VESYNC CO., LTD

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

Annual Report
2020

CONTENTS

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

AUTHORISED REPRESENTATIVES

Ms. Yang Lin
Ms. Zhang Xiao

COMPANY SECRETARY

Ms. Zhang Xiao *ACIS, ACS*

REGISTERED OFFICE IN THE CAYMAN ISLANDS

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

PRINCIPAL PLACE OF BUSINESS IN THE UNITED STATES

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United States

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Dah Sing Financial Centre
No. 248 Queen's Road East
Wanchai
Hong Kong

CORPORATE INFORMATION (CONTINUED)

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 SHARE REGISTRAR AND TRANSFER OFFICE

Boardroom Share Registrars (HK) Limited
2103B, 21/F
148 Electric Road
North Point
Hong Kong

COMPLIANCE ADVISER

Innovax Capital Limited
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Chinachem Century Tower
178 Gloucester Road
Wanchai
Hong Kong

LEGAL ADVISER

As to Hong Kong laws

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

AUDITOR

Ernst & Young
Certified Public Accountants and
Registered Public Interest Entity Auditor
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

PRINCIPAL BANKS

CTBC Bank Corp. (USA)
801S. Figueroa St., Suite 2300
Los Angeles, CA 90017
United States

Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

China Guangfa Bank Co Ltd Shenzhen Caifugang Branch
1/F & 3/F, Caifugang Building
Baoyuan Road, Bao'an CBD
Shenzhen City
PRC

STOCK CODE

2148

COMPANY'S WEBSITE

www.vesync.com

FOUR YEAR FINANCIAL SUMMARY

	FY2020 US$'000	FY2019 US$'000	FY2018 US$'000	FY2017 US$'000
REVENUE	**348,922**	171,919	144,758	85,210
Gross profit	**152,419**	67,234	55,778	34,698
PROFIT BEFORE TAX	**60,057**	6,934	5,346	3,136
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	**54,723**	6,372	4,361	1,867
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	**56,752**	6,349	3,835	1,821

	FY2020 US$'000	FY2019 US$'000	FY2018 US$'000	FY2017 US$'000
Assets:				
Non-current assets	**30,602**	12,728	6,718	7,013
Current assets	**339,122**	75,922	45,761	31,730
Total assets	**369,724**	88,650	52,479	38,743
Equity and liabilities:				
Share capital	**1,449**	1	—	—
Share premium	**189,587**	4,210	—	—
Reserves	**69,095**	12,183	8,364	5,161
Total equity	**260,131**	16,394	8,364	5,161
Non-current liabilities	**12,198**	8,620	3,017	6,495
Current liabilities	**97,395**	63,636	41,098	27,087
Total liabilities	**109,593**	72,256	44,115	33,582
Total equity and liabilities	**369,724**	88,650	52,479	38,743

CHAIRPERSON'S STATEMENT

OUR MISSION AND VISION

We are committed to helping users "build a better living" and becoming "the intelligent ecology that understands users best", namely, "creating opportunities for our customers, employees and business partners to realize their dreams through technology and innovation".

THE YEAR OF 2020 WAS A YEAR OF BREAKTHROUGHS AND CHALLENGES

The Year of 2020 was extraodinary for the whole world, and so was it for us. It was gratifying to note that we achieved a leapfrog growth with focusing on long-term development capabilities while withstanding the challenges from various external environments. At the same time, we successfully made our initial public offering on the Main Board of the Stock Exchange on December 18, 2020 (the "Listing"). The Listing is a milestone for the development of the Group, which greatly enhances our short-term risks tolerance, enables the Company to focus more on long-term strategies, and at the same time helps us attract outstanding talents.

In 2020, our sales revenue reached US$348.9 million, with a year-on-year increase of 103%.

Details of our retail sales and retail units according to the statistics of the NPD Group, Inc. (the "NPD") on the U.S. channels it covers[Note] for the two years ended September 30, 2020 are set out as below:

Retail Sales

	Year ended September 30, 2020			Year ended September 30, 2019	
	Retail Sales (US$ million)	**Rank**	**Market Share (%)**	Retail Sales (US$ million)	Market Share (%)
Levoit air purifier	**97.6**	**2**	**12.7%**	35.3	8.8%
Cosori air fryer	**47.6**	**4**	**6.3%**	16.3	2.9%

Retail Units

	Year ended September 30, 2020		Year ended September 30, 2019
	Retail Units ('000)	**Rank**	Retail Units ('000)
Levoit air purifier	**912.3**	**1**	340
Cosori air fryer	**453.1**	**8**	170

Note: The above figures are according to the statistics of NPD on the U.S. channels it covers. The 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 the retailer/data partner on an item-level basis.

CHAIRPERSON'S STATEMENT (CONTINUED)

Since the "Smart Life" strategy adopted in 2015, we have made it a long-term strategic plan and keep proceeding in two core areas: entering into the small home appliance market by creating brands Levoit and Cosori; and building IoT team and developing VeSync App. Our reputation endorses our products. We have been focusing on creating value for our customers, and instead of taking shortcuts, we believe the power of technology and brand effect. We have accelerated the pace of R&D in smart small home appliances since 2020. All the R&D projects for new products relating to Levoit's air purifier and humidifier are focusing on the application of intelligent technology. Most new kitchen and home appliances products under the brand Cosori developed by the R&D projects will also be intelligent.

CUSTOMERS-ORIENTED AND RAPID RESPONSE AS OUR CORE LOGIC

The competition in small home appliance market has always been intensive with outstanding brands blooming. However, we started from scratch and grew rapidly by virtue of our in-depth insight into users, improvement of user experience and upgrade of constant products. The Group's online sales platform, which has a relatively transparent evaluation system, may mitigate the information asymmetry of customers as to different brands on one hand, and constitute the challenges as to different brands on the other. The differentiated usage scenarios resulted from lifestyle, culture, region, usages, preferences and other factors constitute the threshold of provision of user insight service and also bring back various user feedbacks. We have been committed to providing rapid response to customers' demands all the way, and keep upgrading our products constantly.

CROSS-JURISDICTION INTEGRATION AS OUR DRIVING FORCE FOR PROGRESS

In 2011, Ms. Yang, our founder and executive Director, founded Etekcity US and commenced selling our products online through Amazon with a focus on small home appliances. This "dual-core" structure helps us to better combine the advantages of global value chains, including the creativity, design and service capabilities in the United States and the supply chain system in China.

The integration of small home appliances and IoT enables us to connect with users in a smart way, improve user experience, enrich application of products, provide updated content, and upgrade a good product to a good smart product.

The different brands and cross-category positioning of Levoit, Cosori and Etekcity enable us to build scenario solutions around family life in many fields such as environmental comfort, kitchen appliances and health monitoring. Scenario-based product solutions can give full play to the linkage value of smart home appliances.

Cross-Jurisdiction integration puts forward higher requirements for corporate culture, organizational ability and learning ability. Hard won, more valuable.

CHAIRPERSON'S STATEMENT (CONTINUED)

THE EXPANSION OF CHANNELS BRINGING DIVERSIFIED GROWTH ENGINES

In 2020, we have made breakthrough progress in channel expansion, and have established sales cooperation with well-known chain retailers, such as Wal-Mart, Best Buy and Target. Our products have appeared on the shelves of some offline stores in the United States. As far as European and American markets are concerned, offline sales still account for the majority of the retail market. Therefore, entering these retail channels, on the one hand, shows that our products and brands have been recognized by more and more customers; on the other hand, it also greatly expands the reach of our products towards consumers.

Channels and products are the double flywheels that we contact with customers and promote each other.

ADHERING TO THE STRATEGY OF COMBINING HARDWARE, SOFTWARE, CONTENT AND SERVICE

The combination of design, user experience and innovation has made our brands stand out in the past few years. The combination of hardware, software, content and services is believed to upgrade the upper limit of our future.

