Vesync Co., Ltd

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2148)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2022

FINANCIAL HIGHLIGHTS

	Six months ended June 30,		
	2022	2021	Year-on-year change
	(Unaudited)	(Unaudited)	
	US$'000	*US$'000*	
Revenue	**223,297**	199,290	12.0%
Gross profit	**87,554**	88,570	(1.1)%
Gross profit margin	**39.2%**	44.4%	(5.2) p.p.
Profit before tax	**16,466**	36,982	(55.5)%
Profit for the period attributable to owners of the parent	**15,480**	31,981	(51.6)%
Profit margin	**6.9%**	16.0%	(9.1) p.p.
Earnings per share attributable to ordinary equity holders of the parent			
Basic	**US1.37 cents**	US2.75 cents	(50.2)%
Diluted	**US1.37 cents**	US2.73 cents	(49.8)%

INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2022

The board (the "**Board**") of directors (the "**Directors**") of Vesync Co., Ltd (the "**Company**", together with its subsidiaries, the "**Group**") hereby announces the unaudited consolidated interim results of the Group for the six months ended June 30, 2022.

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, 2022.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2022

	Notes	**2022 (Unaudited) *US$'000***	2021 (Unaudited) *US$'000*
REVENUE	*4*	**223,297**	199,290
Cost of sales		**(135,743)**	(110,720)
Gross profit		**87,554**	88,570
Other income and gains	*4*	**3,506**	3,202
Selling and distribution expenses		**(37,703)**	(30,311)
Administrative expenses		**(31,028)**	(22,530)
Impairment losses on financial assets, net		**(36)**	(396)
Other expenses		**(4,855)**	(1,159)
Finance cost		**(880)**	(394)
Share of profits and losses of an associate		**(92)**	—
PROFIT BEFORE TAX	*5*	**16,466**	36,982
Income tax expense	*6*	**(986)**	(5,001)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT		**15,480**	31,981
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(2,657)**	(161)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		**(2,657)**	(161)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT		**12,823**	31,820
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*8*		
Basic		**US1.37 cents**	US2.75 cents
Diluted		**US1.37 cents**	US2.73 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2022

	Notes	30 June 2022 (Unaudited) US$'000	31 December 2021 (Unaudited) US$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**3,816**	4,477
Right-of-use assets		**12,564**	12,398
Other intangible assets		**171**	288
Deferred tax assets		**18,816**	14,735
Investment in a joint venture		**12,110**	12,202
Investment in an associate		**1,000**	—
Pledged deposits		**4,099**	560
Other non-current assets		**521**	478
Total non-current assets		**53,097**	45,138
CURRENT ASSETS			
Inventories		**124,711**	128,547
Trade and notes receivables	*9*	**118,659**	106,019
Prepayments, other receivables and other assets		**34,001**	21,721
Tax recoverable		**14**	968
Derivative financial assets		**212**	120
Pledged deposits		**29,165**	31,635
Cash and cash equivalents		**94,176**	126,659
Total current assets		**400,938**	415,669
CURRENT LIABILITIES			
Trade payables	*10*	**39,222**	37,739
Other payables and accruals		**41,068**	36,945
Provision		**1,389**	1,931
Interest-bearing bank borrowings		**37,939**	34,900
Lease liabilities		**5,169**	4,098
Tax payable		**6,673**	17,084
Derivative financial liabilities		**450**	119
Total current liabilities		**131,910**	132,816
NET CURRENT ASSETS		**269,028**	282,853
TOTAL ASSETS LESS CURRENT LIABILITIES		**322,125**	327,991

	30 June 2022 (Unaudited) *US$'000*	31 December 2021 (Unaudited) *US$'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**1,001**	—
Lease liabilities	**8,845**	9,538
Provision	**3,616**	3,815
Total non-current liabilities	**13,462**	13,353
Net assets	**308,663**	314,638
EQUITY		
Equity attributable to owners of the parent		
Share capital	**1,500**	1,503
Share premium	**186,333**	199,885
Other reserves	**120,830**	113,250
Total equity	**308,663**	314,638

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2022 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 2021.

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 2021, 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 HKFRS 3	*Reference to the Conceptual Framework*
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to HKAS 37	*Onerous Contracts — Cost of Fulfilling a Contract*
Annual Improvements to HKFRSs 2018–2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

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

(a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) *Annual Improvements to HKFRSs 2018–2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:

(i) HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.

