



## VESYNC CO., LTD

(Incorporated in the Cayman Islands with limited liability)  
Stock code: 2148



# 2022 Interim Report



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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Ms. Yang Lin (*Chairperson and chief executive officer*)  
Mr. Yang Hai  
Mr. Chen Zhaojun (*Chief financial officer*)

### Non-executive Director

Mr. Yang Yuzheng

### Independent Non-executive Directors

Mr. Fong Wo, Felix  
Mr. Gu Jiong  
Mr. Tan Wen

## AUDIT COMMITTEE

Mr. Gu Jiong (*Chairman*)  
Mr. Fong Wo, Felix  
Mr. Tan Wen

## REMUNERATION COMMITTEE

Mr. Fong Wo, Felix (*Chairman*)  
Mr. Gu Jiong  
Mr. Tan Wen  
Ms. Yang Lin  
Mr. Yang Hai

## NOMINATION COMMITTEE

Ms. Yang Lin (*Chairperson*)  
Mr. Gu Jiong  
Mr. Fong Wo, Felix  
Mr. Tan Wen  
Mr. Yang Hai

## AUTHORIZED REPRESENTATIVES

Ms. Yang Lin  
Ms. Zhang Xiao

## COMPANY SECRETARY

Ms. Zhang Xiao *ACG, HKACG*

## REGISTERED OFFICE IN THE CAYMAN ISLANDS

Cricket Square  
Hutchins Drive  
PO Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN THE UNITED STATES

Building C, Suite A  
Phase I of the Anaheim Concourse  
1202 N. Miller Street  
Anaheim, California 92806  
United States

## PRINCIPAL PLACE OF BUSINESS IN THE PRC

Room 402 and 501-502, Block F3  
TCL International E City  
1001 Zhongshan Park Road  
Nanshan District  
Shenzhen City  
Guangdong Province  
PRC

## CORPORATE INFORMATION (CONTINUED)

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Dah Sing Financial Centre  
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Wanchai  
Hong Kong

### CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

#### Conyers Trust Company (Cayman) Limited

Cricket Square  
Hutchins Drive  
PO Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

#### Boardroom Share Registrars (HK) Limited

2103B, 21/F  
148 Electric Road  
North Point  
Hong Kong

### LEGAL ADVISER

#### As to Hong Kong law

#### Jingtian & Gongcheng LLP

Suites 3203–3207  
32/F, Edinburgh Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

### AUDITOR

#### Ernst & Young

*Certified Public Accountants and  
Registered Public Interest Entity Auditor*  
27/F, One Taikoo Place  
979 King's Road  
Quarry Bay  
Hong Kong

### PRINCIPAL BANKS

#### U.S. Bank Newport Beach Branch

4100 Newport PI Suite 900  
Newport Beach, CA 92660  
United States

#### DBS Bank (Hong Kong) Limited

180 Wai Yip Street  
Hong Kong

#### Bank of China Limited Shenzhen Xixiang Sub-branch

1/F, Block 1, Shengtaoshajunyuan  
Xinhu Road, Xixiang Street, Bao'an District  
Shenzhen  
China

### STOCK CODE

2148

### COMPANY'S WEBSITE

[www.vesync.com](http://www.vesync.com)

# 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”)<sup>Note</sup> 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 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.

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.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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, we have captured the online traffic from keyword searches on Amazon and robust consumer demand for home products, thereby benefitted from the favorable market trends. Our products, such as Levoit air humidifier and air purifier, achieved high rankings in the United States according to the statistics of NPD.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 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<br>June 30, |                                 |
|----------------|--------------------------------------|---------------------------------|
|                | 2022<br>US\$'000<br>(unaudited)      | 2021<br>US\$'000<br>(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.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 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<br>June 30, |                                 |
|---------------|--------------------------------------|---------------------------------|
|               | 2022<br>US\$'000<br>(unaudited)      | 2021<br>US\$'000<br>(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.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### OTHER INCOME AND GAINS

Other income and gains of the Group primarily consist of (i) loan 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<br>June 30, |                                 |
|-----------------------|--------------------------------------|---------------------------------|
|                       | 2022<br>US\$'000<br>(unaudited)      | 2021<br>US\$'000<br>(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<br>June 30, |                                 |
|----------------------------------|--------------------------------------|---------------------------------|
|                                  | 2022<br>US\$'000<br>(unaudited)      | 2021<br>US\$'000<br>(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                          |

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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<br>June 30, |                                 |
|---------------------------------------|--------------------------------------|---------------------------------|
|                                       | 2022<br>US\$'000<br>(unaudited)      | 2021<br>US\$'000<br>(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.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 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<br>June 30, |                                 |
|-------------------------------|--------------------------------------|---------------------------------|
|                               | 2022<br>US\$'000<br>(unaudited)      | 2021<br>US\$'000<br>(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. The determination of current and deferred income tax is based on the tax rate that has been enacted.

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

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 City Chenbei Technology Company Limited, a wholly-owned subsidiary of the Company, 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 Reporting Period.

Chongqing Xiaodao Information Technology Company Limited, a wholly-owned indirect subsidiary of the Company, was entitled to the preferential policy on corporate income tax under Western China development and income tax were levied at a preferential rate of 15% during the Reporting Period.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 Reporting Period.

During the six months ended June 30, 2022, all of the Company'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 Company'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 Company'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.

The Company's 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 EUR395,000 (2021: EUR245,000) and an income tax rate of 25.8% (2021: 25%) for the taxable income over EUR395,000 (2021: EUR245,000). The Company's 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%.

