficient and enjoyable. As of June 30, 2021, there were approximately 2.2 million activated devices on our VeSync app, representing an increase of 83.3% as compared with 1.2 million as of June 30, 2020.

We are one of the market players in the small home appliance online market in the United States. In the first half of 2021, the business of the Group continued scaling up with a steady growth in interim results and the Group’s competitive edge in the industry was further enhanced.

FINANCIAL REVIEW

In the first half of 2021, the Group’s revenue amounted to US\$199.3 million. Gross profit of the Group was US\$88.6 million, a year-on-year increase of 43.4%. The profit attributable to owners of the parent was US\$32.0 million, representing an increase of 42.3% from US\$22.5 million for the six months ended June 30, 2020. The basic earnings per share was US2.75 cents (the six months ended June 30, 2020: US2.81 cents).

For the six months ended June 30, 2021, the Group’s total revenue amounted to approximately US\$199.3 million, representing an increase of approximately 54.2% compared with US\$129.3 million recorded for the six months ended June 30, 2020. This was mainly driven by the strong sales of various home products in terms of quantities sold, including Cosori smart air fryers under the category of kitchen appliances and dining wares and Levoit air purifiers under the category of home environment appliances as Cosori smart air fryers help younger generation cook with fresh technology and healthy recipes, and consumers pay more attention to personal health and home environmental hygiene after the outbreak of COVID-19. As a result of our successful marketing and advertising strategies in previous years, our key products, such as Levoit air purifiers and Cosori smart air fryers, achieved high rankings on Amazon in 2019 and 2020, and maintained their rankings during the six months ended June 30, 2021, which enabled us to capture the robust consumer demand for home products and to benefit from the favorable market trends.

Business Review by Sales Channel

The following table sets forth the breakdown of the revenue by sales channels of the Group:

	For the six months ended	
	June 30	
	2021	2020
	US\$'000	US\$'000
	(unaudited)	(audited)
Seller Central	54,324	45,600
Vendor Central	134,132	79,125
Others	10,834	4,529
Total	<u>199,290</u>	<u>129,254</u>

Under the Seller Central program, we directly sell to retail customers through the Amazon e-commerce marketplace. Under the Vendor Central program, Amazon makes bulk purchase orders from us and then sells to its customers through Amazon e-commerce marketplace. Other channels primarily include chain retailers, other e-commerce marketplaces and our own online shopping websites.

Revenue of the Group generated from Vendor Central program increased by 69.5% in the first half of 2021 primarily due to the (i) increase in sales volume of products and (ii) increase in number of products sold to Amazon through the Vendor Central program.

Revenue of the Group generated from Seller Central program increased by 19.1% in the first half of 2021 primarily due to the (i) increase in sales volume of Cosori smart air fryer; and (ii) increased number of products sold to Amazon through Seller Central program in Europe and Asia.

Revenue of the Group generated from other channels, such as chain retailers, significantly increased by 139.2% in the first half of 2021 primarily due to increase in sales volume of Levoit air purifier and Cosori smart air fryer. As the reputation of our brands and products continues to grow, we have secured favorable positions in major chain retailers in the United States.

Business Review by Geographic

The following table sets forth the breakdown of the revenue by geographic location:

	For the six months ended	
	June 30	
	2021	2020
	US\$'000	US\$'000
	(unaudited)	(audited)
North America	160,228	109,661
Europe	33,488	17,125
Asia	5,574	2,468
Total	<u>199,290</u>	<u>129,254</u>

Revenue generated from North America increased by 46.1% in the first half of 2021, primarily driven by the growth in revenue from United States. The revenue growth of United States was mainly attributable to the increased sales volume of (i) home environment appliances such as Levoit air purifier; and (ii) kitchen appliances and dining ware such as Cosori smart air fryer. Growth of Europe sales in the first half of 2021 came primarily from the United Kingdom, Germany, Spain and Italy. Revenue from Asia increased by 125.9% in the first half of 2021, primarily attributable to the increased sales in Japan.

GROSS PROFIT MARGIN

For the six months ended June 30, 2021, the overall gross profit and gross profit margin of the Group was US\$88.6 million and 44.4% representing a year-on-year increase of approximately 43.4% and decrease of approximately 3.4 percentage points, respectively. The increase in the overall gross profit was mainly due to the increase in the number of units sold for the six months ended June 30, 2021. The decrease in gross profit margin was mainly due to the (i) the increase in proportion of freight and insurance cost to revenue; and (ii) the Group's key products, such as air purifiers and air fryers, were subject to additional tariffs on January 1, 2021 as a result of the Sino-U.S. trade war; partially offset by the decrease in proportion of Amazon fulfillment fee to revenue.