(ii) HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

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	
	2022	2021
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
North America	**171,946**	160,228
Europe	**42,911**	33,488
Asia	**8,440**	5,574
Total	**223,297**	199,290

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 2022 (Unaudited) *US$'000*	31 December 2021 (Audited) *US$'000*
North America	**6,169**	6,837
Mainland China	**13,461**	10,210
Hong Kong	**12,397**	12,650
Europe	**97**	123
Other	**2,157**	583
Total	**34,281**	30,403

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$190,198,000 for the six months ended 30 June 2022 (2021: US$134,132,000), 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	
	2022 (Unaudited) *US$'000*	2021 (Unaudited) *US$'000*
Revenue from contracts with customers	**223,297**	199,290

Revenue from contracts with customers

(a) ***Disaggregated revenue information***

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Type of goods or services		
Sale of products	**223,297**	199,290
Timing of revenue recognition		
Goods transferred at a point in time	**223,297**	199,290

(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	
	2022	2021
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Other income		
Bank interest income	**431**	361
Loan forgiveness	**928**	2,727
Government grants*	**972**	71
Others	**963**	43
	3,294	3,202
Gains		
Fair value gains, net:		
Derivative instruments		
— transactions not qualifying as hedges	**212**	—
	3,506	3,202

* The Group's subsidiary in the United States received Employee Retention Credit of US$943,000 upon operations suspended due to orders from a governmental authority limiting commerce, travel, or group meetings due to COVID-19, or a significant decline in gross receipts during calendar quarter in 2020. The remaining amount represents grants received from the government authorities of Mainland China by the Group's subsidiaries in connection with certain financial support to encourage 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	
	2022	2021
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Cost of inventories sold	**102,696**	84,327
Amazon fulfilment fee	**578**	8,320
Commission to platform	**1,458**	9,150
Impairment of trade receivable, net	**37**	396
Impairment of inventories, net	**(114)**	466
Foreign exchange difference, net	**4,168**	945

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% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the period, 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% (2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (2021: 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% (2021: 15%) during the period.

Chongqing Xiaodao is qualified as a company under the policy for promoting Western China Development and were levied at a preferential income tax rate of 15% during the period, which is entitled to a preferential income tax rate of 2.5% for the taxable income less than or equal to RMB1,000,000 and a preferential income tax rate of 10% for the taxable income between RMB1,000,000 and RMB3,000,000 during 2021.

United States

Pursuant to the relevant tax laws of the United States, tax at a maximum of 21% (2021: 21%) federal corporate income tax rate and 8.84% (2021: 8.84%) California state tax rate have been provided on the taxable income arising in the United States.

Netherlands and Germany

The subsidiary in the Netherlands is entitled to a preferential income tax rate of 15% (2021: 15%) for the taxable income less than or equal to EUR245,000 and an income tax rate of 25.8% (2021: 25%) for the taxable income over EUR245,000. The subsidiary in Germany is entitled to a combined tax rate of 29.13% (2021: 29.13%), consisting of a corporate tax rate of 15%, a solidarity surcharge thereon of 5.5% and a trade tax rate of 13.3%.

Macau

Pursuant to the relevant tax law of the Administrative Especial de Macau, Macau profits tax is provided at the rate of 12% (2021: 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	
	2022	2021
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Current		
— Mainland China	**226**	684
— Hong Kong	**126**	1,074
— Macau	**573**	2,158
— United States	**3,979**	1,459
— Netherlands and Germany	**167**	465
Deferred	**(4,085)**	(839)
Total tax charge for the period	**986**	5,001

7. DIVIDENDS

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Final ordinary declared		
— HK 6.40 cents (2021: HK12.74 cents) per ordinary share	**9,256**	18,561
Final special declared		
— HK 6.40 cents (2021: Nil) per ordinary share	**9,256**	—

On 31 March 2022, the board of directors declared a final ordinary dividend of HK6.40 cents (equivalent to approximately US0.82 cents) per share and a final special dividend of HK6.40 cents (equivalent to approximately US0.82 cents) per share for the year ended 31 December 2021 to the shareholders of the Company, amounting to a total of approximately HK$148,849,000 (equivalent to approximately US$19,071,000) (six months ended 30 June 2021: US$19,121,000). After deducting the dividend of HK$4,365,000 (equivalent to approximately US$559,000) which will be declared to Bank of Communications Trustee Limited, the trustee of the Pre-IPO Share Award Scheme, the final 2021 cash dividend is US$18,512,000 (six months ended 30 June 2021: US$18,561,000) which was partially paid in 28 July 2022.