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.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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<br>June 30,<br>2022<br>US\$'000<br>(unaudited) | As of<br>December 31,<br>2021<br>US\$'000<br>(audited) |
|----------------------------------|--|--|
| Interest-bearing bank borrowings |  |  |
| — current portion                | <b>37,939</b>  | 34,900   |
| — non-current portion            | <b>1,001</b>   | —  |
| <b>Total</b>                     | <b>38,940</b>  | 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<br>June 30,<br>2022<br>US\$'000<br>(unaudited) | As of<br>December 31,<br>2021<br>US\$'000<br>(audited) |
|------------------------------|--|--|
| Bank loans repayable:        |  |  |
| Within one year or on demand | <b>37,939</b>  | 34,900   |
| Over one year                | <b>1,001</b>   | —  |
| <b>Total</b>                 | <b>38,940</b>  | 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).

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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. 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 volume of existing stores. Meanwhile, we will seek further opportunities for engaging in various large chain retailers to expand our retail channels.

# CORPORATE GOVERNANCE AND OTHER INFORMATION

## USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Company's shares have been listed on the Main Board of the Stock Exchange since December 18, 2020. The net proceeds from the Global Offering (after the full exercise of the over-allotment option) after deducting the underwriting fees and commissions and related expenses was HK\$1,662.9 million (the "Net Proceeds"). The Group will continue to utilize the net proceeds from the Global Offering as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. The intended application of the net proceeds as stated in the Prospectus and the actual utilization of the net proceeds from the Global Offering up to June 30, 2022 is set out below:

| Purpose | Approximate percentage of total amount | Allocation of Net Proceeds<br>HK\$ million | Unutilized Net Proceeds                 | Utilized Net Proceeds                       | Unutilized Net Proceeds                               | Expected timeline for the use of unutilized Net Proceeds <sup>(Note 1)</sup> |
|---------|--|--|---|---|---|--|
|         |  |  | as of December 31, 2021<br>HK\$ million | during the Reporting Period<br>HK\$ million | as of the end of the Reporting Period<br>HK\$ million |  |

1. Research and development of new products and upgrade and iteration of existing products

|   |     |       |       |      |       |                  |
|---|-----|-------|-------|------|-------|------------------|
| Research and development of new products  | 15% | 249.4 | 225.4 | 45.3 | 180.1 | By December 2023 |
| Upgrade and iterate existing products   | 5%  | 83.2  | 59.2  | 34.2 | 25.0  | By December 2023 |
| Research and development of new products and upgrade and iteration of existing products | 5%  | 83.2  | 67.7  | 2.9  | 64.8  | By December 2023 |
| Enhance testing capability  | 5%  | 83.2  | 73.5  | 12.7 | 60.8  | By December 2023 |

2. Expand our sales channels and geographic coverage and enhance brand awareness

|   |    |       |       |      |       |                  |
|---|----|-------|-------|------|-------|------------------|
| Expand sales channels and market presence in existing major markets | 8% | 133.0 | 76.7  | 40.9 | 35.8  | By December 2023 |
| Expand and solidify market presence in regions                      | 8% | 133.0 | 117.9 | 6.0  | 111.9 | By December 2023 |
| Devote more resources in brand promotion                            | 9% | 149.7 | 128.5 | 87.6 | 40.9  | By December 2023 |

## CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

| Purpose   | Approximate percentage of total amount | Allocation of Net Proceeds<br>HK\$ million | Unutilized Net Proceeds                 | Utilized Net Proceeds                       | Unutilized Net Proceeds                               | Expected timeline for the use of unutilized Net Proceeds <sup>(Note 1)</sup> |
|---|--|--|---|---|---|--|
|   |  |  | as of December 31, 2021<br>HK\$ million | during the Reporting Period<br>HK\$ million | as of the end of the Reporting Period<br>HK\$ million |  |
| 3. Upgrade VeSync app into a home IoT platform  |  |  |   |   |   |  |
| Build and expand talent pools in cloud infrastructure, IoT technology, data technology            | 10%                                    | 166.3                                      | 131.0                                   | 57.3  | 73.7  | By December 2023   |
| Acquire or partner with companies in the data technology industry                                 | 15%                                    | 249.4                                      | 155.3                                   | 7.8   | 147.5   | By December 2023   |
| 4. Develop and launch smart solutions, including smart security solutions, for business customers |  |  |   |   |   |  |
| Research and development of smart solutions for business customers                                | 5%                                     | 83.1                                       | 77.5                                    | 10.5  | 67.0  | By December 2023   |
| Expand North America market of smart solutions for business customer                              | 5%                                     | 83.1                                       | 72.0                                    | 6.2   | 65.8  | By December 2023   |
| 5. Working capital  | 10%                                    | 166.3                                      | 0                                       | 0   | 0   | —  |
|   |  | 1,662.9                                    | 1,184.7                                 | 311.4                                       | 873.3   |  |

Note:

- (1) During the Reporting Period, the Net Proceeds had been and will be used according to the purposes as stated in the Prospectus, and there are no material change or delay in the use of the Net Proceeds.

### 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.

## CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

### CHANGE IN INFORMATION OF DIRECTORS

Since the date of the 2021 annual report of the Company and up to the date of this interim report, there was no change in Director's information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

### 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.

### 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.

## CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

### DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of June 30, 2022, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO, or (iii) notified to the Company and the Stock Exchange under the Model Code, were as follows:

#### Interests in the Shares and underlying Shares

| Name of Director or chief executive | Capacity/Nature of interest   | Long position/<br>short position | Number of<br>Shares | Number of<br>underlying<br>Shares | Total       | Approximate<br>percentage of<br>interest in the<br>Company |
|-------------------------------------|---|----------------------------------|---------------------|-----------------------------------|-------------|--|
| Ms. Yang Lin <sup>(2)(5)</sup>      | Founder of a discretionary trust who can influence how the trustee exercises his discretion | L <sup>(10)</sup>                | 406,040,800         | —                                 |             |  |
|                                     | Interests held jointly with another person  | L <sup>(10)</sup>                | 375,786,400         | 1,350,000                         |             |  |
|                                     | Beneficial owner  | L <sup>(10)</sup>                | 4,582,000           | 1,150,000                         |             |  |
|                                     |   |                                  |                     |                                   | 788,909,200 | 67.84%   |
| Mr. Yang Hai <sup>(3)(5)</sup>      | Interest of corporation controlled  | L <sup>(10)</sup>                | 8,067,200           | —                                 |             |  |
|                                     | Interests held jointly with another person  | L <sup>(10)</sup>                | 778,342,000         | 1,350,000                         |             |  |
|                                     | Beneficial owner  | L <sup>(10)</sup>                | —                   | 1,150,000                         |             |  |
|                                     |   |                                  |                     |                                   | 788,909,200 | 67.84%   |

## CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

| Name of Director or chief executive | Capacity/Nature of interest                | Long position/<br>short position | Number of<br>Shares | Number of<br>underlying<br>Shares | Total       | Approximate<br>percentage of<br>interest in the<br>Company |
|-------------------------------------|--|----------------------------------|---------------------|-----------------------------------|-------------|--|
| Mr. Yang Yuzheng <sup>(4)(5)</sup>  | Interest of corporation controlled         | L <sup>(10)</sup>                | 367,719,200         | —                                 |             |  |
|                                     | Interests held jointly with another person | L <sup>(10)</sup>                | 418,690,000         | 2,300,000                         |             |  |
|                                     | Beneficial owner                           | L <sup>(10)</sup>                | —                   | 200,000                           |             |  |
|                                     |  |                                  |                     |                                   | 788,909,200 | 67.84%   |
| Mr. Chen Zhaojun <sup>(6)</sup>     | Beneficial owner                           | L <sup>(10)</sup>                | —                   | 2,000,000                         | 2,000,000   | 0.17%  |
| Mr. Fong Wo, Felix <sup>(7)</sup>   | Beneficial owner                           | L <sup>(10)</sup>                | —                   | 200,000                           | 200,000     | 0.02%  |
| Mr. Gu Jiong <sup>(8)</sup>         | Beneficial owner                           | L <sup>(10)</sup>                | —                   | 200,000                           | 200,000     | 0.02%  |
| Mr. Tan Wen <sup>(9)</sup>          | Beneficial owner                           | L <sup>(10)</sup>                | —                   | 200,000                           | 200,000     | 0.02%  |

### Notes:

- The calculation is based on the total number of 1,162,884,800 Shares in issue as of June 30, 2022.
- Karis I LLC and Karis II LLC hold 243,624,800 Shares and 162,416,000 Shares respectively. Each of Karis I LLC and Karis II LLC is wholly owned by North Point Trust Company L.L.C., the trustee of the Annuity Trusts, on trust for the benefit of the Annuity Trusts, which were established by Ms. Yang for the ultimate benefit of the Family Trusts, pursuant to certain arrangements. The Family Trust I and Family Trust II were established by Ms. Yang as both the settlor and the trustee, and the beneficiaries of which are any children born to or adopted by Ms. Yang and their respective issue, and Mr. Ryan Xu, being Ms. Yang's child, during his lifetime, and any charitable organizations to be subsequently determined by the independent trustee (if any) at its discretion upon its appointment, respectively. Pursuant to the Annuity Trusts, Ms. Yang, as the powerholder, has the power to appoint additional trustees and remove and replace North Point Trust Company L.L.C., and as the sole manager of Karis I LLC and Karis II LLC, has the authority to make all decisions in relation to them. Ms. Yang is deemed to be interested in both Karis I LLC and Karis II LLC, and is therefore deemed to be interested in any Shares in which each of Karis I LLC and Karis II LLC is interested.  
  
Ms. Yang Lin is interested in 1,150,000 share options granted to her under the Share Option Scheme to subscribe for 1,150,000 Shares.
- Arceus Co., Ltd holds 8,067,200 Shares. Arceus Co., Ltd is wholly owned by Mr. Yang Hai. Mr. Yang Hai is therefore deemed to be interested in any Shares in which Arceus Co., Ltd is interested.  
  
Mr. Yang Hai is interested in 1,150,000 share options granted to him under the Share Option Scheme to subscribe for 1,150,000 Shares.
- Caerus Co., Ltd holds 367,719,200 Shares. Caerus Co., Ltd is wholly owned by Mr. Yang Yuzheng. Mr. Yang Yuzheng is therefore deemed to be interested in any Shares in which Caerus Co., Ltd is interested.  
  
Mr. Yang Yuzheng is interested in 200,000 share options granted to him under the Share Option Scheme to subscribe for 200,000 Shares.
- Each of Ms. Yang Lin, Mr. Yang Yuzheng and Mr. Yang Hai is family member of one another, and is therefore deemed to be interested in any Shares in which one another is interested.

## CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

6. Mr. Chen Zhaojun is interested in 2,000,000 share options granted to him under the Share Option Scheme to subscribe for 2,000,000 Shares.
7. Mr. Fong Wo, Felix is interested in 200,000 share options granted to him under the Share Option Scheme to subscribe for 200,000 Shares.
8. Mr. Gu Jiong is interested in 200,000 share options granted to him under the Share Option Scheme to subscribe for 200,000 Shares.
9. Mr. Tan Wen is interested in 200,000 share options granted to him under the Share Option Scheme to subscribe for 200,000 Shares.
10. The letter "L" denotes the person's long position in the Shares.

Save as disclosed above, so far as the Directors are aware, as of June 30, 2022, none of the Directors or chief executive of the Company had any interest or short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO, or (iii) notified to the Company and the Stock Exchange under the Model Code.