OTHER INCOME AND GAINS

Other income and gains of the Group primarily consist of (i) government grants; (ii) loan forgiveness; and (iii) bank interest income.

The following table sets forth the breakdown of the Group's other income and gains:

	For the six months ended June 30	
	2021	2020
	<i>US\$'000</i>	<i>US\$'000</i>
	(unaudited)	(audited)
Bank interest income	361	6
Loan forgiveness	2,727	—
Government grants	71	85
Others	<u>43</u>	<u>94</u>
Total	<u><u>3,202</u></u>	<u><u>185</u></u>

For the six months ended June 30, 2021, other income and gains of the Group recorded approximately US\$3.2 million, representing a year-on-year increase of approximately 1,630.8%. This was mainly attributable to the increase in loan forgiveness under the Paycheck Protection Program (the “**PPP**”) authorized by Section 1106 of the Coronavirus Aid, Relief, and Economic Security Act (the “**CARES Act**”) enacted by the 116th U.S. Congress.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses of the Group primarily consist of (i) marketing & advertising expenses; (ii) commission to platform; (iii) staff cost; and (iv) warehousing expenses.

The following table sets forth the breakdown of the Group's selling and distribution expenses:

	For the six months ended	
	June 30	
	2021	2020
	US\$'000	US\$'000
	(unaudited)	(audited)
Marketing and advertising expenses	6,208	5,478
Commission to platform	9,150	7,283
Staff cost	5,604	3,648
Warehousing expenses	7,394	1,684
Others	1,955	1,432
	<hr/>	<hr/>
Total	<u>30,311</u>	<u>19,525</u>

The Group's selling and distribution expenses increased by 55.2% from US\$19.5 million for the six months ended June 30, 2020 to US\$30.3 million for the six months ended June 30, 2021. The increase in overall selling and distribution expenses was driven by the (i) increase in commission to platform as the Group's sales generated through the Seller Central program; (ii) increase in warehousing expenses due to the increased inventory level with expanded sales generated from Vendor Central program and increased inventory turnover days as of June 30, 2021; and (iii) increase in marketing and advertising expenses and staff cost to support the launch of new products and robust business growth in the first half of 2021.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses primarily consist of (i) research and development expenses; (ii) administrative staff cost; (iii) professional fees; (iv) office expenses; and (v) depreciation and amortization.

The following table sets forth the breakdown of the Group's administrative expenses:

	For the six months ended	
	June 30	
	2021	2020
	US\$'000	US\$'000
	(unaudited)	(audited)
Research and development expenses	9,428	4,580
Administrative staff costs	6,658	2,749
Professional fees	2,129	3,320
Office expenses	1,756	838
Depreciation and amortization	1,329	822
Travelling and entertainment expenses	314	187
Others	916	643
	<hr/>	<hr/>
Total	<u>22,530</u>	<u>13,139</u>

The Group's administrative expenses increased by approximately 71.5% from US\$13.1 million for the six months ended June 30, 2020 to US\$22.5 million for the six months ended June 30, 2021, primarily due to the (i) increase in research and development expenses to prepare for product upgrades and new products; and (ii) increase in administrative staff cost as a result of the increased headcount to support robust business growth of the Group in the first half of 2021.

OTHER EXPENSES

The Group's other expenses remained stable at US\$1.2 million for the six months ended June 30, 2021 (the six months ended June 30, 2020: US\$1.3 million), primarily due to the foreign exchange loss.

FINANCE COST

Finance costs of the Group primarily represent (i) interest on bank and other borrowings and (ii) interest on lease liabilities.

The following table sets forth the breakdown of the Group's finance costs:

	For the six months ended	
	June 30	
	2021	2020
	US\$'000	US\$'000
	(unaudited)	(audited)
Interest on bank loans and other borrowings	65	248
Interest on loans from related parties	—	85
Interest on lease liabilities	329	310
	<hr/>	<hr/>
Total	394	643
	<hr/>	<hr/>

The Group's finance costs decreased to US\$0.4 million for the six months ended June 30, 2021 (the six months ended June 30, 2020: US\$0.6 million). The decrease in total finance cost of the Group is mainly due to a decrease in interest on bank loans and other borrowings due to repayment of bank loans during the six months ended December 31, 2020, while partially offset by an increase of the interest on lease liabilities due to new leases for new offices in Shenzhen, and market rent in Chongqing, during the six months ended June 30, 2021.

INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which it is domiciled and operated. Subsidiaries located in the PRC were subject to PRC corporate income tax at a rate of 25% on the assessable profit generated during the six months ended June 30, 2021.

The Group's subsidiary, Shenzhen City Chenbei Technology Company Limited, is currently qualified as a high and new technology enterprise under the PRC income tax law, has been entitled to preferential tax rate of 15% during the six months ended June 30, 2021.

The Group's subsidiary, Chongqing Xiaodao Information Technology Company Limited, is currently qualified as small and micro-sized enterprise, is entitled to a preferential income tax rate of 5% on the taxable income less than or equal to RMB1,000,000 and a preferential income tax rate of 10% on the taxable income between RMB1,000,000 and RMB3,000,000 during the six months ended June 30, 2021.

During the six months ended June 30, 2021, all of the Group's U.S. subsidiaries were subject to federal corporation income tax at the rate of 21% and California state tax rate of 8.84% pursuant to the relevant tax laws of the United States.

The Group's Hong Kong subsidiary was subject to Hong Kong profit tax at a rate of 16.5%, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5% during the six months ended June 30, 2021.

The Group's Macau subsidiary was subject to Macau profit tax rate of 12% pursuant to the relevant tax law of the Administrative Especial de Macau.

The Group's Netherlands subsidiary was subject to corporate income tax at a rate of 15% on the first EUR245,000 and 25% on the remaining taxable income. The Group's Germany subsidiary was subject to corporate income tax at a rate of 15% on taxable income.

Income tax expenses of the Group increased from US\$4.6 million for the six months ended June 30, 2020 to US\$5.0 million for the six months ended June 30, 2021, primarily due to the strong growth of taxable income driven primarily by the increased sales and profit in the United States and other countries, which is partially netted off by the increase in deferred tax assets mainly arising from the unrealized profit from inter-company transactions.

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

As a result of the foregoing, the Group had a profit attributable to owners of parent of US\$32.0 million for the six months ended June 30, 2021, compared with a profit attributable to owners of parent of US\$22.5 million for the six months ended June 30, 2020.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's principal financial instruments comprise (i) bank and other borrowings; (ii) cash generated from operations; and (iii) proceeds from the Global Offering.

The Group meets its capital needs through cash flows from operations and financing as a result of the net proceeds from the Global Offering. The Group had cash and cash equivalents of US\$183.5 million as of December 31, 2020 and US\$194.8 million as of June 30, 2021. The cash and cash equivalents of the Group are mainly denominated in US\$, EUR and RMB.

As of June 30, 2021, the Group had total bank borrowings of approximately US\$16.1 million, which were all denominated in US\$ and at fixed interest rates.

The table sets forth a breakdown of the bank borrowings of the Group as of June 30, 2021.

	As of June 30, 2021 US\$'000 (unaudited)	As of December 31, 2020 US\$'000 (audited)
Interest-bearing bank borrowings (current portion)	16,058	2,888
Interest-bearing bank borrowings (non-current portion)	<u>—</u>	<u>—</u>
Total	<u>16,058</u>	<u>2,888</u>

The table below sets forth the ageing analysis of the repayment terms of interest-bearing bank borrowings as of June 30, 2021.

	As of June 30, 2021 US\$'000 (unaudited)	As of December 31, 2020 US\$'000 (audited)
Bank loans repayable:		
Within one year or on demand	<u>16,058</u>	<u>2,888</u>
Total	<u>16,058</u>	<u>2,888</u>

TREASURY POLICY

The Group adopts a prudent approach in its cash management and risk control. Most of the sales are denominated in US\$, with the remaining mainly denominated in currencies of the countries to which the Group sells its products. The Group pays subcontractors and suppliers (including those located in the PRC) mainly in US\$ and RMB. As a result of the foregoing, the Group's consolidated financial results are affected by currency exchange rate fluctuations. The Group recorded a currency exchange loss of approximately US\$0.9 million for the six months ended June 30, 2021.