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 1,129,064,500 (2021: 1,162,444,800) in issued during the period.

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 and share options granted by the Company.

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

	For the six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	US$'000	*US$'000*
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**15,480**	31,981
Shares		
Weighted average number of ordinary shares during the period used in the basic earnings per share calculation	**1,129,064,500**	1,162,444,800
Effect of dilution — weighted average number of ordinary shares arising from shares awarded	**2,419,898**	7,999,992
	1,131,484,398	1,170,444,792

9. TRADE AND NOTES RECEIVABLES

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

	30 June 2022	31 December 2021
	(Unaudited)	(Audited)
	US$'000	*US$'000*
Less than 3 months	**111,608**	104,089
Between 3 and 6 months	**3,952**	1,633
Between 6 and 12 months	**3,099**	210
Between 1 and 2 years	**—**	87
	118,659	106,019

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 2022 (Unaudited) ***US$'000***	31 December 2021 (Audited) *US$'000*
Within 3 months	**38,131**	36,566
3 to 12 months	**597**	795
Over 12 months	**494**	378
	39,222	37,739

Trade payables are non-interest-bearing and are normally settled on 30-to-90-day terms.

11. EVENTS AFTER THE REPORTING PERIOD

There were no other significant events that required additional disclosure or adjustments occurred after the end of the reporting period.

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. In the first half of 2022, with our goal to foster a connected lifestyle, we launched more smart products such as the Levoit Core 200s Smart Air Purifier and Dual 150 and Classic 300 Smart Humidifier and Cosori Quart Smart Air Fryer.

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, 2022, there were approximately 3.5 million activated devices on our VeSync app, representing an increase of approximately 25% as compared with approximately 2.8 million activated devices as of December 31, 2021, and the number of download of VeSync app in Apple Store ranked No. 76 in the Lifestyle category as of June 30, 2022, improved by 5 placements as compared with No. 81 as of December 31, 2021.

2022 is a year to further strengthen our foundation. Becoming an international brand is a process of accumulating strength for steady development, which involves the fostering of various abilities. Since 2021, we have encountered numerous challenges, such as tariffs and trade wars, the sharp increase in freight rate and more. These challenges led us to recognize the significance of strengthening the construction of organizational capacity, so as to meet the challenges from uncertainty in the external environment with certainty empowered by organizational capacity. We are a budding company and we dare to face up to difficulties, which, we believe, will in turn bring about opportunities for advancements.

In 2022, our Levoit air purifier ranked no. 1 in the American market according to the statistics of NPD Group, Inc. ("**NPD**")[Note] in terms of sales volume and sales amount. The ability to grow rapidly and sustainably, and the capability to stand out from the competition against many well-known brands and ascended from no. 1 ranked in Amazon to no. 1 ranked in NPD has proven our sustainable competitive advantages in areas such as user insight innovation, global value chain and our streamlined and agile operation capacities.

In 2022, after several years of deep cultivation, our humidifier products achieved exponential growth. The new generation products were fully launched, and sales recorded a year-on-year increase by more

Note: Such data are obtained from the statistics for the first half of 2022 from NPD. NPD collects point-of-sale data from selected retailers for its U.S. Small Appliance POS Tracking Service. This data is the actual sales in terms of unit from the retailer/data partner.

than 100%. According to our internal statistics, our humidifiers have become another #1 category in terms of market share on Amazon following our purifiers, body weight scales, kitchen scales, luggage scales, temperature guns, water bottles and food dehydrators. We hope our Levoit humidifier will continue the success of our air purifier products.

In 2022, we continued to streamline our online operation capability and pervaded such ability in our team. On Amazon US, for example, our overall conversion rate in the first half of 2022 increased by approximately 19% as compared with that of the first half of 2021.