We have seen the vigorous development of e-commerce and consumer Internet in China, and believe that technology changes life. The future world is an intelligent one. Apart from smart phones, cars are smart terminals for travel, while small home appliances are smart terminals for family life. Every family in the world deserves a healthier, more convenient and better life.

All our efforts are for users.

Yang Lin
Chairperson of the Board

March 29, 2021

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

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

We primarily design, develop and sell small home appliances and smart home devices under our three core brands, namely, "Levoit" for home environment appliances, "Etekcity" for smart home gadgets, health monitoring devices, outdoor recreation products and personal care products, and "Cosori" for kitchen appliances and dining ware. By constantly introducing new products and iterating existing products with new technology, functionality, features and design, as well as building up our VeSync app which enables users to achieve centralized control of smart home devices for home automation experience, we could make our customers' daily life more convenient, efficient and enjoyable.

We are one of the market players in the small home appliance online market in the United States. In 2020, the business of the Group scaled up rapidly with a breakthrough growth in annual results and the Group's competitive edge in the industry was further enhanced.

FINANCIAL REVIEW

In 2020, the Group's revenue amounted to US$348.9 million. Gross profit was US$152.4 million, a year-on-year increase of 126.7%. The profit attributable to owners of the parent was US$54.7 million, representing an increase of 758.8% from US$6.4 million in 2019. The basic earnings per share was US6.76 cents (2019: US0.80 cents).

For the year ended December 31, 2020, the Group's overall revenue amounted to US$348.9 million, representing an increase of 103.0% compared with US$171.9 million recorded for the year ended December 31, 2019. This was mainly driven by the strong sales of various home products in terms of quantities sold, including Levoit air purifiers under the category of home environment appliances; Cosori air fryers under the category of kitchen appliances & dining wares; and Etekcity body weight scales and smart fitness scales under the category of health monitoring devices, when consumers in the U.S. and worldwide spent more time shopping online with increased demand for home products during COVID-19 pandemic. As a result of our successful marketing and advertising strategies in previous years, our key products, such as Levoit air purifiers and Cosori air fryers, achieved high rankings on Amazon in 2019, which enabled us to capture the robust consumer demand for home products and to benefit from the favorable market trends.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Business Review by Sales Channel

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

	2020 US$'000	2019 US$'000
Seller Central	**102,340**	83,201
Vendor Central	**232,815**	87,284
Others	**13,767**	1,434
Total	**348,922**	171,919

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

Revenue of the Group generated from Vendor Central programme increased by 166.7% in 2020 primarily due to (i) increases in sales volume of products and (ii) increases in number of products sold to Amazon through the Vendor Central program.

Revenue of the Group generated from Seller Central programme increased by 23.0% in 2020 primarily due to (i) increases in sales volume of Etekcity body weight scale and Etekcity smart fitness scale; and (ii) increased number of products sold to Amazon through Seller Central programme in Europe and Asia.

Sales growth of the Group in other channels in 2020 came primarily in the chain retailers. Revenue of the Group growth in the chain retailers came primarily from Levoit air purifier. As the reputation of our brands and products continues to grow, we have secured favorable positions in key chain retailers in the United States.

Business Review by Geographic

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

	2020 US$'000	2019 US$'000
North America	**302,318**	148,634
Europe	**40,718**	21,976
Asia	**5,886**	1,309
Total	**348,922**	171,919

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Revenue generated from North America increased by 103.4% in 2020, primarily driven by growth in revenue from United States. The revenue growth of United States was mainly attributable to the increased sales volume of i) home environment appliances such as Levoit air purifier; and ii) kitchen appliances & dining ware such as Cosori air fryer. Growth of Europe sales in 2020 came primarily from the United Kingdom, Italy and Germany. Revenue from Asia increased by 349.7% in 2020, primarily attributable to the increased sales in Japan.

GROSS PROFIT AND GROSS PROFIT MARGIN

For the year ended December 31, 2020, the overall gross profit and gross profit margin of the Group was US$152.4 million (2019: US$67.2 million) and 43.7% (2019: 39.1%) representing a year-on-year increase of approximately 126.7% and 4.6 percentage point, respectively. The increase in the overall gross profit and gross profit margin was mainly due to the (i) overall higher average selling prices; (ii) the decrease in the proportion of Amazon fulfillment fee of overall cost of sales; and (iii) the Group's key product, air purifiers, was included in the product exclusion list and enjoyed exemptions from additional tariffs since mid-2019.

OTHER INCOME AND GAINS

Other income and gains of the Group primarily consist of (i) other income from suppliers; (ii) government grants; (iii) foreign exchange difference, net; and (iv) bank interest income. The following table sets forth the breakdown of the Group's other income and gains:

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

	2020 US$'000	2019 US$'000
Bank interest income	10	2
Government grants	96	187
Other income from suppliers	—	522
Foreign exchange gains, net	—	363
Others	235	108
Total	341	1,182

For the year ended December 31, 2020, other income and gains of the Group recorded approximately US$341,000 (2019: US$1.2 million), representing a year-on-year decrease of approximately 71.2%. This was mainly attributable to the decrease of (i) other income from suppliers; (ii) government grants; and (iii) foreign exchange gains, net.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

SELLING AND DISTRIBUTION EXPENSES

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

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

	2020 US$'000	2019 US$'000
Marketing & advertising expenses	12,270	14,556
Commission to platform	17,180	12,809
Staff cost	8,203	4,920
Warehousing expenses	6,273	3,985
Others	3,315	1,509
Total	47,241	37,779

The Group's selling and distribution expenses increased by 25.0% from US$37.8 million for the year ended December 31, 2019 to US$47.2 million for year ended December 31, 2020. The increase in overall selling and distribution expenses was driven by (i) the increase in commission to platform as the Group's sales generated through the Seller Central program increased; and (ii) an increase in staff cost due to expansion of the Group's sales and marketing team to support robust business growth in 2020.

ADMINISTRATIVE EXPENSES

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

	2020 US$'000	2019 US$'000
Research & development	**10,459**	8,178
Administrative staff costs	**11,974**	4,948
Professional fees	**9,917**	3,369
Office expenses	**2,710**	1,777
Depreciation & amortisation	**1,931**	1,269
Travelling and entertainment expenses	**444**	687
Others	**1,485**	1,025
Total	**38,920**	21,253

The Group's administrative expenses increased by approximately 83.1% from US$21.3 million for the year ended December 31, 2019 to US$38.9 million for the year ended December 31, 2020, primarily due to (i) an increase in research and development expenses to prepare for product upgrades and new products; and (ii) a significant increase in professional fees mainly caused by listing expenses incurred in the preparation of the listing and other consulting fees.

OTHER EXPENSES

The Group's other expenses increased by approximately 365.2% from US$1.1 million for the year ended December 31, 2019 to US$5.3 million for the year ended December 31, 2020, primarily due to foreign exchange net loss.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCE COST

Finance costs of the Group primarily represent (i) interest on bank and other borrowings; (ii) interest on loans from a related party; and (iii) interest on lease liabilities.

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

	2020 US$'000	2019 US$'000
Interest on bank loans and other borrowings	444	862
Interest on loans from related parties	85	196
Interest on loans from Employees	—	17
Interest on lease liabilities	611	208
Total	1,140	1,283

The Group's finance costs remained stable at US$1.3 million for the year ended December 31, 2019 and US$1.1 million for the year ended December 31, 2020. Interest on bank loans and other borrowings decreased due to repayment of bank loans during the year ended December 31, 2020 while the interest on lease liabilities increased due to new leases secured for new warehouse in the United States and new office in Germany during the year ended December 31, 2020.

INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which it is domiciled and operate. Subsidiaries located in the PRC were subject to PRC corporate income tax at a rate of 25% on the assessable profit generated during 2020.