As of June 30, 2021, the Group managed its foreign exchange risk by using appropriate financial derivatives, and priority would be given to simple, cost-efficient and effective hedge instruments which meet the HKFRS 9 in performing foreign exchange risk management responsibilities. To the extent possible, gains and losses of the derivatives offset the losses and gains of the assets, liabilities or transactions being hedged.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

The Company did not have any acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period.

As of June 30, 2021, there was no significant investment held by the Group or future plans for significant investments or capital assets.

EMPLOYEES AND REMUNERATION POLICY

As of June 30, 2021, the Group had 959 employees in total, in which 833 employees were in the PRC, 123 employees were in the United States and 3 employees were in other locations. For the six months ended June 30, 2021, the Group recognized staff costs of US\$21.6 million.

The Company believes that the ability to recruit and retain experienced and skilled labor is crucial to the Group's growth and development. The Group provides training to its new employees to familiarize them with the working environment and work culture. The Group also provides on-the-job training to the employees, which aims at developing their skills so as to meet the strategic goals and customer requirements. In addition to providing the Group's staff the opportunities to receive on-the-job trainings, the Group strives to create a harmonious and warm working and living environment for the staff.

The Company has also adopted a training policy, pursuant to which trainings on management skills, technology and other relevant topics are regularly provided to the employees by internal speakers and third-party consultants.

The Group enters into employment agreements with each of the employees in accordance with the applicable laws and regulations. The remuneration packages of the employees generally include basic salaries, bonuses and employee benefits such as medical insurance packages. The Group conducts annual review to identify employees with extraordinary performance and offers them promotions and salary raises.

During the Reporting Period, the Group maintained social insurance for its employees in compliance with the applicable PRC laws and regulations by making contributions to the mandatory social insurance and housing provident funds which provide basic retirement, work-related injury and maternity benefits. Contributions made from the Group to the pension schemes are recognized as expenses when incurred and will not be reduced by contributions forfeited by employees who leave the schemes prior to vesting fully in the contributions.

In addition, to (i) recognize the contributions by certain eligible participants (i.e. employees, Directors, etc.) and to provide them with incentives in order to retain them for the continual operation and development of the Group; and (ii) attract suitable personnel for further development of the Group, the Board has adopted the share option scheme and Post-IPO Share Award Scheme.

The Remuneration Committee has been established to provide recommendations to the Board on the overall remuneration policy and structure of the Group's Directors and senior management, review the remuneration and ensure that no Directors has determined his/her own remuneration.

CONTINGENT LIABILITIES

As of June 30, 2021, the Group had no material contingent liabilities (December 31, 2020: Nil).

CHARGES ON ASSETS

As of June 30, 2021, the inventories with aggregate carrying amounts of US\$87.3 million were pledged as security for the Group's bank loans (December 31, 2020: Nil).

GEARING RATIOS

As of June 30, 2021, the Group's gearing ratio (calculated as the total borrowings (bank and other borrowings and lease liabilities) divided by total equity as of the end of each year) was 9.4% (December 31, 2020: 5.7%).

IMPACT OF COVID-19

The COVID-19 has so far — by June 2021 — infected 179 million people globally and contributed to 3.9 million deaths, according to the World Health Organization (“**WHO**”). Vaccinations appear to have slowed down the spread in certain countries, such as the PRC, the United Kingdom, and the United States. However, vaccination launchings in some regions and countries are moving relatively slowly, hampered by vaccine supply shortages and logistical constraints due to COVID-19.

We have adopted enhanced hygiene and precautionary measures across our offices worldwide to protect our employees and stop the spread of COVID-19, while mitigating the effects of COVID-19. We have successively organized our employees in China to get vaccinated since COVID-19 vaccine's official launching in China.

By the end of June 2021, world container shipping market imbalances still remained a concern, with the global container freight rate indexes topping US\$6,217 per 40-foot container in June after climbing steeply and steadily since May 2020. The China Containerized Freight Index (“**CCFI**”) increased from approximately US\$840 to approximately US\$2,483 in June 2021. Such increase in CCFI was primarily due to: (i) disruptions to the global supply chain, resulting in port congestions and container shortages; and (ii) the strengthening of China's exports and improvement in the trade surplus.

We have maintained long-term relationships with multiple logistic companies for overseas product deliveries to ensure on-time delivery.