In 2022, we continued to accelerate the development of channel expansion. In the first half of 2022, revenue from non-Amazon channels recorded a year-on-year increase of approximately 182%, and accounted for approximately 13.7% of our total revenue, representing an increase from approximately 5.4% as compared with that of the first half of 2021. In the US market, for example, our single store sales to Target and Best Buy increased by more than 350% and 70%, respectively, as compared with the same period last year. Our firm foothold, together with our outstanding sell-through performance have facilitated the persistent increase in our sales revenue in these channels.

In 2022, we also achieved remarkable results in regional expansion. Sales in European market increased by approximately US$9 million or approximately 28.1% as compared with that of the first half of 2021. Our Cosori's kitchen appliances successfully seized the promising growth opportunities in Europe, allowing us to reach more than 700 stores of sizable supermarkets in Spain, Romania, Northern Europe and other countries and regions.

FINANCIAL REVIEW

For the first half of 2022, the Group's revenue amounted to approximately US$223.3 million. Gross profit was approximately US$87.6 million, representing a slight decrease of approximately 1.1% as compared to that for the six months ended June 30, 2021. The profit attributable to owners of the parent was approximately US$15.5 million, representing a decrease of approximately 51.6% as compared to US$32.0 million for the six months ended June 30, 2021. The basic earnings per share was US1.37 cents (2021: US2.75 cents).

For the six months ended June 30, 2022, the Group's overall revenue amounted to approximately US$223.3 million, representing an increase of approximately 12.0% as compared with approximately US$199.3 million recorded for the six months ended June 30, 2021. This was mainly driven by the strong sales of various home products in terms of quantities sold, including Levoit air purifiers, humidifiers and the relevant replacement filter, as consumers in the U.S. and worldwide have gradually accustomed to the new norm under the COVID-19 pandemic and many of them have modified their household hygiene practices to cope with the risk of contracting COVID-19. With our experienced marketing team and our successful marketing and advertising strategies, our newly launched products such as Levoit air humidifier and air purifier achieved high rankings in the United States according to the statistics of NPD, which enabled us to capture the online traffic from keyword searches on Amazon and robust consumer demand for home products, thereby benefitted 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,	
	2022	2021
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Seller Central	**2,543**	54,324
Vendor Central	**190,198**	134,132
Others	**30,556**	10,834
Total	**223,297**	199,290

Under the Seller Central program, we directly sell to our 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 the 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 the Seller Central program decreased by approximately 95.3% in the first half of 2022 as compared with that of the first half of 2021 primarily due to our channel strategy of shifting most of the Group's products from the Seller Central program to the Vendor Central program.

Revenue of the Group generated from the Vendor Central program increased by approximately 41.8% in the first half of 2022 as compared with that of the first half of 2021 primarily due to (i) the increases in sales volume of products and (ii) our channel strategy of shifting most of the Group's products from the Seller Central program to the Vendor Central program.

Sales growth of the Group in other channels in the first half of 2022 came primarily from non-Amazon channels, representing a year-on-year increase of approximately 182.0% as compared with that of the first half of 2021. Revenue growth of the Group in the chain retailers was primarily due to the significant increase of in-store sales. Such increase is especially outstanding in the US market as the single store sales to Target increased by more than 350% as compared with that of the first half of 2021. As the reputation of our brands, products and our track records in chain retailers continues to grow, we have secured favorable shelf positions in key chain retailers in the United States.

Business Review by Geographic Location

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

	For the six months ended June 30,	
	2022	2021
	US$'000	*US$'000*
	(unaudited)	(unaudited)
North America	**171,946**	160,228
Europe	**42,911**	33,488
Asia	**8,440**	5,574
Total	**223,297**	199,290

Revenue generated from Europe increased by approximately 28.1% in the first half of 2022 as compared with that of the first half of 2021, primarily driven by the growth in revenue from Spain, Germany and United Kingdom. The revenue growth from these European countries was mainly attributable to the increase in sales volume of kitchen appliances and dining ware such as Cosori kitchen appliances and other channels sales amount.