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of June 30, 2022, the following persons (other than the Directors and chief executive of the Company) had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company, pursuant to Section 336 of the SFO:

#### Interest in Shares and underlying Shares

| Name   | Capacity/<br>Nature of interest | Long position/<br>short position | Number of<br>Shares | Number of<br>underlying<br>Shares | Total       | Approximate<br>percentage of<br>interest in the<br>Company |
|--|---------------------------------|----------------------------------|---------------------|-----------------------------------|-------------|--|
| North Point Trust<br>Company L.L.C. <sup>(2)</sup> | Trustee                         | L <sup>(7)</sup>                 | 406,040,800         | —                                 | 406,040,800 | 34.92%   |
| Karis I LLC <sup>(2)</sup>                         | Beneficial owner                | L <sup>(7)</sup>                 | 243,624,800         | —                                 | 243,624,800 | 20.95%   |
| Karis II LLC <sup>(2)</sup>                        | Beneficial owner                | L <sup>(7)</sup>                 | 162,416,000         | —                                 | 162,416,000 | 13.97%   |
| Caerus Co., Ltd <sup>(3)</sup>                     | Beneficial owner                | L <sup>(7)</sup>                 | 367,719,200         | —                                 | 367,719,200 | 31.62%   |
| Mr. Xu Bo <sup>(4)</sup>                           | Interest of spouse              | L <sup>(7)</sup>                 | 786,409,200         | 2,500,000                         | 788,909,200 | 67.84%   |
| Ms. Li Jisu <sup>(5)</sup>                         | Interest of spouse              | L <sup>(7)</sup>                 | 786,409,200         | 2,500,000                         | 788,909,200 | 67.84%   |
| Ms. Chen Shuyong <sup>(6)</sup>                    | Interest of spouse              | L <sup>(7)</sup>                 | 786,409,200         | 2,500,000                         | 788,909,200 | 67.84%   |

## CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

### Notes:

1. The calculation is based on the total number of 1,162,884,800 Shares in issue as of June 30, 2022.
2. Each of Karis I LLC and Karis II LLC is wholly owned by North Point Trust Company L.L.C., the trustee of the Annuity Trusts, on trust for the benefit of the Annuity Trusts, which were established by Ms. Yang for the ultimate benefit of the Family Trusts, pursuant to certain arrangements. The Family Trust I and Family Trust II were established by Ms. Yang as both the settlor and the trustee, and the beneficiaries of which are any children born to or adopted by Ms. Yang and their respective issue and Mr. Ryan Xu, being Ms. Yang's child, during his lifetime, and any charitable organizations to be subsequently determined by the independent trustee (if any) at its discretion upon its appointment, respectively. Pursuant to the Annuity Trusts, Ms. Yang, as the powerholder, has the power to appoint additional trustees and remove and replace North Point Trust Company L.L.C., and as the sole manager of Karis I LLC and Karis II LLC, has the authority to make all decisions in relation to them. Ms. Yang is deemed to be interested in both Karis I LLC and Karis II LLC, and is therefore deemed to be interested in any Shares in which each of Karis I LLC and Karis II LLC is interested.
3. Caerus Co., Ltd is wholly owned by Mr. Yang Yuzheng. Mr. Yang Yuzheng is therefore deemed to be interested in any Shares in which Caerus Co., Ltd is interested.
4. Mr. Xu Bo is the spouse of Ms. Yang Lin. Under the SFO, Mr. Xu Bo is deemed to be interested in any Shares in which Ms. Yang Lin is interested.
5. Ms. Li Jisu is the spouse of Mr. Yang Yuzheng. Under the SFO, Ms. Li Jisu is deemed to be interested in any Shares in which Mr. Yang Yuzheng is interested.
6. Ms. Chen Shuyong is the spouse of Mr. Yang Hai. Under the SFO, Ms. Chen Shuyong is deemed to be interested in any Shares in which Mr. Yang Hai is interested.
7. The letter "L" denotes the person's long position in the Shares.

Save as disclosed above, as of June 30, 2022, the Company had not been notified by any person (other than the Directors or the chief executive of the Company) who had an interest or short position in the Shares or the underlying Shares which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

### SHARE OPTION SCHEME

The Share Option Scheme was adopted by the Company on December 1, 2020. A summary of the principal terms of the Share Option Scheme is set out in the Prospectus.

Details of movements of the share options granted under the Share Option Scheme during the Reporting Period are as follows:

| Grantees         | Exercise price<br>(HK\$/Share) | Closing price immediately prior to the grant<br>(HK\$/Share) | Outstanding options as of January 1, 2022 |           |           |        | Outstanding options as of June 30, 2022 | Exercise period <sup>(Note)</sup> |
|------------------|--------------------------------|--|---|-----------|-----------|--------|---|-----------------------------------|
|                  |                                |  | Granted                                   | Exercised | Cancelled | Lapsed |   |                                   |
| <i>Directors</i> |                                |  |   |           |           |        |   |                                   |
| Yang Lin         | 12.880                         | 10.360   | 1,150,000                                 | —         | —         | —      | 1,150,000                               | May 14, 2021 to May 13, 2031      |
| Yang Hai         | 12.880                         | 10.360   | 1,150,000                                 | —         | —         | —      | 1,150,000                               | May 14, 2021 to May 13, 2031      |
| Chen Zhaojun     | 12.880                         | 10.360   | 2,000,000                                 | —         | —         | —      | 2,000,000                               | May 14, 2021 to May 13, 2031      |
| Yang Yuzheng     | 12.880                         | 10.360   | 200,000                                   | —         | —         | —      | 200,000                                 | May 14, 2021 to May 13, 2031      |
| Fong Wo, Felix   | 12.880                         | 10.360   | 200,000                                   | —         | —         | —      | 200,000                                 | May 14, 2021 to May 13, 2031      |
| Gu Jiong         | 12.880                         | 10.360   | 200,000                                   | —         | —         | —      | 200,000                                 | May 14, 2021 to May 13, 2031      |
| Tan Wen          | 12.880                         | 10.360   | 200,000                                   | —         | —         | —      | 200,000                                 | May 14, 2021 to May 13, 2031      |
| Total            |                                |  | 5,100,000                                 | —         | —         | —      | 5,100,000                               |                                   |

Note: All share options granted by the Company shall vest in five tranches within a period of 5 years in proportions of 10%, 10%, 20%, 30% and 30% of the share options granted, i.e. 10% of the share options granted shall vest on the 1st anniversary of the grant, another 10% of the share options granted shall vest on the 2nd anniversary of the grant, 20% of the share options granted shall vest on the 3rd anniversary of the grant, 30% of the share options granted shall vest on the 4th anniversary of the grant, and the remaining 30% shall vest on the 5th anniversary of the grant.

## CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

### PRE-IPO SHARE AWARD SCHEME

The Company adopted the Pre-IPO Share Award Scheme on June 16, 2020. The purpose of the Pre-IPO Share Award Scheme is to (i) recognize and reward the contributions of certain eligible employees of the Group (being an employee of any member of the Group at any during the trust period); and (ii) incentivize them for their future contribution to the continual operation and development of the Group.

The Pre-IPO Share Award Scheme is valid and effective from June 16, 2020 and for a term of 10 years, subject to any early termination as determined by the Board. During the Reporting Period, no share awards had been granted, exercised, outstanding, lapsed and canceled. As of June 30, 2022, there was no outstanding award Share granted under the Pre-IPO Share Award Scheme.

### POST-IPO SHARE AWARD SCHEME

The Company adopted the Post-IPO Share Award Scheme on July 20, 2021 (i) to recognize the contributions by certain eligible participants of the Post-IPO Share Award Scheme and to provide them with incentives in order to retain them for the continual operation and development of the Group; and (ii) to attract suitable personnel for further development of the Group. The Post-IPO Share Award Scheme is valid and effective for the period commencing on the adoption date (i.e. July 20, 2021, the “**Adoption Date**”) and ending on the 10th anniversary date of the Adoption Date or such date of early termination as determined by the Board. The Post-IPO Share Award Scheme does not constitute a share option scheme nor an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules. No Shareholders’ approval was required for the adoption of the Post-IPO Share Award Scheme.

As of June 30, 2022, a total of 2,800,000 award Shares have been granted to selected eligible participants under the Post-IPO Share Award Scheme.

### SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as of the date of this interim report, the Directors confirm that the Company had maintained the prescribed public float under the Listing Rules during the Reporting Period.

## CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

### 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 |               | Aggregate consideration (HK\$) |
|--------------|---------------------------|----------------------|---------------|--------------------------------|
|              |                           | Highest (HK\$)       | Lowest (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.

### INTERIM DIVIDENDS

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

### 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.

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

For the six months ended 30 June 2022

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

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2022

|   | Notes | 30 June<br>2022<br>(Unaudited)<br>US\$'000 | 31 December<br>2021<br>(Unaudited)<br>US\$'000 |
|---|-------|--|--|
| <b>NON-CURRENT ASSETS</b>                       |       |  |  |
| Property, plant and equipment                   | 9     | 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   |
| <b>CURRENT ASSETS</b>                           |       |  |  |
| Inventories                                     | 10    | 124,711                                    | 128,547  |
| Trade and notes receivables                     | 11    | 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  |
| <b>CURRENT LIABILITIES</b>                      |       |  |  |
| Trade payables                                  | 12    | 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  |
| <b>NET CURRENT ASSETS</b>                       |       | <b>269,028</b>                             | 282,853  |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>    |       | <b>322,125</b>                             | 327,991  |

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

30 June 2022

|  | Notes | 30 June<br>2022<br>(Unaudited)<br>US\$'000 | 31 December<br>2021<br>(Unaudited)<br>US\$'000 |
|--|-------|--|--|
| <b>NON-CURRENT LIABILITIES</b>                     |       |  |  |
| 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  |
| <b>EQUITY</b>                                      |       |  |  |
| <b>Equity attributable to owners of the parent</b> |       |  |  |
| Share capital                                      | 13    | 1,500                                      | 1,503  |
| Share premium                                      |       | 186,333                                    | 199,885  |
| Other reserves                                     |       | 120,830                                    | 113,250  |
| Total equity                                       |       | 308,663                                    | 314,638  |

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

|   | Attributable to owners of the parent |                           |                             |                            |   |  |                                 |   |                               |                          |
|---|--------------------------------------|---------------------------|-----------------------------|----------------------------|---|--|---------------------------------|---|-------------------------------|--------------------------|
|   | Share capital<br>US\$'000            | Share premium<br>US\$'000 | Treasury shares<br>US\$'000 | Other reserve*<br>US\$'000 | Share award and option reserve*<br>US\$'000 | Statutory surplus reserve*<br>US\$'000 | Share held for                  |   | Retained profits*<br>US\$'000 | Total equity<br>US\$'000 |
|   |                                      |                           |                             |                            |   |  | share award scheme*<br>US\$'000 | Exchange fluctuation reserve*<br>US\$'000 |                               |                          |
| At 1 January 2022 (audited)                               | 1,503                                | 199,885                   | —                           | (2,102)                    | 1,674                                       | 2,844                                  | (44)                            | 2,662                                     | 108,216                       | 314,638                  |
| Profit for the period                                     | —                                    | —                         | —                           | —                          | —   | —                                      | —                               | —   | 15,480                        | 15,480                   |
| Other comprehensive income for the period:                |                                      |                           |                             |                            |   |  |                                 |   |                               |                          |
| Exchange differences on translation of foreign operations | —                                    | —                         | —                           | —                          | —   | —                                      | —                               | (2,657)                                   | —                             | (2,657)                  |
| Total comprehensive income for the period                 | —                                    | —                         | —                           | —                          | —   | —                                      | —                               | (2,657)                                   | 15,480                        | 12,823                   |
| Shares repurchased  | —                                    | —                         | (2,050)                     | —                          | —   | —                                      | —                               | —   | —                             | (2,050)                  |
| Equity-settled share award and option arrangement         | —                                    | —                         | —                           | —                          | 1,764                                       | —                                      | —                               | —   | —                             | 1,764                    |
| Cancellation of treasury shares                           | (3)                                  | (2,047)                   | 2,050                       | —                          | —   | —                                      | —                               | —   | —                             | —                        |
| Final 2021 dividend declared                              | —                                    | (11,505)                  | —                           | —                          | —   | —                                      | —                               | —   | (7,007)                       | (18,512)                 |
| At 30 June 2022 (unaudited)                               | 1,500                                | 186,333                   | —                           | (2,102)                    | 3,438                                       | 2,844                                  | (44)                            | 5   | 116,689                       | 308,663                  |

