



VESYNC CO., LTD

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

2023

Interim Report





CONTENTS

2	Corporate Information
4	Management Discussion and Analysis
18	Corporate Governance and Other Information
33	Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
35	Interim Condensed Consolidated Statement of Financial Position
37	Interim Condensed Consolidated Statement of Changes in Equity
39	Interim Condensed Consolidated Statement of Cash Flows
41	Notes to Interim Condensed Consolidated Financial Information
54	Definitions



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

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
No. 248 Queen's Road East
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
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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

With our mission to “build a better living”, we are dedicated to continuously improving consumers’ daily lives in small but meaningful ways with innovative and user-friendly products. We primarily design, develop and sell small home appliances under our three core brands, namely, “Levoit” for home environment appliances; “Cosori” for kitchen appliances and dining ware; and “Etekcity” for health monitoring devices, outdoor recreation products and personal care products. To make things more convenient, efficient and enjoyable for our users, our VeSync App enables users to achieve centralized control of smart home devices and also provides them with professional content and services to offer a more efficient and personalized product experience for our users.

Over the past two years, we continued to invest in and upgrade our product development capabilities. We expanded our veteran management and team, adhered to independent technology development and innovative design, continually optimized our product development process. Despite the pressure on our operating profit margin from the investment in product development in the short term, we believe that our perseverance to withstand the pressures would enable us to benefit from such investments in the long term. In 2023 our business operations witnessed positive changes brought by such perseverance.

During the first half of 2023, we witnessed continuous growth in sales revenue and further improvement in profitability, marking the beginning of a new round of growth. The Group recorded revenue of approximately US\$276.9 million, with a gross profit of approximately US\$125.1 million and a profit attributable to the owners of the parent amounting to approximately US\$32.6 million (2022: US\$15.5 million), representing an increase of approximately 24.0%, 42.9%, and 110.7%, respectively, as compared to that of the same period in 2022. As a result of the Group’s continuous efforts to enhance and accumulate its capabilities in various aspects, including but not limited to channel development, regional expansion, product excellence, operational efficiency, and brand promotion, we have achieved favorable market performance and significantly improved profitability in the first half of 2023.

In terms of channel development, the revenue from Amazon channel and non-Amazon channels in the first half of 2023 increased by approximately 13.9% and 87.7%, respectively, as compared to that of the same period in 2022. Revenue from non-Amazon channels to total revenue in the first half of 2023 increased to approximately 20.7% from approximately 13.7% in the same period in 2022, representing an increase of 7 percentage points. In the North American market, we have continued to increase the category of products available in mainstream retailers. According to the information available to the Company, a total of 37 products have been on the stores’ shelf of major retailers as of June 30, 2023, which led to an increase in revenue from store sales. Compared with the same period in 2022, the Company’s growth in revenue derived from Walmart and Target, the major retailers, increased by more than 500% and 60%, respectively. In the European market, our products have been available in over 2,500 stores of mainstream retailers in more than 10 countries, including Northern Europe, Spain, Hungary and Germany. In the Asia-Pacific market, our products have been sold in over 1,000 stores of mainstream retailers in Singapore, Malaysia and Thailand, Japan, and the Middle East, etc..

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In terms of regional expansion, the sales from the European market reached approximately US\$65.3 million, representing an increase of approximately 52.2% as compared to that of the same period in 2022. Our Cosori kitchen appliances continued to gain momentum in the European market. According to the Company's internal statistics, in the first half of 2023, Cosori air fryers achieved a high ranking in Amazon's major European site channels and rapidly expanded store numbers in non-Amazon channels. The Asian market is also experiencing rapid growth, with sales of approximately US\$12.6 million, an increase of approximately 49.5% compared to that of the same period in 2022.

In terms of product share, according to the statistics of NPD Group, Inc. ("NPD")^{Note 1}, the sales volume and sales share of Levoit air purifiers in the U.S. market continued to expand and accounted for approximately 39% and 27% of the market share, respectively, increasing by 7 percentage points and 5 percentage points, respectively as compared to that of the same period in 2022, and continuing to rank No. 1 in the U.S. market. After several years of intensive cultivation, Levoit air humidifiers continued the success of air purifier products and grew from the No. 1 in market share of sales on the American Amazon channel to the No. 1 in market share of sales in the U.S. market (according to the statistics of NPD), accounting for about 24% market share. Cosori air fryers achieved the No. 1 ranking in sales share in the Spanish market, accounting for 32.8% of the Spanish market (according to the statistics of GfK^{Note 2}). In addition, according to the Company's internal statistics, the Company's Etekcity body scales, kitchen scales, luggage scales, and Cosori food dehydrators all won the first place in market share on the American Amazon channel, which fully demonstrates that the Company can keep rapid growth and iteration in terms of user insights and innovation, cross-channel research and development, global value chain control, streamlined and agile operation, and brand expansion, so as to stand out in the competition with other well-known brands.

We continued to invest in product development and quality control, and our product development capability has been strengthened through practice. In the first half of 2023, we launched more new products to meet the diverse and personalized needs of consumers, such as Levoit Vital 100S smart air purifier with high sensitivity and improved purification efficiency, the tower air humidifier that can humidify the air for 100 hours, the tower fan with a high standard of quietness and fast airflow, the electric pressure cooker with directional venting for greater safety, the multi-functional rice cooker with smart and precise temperature control, the 12L small-capacity air fryer oven and the one-person air fryer. These new products supplemented our existing products and further improved our brand's market share.

For smart home solution providers, we have gradually evolved from single-product intelligence to multi-scene intelligence to constantly enrich and enhance consumers' experience so as to increase the chances of selling more products. We strengthen the software and products interconnection technologies to create an integrated product experience and provide consumers with professional content and services to make our products more efficient, convenient and personalized, which in turn will contribute to the synergy effects between our hardware product sales, App users and registrations. As of June 30, 2023, the number of activated devices registered with the VeSync App keeps growing rapidly to approximately 5.4 million, with an increase of approximately 1.0 million in the first half of 2023.

Note 1: Such data are obtained from NPD's statistics on the air purifiers and air humidifiers in the United States for the first half of 2023. NPD collects point-of-sale data from selected retailers for its U.S. Small Appliance POS Tracking Service. This data is the actual sales from retailers/data partners on a product basis.

Note 2: Such data are obtained from GfK's statistics on sales data for air fryers in Spain for the first half of 2023.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As a company with international brands, we operate our brands in multiple dimensions to increase the recognition of our brands among consumers. Online platforms continue to consolidate our brand influence. In addition to increasing the conversion rate of our products by optimizing our promotional strategies on e-commerce platforms, we have also strengthened investments in social media operations with a focus on the operation of our official accounts on Facebook, Youtube, TikTok and other platforms by frequently posting videos of our products and other content, interacting with our fans and cooperating with key opinion leaders to increase our brand exposure. We also organized physical product experience events, participated in international exhibitions and held offline products exhibition to communicate with consumers deeply, thereby increasing their understanding of our brand. In addition, we actively engage into environmental protection to show the positive power. We advocate low carbon and environmental protection through our products, and carry out public welfare activities to help the disadvantaged groups.