GROSS PROFIT AND GROSS PROFIT MARGIN

For the six months ended June 30, 2022, the gross profit of the Group was approximately US$87.6 million (2021: approximately US$88.6 million), representing a year-on-year decrease of approximately 1.1%. The decrease in gross profit was mainly due to a significant increase in cost of sales recognized for the six months ended June 30, 2022. For the six months ended June 30, 2022, the gross profit margin of the Group was approximately 39.2% (2021: 44.4%), representing a year-on-year decrease of approximately 5.2 percentage points. The decrease in gross profit and gross profit margin was primarily attributable to the significant increase in cost of sales caused by the sudden and unusual increase in international freight rate in 2021 which continued to have an impact on the Group's financial performance in the first half of 2022. The international freight rate has dropped in the first half of 2022, and it is expected that the impact on the Group's gross profit margin caused by the increase in freight rates in 2021 will be alleviated.

OTHER INCOME AND GAINS

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

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

	For the six months ended June 30,	
	2022	2021
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Bank interest income	**431**	361
Loan forgiveness	**928**	2,727
Government grants	**972**	71
Fair value gains, net	**212**	—
Others	**963**	43
Total	**3,506**	3,202

For the six months ended June 30, 2022, other income and gains of the Group recorded approximately US$3.5 million (2021: approximately US$3.2 million), representing a year-on-year increase of approximately 9.5%.

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,	
	2022	2021
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Marketing & advertising expenses	**14,397**	6,208
Commission to platform	**1,458**	9,150
Staff cost	**10,233**	5,604
Warehousing expenses	**9,766**	7,394
Others	**1,849**	1,955
Total	**37,703**	30,311

The Group's selling and distribution expenses increased by approximately 24.4% from approximately US$30.3 million for the six months ended June 30, 2021 to approximately US$37.7 million for six months ended June 30, 2022. Such increase was driven by (i) the increase in marketing and advertising expenses to increase the market presence of the Group's key products; and (ii) the increase in staff cost due to the increase in number of employees of the Group as its business expands.

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; (v) depreciation and amortization; and (vi) traveling and entertainment expenses.

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

	For the six months ended June 30,	
	2022	2021
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Research and development	**12,328**	9,428
Administrative staff costs	**12,011**	6,658
Professional fees	**1,901**	2,129
Office expenses	**1,733**	1,756
Depreciation & amortization	**2,014**	1,329
Travelling and entertainment expenses	**257**	314
Others	**784**	916
Total	**31,028**	22,530

The Group's administrative expenses increased by approximately 37.7% from approximately US$22.5 million for the six months ended June 30, 2021 to approximately US$31.0 million for the six months ended June 30, 2022, primarily due to (i) the increase in research and development expenses to prepare for product upgrades and new products; and (ii) the increase in administrative staff costs as the number of staff increased as a result of the Group's business expansion.

OTHER EXPENSES

The Group's other expenses increased to approximately US$4.9 million for the six months ended June 30, 2022 (2021: approximately US$1.2 million). Such increase was mainly due to exchange loss.

FINANCE COST

Finance costs of the Group primarily represent (i) interest on bank loans; 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,	
	2022	2021
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Interest on bank loans	**548**	65
Interest on lease liabilities	**332**	329
Total	**880**	394

The Group's finance costs increased from approximately US$0.4 million for the six months ended June 30, 2021 to approximately US$0.9 million for the six months ended June 30, 2022.

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, 2022.

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, and was entitled to a preferential tax rate of 15% during the six months ended June 30, 2022.

Chongqing Xiaodao Information Technology Company Limited, a wholly-owned indirect subsidiary of the Company, is qualified as a company under the policy for promoting Western China development and income tax were levied at a preferential rate of 15% during the Reporting Period.

Dongguan City Zhilun Electronic Technology Company Limited, a wholly-owned indirect subsidiary of the Company, is entitled to a preferential income tax rate of 2.5% for the taxable income less than or equal to RMB1,000,000 and a preferential income tax rate of 5% for the taxable income between RMB1,000,000 and RMB3,000,000 during the six months ended June 30, 2022.

During the six months ended June 30, 2022, all of the Group's subsidiaries in the U.S. 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 subsidiary in Hong Kong 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 were taxed at 8.25% and the remaining assessable profits were taxed at 16.5% during the six months ended June 30, 2022.

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

Income tax expenses of the Group decreased from approximately US$5.0 million for the six months ended June 30, 2021 to approximately US$1.0 million for the six months ended June 30, 2022, primarily due to the decrease in profit in the first half of 2022 as compared with the corresponding period in 2021.