\* These reserve accounts comprise the consolidated reserves of US\$120,830,000 in the interim condensed consolidated statement of financial position as at 30 June 2022.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2021

|   | Attributable to owners of the parent |                           |                             |                            |   |  |  |   |                               |                          |
|---|--------------------------------------|---------------------------|-----------------------------|----------------------------|---|--|--|---|-------------------------------|--------------------------|
|   | Share capital<br>US\$'000            | Share premium<br>US\$'000 | Treasury shares<br>US\$'000 | Other reserve*<br>US\$'000 | Share award and option reserve*<br>US\$'000 | Statutory surplus reserve*<br>US\$'000 | Share held for award scheme*<br>US\$'000 | Exchange fluctuation reserve*<br>US\$'000 | Retained profits*<br>US\$'000 | Total equity<br>US\$'000 |
| At 1 January 2021 (audited)                               | 1,449                                | 189,587                   | —                           | (2,102)                    | 166   | 2,838                                  | (6)                                      | 1,565                                     | 66,634                        | 260,131                  |
| Profit for the period                                     | —                                    | —                         | —                           | —                          | —   | —                                      | —  | —   | 31,981                        | 31,981                   |
| Other comprehensive income for the period:                |                                      |                           |                             |                            |   |  |  |   |                               |                          |
| Exchange differences on translation of foreign operations | —                                    | —                         | —                           | —                          | —   | —                                      | —  | (161)                                     | —                             | (161)                    |
| Total comprehensive income for the period                 | —                                    | —                         | —                           | —                          | —   | —                                      | —  | (161)                                     | 31,981                        | 31,820                   |
| Shares repurchased  | —                                    | —                         | (42)                        | —                          | —   | —                                      | —  | —   | —                             | (42)                     |
| Issue of shares   | 54                                   | 29,951                    | —                           | —                          | —   | —                                      | —  | —   | —                             | 30,005                   |
| Share issue expenses                                      | —                                    | (894)                     | —                           | —                          | —   | —                                      | —  | —   | —                             | (894)                    |
| Equity-settled share award and option arrangement         | —                                    | —                         | —                           | —                          | 589   | —                                      | —  | —   | —                             | 589                      |
| Final 2020 dividend declared                              | —                                    | (19,121)                  | —                           | —                          | —   | —                                      | —  | —   | —                             | (19,121)                 |
| At 30 June 2021 (unaudited)                               | 1,503                                | 199,523                   | (42)                        | (2,102)                    | 755   | 2,838                                  | (6)                                      | 1,404                                     | 98,615                        | 302,488                  |

\* These reserve accounts comprise the consolidated reserves of US\$101,504,000 in the interim condensed consolidated statement of financial position as at 30 June 2021.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

|  | 2022<br>(Unaudited)<br>US\$'000 | 2021<br>(Unaudited)<br>US\$'000 |
|--|---------------------------------|---------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                            |                                 |                                 |
| Profit before tax  | 16,466                          | 36,982                          |
| Adjustments for:   |                                 |                                 |
| Interest Income  | (431)                           | —                               |
| Finance costs  | 880                             | 394                             |
| Share of profits and losses of a associate                             | 92                              | —                               |
| Gain on disposal of items of property, plant and equipment             | 35                              | —                               |
| Fair value losses, net:  |                                 |                                 |
| derivative instruments-transactions not qualifying as hedges           | 255                             | —                               |
| Foreign exchange differences, net                                      | (679)                           | 53                              |
| Depreciation of property, plant and equipment                          | 991                             | 587                             |
| Depreciation of right-of-use assets                                    | 2,107                           | 1,861                           |
| Amortisation of intangible assets                                      | 155                             | 184                             |
| Equity-settled share award and option expense                          | 1,764                           | 589                             |
| Loan forgiveness   | (928)                           | (2,727)                         |
| Impairment of trade receivables, net                                   | 37                              | 396                             |
| Impairment of inventories, net   | (114)                           | 466                             |
| (Increase)/decrease in inventories                                     | 3,950                           | (30,616)                        |
| Increase in trade receivables  | (12,677)                        | (18,524)                        |
| (Increase)/decrease in prepayments, other receivables and other assets | (12,280)                        | 1,305                           |
| Increase/(decrease) in trade payables                                  | 1,483                           | (15,315)                        |
| Decrease in other non-current assets                                   | 348                             | 161                             |
| Increase/(decrease) in provision                                       | (741)                           | 29                              |
| Decrease in pledged deposits   | 70                              | —                               |
| Increase in other payables and accruals                                | (14,919)                        | (3,984)                         |
| Cash used in operations  | (14,136)                        | (28,159)                        |
| Income tax paid  | (14,524)                        | (1,559)                         |
| Net cash flows used in operating activities                            | (28,660)                        | (29,718)                        |