The Group's subsidiary, Shenzhen City Chenbei Technology Company Limited, currently qualified as a high and new technology enterprise under the PRC income tax law, has been entitled to preferential tax rate of 15% during 2020. According to the EIT Law and the relevant regulations and rules promulgated by the State Taxation Administration, enterprises engaging in research and development activities are entitled to claim 175% since 2018 as tax deductible expenses when determining their assessable profit for that year subject to certain conditions stipulated therein ("R&D Deduction").

The Group's subsidiary, Chongqing Xiaodao Information Technology Company Limited, currently qualified small and micro-sized enterprise, is entitled to a preferential income tax rate of 5% on the taxable income less than or equal to RMB1,000,000 and a preferential income tax rate of 10% on the taxable income between RMB1,000,000 and RMB3,000,000 during 2020.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

During 2020, all of the Group's U.S. subsidiaries were subject to federal corporation income tax at the rate of 21% and California state tax rate of 8.84% pursuant to the relevant tax laws of the United States. The Group's Hong Kong subsidiary was subject to Hong Kong profit tax at a rate of 16.5%, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 (2019: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5% during 2020. The Group's European subsidiaries, which operated in Netherlands and Germany were subject to corporate income tax at a rate of 16.5% and 15%, respectively on taxable income.

Income tax expenses of the Group increased from an income tax expense of US$0.6 million for the year ended December 31, 2019 to an income tax expense of US$5.3 million for the year ended December 31, 2020, primarily due to the strong growth of taxable income driven primarily by the increased sales in the United States and other countries, and the decrease in the selling and distribution expenses in percentage of revenue, which is partially netted off by the increase in deferred tax asset mainly arising from unrealized profit from inter-company transactions.

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

As a result of the foregoing, the Group had a profit attributable to owners of parent of US$54.7 million for the year ended December 31, 2020, compared with a profit attributable to owners of parent of US$6.4 million for the year ended December 31, 2019.

LIQUIDITY AND FINANCIAL RESOURCES

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

The Group has met capital needs through cash flows from operations and financing as a result of the net proceeds from the Global Offering. The Group had cash and cash equivalents of US$9.1 million as of December 31, 2019 and US$183.5 million as of December 31, 2020. The cash and cash equivalents of the Group are mainly denominated in US$ and HK$.

As of December 31, 2020, the Group had total bank borrowings of approximately US$2.9 million, which were all denominated in US$ and at fixed interest rates (2019: approximately US$18.4 million).

The table sets forth a breakdown of the bank borrowings of the Group as of December 31, 2020.

	2020 **US$'000**	2019 US$'000
Interest-bearing bank borrowings (current portion)	**2,888**	18,354
Total	**2,888**	18,354

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The table below sets forth the aging analysis of the repayment terms of interest-bearing bank borrowings as of December 31, 2020.

	2020 US$'000	2019 US$'000
Bank loans repayable:		
Within one year or on demand	**2,888**	15,786
	2,888	15,786
Other borrowings repayable:		
Within one year or on demand	**—**	2,568
Total	**2,888**	18,354

TREASURY POLICY

The Group adopts a prudent approach in its cash management and risk control. Most of the sales are denominated in US$, with the remaining mainly denominated in currencies of the countries to which the Group sell its products. The Group pays subcontractors and suppliers (including those located in the PRC) mainly in US$ and RMB. As a result of the foregoing, the Group's consolidated financial results are affected by currency exchange rate fluctuations. The Group recorded a currency exchange loss of approximately US$2.2 million for the year ended December 31, 2020 (2019: Nil).

As of December 31, 2020, 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. To the extent possible, gains and losses of the derivatives offset the losses and gains of the assets, liabilities or transactions being hedged.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

The Company did not have any acquisitions or disposals of subsidiaries, associates and joint ventures from the Listing Date and up to December 31, 2020.

As at December 31, 2020, there was no significant investment held by the Group or future plans for significant investments or capital assets.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

EMPLOYEES AND REMUNERATION POLICY

As at December 31, 2020, the Group had 693 employees in total, in which 583 employees were in the PRC, 105 employees were in the Unites States and 5 employees were in other locations. For the year ended December 31, 2020, the Group recognized staff costs of US$27.0 million (2019: US$17.0 million).

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

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

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

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

In addition, to provide incentive or reward to the employees for their contribution to, and continuing efforts to promote the interests of, the Group, the Company has adopted the Pre-IPO Share Award Scheme and the Share Option Scheme.

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

CONTINGENT LIABILITIES

As at December 31, 2020, the Group had no material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

CHARGES ON ASSETS

As of December 31, 2020, there is no charges on assets by the Group (2019: US$0.6 million).

GEARING RATIOS

As at December 31, 2020, the Group's gearing ratio (calculated as the total borrowings (bank and other borrowings and lease liabilities) divided by total equity as of the end of each year) was 5.7% (December 31, 2019: 162.6%).

IMPACT OF COVID-19

Toward the end of 2019, a respiratory illness caused by a highly infectious novel coronavirus was detected. The World Health Organization ("WHO"), later named the novel coronavirus as COVID-19. In March 2020, the WHO characterized the outbreak of COVID-19 a pandemic. The outbreak has resulted in a high number of fatalities and caused an adverse impact on the livelihood of the people and the economy worldwide.

Measures taken by various governments to contain the virus have affected economic activity. We have implemented a contingency plan and a number of measures to monitor and mitigate the effects of COVID-19: i) adopted enhanced hygiene and precautionary measures across our offices worldwide; ii) contacted with multiple logistic companies for product deliveries to ensure delivery on time; and iii) adopted measures to increase our sales on other e-commerce marketplaces to diversify our sales channels in case Amazon's operations are interrupted by the COVID-19 outbreak.

At this stage, the impact on our business and results has been insignificant and has a positive effect on our business and results. As customers spent more time shopping online due to the stay home orders and other lock down measures imposed by the United States, the Group has found increased demand for our home products and a growth of our revenue, which was largely generated from online sales, increased to US$348.9 million for the year ended December 31, 2020, partially offset the decreased sales in outdoor recreation products, such as air mattress and camping lanterns. We will continue to follow the various government policies and advice and, in parallel, we will do our utmost to continue our operations in the best and safest way possible without jeopardising the health of our employees. Moreover, we will monitor the situation and update Shareholders and potential investors as and when appropriate.

FUTURE OUTLOOK

Due to the slowdown in global economic growth and the Sino-U.S. trade war, as well as the outbreak of COVID-19 at the end of 2019 which has resulted in a high number of fatalities and caused an adverse impact on the livelihood of the people and the economy worldwide, the home appliance industry was impacted to a certain degree during 2020. Looking ahead, the situation of macro environment, Sino-U.S. trade war and COVID-19 pandemic is still unclear.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

However, as stay home orders and other lock-down measures imposed by the United States implemented, online retail sales have accelerated rapidly. Our revenue and gross profit, which was largely generated from online sales and small home appliances, increased to US$348.9 million and US$152.4 million for the year ended December 31, 2020.

The global market size of e-commerce has grown rapidly, driven by the continuous increase of mobile internet and third-party payment penetration which leave customers no limitation of time and places when placing the order online. With the adoption of logistics with highly integrated transportation, warehouse management solution and efficient delivery, the e-commerce giants are expected to provide their customers with more enjoyable and efficient online shopping experience, which could i) support our marketing strategies and global penetration; and ii) be beneficial for the Group to maintain the leading position and gain further market share in the online market.

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

We aim to further enhance our product portfolio, in particular smart home devices, in the consumer space, while leveraging our track record for developing relevant, consumer-friendly products in the business-to-business space. The smart air fryer and smart oven which combines baking and air frying functions in one oven have been launched by the fourth quarter of 2020. In addition, we have launched the smart security solutions, comprised with hardware and software, for business clients by the end of 2020, by successfully leveraging our expertise and experience on smart home devices.