FINANCIAL REVIEW

For the first half of 2023, the Group's revenue amounted to approximately US\$276.9 million. Gross profit was approximately US\$125.1 million, representing a significant increase of approximately 42.9% as compared to that for the six months ended June 30, 2022. The profit attributable to owners of the parent was approximately US\$32.6 million, representing an increase of approximately 110.7% as compared to approximately US\$15.5 million for the six months ended June 30, 2022. The basic earnings per share was approximately US2.89 cents (2022: US1.37 cents).

For the first half of 2023, the Group's overall revenue amounted to approximately US\$276.9 million, representing an increase of approximately 24.0% as compared to approximately US\$223.3 million recorded for the six months ended June 30, 2022. Our success in channel expansion and regional development for products significantly drove the sales of various home products in terms of quantities sold, including air purifiers, air purifier filters, tower fans, toaster ovens, etc. Our products, such as Levoit air humidifier and air purifier, achieved top 1 in terms of sales amount in the United States according to the statistics of NPD. Cosori air fryers achieved a high ranking in Amazon's major European site channels and expanded stores rapidly in non-Amazon channels.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Business Review by Sales Channel

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

	For the six months ended 30 June	
	2023 US\$'000 (unaudited)	2022 US\$'000 (unaudited)
Amazon channel	219,586	192,741
Non-Amazon channels	57,346	30,556
Total	276,932	223,297

A majority of the Group's revenue from the Amazon channel was generated from the Vendor Central program in the first half of 2023. Under the Vendor Central program, Amazon makes bulk purchase orders from us and then sells to its customers through the Amazon e-commerce marketplace. Non-Amazon channels primarily include chain retailers, other e-commerce marketplaces and our own online shopping websites.

The revenue of the Group generated from Amazon channel increased by approximately 13.9% in the first half of 2023 as compared to that of the first half of 2022 primarily due to the increase in sales volume of air purifiers, air purifier filters, tower fans, toaster ovens, etc.

The revenue of the Group in the non-Amazon channels in the first half of 2023 increased significantly by approximately 87.7% as compared to that of the first half of 2022. The revenue growth of the Group in the chain retailers was primarily due to the significant increase in in-store sales. 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. Compared to the same period in 2022, the Company's growth in revenue derived from Walmart and Target, the major retailers, increased by more than 500% and 60%, respectively. In the European market, our products have been available in over 2,500 stores of mainstream retailers in almost 10 countries, including Northern Europe, Spain, Hungary and Germany. In the Asia-Pacific market, our products have been sold in over 1,000 stores of mainstream retailers in Singapore, Malaysia, Thailand, Japan, and the Middle East, etc..

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Business Review by Geographic Location

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

	For the six months ended 30 June	
	2023 US\$'000 (unaudited)	2022 US\$'000 (unaudited)
North America	199,017	171,946
Europe	65,293	42,911
Asia	12,622	8,440
Total	276,932	223,297

The revenue generated from the European market increased by approximately 52.2% in the first half of 2023 as compared to that of the first half of 2022, primarily driven by the growth in revenue from Spain, Germany and the United Kingdom. The revenue growth from these European countries was mainly attributable to the increase in sales volume of kitchen appliances and dining ware and from the non-Amazon channels.

The revenue generated from the Asian market increased by approximately 49.5% in the first half of 2023 as compared to that of the first half of 2022, primarily driven by the growth in revenue from Japan.

Business Review by Brand

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

	For the six months ended 30 June	
	2023 US\$'000 (unaudited)	2022 US\$'000 (unaudited)
Levoit	145,599	121,487
Cosori	94,981	75,539
Etekcitiy	36,071	26,011
Others	281	260
Total	276,932	223,297

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The revenue generated from the Levoit brand increased by approximately US\$24.1 million in the first half of 2023 as compared to that of the corresponding period in 2022, primarily driven by the increase in revenue from air purifiers, air purifier filters and tower fans. Revenue generated from the Cosori brand increased by approximately US\$19.4 million or 25.7% as compared to the same period in 2022, mainly driven by air fryer sales in the European market. In addition, Cosori toaster ovens performed well, with their sales increased significantly by approximately 236%. Revenue generated from Eteckcity products increased by approximately 38.7%, mainly due to the body scale increased by approximately 39% or US\$4.7 million. Our product categories other than air purifiers, air humidifiers and air fryers accounted for an increased proportion of our total revenue, promoting further growth of the company's performance.

GROSS PROFIT AND GROSS PROFIT MARGIN

For the six months ended June 30, 2023, the gross profit of the Group was approximately US\$125.1 million (2022: approximately US\$87.6 million), representing an increase of approximately 42.9% as compared to that of the corresponding period in 2022. The gross profit margin of the Group was approximately 45.2% (2022: 39.2%), representing an increase of 6 percentage points. The increase in gross profit and gross profit margin was primarily attributable to an increase in revenue generated from our products, and the significant decrease in cost of sales resulted from the decrease in international freight rate and other cost savings as compared to that of the first half of 2022.

OTHER INCOME AND GAINS

Other income and gains of the Group primarily consist of (i) foreign exchange gains, net; (ii) government grants; and (iii) bank interest income.

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

	For the six months ended 30 June	
	2023	2022
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Bank interest income	1,520	431
Loan forgiveness	—	928
Government grants	2,433	972
Fair value gains, net	1,196	212
Foreign exchange gains, net	3,333	—
Others	99	963
Total	8,581	3,506

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

For the six months ended June 30, 2023, other income and gains of the Group recorded approximately US\$8.6 million (2022: approximately US\$3.5 million), representing an increase of approximately 144.8% as compared to that of the corresponding period in 2022. Such increase was driven by (i) the increase in bank interest income; (ii) the increase in government grants; and (iii) the increase in foreign exchange gains resulting from exchange rate fluctuations.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses of the Group primarily consist of (i) marketing and 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 30 June	
	2023 US\$'000 (unaudited)	2022 US\$'000 (unaudited)
Marketing and advertising expenses	20,924	14,397
Commission to platform	937	1,458
Staff cost	10,473	10,233
Warehousing expenses	12,456	9,766
Others	2,988	1,849
Total	47,778	37,703

The Group's selling and distribution expenses increased by approximately 26.7% from approximately US\$37.7 million for the six months ended June 30, 2022 to approximately US\$47.8 million for six months ended June 30, 2023. 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 new products; and (ii) the increase in warehousing expenses due to the increase in sales volume.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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	
	30 June	
	2023	2022
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Research and development	15,917	12,328
Administrative staff costs	11,860	12,011
Professional fees	10,291	1,901
Office expenses	1,027	1,733
Depreciation & amortization	1,844	2,014
Travelling and entertainment expenses	293	257
Others	1,800	784
Total	43,032	31,028

The Group's administrative expenses increased by approximately 38.7% from approximately US\$31.0 million for the six months ended June 30, 2022 to approximately US\$43.0 million for the six months ended June 30, 2023, primarily due to (i) the increase in research and development expenses to prepare for product upgrades and new products; and (ii) the increase in professional fees.