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

As a result of the increase in global freight rates, staff cost and promotion fees, the Group had a profit attributable to owners of parent of approximately US$15.5 million for the six months ended June 30, 2022, compared with a profit attributable to owners of parent of approximately US$32.0 million for the six months ended June 30, 2021.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's principal financial instruments comprise (i) bank and other borrowings; (ii) cash generated from operations; and (iii) net 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 approximately US$126.7 million as of December 31, 2021 and approximately US$94.2 million as of June 30, 2022. The cash and cash equivalents of the Group are mainly denominated in RMB, US$ and EUR.

As of June 30, 2022, the Group had total bank borrowings of approximately US$38.9 million (December 31, 2021: approximately US$34.9 million), which were all denominated in US$ and RMB, among which, approximately US$3.0 million of the bank borrowings were at fixed interest rates, and approximately US$35.9 million of the bank borrowings were at floating interest rates.

The following table sets forth a breakdown of the bank borrowings of the Group as of June 30, 2022:

	As of June 30, 2022	As of December 31, 2021
	US$'000	*US$'000*
	(unaudited)	(audited)
Interest-bearing bank borrowings		
— current portion	**37,939**	34,900
— non-current portion	**1,001**	—
Total	**38,940**	34,900

The following table sets forth the aging analysis of the repayment terms of the Group's interest-bearing bank borrowings as of June 30, 2022:

	As of June 30, 2022	As of December 31, 2021
	US$'000	*US$'000*
	(unaudited)	(audited)
Bank loans repayable:		
Within one year or on demand	**37,939**	34,900
Over one year	**1,001**	—
Total	**38,940**	34,900

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$4.2 million for the six months ended June 30, 2022 (2021: currency exchange loss of approximately US$0.9 million).

The Group manages its foreign exchange risk by using appropriate financial derivatives, and priority will be given to simple, cost-efficient and effective hedge instruments which meet the HKFRS 9 in performing foreign exchange risk management responsibilities. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

As of June 30, 2022, there were no significant investments held by the Group or future plans for significant investments or capital assets.

The Company did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures for the six months ended June 30, 2022.

EMPLOYEES AND REMUNERATION POLICY

As of June 30, 2022, the Group had 1,305 employees in total, in which 1,121 employees were in the PRC, 179 employees were in the United States and 5 employees were in other locations. For the six months ended June 30, 2022, the Group recognized staff costs of US$33.5 million (2021: approximately 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 with the opportunities to receive on-the-job trainings, the Group strives to create a harmonious and warm working and living environment for the staff. For the six months ended June 30, 2022, several culture webinars were held to drive forward our employees' understanding of the connection between product design and our end-users.

The Company also adopted a training policy, pursuant to which training 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 pursuant to 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 provide incentive or reward to the employees for their contribution to, and continuing efforts to promote the interests of, the Group, the Company has adopted the Pre-IPO Share Award Scheme, the Share Option Scheme and the 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 Directors and senior management, review the remuneration and ensure that no Directors have determined their own remuneration.

CONTINGENT LIABILITIES

As of June 30, 2022, the Group had no material contingent liabilities (December 31, 2021: Nil).

CHARGES ON ASSETS

As of June 30, 2022, the Group's bank borrowings of approximately US$24.5 million were secured by pledged bank deposits (December 31, 2021: US$30.6 million).

GEARING RATIO

As of June 30, 2022, the Group's gearing ratio (calculated as the total borrowings (bank borrowings and lease liabilities) divided by total equity as of the end of each period) was 17.2% (December 31, 2021: 15.4%).

IMPACT OF COVID-19

The COVID-19 has so far by the end of June 2022 infected approximately 545 million people globally and contributed to approximately 6.3 million deaths, according to the World Health Organization ("**WHO**"). In the first half of 2022, we have actively taken measures to mitigate the impact of the COVID-19 pandemic.

We maintained the enhanced hygiene and precautionary measures adopted since the outbreak of COVID-19 across our offices worldwide to protect our employees and contain the spread of COVID-19 and variants of it. We have successfully organized our employees in China to get fully vaccinated since COVID-19 vaccine's official launch in China.