We also plan to enlarge our market presence in our existing major markets including the North America, Europe and Japan. As of the year ended December 31, 2020, we have started business relationship with e-commerce operators such as Amazon and other renowned American chain retailers, such as Walmart, Best Buy, Target and Bed Bath & Beyond, selling smart home devices and small home appliances. Moreover, We plan to expand our sales channels by increasing sales on our own websites, and we are also planning to sell products via our VeSync app.

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

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Ms. Yang Lin (楊琳), aged 47, is the founder of the Group. She was appointed as a Director on January 9, 2019 and designated as an executive Director on May 27, 2020. Ms. Yang is also the chairperson of the Board and the chief executive officer responsible for overall strategic planning and overseeing general management and daily operation of the Group. Ms. Yang holds directorships in each of the subsidiaries of the Group except Ecomine Co., Limited and Etekcity Company Limited (易特科城有限公司). She is also the chairperson of the nomination committee and a member of the remuneration committee of the Company. Ms. Yang has more than 15 years of experience in the small home appliance and smart home device industry. Prior to founding the Group in 2006, from January 2005 to March 2007, Ms. Yang worked at Community CPA & Associates Inc. with last position served as an office manager, where she was principally responsible for preparing financial statements and management proprietary report, tax filling and business consultation for business and individual clients. In anticipation of the business potential of the small home appliances and electronic gadgets market, Ms. Yang first commenced the trading business of small home appliances and electronic gadgets through establishing L&H Y US in the United States in October 2006.

Ms. Yang obtained a master's degree in law from East China University of Political Science and Law (華東政法大學) in the PRC in December 2004.

Ms. Yang is the sister of Mr. Yang Hai, the executive Director and the daughter of Mr. Yang Yuzheng, the non-executive Director.

Mr. Yang Hai (楊海), aged 45, was appointed as an executive Director on May 27, 2020. Mr. Yang Hai is also the vice president of the Company principally responsible for overseeing sales, marketing and online operation of the Group. He is also a member of the remuneration committee and the nomination committee of the Company.

Mr. Yang has more than 17 years of experience in the communication technology industry. Prior to joining the Group in 2011 from June 2003 to September 2006, Mr. Yang worked as a software engineer at Asiainfo Technologies (China) Inc. (亞信科技有限公司), where he was principally responsible for billing system development. From September 2006 to June 2011, he worked at Ericsson (China) Communications Co., Ltd as a software engineer responsible for gateway server development. In December 2011, Mr. Yang Hai joined Etekcity Corporation and has since served as the vice president of the Group.

Mr. Yang obtained a bachelor's degree in thermal energy and power engineering from Southeast University (東南大學) in the PRC in June 1996. He further obtained a master's degree in engineering from Shanghai Jiaotong University (上海交通大學) in the PRC in March 1999.

Mr. Yang Hai is the brother of Ms. Yang Lin, the executive Director and the son of Mr. Yang Yuzheng, the non-executive Director.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Chen Zhaojun (陳兆軍), aged 44, was appointed as an executive Director on May 27, 2020. Mr. Chen is also the chief finance officer and vice president of the Company principally responsible for overseeing financial management, internal control and compliance matters of the Group.

Mr. Chen has more than 17 years of experience in the accounting and business management industry. Prior to joining the Group in 2018, from September 2003 to June 2004 Mr. Chen worked as a senior project manager of investment department in ZTE Corporation (stock code: 763), a multinational company principally engaged in the manufacturing of telecom equipment whose shares are listed on the Stock Exchange. In July 2004, Mr. Chen joined MOBI Development Co., Ltd. ("**MOBI**") (stock code: 947) as a finance manager, a company principally engaged in the manufacturing and sales of wireless communication antennas and base station radio frequency subsystems whose shares are listed on the Stock Exchange, where he was subsequently promoted to the chief finance officer in August 2009 and was appointed as an executive director in July 2016. On July 13, 2018, Mr. Chen was re-designated from an executive director to a non-executive director and resigned as the chief finance officer on the same date. Mr. Chen then joined Shenzhen City Chenbei Technology Company Limited (深圳市晨北科技有限公司) in July 2018, and has served as the chief finance officer and vice president since then. In March 2019, Mr. Chen resigned as the non-executive director of MOBI.

Mr. Chen obtained a bachelor's degree and a master's degree both in economics from Xiamen University (廈門大學) in the PRC in July 1999 and July 2002, respectively. He also obtained a master's degree in business administration from the Hong Kong University of Science and Technology in November 2014. Mr. Chen passed the exam of certified public accountants in the PRC in October 2006 and has been a member of the Association of Chartered Certified Accountants since February 2015.

Non-executive Director

Mr. Yang Yuzheng (楊毓正), aged 78, was appointed as a non-executive Director on May 27, 2020, and is principally responsible for providing advice on the management of the Group.

Mr. Yang Yuzheng has been retired since April 1999. Prior to his retirement, he had worked as a public servant in a number of government authorities, including United Front Revolutionary Committee of Industry and Communication of Maoming City, Guangdong Province (廣東省茂名市工交戰線革委), Organization Department of County Committee of Tongzi County, Guizhou Province (貴州省桐梓縣委組織部), Commission for Discipline Inspection of Tongzi County, Guizhou Province (貴州省桐梓縣紀律檢查委員會), United Front Work Department of the County Committee of Tongzi County, Guizhou Province (貴州省桐梓縣委統戰部), Commission of Ethnic and Religious Affairs of Tongzi County, Guizhou Province (貴州省桐梓縣民族宗教事務委員會), Bureau of Land and Restheces of Tongzi County, Guizhou Province (貴州省桐梓縣國土資源局) and Bureau of Natural Restheces of Tongzi County, Guizhou Province (貴州省桐梓縣自然資源局) for around 30 years.

Mr. Yang Yuzheng graduated from the South-Central Minzu University (中南民族大學) (formerly known as South-Central Minzu College (中南民族學院)) majoring in Chinese language in the PRC in July 1967.

Mr. Yang Yuzheng is the father of Ms. Yang Lin and Mr. Yang Hai, both are the executive Directors.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Independent Non-executive Directors

Mr. Fong Wo, Felix (方和), *BBS, JP*, aged 70, was appointed as the independent non-executive Director on December 1, 2020. Mr. Fong is responsible for supervising the management of the Group and providing independent judgement to the Board. He is also the chairman of the remuneration committee and a member of the audit committee and the nomination committee of the Company.

Mr. Fong has practiced law for more than 32 years. Mr. Fong was admitted as a barrister and solicitor in Ontario, Canada in 1980, a solicitor in England and Wales in 1986, and in Hong Kong in 1987. He is a member of the Law Societies of Hong Kong, Upper Canada and England. Since August 1988, Mr. Fong has been with King & Wood Mallesons (formerly known as Robert Lee &Fong, Felix Fong & Hon, Fong & Ng, Arculli Fong & Ng and King & Wood) specializing in the areas of corporate and finance. From May 2000 to December 2008, Mr. Fong also served as a non-executive director of Cinda International Holdings Limited (stock code: 111), a financial institution principally engaged in corporate finance advisory, securities broking and asset management whose shares are listed on the Stock Exchange. From May 2010 to May 2016, Mr. Fong served as an independent non-executive director of China Oilfield Services Limited (中海油田服務有限公司), a company dually listed on the Stock Exchange (stock code: 2883) and Shanghai Stock Exchange (stock code: 601808) which is principally engaged in offshore oil and gas exploration, development and production. From April 2011 to July 2018, he served as an independent non-executive director of China Investment Development Limited (中國投資開發有限公司) (formerly known as Temujin International Investments Limited) (stock code: 204), a company principally engaged in investment in listed and unlisted securities whose shares are listed on the Stock Exchange. From October 2010 to March 2020, he served as an independent non-executive director of Evergreen International Holdings Limited (長興國際(集團)控股有限公司) (stock code: 238), a company principally engaged in the manufacturing and sales of menswear whose shares are listed on the Stock Exchange. From June 2012 to May 29, 2020, he served as an independent non-executive director of Sheen Tai Holdings Group Company Limited (順泰控股集團有限公司) (stock code: 1335), a company principally engaged in the manufacturing and sales of cigarette packaging materials whose shares are listed on the Stock Exchange. From May 2017 to June 9, 2020, he served as an independent non-executive director of Wuxi Biologics (Cayman) Inc. (藥明生物技術有限公司) (stock code: 2269), a company principally engaged in the provision of biologics services whose shares are listed on the Stock Exchange.