OTHER EXPENSES

The Group's other expenses increased to approximately US\$8.2 million for the six months ended June 30, 2023 (2022: approximately US\$4.9 million). Such increase was mainly due to investment 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 30 June	
	2023 US\$'000 (unaudited)	2022 US\$'000 (unaudited)
Interest on bank loans	673	548
Interest on lease liabilities	252	332
Total	925	880

The Group's finance costs were approximately US\$0.9 million in the six months ended June 30, 2023 which remained relatively stable as compared to that of the same period in 2022.

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% (2022: 16.5%) on the estimated assessable profits arising in Hong Kong during the period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 of assessable profits of this subsidiary are taxed at 8.25% (2022: 8.25%) and the remaining assessable profits are taxed at 16.5% (2022: 16.5%).

MANAGEMENT DISCUSSION AND ANALYSIS (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% (2022: 15%) during the period.

Chongqing Xiaodao is located in Western Region and was entitled to a preferential income tax rate of 15% (2022: 15%) during the period, according to the Income Tax Policy for Enterprises in the Large-scale Development of the Western Region.

United States

Pursuant to the relevant tax laws of the United States, tax at a maximum of 21% (2022: 21%) federal corporate income tax rate and 8.84% (2022: 8.84%) California state tax rate have been provided on the taxable income arising in the United States.

Netherlands and Germany

The subsidiary in the Netherlands is entitled to a preferential income tax rate of 19% (2022: 15%) for the taxable income less than or equal to EUR200,000 (2022: EUR390,000) and an income tax rate of 25.8% (2022: 25.8%) for the taxable income over EUR200,000 (2022: EUR390,000). The subsidiary in Germany is entitled to a combined tax rate of 29.13% (2022: 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, profits tax is provided at the rate of 12% (2022: 12%) on the estimated assessable profits arising in Macau.

Income tax expenses of the Group was approximately US\$1.0 million for the six months ended June 30, 2023 which remained relatively stable as compared to that of the same period in 2022.

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

As a result of the decrease in global freight rates, the Group had a profit attributable to owners of parent of approximately US\$32.6 million for the six months ended June 30, 2023, representing an increase of approximately US\$17.1 million or 110.7% as compared to a profit attributable to owners of parent of approximately US\$15.5 million for the six months ended June 30, 2022.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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\$93.6 million as of December 31, 2022 and approximately US\$116.8 million as of June 30, 2023. The cash and cash equivalents of the Group are mainly denominated in RMB, US\$ and EUR.

As of June 30, 2023, the Group had total bank borrowings of approximately US\$11.7 million (December 31, 2022: approximately US\$9.2 million), which were all denominated in US\$ and RMB, among which, approximately US\$6.5 million of the bank borrowings were at fixed interest rates, and approximately US\$5.2 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, 2023:

	As of June 30, 2023 US\$'000 (unaudited)	As of December 31, 2022 US\$'000 (audited)
Interest-bearing bank borrowings		
— current portion	11,225	8,495
— non-current portion	483	741
Total	11,708	9,236

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The following table sets forth the aging analysis of the repayment terms of the Group's interest-bearing bank borrowings as of June 30, 2023:

	As of June 30, 2023 US\$'000 (unaudited)	As of December 31, 2022 US\$'000 (audited)
Bank loans repayable:		
Within one year or on demand	11,225	8,495
Over one year	483	741
Total	11,708	9,236

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 gains of approximately US\$3.3 million for the six months ended June 30, 2023 (2022: currency exchange loss of approximately US\$4.2 million).

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

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

As of June 30, 2023, 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, 2023.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

EMPLOYEES AND REMUNERATION POLICY

As of June 30, 2023, the Group had 1,294 employees in total, in which 1,173 employees were in the PRC, 115 employees were in the United States and 6 employees were in other locations. For the six months ended June 30, 2023, the Group recognized staff costs of US\$37.0 million (2022: approximately US\$33.5 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 collegiate working environment for the staff.

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

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

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

In addition, to provide incentive or reward to the employees for their contribution to, and continuing efforts to promote the interests of the Group, the Company has adopted the 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, 2023, the Group had no material contingent liabilities (December 31, 2022: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

CHARGES ON ASSETS

As of June 30, 2023, the Group's charges on assets of approximately US\$29.3 million were mainly pledged deposits for issuing banker's acceptances to suppliers (December 31, 2022: US\$12.0 million).

GEARING RATIO

As of June 30, 2023, 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 approximately 6.7% (December 31, 2022: 7.4%).

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 2023, 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. In the first half of 2023, we have launched new models of air purifiers, humidifiers and air fryers, as well as new product categories, including tower fans, electric toothbrushes, electric rice cookers and pressure cookers. In the second half of 2023, the Company will not only introduce the next generation of air fryers, ovens, vacuum cleaners, and humidifiers, but also new product categories, including smart food thermometers, smart pet feeders and pet water fountains.

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 (as defined in the Prospectus)) after deducting the underwriting fees and commissions and related expenses was approximately HK\$1,662.9 million (the "Net Proceeds"). The Group will continue to utilize the Net Proceeds 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, 2023 is set out below:

Purpose	Approximate Percentage of total amount	Allocation of Net Proceeds HK\$ million	Unutilized	Utilized	Unutilized	Expected timeline for the use of unutilized Net Proceeds ^(Note)
			Net Proceeds as of December 31, 2022 HK\$ million	Net Proceeds during the Reporting Period HK\$ million	Net Proceeds as of the end of the Reporting Period 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	150.4	41.2	109.2	By December 2023
Upgrade and iterate existing products	5%	83.2	27.4	27.4	—	—
Research and development of new products and upgrade and iteration of existing products	5%	83.2	66.3	0.2	66.1	By December 2023
Enhance testing capability	5%	83.2	53.8	5.8	48.0	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	39.3	39.3	—	—
Expand and solidify market presence in regions	8%	133.0	96.0	7.5	88.5	By December 2023
Devote more resources in brand promotion	9%	149.7	35.4	35.4	—	—

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

Purpose	Approximate Percentage of total amount	Allocation of Net Proceeds HK\$ million	Unutilized	Utilized	Unutilized	Expected timeline for the use of unutilized Net Proceeds ^(Note)
			Net Proceeds as of December 31, 2022 HK\$ million	Net Proceeds during the Reporting Period HK\$ million	Net Proceeds as of the end of the Reporting Period 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	50.5	33.6	16.9	By December 2023
Acquire or partner with companies in the data technology industry	15%	249.4	147.4	—	147.4	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	60.2	7.3	52.9	By December 2023
Expand North America market of smart solutions for business customer	5%	83.1	49.5	9.1	40.4	By December 2023
5. Working capital	10%	166.3	—	—	—	—
Total		1,662.9	776.3	206.8	569.5	

Note: During the Reporting Period, the Net Proceeds had been used according to the purposes as stated in the Prospectus, and there were 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 occurred after the end of the Reporting Period.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

CHANGE IN INFORMATION OF DIRECTORS

Below is the change of Director's information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

Mr. Gu Jiong has resigned as an independent non-executive director of Amlogic (Shanghai) Co., Ltd (晶晨半導體(上海)股份有限公司) (stock code: 688099), the shares of which are listed on the Shanghai Stock Exchange, with effect from July 4, 2023.