The year of 2021 saw an especially steep increase in global freight rates. The Global Container Freight Index reached a record price of nearly US$11,109 in September 2021. In June 2022, the global freight rate index stood at almost US$7,100. To cope with such challenge, we have maintained long-term relationships with multiple logistic companies and we introduced more trailer vendors for overseas cargo offloading and product deliveries to ensure on-time delivery. The international freight rate has dropped in the first half of 2022, and it is expected that the impact on the Group's gross profit margin caused by the increase in freight rates in 2021 will be alleviated.

At this stage, over two years after COVID-19 has emerged, consumers worldwide have adapted to the "new normal": work-from-home mode for adults, study-at-home mode for children, temporary quarantine, the mandatory wearing of face masks in public and higher standards of public hygiene. As customers spent more time at home, the Group continued to capture the increasing demand for home products such as air purifiers, humidifiers and air fryers and a growth of our revenue, which was largely generated from Levoit and Cosori, increased to approximately US$197 million for the six months ended June 30, 2022, partially offset by the decrease in sales of outdoor recreation products, such as air mattress and camping lanterns. We will continue to follow 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

We remain firmly committed to our core belief to foster connected lifestyles and make life better by creating smarter products under the brands of Levoit, Cosori and Etekcity. Going forward in the second half of 2022, we aim to continue focusing on the following strategies: (i) further upgrade our product mix and expand our product portfolio; (ii) expand geographic coverage, especially deepen the market share of Cosori and Levoit products in the European market; (iii) bring greater business potential from other sales channels by enlarging our product portfolio in existing stores, entering into new stores and getting access to more new chain retailers, thus leveraging our brand recognition; and (iv) 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. Levoit has launched new models of air purifier and humidifier in the first half of 2022. In addition, we have launched new Cosori air fryer in the first half of 2022, successfully leveraging our expertise and experience in smart home devices.

We also plan to enlarge our market presence in our existing major markets including North America, Europe and Japan. As of June 30, 2022, we have maintained long-term business relationship with e-commerce operators, such as Rakutan and other renowned chain retailers in the United States, such as Target, Best Buy, Walmart, Home depot, Macy's, Costco and Wayfair, selling smart home devices and small home appliances. As we have significantly increased the number of our offline stores in 2021, we will strive to promote our products to increase the sales volumn of existing stores. Meanwhile, we will seek further opportunities for engaging in various large chain retailers to expand our retail channels.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

There were no other significant events that required additional disclosure or adjustments which occurred after the end of the Reporting Period.

INTERIM DIVIDENDS

The Board resolved not to declare the payment of any interim dividend for the six months ended June 30, 2022.

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

During the Reporting Period, the Company repurchased a total of 2,165,000 Shares (the "**Shares Repurchased**") on the Stock Exchange, at an aggregate consideration of HK$15,963,038.07. Details of the Shares Repurchased are as follows:

Month	No. of Shares repurchased	Price paid per Share Highest *(HK$)*	Lowest *(HK$)*	Aggregate consideration *(HK$)*
January 2022	2,165,000	8.16	6.67	15,963,038.07
Total	2,165,000			15,963,038.07

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. The Shares Repurchased were cancelled.

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 maintenance of 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 part 2 of the CG Code.

Under code provision C.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 the deviation from code provision C.2.1 of the CG Code as described above, the Company had complied with all applicable code provisions set out in part 2 of 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, 2022, including the accounting principles and practices adopted by the Group.

PUBLICATION OF 2022 INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the websites of HKEXnews (www.hkexnews.hk) and the Company (www.vesync.com). The 2022 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, Macau 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
"EUR"	Euros, the lawful currency of the member states of the European Union

"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
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Macau"	the Macau Special Administrative Region of the PRC
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Nomination Committee"	the nomination committee of the Board
"Pre-IPO Share Award Scheme"	the pre-IPO share award scheme adopted by the Company on June 16, 2020 for the benefit of our employees
"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
"Remuneration Committee"	the remuneration committee of the Board
"Reporting Period"	six months ended June 30, 2022
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share Option Scheme"	the share option scheme conditionally adopted by the then Shareholders on December 1, 2020
"Shareholder(s)"	holder(s) of the Share(s)
"Share(s)"	the ordinary share(s) of nominal value of HK$0.01 each in the share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"United States" and "U.S."	the United States of America
"US$"	United States dollars, the lawful currency of the United States

"%"	per cent
"IoT"	internet of things

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

Hong Kong, August 29, 2022

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.