Mr. Fong is currently an independent non-executive director of Bank of Shanghai (Hong Kong) Limited (上海銀行(香港)有限公司) ("Bank of Shanghai"), a company incorporated in Hong Kong with limited liability, and an independent non-executive director of the following companies listed on the Stock Exchange: Television Broadcasts Limited (電視廣播有限公司) (Stock Code: 511), Xinming China Holdings Limited (新明中國控股有限公司) (Stock Code: 2699), Guangdong Land Holdings Limited (粵海置地控股有限公司) (Stock Code: 124, formerly known as Kingway Brewery Holdings Limited), Greenland Hong Kong Holdings Limited (綠地香港控股有限公司) (Stock Code: 337, formerly known as SPG Land (Holdings) Limited).

Mr. Fong obtained a bachelor's degree in engineering from McMaster University in Canada in June 1974 and a Juris Doctor degree from Osgoode Hall Law School of York University in Canada in June 1978. Mr. Fong is appointed by the Ministry of Justice of the PRC (中華人民共和國司法部) as one of the China-appointed Attesting Officers in Hong Kong.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Gu Jiong (顧炯), aged 48, was appointed as an independent non-executive Director on December 1, 2020. Mr. Gu is responsible for supervising the management of the Group and providing independent judgement to the Board. He is also the chairman of the audit committee and a member of the remuneration committee and the nomination committee of the Company.

From July 1995 to April 2004, Mr. Gu worked at Ernst & Young's Shanghai office and was the senior manager of audit department when he left the firm. From April 2004 to December 2009, Mr. Gu joined UTStarcom Telecom Co., Ltd. and its holding company UTStarcom Holdings Corp. (formerly known as UTStarcom. Inc.) (ticker symbol: UTSI), whose shares are listed on NASDAQ and is a global telecom infrastructure provider specialized in the provision of packet optical transport and broadband access products to network operators, where he was responsible for accounting and financial matters, and was the finance controller (財務總監) when he left the company in December 2009. From January 2010 to August 2013, Mr. Gu served as the chief financial officer in BesTV New Media Co., Ltd. (stock code: 600637) (currently known as Oriental Pearly Media Co., Ltd (東方明珠新媒體股份有限公司)), whose shares are listed on Shanghai Stock Exchange and principally engaged in the provision of technical services, content services and marketing services for television terminals, computer terminals and mobile terminals through a media source platforms where he was responsible for the financial matters of this company. From August 2013 to October 2015, Mr. Gu served as the chief financial officer of CMC Capital Partners (華人文化產業投資基金), an investment fund specializing in media and entertainment investments inside and outside the PRC. From June 2015 to November 2020, Mr. Gu was an independent non-executive director of Chen Xing Development Holdings Ltd (辰興發展控股有限公司) (stock code: 2286) , a company listed on the Stock Exchange. From January 2016 to October 2016 and from October 2016 to January 2019, Mr. Gu was a non-executive director and an alternative director to Hui To Thomas of Shaw Brothers Holdings Limited (stock code: 953), a company listed on the Stock Exchange, respectively. From June 2019 to November 2020, Mr. Gu was an independent non-executive director of Tu Yi Holding Company Limited (stock code: 1701), a company listed on the Stock Exchange.

Since October 2015, Mr. Gu has been the director and chief financial officer of CMC Inc. (華人文化有限責任公司) ("CMC") (formerly known as CMC Holdings Limited), an investment platform focused on the media and entertainment investments. Mr. Gu is currently the 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), a company which involves in the bulk purchase distribution of electronic parts and electronic communications equipment whose shares are listed on the Shanghai Stock Exchange, and an independent non-executive director of the following companies whose shares are listed on the Stock Exchange: Mulsanne Group Holding Limited (stock code: 1817), DaFa Properties Group Limited (大發地產集團有限公司) (stock code: 6111), Ascletis Pharma Inc. (歌禮製藥有限公司) (stock code: 1672) and Xinming China Holdings Limited (新明中國控股有限公司) (stock code: 2699).

Mr. Gu obtained a bachelor's degree in financial management from Fudan University (復旦大學) in the PRC in July 1995. He is currently a non-practicing member of The Chinese Institute of Certified Public Accountants (中國註冊會計師協會).

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Tan Wen (檀文), aged 47, was appointed as an independent non-executive Director on December 1, 2020. Mr. Tan is responsible for supervising the management of the Group and providing independent judgement to the Board. He is also a member of the audit committee, the remuneration committee and the nomination committee of the Company.

Mr. Tan has over 20 years of experience in the field of investment banking and domestic and foreign venture capital investment focusing on healthcare and retail and consumer sectors. From February 2000 to August 2003, Mr. Tan worked as a business development manager at Singapore Computer Systems Limited, an IT system service provider, where he was responsible for market and industry research, and business development, investment, merger and acquisition in e-commerce area. From August 2003 to May 2005, Mr. Tan worked as a technology investment manager at Singapore Technologies Dynamics Pte Ltd ("STD"), an engineering systems service provider, where he was responsible for market and industry research, and business development, investment, merger and acquisition in emerging technology area. STD was a subsidiary of Singapore Technologies Engineering Ltd (stock code: S63), a company principally engaged in offering services and products specializing in the aerospace, electronics, land systems and marine sectors whose shares are listed on the Singapore Stock Exchange. From May 2005 to July 2007, Mr. Tan served as an associate director of China Euro Securities Co., Ltd (華歐國際證券有限責任公司). From June 2007 to October 2013, he served as a vice president at Capital Today Growth (HK) Limited principally responsible for originating, evaluating investment opportunities and monitoring the existing portfolio companies. Since October 2013, Mr. Tan served as the managing director of the Shanghai office of Industrial Innovation Capital Management Co., Ltd (興證創新資本管理有限 公司), a subsidiary of Industrial Securities Co., Ltd (興業證券股份有限公司) (stock code: 01377) ("Industrial Securities"). Industrial Securities is a company principally engaged in the provision of financial services and whose shares are listed on the Shanghai Stock Exchange. Since December 2015, Mr. Tan served as the director of Elite Color Environmental Resources Science & Technology Co., Ltd (優彩環保資源科技股份有限公司) (stock code: 002998) ("Elite Color"), a company principally engaged in the manufacturing, sales and research and development of polyester fiber whose shares are listed on the Shenzhen Stock Exchange. Since May 18, 2020, Mr. Tan served as the director of Fujian Snowman Co., Ltd (福建雪人股份有限公司) (stock code: 002639), a company principally engaged in the manufacturing of ice machine whose shares are listed on the Shenzhen Stock Exchange.

Mr. Tan obtained a bachelor's degree in electronic materials and components from Tianjin University (天津大學) in the PRC in July 1995. He then obtained a master's degree in business administration from the National University of Singapore in Singapore in March 2000. He subsequently obtained a doctor's degree in global economics from Fudan university (復旦大學) in the PRC in January 2018. Mr. Tan was qualified as a Financial Risk Manager as certified by the Global Association of Risk Professionals in April 2006 and has been a non-practicing member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) since June 2014. He was also certified as a chartered financial analyst of the Association for Investment Management and Research (currently known as CFA Institute) in September 2003.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

SENIOR MANAGEMENT

Ms. Yang Lin (楊琳). Please refer to “Directors — Executive Directors” above in this section for details of biography of Ms. Yang Lin.