Save as disclosed above, there was no other information of Directors which shall be disclosed under Paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules as of the date of this report.

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.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct governing Directors' securities transactions.

The Company's relevant employees, who because of his/her office or employment, are likely to be in possession of inside information of the Company, are also subject to the Model Code. Having made specific enquiries with all the Directors and the relevant employees, they have confirmed that they have complied with the Model Code during the Reporting Period.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the Reporting Period, none of the Directors had any interest in any businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group under Rule 8.10 of the Listing Rules.

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

As of June 30, 2023, 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:

Interest in Shares and underlying Shares

Name of Director or chief executive	Capacity/ Nature of interest	Long position/ short position	Number of Shares	Number of underlying Shares	Total	Approximate percentage of interest in the Company
Ms. Yang Lin ⁽²⁾⁽⁵⁾	Founder of a discretionary trust who can influence how the trustee exercises his discretion	L ⁽¹⁰⁾	406,040,800	—		
	Interests held jointly with another person	L ⁽¹⁰⁾	373,786,400	1,350,000		
	Beneficial owner	L ⁽¹⁰⁾	5,387,000	1,150,000		
					787,714,200	67.74%

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

Name of Director or chief executive	Capacity/ Nature of interest	Long position/ short position	Number of		Total	Approximate percentage of interest in the Company
			Number of Shares	underlying Shares		
Mr. Yang Hai ⁽³⁾⁽⁵⁾	Interest of corporation controlled	L ⁽¹⁰⁾	8,067,200	—		
	Interests held jointly with another person	L ⁽¹⁰⁾	777,147,000	1,350,000		
	Beneficial owner	L ⁽¹⁰⁾	—	1,150,000		
					787,714,200	67.74%
Mr. Yang Yuzheng ⁽⁴⁾⁽⁵⁾	Founder of a discretionary trust who can influence how the trustee exercises his discretion	L ⁽¹⁰⁾	365,719,200			
	Interests held jointly with another person	L ⁽¹⁰⁾	419,495,000	2,300,000		
	Beneficial owner	L ⁽¹⁰⁾	—	200,000		
					787,714,200	67.74%
Mr. Chen Zhaojun ⁽⁶⁾	Beneficial owner	L ⁽¹⁰⁾	2,000,000	2,000,000	4,000,000	0.34%
Mr. Fong Wo, Felix ⁽⁷⁾	Beneficial owner	L ⁽¹⁰⁾	—	200,000	200,000	0.017%
Mr. Gu Jiong ⁽⁸⁾	Beneficial owner	L ⁽¹⁰⁾	—	200,000	200,000	0.017%
Mr. Tan Wen ⁽⁹⁾	Beneficial owner	L ⁽¹⁰⁾	—	200,000	200,000	0.017%

Notes:

- The calculation is based on the total number of 1,162,884,800 Shares in issue as of June 30, 2023.
- Each of Karis I LLC and Karis II LLC is wholly owned by North Point Trust Company LLC, 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 LLC, 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

3. 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.
4. Caerus Co., Ltd holds 365,719,200 Shares. Caerus Co., Ltd is wholly owned by Acevation Trust. Mr. Yang Yuzheng is the trustor of Acevation Trust, and retains the right to revoke and amend the trust agreement during his lifetime.

Mr. Yang Yuzheng is interested in 200,000 share options granted to him under the Share Option Scheme to subscribe for 200,000 Shares.
5. 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.
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, 2023, 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

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

As of June 30, 2023, 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/ Nature of interest	Long position/ short position	Number of Shares	Number of underlying Shares	Total	Approximate percentage of interest in the Company
North Point Trust Company LLC ⁽²⁾	Trustee	L ⁽⁷⁾	406,040,800	—	406,040,800	34.92%
Karis I LLC ⁽²⁾	Beneficial owner	L ⁽⁷⁾	243,624,800	—	243,624,800	20.95%
Karis II LLC ⁽²⁾	Beneficial owner	L ⁽⁷⁾	162,416,000	—	162,416,000	13.97%
Caerus Co., Ltd ⁽³⁾	Beneficial owner	L ⁽⁷⁾	365,719,200	—	365,719,200	31.45%
Mr. Xu Bo ⁽⁴⁾	Interest of spouse	L ⁽⁷⁾	785,214,200	2,500,000	787,714,200	67.74%
Ms. Li Jisu ⁽⁵⁾	Interest of spouse	L ⁽⁷⁾	785,214,200	2,500,000	787,714,200	67.74%
Ms. Chen Shuyong ⁽⁶⁾	Interest of spouse	L ⁽⁷⁾	785,214,200	2,500,000	787,714,200	67.74%
Siempre PTC LLC ⁽³⁾	Trustee	L ⁽⁷⁾	365,719,200	—	365,719,200	31.45%
HHLR Advisors, Ltd.	Investment manager	L ⁽⁷⁾	98,286,000	—	98,286,000	8.75%
HHLR Fund, L.P.	Beneficial owner	L ⁽⁷⁾	94,860,000	—	94,860,000	8.16%

Notes:

- The calculation is based on the total number of 1,162,884,800 Shares in issue as of June 30, 2023.
- Each of Karis I LLC and Karis II LLC is wholly owned by North Point Trust Company LLC, 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 LLC, 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.
- Caerus Co., Ltd is wholly owned by Siempre PTC LLC, which is the trustee of Acevation Trust. Mr. Yang Yuzheng is the trustor of Acevation Trust, and retains the right to revoke and amend the trust agreement during his lifetime.
- 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

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, 2023, 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.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed “Share Schemes” below, neither the Company nor any of its subsidiaries was a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debenture of, the Company or any other body corporate during the Reporting Period.

EQUITY-LINKED AGREEMENT

Save as disclosed in the section headed “Share Schemes” below, the Company did not enter into any equity-linked agreement during the Reporting Period.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association and subject to the applicable laws and regulations, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director in defending any proceedings, whether civil or criminal, in which judgment is given in his/her favour, or in which he/she is acquitted.

The Company has maintained appropriate liability insurance for its Directors and senior management.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

SHARE SCHEMES

Share Option Scheme

The Share Option Scheme was adopted by the Company on December 1, 2020. The purpose of the Share Option Scheme is to provide incentive or reward to eligible persons for their contribution to, and continuing efforts to promote the interests of, our Group and for such other purposes as the Board may approve from time to time. 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 (HK\$/Share)	Closing price immediately prior to the grant (HK\$/Share)	Outstanding options as of January 1, 2023	Granted	Exercised	Canceled	Lapsed	Outstanding options as of June 30, 2023	Exercise period ^(Note)
<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 be vested 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 be vested on the 1st anniversary of the grant, another 10% of the share options granted shall be vested on the 2nd anniversary of the grant, 20% of the share options granted shall be vested on the 3rd anniversary of the grant, 30% of the share options granted shall be vested on the 4th anniversary of the grant, and the remaining 30% shall be vested on the 5th anniversary of the grant.