At this stage, the impact on our business and results has been insignificant and has a positive effect on our business and results. As customers spent more time shopping online due to the stay-at-home orders and other lock-down measures imposed in the United States, the Group has found increased demand for our home products and a growth of our revenue, which was largely generated from online sales,

increased to US\$199.3 million for the six months ended June 30, 2021, partially offset the decreased sales in outdoor recreation products, such as air mattress and camping lanterns. We will continue to follow the various government policies and advice and, on the other hand, we will do our utmost to continue our operations in the best and safest way possible without jeopardizing the health of our employees. Moreover, we will monitor the situation and update the Shareholders and potential investors of the Company as and when appropriate.

FUTURE OUTLOOK

Alongside the outbreak of COVID-19 at the end of 2019 is the successful development and deployment of multiple COVID-19 vaccines. Nevertheless, some regions and countries have encountered the shortage of COVID-19 vaccines. Looking ahead, the situation of macro environment, Sino-U.S. trade war and COVID-19 pandemic is still unclear.

However, at the height of restrictions such as stay-at-home orders and other lock-down measures in late March and early April 2021, more than 310 million U.S. residents were under directives ranging from “shelter in place” to “stay at home”, online retail sales have increased continuously. Our revenue, which was largely generated from online sales and small home appliances, increased to US\$199.3 million for six months ended June 30, 2021.

The global market size of e-commerce has grown rapidly, driven by the continuous increase in mobile internet and third-party payment penetration which leave customers without limitation of time and places when placing the order online. With the adoption of logistics with highly integrated transportation, warehouse management solution and efficient delivery, the e-commerce giants are expected to provide their customers with more enjoyable and efficient online shopping experience, which would, in turn, (i) support our marketing strategies and global penetration; and (ii) be beneficial for the Group to consolidate its leading position and gain further market share in the online market.

To fulfill our mission to “build a better living”, we intend to pursue the following strategies: (i) further upgrade our product mix and expand our product portfolio; (ii) expand geographic coverage and sales channels leveraging our brand recognition; and (iii) continue to invest in technologies with an aim to develop VeSync app into a home IoT platform.

We aim to further enhance our product portfolio, in particular smart home devices, in the consumer space, while leveraging our track record for developing relevant, consumer-friendly products in the business-to-business space. The Cosori coffee grinder has been launched in the second quarter of 2021. In addition, we have launched new Levoit air purifier for large room with higher retail price in May 2021, by successfully leveraging our expertise and experience in smart home devices.

We also plan to enlarge our market presence in our existing major markets including the North America, Europe and Japan. As of June 30, 2021, we have started business relationship with e-commerce operators, such as C-discount, Rakutan and other renowned American chain retailers, such as Target, Best Buy, Walmart, Homedepot, Macy’s and Wayfair, selling smart home devices and small

home appliances. We expect all products can get placement orders from more than 5,000 stores or locations of above chain retailers by the end of 2021. Moreover, we have activated the shopping function of our VeSync app in early May 2021 and users could buy our products via our VeSync app.

We plan to continue to invest significant resources to enhance our technology, software and data insights and to enable increasingly human-like interactions between users and our smart products in few ways: (i) integrate lighting, temperature, home security, healthcare, communications and other functions into a unified and personalized home automation solution; (ii) open up the home IoT platform to selected devices developed by third parties to provide a more comprehensive experience to users; (iii) further strengthen our big data capabilities, which will enable us to introduce innovative smart home devices and services that can better address our users' needs and preferences, and provide solutions for their scenario-driven needs within the home environment; and (iv) build a big data analysis center to collect data, analyze user behaviors and product conditions, alert problems and generate possible solutions. As of June 30, 2021, we have launched the home IoT platform to several types of Universal Serial Bus (“USB”) charger so as to provide a more comprehensive experience to users.

In the second half of 2021, the Group will continue to carry out internal and external reforms and innovations around consumer needs, actively deploy more sales channels, continue to improve the internal control system and construction, effectively improve the Group's internal control governance and overall profitability, continue to increase our market share, and achieve further growth in the second half of 2021.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

The Group did not have any significant events after the Reporting Period.

INTERIM DIVIDENDS

The Board resolved not to declare the payment of any interim dividend for the six months ended June 30, 2021.