Mr. Yang Hai (楊海). Please refer to “Directors — Executive Directors” above in this section for details of biography of Mr. Yang Hai.

Mr. Chen Zhaojun (陳兆軍). Please refer to “Directors — Executive Directors” above in this section for details of biography of Mr. Chen Zhaojun.

REPORT OF DIRECTORS

The Board is pleased to present this annual report and the audited financial statements of the Group for the year ended December 31, 2020.

GLOBAL OFFERING

The Company was incorporated in the Cayman Islands on January 9, 2019 as an exempted company with limited liability. The Shares were listed on the Main Board of the Stock Exchange on December 18, 2020 through the Global Offering. The Company issued 281,000,000 Shares at an offer price HK$5.52 per share on the Stock Exchange by the Global Offering. On January 13, 2021, the Company further issued 42,150,000 Shares pursuant to the full exercise of the over-allotment option at a price of HK$5.52 per share. The net proceeds from the Global Offering (taking into account the full exercise of the over-allotment option), after deducting the underwriting fees and commissions and other estimated expenses payable by the Company, was HK$1,662.9 million, representing the net price of approximately HK$5.15 per Share.

SHARE CAPITAL

Details of the share capital of the Company during the Reporting Period are set out in note 26 to the financial statement.

PRINCIPAL BUSINESSES AND ACTIVITIES

The Group is one of the market players in the small home appliance online market in the United States. The Group's business primarily focuses on the online marketing and sales of self-designed and self-developed small home appliances and smart home devices under the Group's increasingly recognized brands, including "Levoit", "Etekcity" and "Cosori". The Group sell its products primarily through e-commerce marketplaces, mainly Amazon, the largest e-commerce marketplace in the United States.

BUSINESS REVIEW

The Group's business review for the Reporting Period and future business development are set out in the sections headed "Chairperson's Statement" and "Management Discussion and Analysis" of this annual report. The key financial performance indicators used in the Group's performance analysis for the Reporting Period are set out in the section headed "Four Year Financial Summary" of this annual report.

REPORT OF DIRECTORS (CONTINUED)

DIVIDEND POLICY

The Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Board. The declaration of or recommendation of declaration of dividends is subject to the sole discretion of the Board. Even if the Board decides to recommend and pay dividends, the form, frequency and amount will depend upon the operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors of and affecting the Group.

In deciding whether to recommend the payment of dividend to Shareholders, the Board will take into account various factors, including but not limited to, general business conditions, the financial condition and results of operations, the capital requirements and future prospects of the Group.

The payment of dividend is also subject to applicable laws and regulations and the Company's constitutional documents. No dividend shall be paid otherwise than out of profits available for distribution.

FINAL DIVIDEND

The Board resolved to recommend to the Shareholders at the 2021 AGM of a final dividend of HK12.74 cents (equivalent to approximately US1.64 cents) per Share for the Reporting Period (2019: Nil) to be paid on Wednesday, July 21, 2021 to the Shareholders whose names appear on the register of members of the Company on Monday, May 31, 2021.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement of the Shareholders to attend and vote at the 2021 AGM to be held on Friday, May 21, 2021, the register of members of the Company will be closed from Saturday, May 15, 2021 to Friday, May 21, 2021, both days inclusive, during which period no transfer of shares will be registered. In order to be qualified for attending and voting at the 2021 AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar 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 Friday, May 14, 2021.

For determining the entitlement of the Shareholders to the proposed final dividend for the Reporting Period, the register of members of the Company will be closed from Thursday, May 27, 2021 to Monday, May 31, 2021, both days inclusive, during which period no transfer of Shares will be registered. In order to determine the entitlement of the proposed final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar 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, May 26, 2021.

REPORT OF DIRECTORS (CONTINUED)

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 audited consolidated financial statements of the Group for the year ended December 31, 2020, including the accounting principles and practice adopted by the Group. There is no disagreement by the Audit Committee with the accounting treatment adopted by the Company.

RESERVES

Details of movements in the reserves of the Company during the Reporting Period are set out in note 35 of the Consolidated Statement of Changes in Equity.

DISTRIBUTABLE RESERVES

As at December 31, 2020, the amount of reserves available for distribution of the Company was approximately US$189,462,000.

DONATIONS

During the Reporting Period, the Group did not make any charitable donations.

REPORT OF DIRECTORS (CONTINUED)

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Company's shares have been listed on the Main Board of the Stock Exchange since December 18, 2020. The net proceeds from the Global Offering (after the full exercise of the over-allotment option) after deducting the underwriting fees and commissions and related expenses was HK$1,662.9 million. The Group will continue to utilize the net proceeds from the Global Offering as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. The intended application of the net proceeds as stated in the Prospectus and the actual utilisation of the net proceeds from the Global Offering up to December 31, 2020 was as below:

Purpose	Percentage of total amount (approx.)	Net proceeds HK$ million	Utilised HK$ million	Unutilised HK$ million	Expected Timeline for the Use of Unutilised Proceeds(Note)
1. Research and development of new products and upgrade and iteration of existing products					
Research and development of new products	15%	249.4	0	249.4	By December 2021: HK$74.8 million By December 2022: HK$74.8 million By December 2023: HK$99.8 million
Upgrade and iterate existing products	5%	83.2	0	83.2	By December 2021: HK$24.9 million By December 2022: HK$24.9 million By December 2023: HK$33.4 million
Research and development of new products and upgrade and iteration of existing products	5%	83.2	0	83.2	By December 2021: HK$24.9 million By December 2022: HK$24.9 million By December 2023: HK$33.4 million
Enhance testing capability	5%	83.2	0	83.2	By December 2021: HK$24.9 million By December 2022: HK$24.9 million By December 2023: HK$33.4 million

REPORT OF DIRECTORS (CONTINUED)

Purpose	Percentage of total amount (approx.)	Net proceeds HK$ million	Utilised HK$ million	Unutilised HK$ million	Expected Timeline for the Use of Unutilised Proceeds(Note)
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	0	133	By December 2021: HK$46.4 million By December 2022: HK$43.3 million By December 2023: HK$43.3 million
Expand and solidify market presence in regions	8%	133.0	0.1	132.9	By December 2021: HK$44.2 million By December 2022: HK$44.4 million By December 2023: HK$44.3 million
Devote more resources in brand promotion solutions, for business customers	9%	149.7	0.3	149.4	By December 2021: HK$49.6 million By December 2022: HK$49.9 million By December 2023: HK$49.9 million

REPORT OF DIRECTORS (CONTINUED)

Purpose	Percentage of total amount (approx.)	Net proceeds HK$ million	Utilised HK$ million	Unutilised HK$ million	Expected Timeline for the Use of Unutilised Proceeds(Note)
3. Upgrade VeSync app into a home IoT platform					
Build and expand talent pools in cloud infrastructure, IoT technology, data technology	10%	166.3	0	166.3	By December 2021: HK$55.4 million By December 2022: HK$55.4 million By December 2023: HK$55.5 million
Acquire or partner with companies in the data technology industry	15%	249.4	0	249.4	By December 2021: HK$0 million By December 2022: HK$124.7 million By December 2023: HK$124.7 million
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	0	83.1	By December 2021: HK$24.9 million By December 2022: HK$24.9 million By December 2023: HK$33.3 million
Expand North America market of smart solutions for business customer	5%	83.1	0	83.1	By December 2021: HK$24.9 million By December 2022: HK$24.9 million By December 2023: HK$33.3 million
5. Working capital	10%	166.3	0	166.3	By December 2021: HK$83.1 million By December 2022: HK$49.9 million By December 2023: HK$33.3 million

Note: The expected timeline for utilising the remaining proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions.