The number of options available for grant under the Share Option Scheme mandate at the beginning and the end of the Reporting Period were 107,210,480 and 107,210,480, respectively.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

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) 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 is funded by both new Shares and existing Shares. A summary of the principal terms of the Post-IPO Share Award Scheme is set out in the annual report of the Company for the year ended December 31, 2021.

Details of movements of the share awards granted under the Post-IPO Share Awards Scheme during the year ended December 31, 2022 are as follows:

Grantees ^(note 1)	Date of grant	Purchase price (HK\$/Share)	Closing price immediately prior to the grant (HK\$/Share)	Fair value as of date of grant of the awards granted during the Reporting Period (HK\$/Share)	Weighted average closing price immediately before the vest date of awards during the Reporting Period (HK\$/Share)	Unvested awards as of January 1, 2022	Granted	Vested	Canceled	Lapsed	Unvested awards as of December 31, 2022	Vesting period
<i>The five highest paid employees^(note 2)</i>												
	January 1, 2022	—	9.47	9.29	2.28	—	1,092,000	218,400	—	—	873,600	October 31, 2022 to January 31, 2024 ^(note 3)
	July 6, 2022	—	4.96	4.99	—	—	1,003,000	—	—	—	1,003,000	July 5, 2023 to 5 July 5, 2025 ^(note 4)
	November 1, 2022	—	2.09	2.18	—	—	1,200,000	—	—	—	1,200,000	July 5, 2023 to July 5, 2027 ^(note 5)
<i>Employees</i>												
	July 21, 2021	—	11.10	11.32	—	255,000	—	—	—	—	255,000	July 21, 2021 to July 20, 2026 ^(note 6)
	January 1, 2022	—	9.47	9.29	2.38	—	1,401,000	342,400	—	—	1,058,600	October 31, 2022 to October 17, 2026 ^(note 7)
	January 19, 2022	—	8.45	8.42	—	—	234,000	—	—	—	234,000	January 18, 2023 to January 18, 2025 ^(note 8)
	April 9, 2022	—	5.01	4.83	—	—	113,000	—	—	—	113,000	April 8, 2023 to April 8, 2025 ^(note 9)
	December 27, 2022	—	4.90	4.90	—	—	224,000	—	—	—	224,000	December 27, 2023 to December 27, 2025 ^(note 10)
Total						255,000	5,267,000	560,800	—	—	4,961,200	

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

Notes:

1. No share awards granted to the Directors were unvested as at January 1, 2022 and December 31, 2022.
2. Reference is made to the details of the five highest paid employees which was set out in note 9 ("Note 9") to the financial statements of the Company's annual report for the year ended December 31, 2022.

The five highest paid employees during the year of 2022 included two Directors who is also the chief executive of the Company (2021: three Directors). Except for details of the remuneration for the year of the remaining three (2021: two) highest paid employees who are neither a Director nor chief executive of the Company as set out in Note 9, an equity-settled share award expense amounted to US\$1,761,000 (2021: US\$950,000) was recorded during the year of 2022, and the total remuneration after taking into account of equity-settled share award expense was US\$2,701,000 (2021: US\$1,495,000).

The number of non-director and non-chief executive highest paid employees whose remuneration (including equity-settled share award expense) fell within the following bands is as follows:

	Number of employees	
	2022	2021
HK\$2,000,001 to HK\$3,000,000	—	1
HK\$3,500,001 to HK\$4,000,000	1	—
HK\$6,000,001 to HK\$6,500,000	1	—
HK\$8,000,001 to HK\$8,500,000	—	1
HK\$9,000,001 to HK\$9,500,000	1	—

3. The 1,092,000 share awards shall be vested in accordance with the below vesting schedule:

- (i) 218,400 share awards have been vested in 2022;
- (ii) 327,600 share awards shall be vested in 2023; and
- (iii) 546,000 share awards shall be vested in 2024.

4. The 1,003,000 share awards shall be vested in accordance with the below vesting schedule:

- (i) 200,600 share awards shall be vested in 2023;
- (ii) 300,900 share awards shall be vested in 2024; and
- (iii) 501,500 share awards shall be vested in 2025.

5. The 1,200,000 share awards shall be vested in accordance with the below vesting schedule:

- (i) 120,000 share awards shall be vested in 2023;
- (ii) 120,000 share awards shall be vested in 2024;
- (iii) 240,000 share awards shall be vested in 2025;
- (iv) 360,000 share awards shall be vested in 2026; and
- (v) 360,000 share awards shall be vested in 2027.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

6. The 255,000 share awards shall be vested in accordance with the below vesting schedule:
 - (i) 11,000 share awards shall be vested after March 31, 2022 and subject to certain vesting conditions;
 - (ii) 16,500 share awards shall be vested in 2023;
 - (iii) 27,500 share awards shall be vested in 2024; and
 - (iv) 200,000 share awards shall be vested based on certain performance targets relating to the Group's sales results.

7. The 1,401,000 share awards shall be vested in accordance with the below vesting schedule:
 - (i) 342,400 share awards have been vested in 2022;
 - (ii) 382,600 share awards shall be vested in 2023;
 - (iii) 428,000 share awards shall be vested in 2024;
 - (iv) 134,000 share awards shall be vested in 2025; and
 - (v) 114,000 share awards shall be vested in 2026.

8. The 234,000 share awards shall be vested in accordance with the below vesting schedule:
 - (i) 46,800 share awards shall be vested in 2023;
 - (ii) 70,200 share awards shall be vested in 2024; and
 - (iii) 117,000 share awards shall be vested in 2025.

9. The 113,000 share awards shall be vested in accordance with the below vesting schedule:
 - (i) 22,600 share awards shall be vested in 2023;
 - (ii) 33,900 share awards shall be vested in 2024; and
 - (iii) 56,500 share awards shall be vested in 2025.

10. The 224,000 share awards shall be vested in accordance with the below vesting schedule:
 - (i) 44,800 share awards shall be vested in 2023;
 - (ii) 67,200 share awards shall be vested in 2024; and
 - (iii) 112,000 share awards shall be vested in 2025.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

Details of movements of the share awards granted under the Post-IPO Share Awards Scheme during the Reporting Period are as follows:

Grantees	Date of grant	Purchase price (HK\$/Share)	Closing price to the grant (HK\$/Share)	Fair value as of date of grant of the awards granted during the Reporting Period (HK\$/Share)	Weighted average closing price immediately before the vest date of awards during the Reporting Period (HK\$/Share)	Unvested awards as of January 1, 2023	Granted	Vested	Canceled	Lapsed	Unvested awards as of June 30, 2023	Vesting period ^(Note)
<i>Employees</i>												
	July 21, 2021	—	11.10	11.32	3.64	255,000	—	27,500	—	200,000	27,500	July 21, 2021 to July 20, 2026 ^(Note 1)
	January 1, 2022	—	9.47	9.29	4.22	1,932,200	—	620,500	—	—	1,311,700	October 31, 2022 to October 17, 2026 ^(Note 2)
	January 19, 2022	—	8.45	8.42	4.61	234,000	—	46,800	—	—	187,200	January 18, 2023 to January 18, 2025 ^(Note 3)
	April 9, 2022	—	5.01	4.83	3.10	113,000	—	22,600	—	—	90,400	April 8, 2023 to April 8, 2025 ^(Note 4)
	July 6, 2022	—	4.96	4.99	—	1,003,000	—	—	—	—	1,003,000	July 5, 2023 to July 5, 2025 ^(Note 5)
	November 1, 2022	—	2.09	2.18	—	1,200,000	—	—	—	—	1,200,000	July 5, 2023 to July 5, 2027 ^(Note 6)
	December 27, 2022	—	4.90	4.90	—	224,000	—	—	—	—	224,000	December 27, 2023 to December 27, 2025 ^(Note 7)
Total				—		4,961,200	—	717,400	—	200,000	4,043,800	

Notes:

1. The 255,000 share awards shall be vested in accordance with the below vesting schedule:
 - (i) 27,500 share awards have been vested in 2023;
 - (ii) 27,500 share awards shall be vested in 2024; and
 - (iii) 200,000 share awards shall be vested based on certain performance targets relating to the Group's sales results and have lapsed in 2023.
2. The 1,932,200 share awards shall be vested in accordance with the below vesting schedule:
 - (i) 620,500 share awards have been vested in 2023;
 - (ii) 89,700 share awards shall be vested in 2023;
 - (iii) 974,000 share awards shall be vested in 2024;

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

- (iv) 134,000 share awards shall be vested in 2025; and
 - (v) 114,000 share awards shall be vested in 2026.
3. The 234,000 share awards shall be vested in accordance with the below vesting schedule:
- (i) 46,800 share awards have been vested in 2023;
 - (ii) 70,200 share awards shall be vested in 2024; and
 - (iii) 117,000 share awards shall be vested in 2025.
4. The 113,000 share awards shall be vested in accordance with the below vesting schedule:
- (i) 22,600 share awards have been vested in 2023;
 - (ii) 33,900 share awards shall be vested in 2024; and
 - (iii) 56,500 share awards shall be vested in 2025.
5. The 1,003,000 share awards shall be vested in accordance with the below vesting schedule:
- (i) 200,600 share awards shall be vested in 2023;
 - (ii) 300,900 share awards shall be vested in 2024; and
 - (iii) 501,500 share awards shall be vested in 2025.
6. The 1,200,000 share awards shall be vested in accordance with the below vesting schedule:
- (i) 120,000 share awards shall be vested in 2023;
 - (ii) 120,000 share awards shall be vested in 2024;
 - (iii) 240,000 share awards shall be vested in 2025;
 - (iv) 360,000 share awards shall be vested in 2026; and
 - (v) 360,000 share awards shall be vested in 2027.
7. The 224,000 share awards shall be vested in accordance with the below vesting schedule:
- (i) 44,800 share awards shall be vested in 2023;
 - (ii) 67,200 share awards shall be vested in 2024; and
 - (iii) 112,000 share awards shall be vested in 2025.

The fair value of the awards was measured at the date of grant and recognized as expense in the financial statements of the Group over the vesting period. The fair value of the awards granted was HK\$35,017,000 in total.

The number of awards available for grant under the Post-IPO Share Award Scheme mandate at the beginning and the end of the Reporting Period were 110,766,480 shares and 110,966,480 shares, respectively.

CORPORATE GOVERNANCE AND OTHER INFORMATION (CONTINUED)

The number of Shares that may be issued in respect of options and awards granted under all schemes of the Company (i.e. Share Option Scheme and Post-IPO Share Award Scheme) during the Reporting Period divided by the weighted average number of Shares in issue (i.e. 1,130,042,000 Shares) is nil.

SUFFICIENCY OF PUBLIC FLOAT

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

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

INTERIM DIVIDENDS

The Board resolved to declare the payment of an interim ordinary dividend of HK5.39 cents (equivalent to approximately US0.69 cents) per Share (the "Interim Dividends") for the Reporting Period (2022: Nil) to be paid on Friday, October 20, 2023 to the Shareholders whose names appear on the register of members of the Company on Friday, October 6, 2023.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement of the Shareholders to the Interim Dividends, the register of members of the Company will be closed from Thursday, October 5, 2023 to Friday, October 6, 2023, both days inclusive, during which period no transfer of Shares shall be registered. In order to qualify for the Interim Dividends, all transfers of Shares accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Boardroom Share Registrars (HK) Limited at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong for registration not later than 4:30 p.m. on Wednesday, October 4, 2023.

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, 2023, 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 2023

	Notes	2023 (Unaudited) US\$'000	2022 (Unaudited) US\$'000
REVENUE	4	276,932	223,297
Cost of sales		(151,814)	(135,743)
Gross profit		125,118	87,554
Other income and gains	4	8,581	3,506
Selling and distribution expenses		(47,778)	(37,703)
Administrative expenses		(43,032)	(31,028)
Impairment losses on financial assets, net		(162)	(36)
Other expenses		(8,249)	(4,855)
Finance cost		(925)	(880)
Share of profits and losses of a joint venture		83	—
Share of profits and losses of an associate		(16)	(92)
PROFIT BEFORE TAX	5	33,620	16,466
Income tax expense	6	(1,034)	(986)
PROFIT FOR THE PERIOD		32,586	15,480

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

For the six months ended 30 June 2023

	Notes	2023 (Unaudited) US\$'000	2022 (Unaudited) US\$'000
PROFIT FOR THE PERIOD		32,586	15,480
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Share of other comprehensive loss of a joint venture		(404)	—
Exchange differences on translation of foreign operations		(2,533)	(2,657)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		(2,937)	(2,657)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		29,649	12,823
Profit attributable to:			
Owners of the parent		32,619	15,480
Non-controlling interests		(33)	—
		32,586	15,480
Total comprehensive income attributable to:			
Owners of the parent		29,682	12,823
Non-controlling interests		(33)	—
		29,649	12,823
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		US2.89 cents	US1.37 cents
Diluted		US2.88 cents	US1.37 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2023

	Notes	30 June 2023 (Unaudited) US\$'000	31 December 2022 (Audited) US\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	3,984	4,557
Right-of-use assets		7,970	10,216
Other intangible assets		114	207
Deferred tax assets		29,288	28,094
Investment in a joint venture		10,894	11,215
Investment in an associate		984	1,000
Pledged deposits		3,887	3,991
Cash and cash equivalents		2,768	—
Equity instruments designated at fair value through other comprehensive income		1,497	1,554
Other non-current assets		—	395
Total non-current assets		61,386	61,229
CURRENT ASSETS			
Inventories	10	85,008	114,647
Trade and notes receivables	11	169,471	149,217
Prepayments, other receivables and other assets		20,931	26,225
Tax recoverable		239	10
Right-of-return assets		2,355	3,216
Pledged deposits		26,549	9,149
Cash and cash equivalents		113,990	93,601
Total current assets		418,543	396,065
CURRENT LIABILITIES			
Trade and notes payables	12	82,533	60,751
Other payables and accruals		35,792	39,078
Provision		22,755	49,010
Interest-bearing bank borrowings		11,225	8,495
Lease liabilities		3,321	4,128
Tax payable		6,651	5,561
Derivative financial liabilities		39	1,229
Total current liabilities		162,316	168,252
NET CURRENT ASSETS		256,227	227,813
TOTAL ASSETS LESS CURRENT LIABILITIES		317,613	289,042