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 30 June 2022

|   | 2022<br>(Unaudited)<br>US\$'000 | 2021<br>(Unaudited)<br>US\$'000 |
|---|---------------------------------|---------------------------------|
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                                 |                                 |
| Interest received   | 430                             | —                               |
| Purchases of items of property, plant and equipment   | (972)                           | (1,436)                         |
| Purchases of other intangible assets  | (49)                            | (177)                           |
| Decrease/(increase) in time deposits with original maturity of over three months                          | 10,197                          | (94,135)                        |
| Increase in pledged deposits  | (2,980)                         | —                               |
| Purchase of a shareholding in an associate  | (1,000)                         | —                               |
| Net cash flows from/(used in) investing activities  | 5,626                           | (95,748)                        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                                 |                                 |
| Proceeds from issue of shares   | —                               | 30,005                          |
| Share issue expenses  | —                               | (894)                           |
| Repurchase of shares  | (2,050)                         | (42)                            |
| New bank loans  | 39,615                          | 17,434                          |
| Repayment of bank loans   | (33,265)                        | (1,537)                         |
| Interest paid   | (853)                           | (394)                           |
| Increase in pledged deposits  | 2,400                           | —                               |
| Principal portion of lease payments   | (1,911)                         | (1,659)                         |
| Net cash flows from financing activities  | 3,936                           | 42,913                          |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>  | <b>(19,098)</b>                 | <b>(82,553)</b>                 |
| Cash and cash equivalents at beginning of period  | 96,462                          | 183,450                         |
| Effect of foreign exchange rate changes, net  | (3,189)                         | (227)                           |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>   | <b>74,175</b>                   | <b>100,670</b>                  |
| <b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>  |                                 |                                 |
| Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position | 94,176                          | 194,805                         |
| Time deposits with original maturity of over three months when acquired                                   | (20,001)                        | (94,135)                        |
| Cash and cash equivalents as stated in the interim condensed consolidated statements of cash flows        | 74,175                          | 100,670                         |

# NOTES TO THE 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                          | <i>Reference to the Conceptual Framework</i>   |
| Amendments to HKAS 16                          | <i>Property, Plant and Equipment: Proceeds before Intended Use</i>                       |
| Amendments to HKAS 37                          | <i>Onerous Contracts — Cost of Fulfilling a Contract</i>                                 |
| <i>Annual Improvements to HKFRSs 2018–2020</i> | 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.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

30 June 2022

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

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

- (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.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

30 June 2022

## 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<br>ended 30 June |                                 |
|---------------|-------------------------------------|---------------------------------|
|               | 2022<br>(Unaudited)<br>US\$'000     | 2021<br>(Unaudited)<br>US\$'000 |
| North America | 171,946                             | 160,228                         |
| Europe        | 42,911                              | 33,488                          |
| Asia          | 8,440                               | 5,574                           |
| <b>Total</b>  | <b>223,297</b>                      | 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<br>2022<br>(Unaudited)<br>US\$'000 | 31 December<br>2021<br>(Audited)<br>US\$'000 |
|----------------|--|--|
|                | North America                              | 6,169  |
| Mainland China | 13,461                                     | 10,210                                       |
| Hong Kong      | 12,397                                     | 12,650                                       |
| Europe         | 97   | 123  |
| Other          | 2,157                                      | 583  |
| <b>Total</b>   | <b>34,281</b>                              | 30,403                                       |

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

30 June 2022

## 3. OPERATING SEGMENT INFORMATION (Continued)

### Geographical information (Continued)

#### (b) Non-current assets (Continued)

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<br>(Unaudited)<br>US\$'000  | 2021<br>(Unaudited)<br>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<br>(Unaudited)<br>US\$'000  | 2021<br>(Unaudited)<br>US\$'000 |
| <b>Type of goods or services</b>     |                                  |                                 |
| Sale of products                     | 223,297                          | 199,290                         |
| <b>Timing of revenue recognition</b> |                                  |                                 |
| Goods transferred at a point in time | 223,297                          | 199,290                         |

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

30 June 2022

## 4. REVENUE, OTHER INCOME AND GAINS (Continued)

### Revenue from contracts with customers (Continued)

#### (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:

|   | <b>For the six months<br/>ended 30 June</b> |  |
|---|---|--|
|   | <b>2022<br/>(Unaudited)<br/>US\$'000</b>    | <b>2021<br/>(Unaudited)<br/>US\$'000</b> |
| <b>Other income</b>                     |   |  |
| Bank interest income                    | 431   | 361                                      |
| Loan forgiveness                        | 928   | 2,727                                    |
| Government grants*                      | 972   | 71                                       |
| Others                                  | 963   | 43                                       |
|   | <b>3,294</b>                                | 3,202                                    |
| <b>Gains</b>                            |   |  |
| Fair value gains, net:                  |   |  |
| Derivative instruments                  |   |  |
| — transactions not qualifying as hedges | 212   | —  |
|   | <b>3,506</b>                                | 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.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

30 June 2022

## 5. PROFIT BEFORE TAX

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

|                                     | For the six months ended 30 June |                                 |
|-------------------------------------|----------------------------------|---------------------------------|
|                                     | 2022<br>(Unaudited)<br>US\$'000  | 2021<br>(Unaudited)<br>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 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% (2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (2021: 16.5%).

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

30 June 2022

## 6. INCOME TAX EXPENSE (Continued)

### 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 year.

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 during the year.