REPORT OF DIRECTORS (CONTINUED)

The net proceeds have been and will be used according to the purposes as stated in the Prospectus, and there are no material change or delay in the use of proceeds.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the Group's aggregate sales to the five largest customers of the Group amounted to approximately US$237.5 million, representing approximately 68.1% of the Group's total revenue; and sales to the largest customer of the Group (without considering retail customers from Amazon's Seller Central program or other sales channels) amounted to approximately US$232.8 million, representing approximately 66.7% of the Group's total revenue.

During the Reporting Period, purchase value from the five largest suppliers of the Group amounted to approximately US$121.8 million, representing approximately 57.1% of the Group's total purchase value; and purchase value from the largest supplier of the Group amounted to approximately US$42.0 million, representing approximately 19.5% of the Group's total purchase value.

During the Reporting Period, to the best knowledge of the Directors, none of the Directors, their close associates, or Shareholders (which, to the knowledge of the Directors, owned more than 5% of the number of issued Shares) had interests in the five largest suppliers or customers of the Group.

DIRECTORS

The Directors for the Reporting Period and up to the Latest Practicable Date were:

Executive Directors

Ms. Yang Lin *(Chairperson and chief executive officer)*
Mr. Yang Hai
Mr. Chen Zhaojun *(Chief financial officer) (appointed on May 27, 2020)*

Non-executive Director

Mr. Yang Yuzheng *(appointed on May 27, 2020)*

Independent Non-executive Directors

Mr. Fong Wo, Felix *(appointed on December 1, 2020)*
Mr. Gu Jiong *(appointed on December 1, 2020)*
Mr. Tan Wen *(appointed on December 1, 2020)*

REPORT OF DIRECTORS (CONTINUED)

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules, and considers all the independent non-executive Directors to be independent.

SERVICE CONTRACTS OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from December 2, 2020, which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of the non-executive Director and the independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other.

None of the Directors has entered into any service contract/letter of appointment with the Company or any of its subsidiaries which was not determinable by the Company within one year without payment of compensation (other than statutory compensation).

CHANGE IN INFORMATION OF DIRECTORS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the period from the Listing Date and up to December 31, 2020, 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 CONTROLLING SHAREHOLDERS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

There were no transactions, arrangements or contracts of significance in relation to the Group's business, to which the Company or any of its subsidiaries was a party and in which any of the Directors or an entity connected with the Directors or the controlling shareholders of the Company had a material interest, whether directly or indirectly, as at December 31, 2020 or during the period from the Listing Date and up to December 31, 2020.

REPORT OF DIRECTORS (CONTINUED)

MANAGEMENT CONTRACTS

During the Reporting Period, the Company did not enter into any contract, other than the contracts of service with the Directors or any person engaged in the full-time employment of the Company, whereby any individual, firm or body corporate undertakes the management and administration of the whole, or any substantial part of any business of the Company.

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

As at December 31, 2020, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO, or (iii) notified to the Company and the Stock Exchange under the Model Code, were as follows:

Interests in the Shares

Name of Director or chief executive	Capacity/ Nature of interest	Long position/ short position	Number of Shares	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	Long position	406,040,800	
	Interests held jointly with another person	Long position	375,786,400	
			781,827,200	69.61%
Mr. Yang Hai(3)(5)	Interests in corporation controlled	Long position	8,067,200	
	Interests held jointly with another person	Long position	773,760,000	
			781,827,200	69.61%

REPORT OF DIRECTORS (CONTINUED)

Name of Director or chief executive	Capacity/ Nature of interest	Long position/ short position	Number of Shares	Approximate percentage of interest in the Company
Mr. Yang Yuzheng[(4)(5)]	Interests in corporation controlled	Long position	367,719,200	
	Interests held jointly with another person	Long position	414,108,000	
			781,827,200	69.61%

Notes:

1. The calculation is based on the total number of 1,123,104,800 Shares in issue as at December 31, 2020.

2. Karis I LLC and Karis II LLC holds approximately 21.69% and 14.46% of the issued share capital of the Company, respectively. Each of Karis I LLC and Karis II LLC is wholly owned by North Point Trust Company L.L.C., the trustee of the Annuity Trusts, on trust for the benefit of the Annuity Trusts, which were established by Ms. Yang for the ultimate benefit of the Family Trusts, pursuant to certain arrangements. The Family Trust I and Family Trust II were established by Ms. Yang as both the settlor and the trustee, and the beneficiaries of which are any children born to or adopted by Ms. Yang and their respective issue, and Mr. Ryan Xu, being Ms. Yang's child, during his lifetime, and any charitable organizations to be subsequently determined by the independent trustee (if any) at its discretion upon its appointment, respectively. Pursuant to the Annuity Trusts, Ms. Yang, as the powerholder, has the power to appoint additional trustees and remove and replace North Point Trust Company L.L.C., and as the sole manager of Karis I LLC and Karis II LLC, has the authority to make all decisions in relation to them. Ms. Yang is deemed to be interested in both Karis I LLC and Karis II LLC, and is therefore deemed to be interested in any Shares in which each of Karis I LLC and Karis II LLC is interested.

3. Arceus Co., Ltd holds 0.72% of the issued share capital of the Company. 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.

4. Caerus Co., Ltd holds 32.74% of the issued share capital of the Company. Caerus Co., Ltd is wholly owned by Mr. Yang Yuzheng. Mr. Yang Yuzheng is therefore deemed to be interested in any Shares in which Caerus Co., Ltd is interested.

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.

Save as disclosed above, so far as the Directors are aware, as at December 31, 2020, 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.

REPORT OF DIRECTORS (CONTINUED)

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

As at December 31, 2020, 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:

Name	Capacity/Nature of interest	Number of shares	Approximate percentage of interest in the Company
North Point Trust Company L.L.C.[3]	Trustee	406,040,800 (L)	36.15%
Karis I LLC[3]	Beneficial owner	243,624,800 (L)	21.69%
Karis II LLC[3]	Beneficial owner	162,416,000 (L)	14.46%
Caerus Co., Ltd[4]	Beneficial owner	367,719,200 (L)	32.74%
Mr. Xu Bo[5]	Interest of spouse	781,827,200 (L)	69.61%
Ms. Li Jisu[6]	Interest of spouse	781,827,200 (L)	69.61%
Ms. Chen Shuyong[7]	Interest of spouse	781,827,200 (L)	69.61%

Notes:

1. The letter "L" denotes the person's long position in the Shares.

2. The calculation is based on the total number of 1,123,104,800 Shares in issue as at December 31, 2020.

3. Karis I LLC and Karis II LLC holds approximately 21.69% and 14.46% of the issued share capital of the Company, respectively. Each of Karis I LLC and Karis II LLC is wholly owned by North Point Trust Company L.L.C., the trustee of the Annuity Trusts, on trust for the benefit of the Annuity Trusts, which were established by Ms. Yang for the ultimate benefit of the Family Trusts, pursuant to certain arrangements. The Family Trust I and Family Trust II were established by Ms. Yang as both the settlor and the trustee, and the beneficiaries of which are any children born to or adopted by Ms. Yang and their respective issue and Mr. Ryan Xu, being Ms. Yang's child, during his lifetime, and any charitable organizations to be subsequently determined by the independent trustee (if any) at its discretion upon its appointment, respectively. Pursuant to the Annuity Trusts, Ms. Yang, as the powerholder, has the power to appoint additional trustees and remove and replace North Point Trust Company L.L.C., and as the sole manager of Karis I LLC and Karis II LLC, has the authority to make all decisions in relation to them. Ms. Yang is deemed to be interested in both Karis I LLC and Karis II LLC, and is therefore deemed to be interested in any Shares in which each of Karis I LLC and Karis II LLC is interested.