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

30 June 2023

	Note	30 June 2023 (Unaudited) US\$'000	31 December 2022 (Audited) US\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		317,613	289,042
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		483	741
Lease liabilities		5,593	7,308
Provision		3,086	3,536
Total non-current liabilities		9,162	11,585
Net assets		308,451	277,457
EQUITY			
Equity attributable to owners of the parent			
Share capital	13	1,500	1,500
Share premium		186,955	186,955
Other reserves		120,070	89,043
		308,525	277,498
Non-controlling interests		(74)	(41)
Total equity		308,451	277,457

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	Attributable to owners of the parent										
	Share capital US\$'000	Share premium US\$'000	Shares held for share award		Share award and option reserve US\$'000	Statutory surplus reserve US\$'000	Exchange fluctuation reserve US\$'000	Retained profits US\$'000	Total equity US\$'000	Non-controlling interest US\$'000	Total Equity US\$'000
			scheme US\$'000	Other reserve US\$'000							
At 1 January 2023 (audited)	1,500	186,955	(43)	(2,102)	5,590	2,844	(1,557)	84,311	277,498	(41)	277,457
Profit for the period	—	—	—	—	—	—	—	32,619	32,619	(33)	32,586
Other comprehensive income for the period:											
Share of equity interest from a joint venture	—	—	—	—	—	—	(404)	—	(404)	—	(404)
Exchange differences on translation of foreign operations	—	—	—	—	—	—	(2,533)	—	(2,533)	—	(2,533)
Total comprehensive income for the period	—	—	—	—	—	—	(2,937)	32,619	29,682	(33)	29,649
Shares repurchased	—	—	—	—	1,345	—	—	—	1,345	—	1,345
Equity-settled share award and option arrangement	—	—	—	—	1,345	—	—	—	1,345	—	1,345
At 30 June 2023 (unaudited)	1,500	186,955	(43)	(2,102)	6,935	2,844	(4,494)	116,930	308,525	(74)	308,451

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2022

	Attributable to owners of the parent									
	Share capital US\$'000	Share premium US\$'000	Treasury shares US\$'000	Other reserve US\$'000	Share award and option reserve US\$'000	Statutory surplus reserve US\$'000	Share held for award scheme US\$'000	Exchange fluctuation reserve US\$'000	Retained profits US\$'000	Total equity 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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	2023 (Unaudited) US\$'000	2022 (Unaudited) US\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	33,620	16,466
Adjustments for:		
Finance costs	925	880
Share of profits and losses of an associate	16	92
Share of profits and losses of a joint venture	(83)	—
Interest income	(1,520)	(431)
Loss on disposal of items of property, plant and equipment	40	35
Gain on early termination of leases, net	(47)	—
Fair value (losses)/gains, net:		
derivative instruments-transactions not qualifying as hedges	(1,196)	255
Depreciation of property, plant and equipment	1,182	991
Depreciation of right-of-use assets	2,085	2,107
Amortisation of intangible assets	121	155
Loan forgiveness	—	(928)
Impairment of trade receivables, net	162	37
Impairment of inventories, net	1,891	(114)
Equity-settled share award and option expense	1,345	1,764
Foreign exchange differences, net	(1,041)	(679)
	37,500	20,630
Decrease in inventories	27,748	3,950
Increase in trade and notes receivables	(20,416)	(12,677)
Decrease/(increase) in prepayments, other receivables and other assets	5,662	(12,280)
Increase in trade and notes payables	21,782	1,483
Increase in right-of-return assets	861	—
Decrease in other non-current assets	—	348
Decrease in provision	(26,705)	(741)
Increase/(decrease) in pledged deposits	(5,718)	70
Decrease in other payables and accruals	(3,278)	(14,919)
Cash from/(used in) operations	37,436	(14,136)
Income tax paid	(1,367)	(14,524)
Net cash flows from/(used in) operating activities	36,069	(28,660)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 30 June 2023

	2023 (Unaudited) US\$'000	2022 (Unaudited) US\$'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,152	430
Purchases of items of property, plant and equipment	(536)	(972)
Purchases of other intangible assets	(32)	(49)
Decrease in time deposits with original maturity of over three months	(2,768)	10,197
Increase in pledged deposits	(11,986)	(2,980)
Purchase of a shareholding in an associate	—	(1,000)
Net cash flows (used in)/from investing activities	(14,170)	5,626
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of shares	—	(2,050)
New bank loans	13,298	39,615
Repayment of bank loans	(10,756)	(33,265)
Interest paid	(870)	(853)
Decrease in pledged deposits	704	2,400
Principal portion of lease payments	(2,119)	(1,911)
Dividend paid to shareholders	(128)	—
Net cash flows from financing activities	129	3,936
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	22,028	(19,098)
Cash and cash equivalents at beginning of period	93,601	96,462
Effect of foreign exchange rate changes, net	(1,639)	(3,189)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	113,990	74,175
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position	116,758	94,176
Time deposits with original maturity of over three months when acquired	(2,768)	(20,001)
Cash and cash equivalents as stated in the interim condensed consolidated statements of cash flows	113,990	74,175

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2023 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 2022.

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 2022, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

HKFRS 17	<i>Insurance Contracts</i>
Amendments to HKFRS 17	<i>Insurance Contracts</i>
Amendment to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 — Comparative Information</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>International Tax Reform — Pillar Two Model Rules</i>

The nature and impact of the new and revised HKFRSs that are applicable to the Group are described below:

- (a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group's interim condensed consolidated financial information but are expected to affect the accounting policy disclosures in the Group's annual consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

30 June 2023

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

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

- (b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. Since the Group has applied the amendment on the treatment of temporary differences arising from lease from beginning, the amendments did not have any impact on the financial position or performance of the Group.
- (d) Amendments to HKAS 12 *International Tax Reform — Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 January 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. The Group has applied the amendments and the mandatory temporary exception retrospectively. The Group is currently assessing its exposure to Pillar Two income taxes.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

30 June 2023

3. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) Revenue from external customers:

	For the six months ended 30 June	
	2023 US\$'000 (Unaudited)	2022 US\$'000 (Unaudited)
North America	199,017	171,946
Europe	65,293	42,911
Asia	12,622	8,440
Total	276,932	223,297

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 2023 US\$'000 (Unaudited)	31 December 2022 US\$'000 (Audited)
North America	4,929	5,597
China	24,978	25,306
Europe	75	92
Others	2,116	2,140
Total	32,098	33,135

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

30 June 2023

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\$214,923,000 for the six months ended 30 June 2023 (2022: US\$190,198,000), 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	
	2023 US\$'000 (Unaudited)	2022 US\$'000 (Unaudited)
Revenue from contracts with customers	276,932	223,297

Revenue from contracts with customers

(a) Disaggregated revenue information

	For the six months ended 30 June	
	2023 US\$'000 (Unaudited)	2022 US\$'000 (Unaudited)
Type of goods or services		
Sale of products	276,932	223,297
Timing of revenue recognition		
Goods transferred at a point in time	276,932	223,297

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

30 June 2023

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 sales to retailers is usually satisfied upon delivery of goods and payment is generally due within 30 to 90 days from delivery. The performance obligation of sales to consumers directly is satisfied upon receipt of products by customers and payments are generally received when customers place orders on the platform. The Group provides customers with a right of return within 30 days, sometimes extending up to 90 days.