### 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 EUR395,000 (2021: EUR245,000) and an income tax rate of 25.8% (2021: 25%) for the taxable income over EUR395,000 (2021: 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.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

30 June 2022

## 6. INCOME TAX EXPENSE (Continued)

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

|                                 | For the six months ended 30 June |                                 |
|---------------------------------|----------------------------------|---------------------------------|
|                                 | 2022<br>(Unaudited)<br>US\$'000  | 2021<br>(Unaudited)<br>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<br>(Unaudited)<br>US\$'000  | 2021<br>(Unaudited)<br>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 ("BOCT"), the trustee of the Pre-IPO Share Award Scheme, the final 2021 cash dividend is US\$18,512,000 (six months 30 June 2021: US\$18,561,000) which was partially paid in 28 July 2022.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

30 June 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:

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

30 June 2022

## 9. PROPERTY, PLANT AND EQUIPMENT

|   | 30 June<br>2022<br>(Unaudited)<br>US\$'000 | 31 December<br>2021<br>(Audited)<br>US\$'000 |
|---|--|--|
| Carrying amount at beginning of the period/year | 4,477                                      | 1,858  |
| Additions                                       | 581  | 3,881  |
| Depreciation provided during the period/year    | (991)                                      | (1,306)                                      |
| Disposals                                       | (35)                                       | (15)   |
| Exchange realignment                            | (216)                                      | 59   |
| Carrying amount at end of the period/year       | <b>3,816</b>                               | 4,477  |

## 10. INVENTORIES

|                                 | 30 June<br>2022<br>(Unaudited)<br>US\$'000 | 31 December<br>2021<br>(Audited)<br>US\$'000 |
|---------------------------------|--|--|
| Raw materials                   | 704  | 596  |
| Work in progress                | 466  | 450  |
| Finished goods                  | 129,444                                    | 133,518                                      |
| Less: provision for inventories | (5,903)                                    | (6,017)                                      |
|                                 | <b>124,711</b>                             | 128,547                                      |

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

30 June 2022

## 11. 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<br>2022<br>(Unaudited)<br>US\$'000 | 31 December<br>2021<br>(Audited)<br>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   |
|                         | <b>118,659</b>                             | 106,019                                      |

## 12. 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<br>2022<br>(Unaudited)<br>US\$'000 | 31 December<br>2021<br>(Audited)<br>US\$'000 |
|-----------------|--|--|
| Within 3 months | 38,131                                     | 36,566                                       |
| 3 to 12 months  | 597  | 795  |
| Over 12 months  | 494  | 378  |
|                 | <b>39,222</b>                              | 37,739                                       |

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

30 June 2022

## 13. SHARE CAPITAL

### Shares

|   | 30 June<br>2022<br>(Unaudited)<br>US\$'000 | 31 December<br>2021<br>(Audited)<br>US\$'000 |
|---|--|--|
| Issued and fully paid:<br>1,162,884,800 (2021: 1,165,049,800) ordinary shares | <b>1,500</b>                               | 1,503  |

The Company repurchased 2,165,000 of shares on the Stock Exchange at a total consideration of HK\$15,963,000 which was paid in cash. The repurchased shares were cancelled during the period and the total amount paid for the repurchase of shares of HK\$15,963,000 has been recorded to share capital and share premium of the Company.

## 14. RELATED PARTY TRANSACTIONS

(a) Compensation of key management personnel of the Group:

|   | For the six months<br>ended 30 June |                                 |
|---|-------------------------------------|---------------------------------|
|   | 2022<br>(Unaudited)<br>US\$'000     | 2021<br>(Unaudited)<br>US\$'000 |
| Short-term employee benefits                        | <b>524</b>                          | 869                             |
| Pension scheme contributions                        | <b>9</b>                            | 112                             |
| Equity-settled share option expense                 | <b>484</b>                          | 90                              |
| Total compensation paid to key management personnel | <b>1,017</b>                        | 1,071                           |

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

30 June 2022

## 15. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, short time deposits, trade receivables, trade payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, the current portion of interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair value of lease liabilities has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk of lease liabilities as at 30 June 2022 were assessed to be insignificant.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with A credit ratings. Derivative financial instruments, including forward currency contracts and options for foreign currency, are measured using valuation techniques similar to forward pricing, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts and options for foreign currency are the same as their fair values.

As at 30 June 2022, the mark-to-market value of the derivative asset position was net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

### Fair value hierarchy

The Group have derivative financial instruments measured at fair value using quoted prices in active market (Level 1) as at the end of reporting period.

## 16. 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.

## DEFINITIONS

|                     |   |
|---------------------|---|
| “Annuity Trust I”   | Lin Yang Annuity Trust I, an irrevocable grantor retained annuity trust with a term of two years established by Ms. Yang, of which North Point Trust Company L.L.C. is the trustee for the benefit of Family Trust I              |
| “Annuity Trust II”  | Lin Yang Annuity Trust II, an irrevocable grantor retained annuity trust with a term of three years established by Ms. Yang, of which North Point Trust Company L.L.C. is the trustee for the benefit of Family Trust II          |
| “Annuity Trust III” | Lin Yang Annuity Trust III, an irrevocable grantor retained annuity trust with a term of two years established by Ms. Yang, of which North Point Trust Company L.L.C. is the trustee for the benefit of Family Trust I            |
| “Annuity Trust IV”  | Lin Yang Annuity Trust IV, an irrevocable grantor retained annuity trust with a term of three years established by Ms. Yang, of which North Point Trust Company L.L.C. is the trustee for the benefit of Family Trust II          |
| “Annuity Trusts”    | Annuity Trust I, Annuity Trust II, Annuity Trust III and Annuity Trust IV   |
| “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 interim report only and except where the context requires otherwise, references in this interim report 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   |
| “Family Trusts”     | Lin Yang Family Trust I, an irrevocable trust established by Ms. Yang as both the settlor and trustee for the benefit of any children born to or adopted by Ms. Yang and their respective issue                                   |
| “Global Offering”   | the offer of the Shares for subscription as described in the section headed “Structure of the Global Offering” in the Prospectus  |

## DEFINITIONS (CONTINUED)

|                               |  |
|-------------------------------|--|
| “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   |

## DEFINITIONS (CONTINUED)

|        |   |
|--------|---|
| “US\$” | United States dollars, the lawful currency of the United States |
| “%”    | per cent  |
| “IoT”  | internet of things  |