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

During the Reporting Period and up to the date of this announcement, the Company repurchased a total of 205,000 Shares (the “**Shares Repurchased**”) on the Stock Exchange, at an aggregate consideration of HK\$1,835,068.15. Details of the Shares Repurchased are as follows:

Month	No. of Shares repurchased	Price paid per Share		Aggregate consideration (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
June 2021	34,000	9.55	9.50	325,355.14
July 2021	<u>171,000</u>	8.84	8.71	<u>1,509,713.01</u>
Total	<u>205,000</u>			<u>1,835,068.15</u>

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Reporting Period. As of the date of this announcement, the Company is dealing with the cancellation procedures of the Shares Repurchased.

COMPLIANCE WITH MODEL CODE REGARDING SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, which applies to all Directors and relevant employees of the Company who are likely to possess inside information in relation to the Company or its securities due to his/her office or employment.

The Company has made specific enquiries with each Director, and each of them confirmed that he/she had complied with all required standards under the Model Code during the Reporting Period.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company is committed to maintaining good corporate governance practices and procedures. The principle of the Company's corporate governance is to promote effective internal control measures, uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business, to ensure that its business and operations are conducted in accordance with applicable laws and regulations and to enhance the transparency and accountability of the Board to all Shareholders. The Company's corporate governance practices are based on the principles and code provisions as set out in the CG Code.

Under the code provision A.2.1 of the CG Code, the roles of chairperson and chief executive officer should be separate and should not be performed by the same individual. The Company does not have a separate chairperson and chief executive officer and Ms. Yang Lin currently performs these two roles concurrently. The Board believes that vesting the roles of both the chairperson and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group for more

effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority within the Group will not be impaired by the present arrangement and the current structure will enable the Company to make and implement decisions more promptly and effectively. The Board will from time to time review and consider splitting the roles of chairperson of the Board and the chief executive officer of the Company to ensure appropriate and timely arrangements are in place to meet changing circumstances.

Save for compliance with A.2.1 of the CG Code as described above, the Company had complied with all applicable code provisions as set out in the CG Code during the Reporting Period.

AUDIT COMMITTEE

The Audit Committee, consisting of three independent non-executive Directors, namely, Mr. Gu Jiong (Chairman), Mr. Fong Wo, Felix and Mr. Tan Wen has reviewed the Group's unaudited interim condensed consolidated financial information for the six months ended June 30, 2021, including the accounting principles and practices adopted by the Group.

PUBLICATION OF 2021 INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.vesync.com). The 2021 interim report of the Company will be despatched to the Shareholders and published on the same websites in due course.

DEFINITIONS

“Audit Committee”	the audit committee of the Board
“Board”	the board of Directors
“CG Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“China” or “PRC”	the People's Republic of China, but for the purpose of this announcement only and except where the context requires otherwise, references in this announcement to “China” or “PRC” do not include Hong Kong, the Macau Special Administrative Region and Taiwan
“Company”	Vesync Co., Ltd, an exempted company with limited liability incorporated in the Cayman Islands on January 9, 2019, and registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on June 15, 2020
“Director(s)”	the director(s) of the Company
“Global Offering”	the offer of the Shares for subscription as described in the section headed “Structure of the Global Offering” in the Prospectus

“Group” or “our” or “we”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“IoT”	the connection of devices (any devices) to the internet using embedded software and sensors to communicate, collect and exchange data with one another
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“Post-IPO Share Award Scheme”	the post-IPO share award scheme adopted by the Company on July 20, 2021
“Prospectus”	the prospectus of the Company dated December 8, 2020 in connection with the Global Offering
“RMB”	Renminbi, the lawful currency of the PRC
“Remuneration Committee”	the remuneration committee of the Board
“Reporting Period”	six months ended June 30, 2021
“Seller Central”	the seller program on Amazon, where retail customers purchase products through Amazon e-commerce marketplace directly from the seller
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	the ordinary share(s) of nominal value of HK\$0.01 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“United States” or “U.S.”	the United States of America
“US\$”	United States dollars, the lawful currency of the United States
“Vendor Central”	the seller program on Amazon, where Amazon makes a bulk purchase order for sellers’ products which Amazon then sells to its customers through Amazon e-commerce marketplace under its own account

“%”

per cent

By order of the Board
Vesync Co., Ltd
YANG Lin
Chairperson

Hong Kong, August 30, 2021

As of the date of this announcement, the Board comprises Ms. Yang Lin, Mr. Yang Hai and Mr. Chen Zhaojun as executive Directors, Mr. Yang Yuzheng as non-executive Director, and Mr. Fong Wo, Felix, Mr. Gu Jiong and Mr. Tan Wen as independent non-executive Directors.