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

An analysis of other income and gains is as follows:

	For the six months ended 30 June	
	2023 US\$'000 (Unaudited)	2022 US\$'000 (Unaudited)
Other income		
Bank interest income	1,520	431
Loan forgiveness	—	928
Government grants*	2,433	972
Others	99	963
	4,052	3,294
Gains		
Fair value gains, net:		
Derivative instruments		
— transactions not qualifying as hedges	1,196	212
Foreign exchange gains, net	3,333	—
	8,581	3,506

* The Group's subsidiary in the United States received Employee Retention Credit of US\$2,083,000 upon its keeping employees on their payroll although its business has been financially impacted by COVID-19. 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 INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

30 June 2023

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2023 US\$'000 (Unaudited)	2022 US\$'000 (Unaudited)
Cost of inventories sold	128,242	102,696
Amazon fulfilment fee	445	578
Commission to platform	937	1,458
Impairment of trade receivable, net	162	37
Impairment of inventories, net	1,891	(114)
Foreign exchange difference, net	(3,333)	4,168

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% (2022: 16.5%) on the estimated assessable profits arising in Hong Kong during the period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 of assessable profits of this subsidiary are taxed at 8.25% (2022: 8.25%) and the remaining assessable profits are taxed at 16.5% (2022: 16.5%).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

30 June 2023

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% (2022: 15%) during the period.

Chongqing Xiaodao is located in Western Region and was entitled to a preferential income tax rate of 15% (2022: 15%) during the period, according to the Income Tax Policy for Enterprises in the Large-scale Development of the Western Region.

United States

Pursuant to the relevant tax laws of the United States, tax at a maximum of 21% (2022: 21%) federal corporate income tax rate and 8.84% (2022: 8.84%) California state tax rate have been provided on the taxable income arising in the United States.

Netherlands and Germany

The subsidiary in the Netherlands is entitled to a preferential income tax rate of 19% (2022: 15%) for the taxable income less than or equal to EUR200,000 (2022: EUR390,000) and an income tax rate of 25.8% (2022: 25.8%) for the taxable income over EUR200,000 (2022: EUR390,000). The subsidiary in Germany is entitled to a combined tax rate of 29.13% (2022: 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, profits tax is provided at the rate of 12% (2022: 12%) on the estimated assessable profits arising in Macau.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

30 June 2023

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	
	2023 US\$'000 (Unaudited)	2022 US\$'000 (Unaudited)
Current		
— Mainland China	751	226
— Hong Kong	57	126
— Macau	—	573
— United States	634	3,979
— Netherlands and Germany	786	167
Deferred	(1,194)	(4,085)
Total tax charge for the period	1,034	986

7. DIVIDENDS

	For the six months ended 30 June	
	2023 US\$'000 (Unaudited)	2022 US\$'000 (Unaudited)
Final ordinary declared and paid		
— Nil (2022: HK 6.40 cents) per ordinary share	—	9,256
Final special declared and paid		
— Nil (2022: HK 6.40 cents) per ordinary share	—	9,256

On 21 August 2023, the board of directors declared an interim dividend of HK5.39 cents (equivalent to approximately US0.69 cents) per ordinary share for the period ended 30 June 2023 to the shareholders of the Company, amounting to a total of approximately HK\$62,696,000 (equivalent to approximately US\$8,000,000) (six months ended 30 June 2022: Nil).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

30 June 2023

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 1,130,042,000 (2022: 1,129,064,500) in issued during the period.

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

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

	For the six months ended 30 June	
	2023 US\$'000 (Unaudited)	2022 US\$'000 (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	32,619	15,480
Shares		
Weighted average number of ordinary shares during the period used in the basic earnings per share calculation	1,130,042,000	1,129,064,500
Effect of dilution — weighted average number of ordinary shares arising from shares awarded	1,171,013	2,419,898
	1,131,213,013	1,131,484,398

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

30 June 2023

9. PROPERTY, PLANT AND EQUIPMENT

	30 June 2023	31 December 2022
	US\$'000 (Unaudited)	US\$'000 (Audited)
Carrying amount at beginning of the period/year	4,557	4,477
Additions	931	2,641
Depreciation provided during the period/year	(1,182)	(2,172)
Disposals	(40)	(38)
Exchange realignment	(282)	(351)
	3,984	4,557

10. INVENTORIES

	30 June 2023	31 December 2022
	US\$'000 (Unaudited)	US\$'000 (Audited)
Raw materials	737	539
Work in progress	410	203
Finished goods	93,797	121,950
	(9,936)	(8,045)
Less: provision for inventories	85,008	114,647

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

30 June 2023

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 2023 US\$'000 (Unaudited)	31 December 2022 US\$'000 (Audited)
Less than 3 months	162,210	143,250
Between 3 and 6 months	4,343	1,019
Between 6 and 12 months	878	3,322
Between 1 and 2 years	2,040	1,626
	169,471	149,217

12. TRADE AND NOTES PAYABLES

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

	30 June 2023 US\$'000 (Unaudited)	31 December 2022 US\$'000 (Audited)
Within 3 months	58,655	59,794
3 to 12 months	23,625	512
Over 12 months	253	445
	82,533	60,751

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

30 June 2023

13. SHARE CAPITAL

Shares

	30 June 2023	31 December 2022
	US\$'000 (Unaudited)	US\$'000 (Audited)
Issued and fully paid:		
1,162,884,800 (2022: 1,162,884,800) ordinary shares	1,500	1,500

14. RELATED PARTY TRANSACTIONS

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

	For the six months ended 30 June	
	2023	2022
	US\$'000 (Unaudited)	US\$'000 (Unaudited)
Short-term employee benefits	552	524
Pension scheme contributions	9	9
Equity-settled share option expense	354	484
Total compensation paid to key management personnel	915	1,017

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

30 June 2023

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 2023 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 2023, 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 is 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 LLC 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 LLC 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 LLC 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 LLC 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
“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, 2023
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Option Scheme”	the share option scheme adopted by the Company on December 1, 2020
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	the ordinary share(s) of nominal value of HK\$0.01 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“United States” and “U.S.”	the United States of America
“US\$”	United States dollars, the lawful currency of the United States

DEFINITIONS (CONTINUED)

“%”	per cent
“IoT”	internet of things