4. Caerus Co., Ltd is wholly owned by Mr. Yang Yuzheng. Mr. Yang Yuzheng is therefore deemed to be interested in any Shares in which Caerus Co., Ltd is interested.

5. Mr. Xu Bo is the spouse of Ms. Yang. Under the SFO, Mr. Xu Bo is deemed to be interested in any Shares in which Ms. Yang is interested.

6. 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.

7. 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.

REPORT OF DIRECTORS (CONTINUED)

Save as disclosed herein, as at December 31, 2020, 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 sections headed "Pre-IPO Share Award Scheme" and "Share Option Scheme" 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 period from the Listing Date and up to December 31, 2020.

EQUITY-LINKED AGREEMENT

Save as disclosed in the sections headed "Pre-IPO Share Award Scheme" and the "Share Option Scheme"), the Company did not enter into any equity-linked agreement during the period from the Listing Date and up to December 31, 2020.

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.

REPORT OF DIRECTORS (CONTINUED)

SHARE OPTION SCHEME

Summary of terms

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by the written resolutions of all Shareholders of the Company passed on December 1, 2020. The Directors confirm that the terms of the Share Option Scheme comply with the requirements under Chapter 17 of the Listing Rules.

(a) Purpose

The purpose of the Share Option Scheme is to provide incentive or reward to Eligible Persons (as defined in paragraph (b) below) for their contribution to, and continuing efforts to promote the interests of, the Group and for such other purposes as the Board may approve from time to time.

(b) Who may join

The Board may, at its absolute discretion, offer eligible persons (being any director or employee (whether full time or part time), consultant or advisor of the Group who in the sole discretion of the Board has contributed to and/or will contribute to the Group) (the "**Eligible Persons**") to subscribe for such number of Shares in accordance with the terms of the Share Option Scheme.

(c) Maximum number of Shares

(i) The maximum aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company, must not, in aggregate, exceed 30% of the total number of Shares in issue from time to time. No options may be granted under the Share Option Scheme and any other share option schemes of the Company if this will result in such limit being exceeded.

(ii) Subject to paragraphs (c)(i), (iv) and (v), at the time of adoption by the Company of the Share Option Scheme or any new share option scheme (the "**New Scheme**"), the aggregate number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme, the New Scheme and all schemes existing at such time (the "**Existing Schemes**") of the Company must not in aggregate exceed 10% of the total number of the Shares in issue as of the Listing Date (the "**Scheme Mandate Limit**").

(iii) For the purposes of calculating the Scheme Mandate Limit under paragraph (c)(ii), Shares which are the subject matter of any options that have already lapsed in accordance with the terms of the relevant Existing Scheme(s) shall not be counted.

REPORT OF DIRECTORS (CONTINUED)

(iv) The Scheme Mandate Limit may be refreshed by ordinary resolution of the Shareholders in general meeting, provided that:

- the Scheme Mandate Limit so refreshed shall not exceed 10% of the total number of issued Shares as of the date of Shareholders' approval of the refreshment of the Scheme Mandate Limit;

- options previously granted under any Existing Schemes (including options outstanding, canceled, or lapsed in accordance with the relevant scheme rules or exercised options) shall not be counted for the purpose of calculating the limit as refreshed; and

- a circular regarding the proposed refreshment of the Scheme Mandate Limit has been dispatched to the Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules.

(v) The Company may seek separate approval from the Shareholders in the general meeting for granting options which will result in the Scheme Mandate Limit being exceeded, provided that:

- the grant is to Eligible Persons specifically identified by the Company before the approval is sought; and

- a circular regarding the grant has been dispatched to the Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules and other applicable laws and rules, in accordance with the terms of the Share Option Scheme.

(d) Maximum number of options to any one individual

No option shall be granted to any Eligible Person (the "**Relevant Eligible Person**") if, at the relevant time of grant, the number of Shares issued and to be issued upon exercise of all Options (granted and proposed to be granted, whether exercised, canceled or outstanding) to the Relevant Eligible Person in the 12-month period expiring on the date on which an offer of the grant of an option under the Share Option Scheme is made to the Relevant Eligible Person would exceed 1% of the total number of Shares in issue at such time, unless:

- such grant has been duly approved, in the manner prescribed by the relevant provisions of Chapter 17 of the Listing Rules, by ordinary resolution of the Shareholders in general meeting, at which the Relevant Eligible Person and his associates abstained from voting;

- a circular regarding the grant has been dispatched to the Shareholders in a manner complying with, and containing the information specified in, the relevant provisions of Chapter 17 of the Listing Rules; and

- the number and terms (including the Subscription Price) of such options are fixed before the general meeting of the Company at which the same are approved.

REPORT OF DIRECTORS (CONTINUED)

(e) Price of Shares

The subscription price for a Share in respect of any particular option granted under the Share Option Scheme (which shall be payable upon exercise of the option) shall be a price solely determined by the Board and notified to all Eligible Person and shall be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer to grant option, which must be a business day; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer to grant option (the "**Offer Date**") (provided that the new issue price shall be used as the closing price for any business day falling within the period before the listing Shares where the Company has been listed for less than five business days as of the Offer Date); and (iii) the nominal value of the Share. A consideration of RMB1 is payable on acceptance of the offer of an option or options.

(f) Time of exercise of option

Subject to the provisions of the Listing Rules and other applicable laws and regulations, the Board may in its absolute discretion when offering the grant of an option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the offer letter) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by the Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the option in respect of all or any of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the option can be exercised.

The date of grant of any particular option is the date on which the offer relating to such option is duly accepted by the grantee in accordance with the Share Option Scheme. An option may be exercised according to the terms of the Share Option Scheme and the offer in whole or in part by the grantee (or his personal representatives) before its expiry by giving notice in writing to the Company stating that the option is to be exercised and the number of Shares in respect of which it is exercised provided that the number of Shares shall be equal to the size of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof. Such notice must be accompanied by a remittance for the full amount of the subscription price for the Shares in respect of which the notice is given. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years from the date of grant. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by the Company in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of adoption of the Share Option Scheme by Shareholders by resolution at a general meeting.

REPORT OF DIRECTORS (CONTINUED)

As at the date of this report, the total number of shares available for issue under the Share Option Scheme is 112,310,480 Shares, which represents 9.64% of the issued shares as at the date of this report.

Since the adoption date of the Share Option Scheme to December 31, 2020, no share option was granted, exercised, expired or lapsed and there is no outstanding share option under the Share Option Scheme. The remaining life of the Share Option Scheme is nine years and eight months.

PRE-IPO SHARE AWARD SCHEME

The Pre-IPO Share Award Scheme was adopted on June 16, 2020, the principal terms of which are summarized below. The Pre-IPO Share Award Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the Pre-IPO Share Award Scheme does not involve the grant of options by the Company to subscribe for new Shares. For further details, please refer to note 27 to the financial statements.

(1) Purpose

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

(2) Implementation

Pursuant to the Trust Deed, Bank of Communications Trustee Limited was appointed as trustee under the Share Award Trust to hold the awarded Shares (the "**Awarded Shares**") on trust for the benefit of the selected employee(s) (the "**Selected Employee(s)**") as determined by the Board pursuant to the rules of the Pre-IPO Share Award Scheme.

Awarded Shares granted on or before the Listing

A total of 10,000 Awarded Shares have been granted to and vested in one Selected Employee, Ms. Jiang Junxiu, a director of Yoowo HK before the Listing on a one-off basis with details set out below:

Name of the grantee	Position held within the Group	Consideration	Number of Awarded Shares granted
Jiang Junxiu	director of Yoowo HK	HK$100	10,000

Pursuant to the Capitalisation Issue, a total of 7,990,000 Shares were issued to Ms. Jiang Junxiu in respect of the Awarded Shares granted to her under the Pre-IPO Share Award Scheme. As at December 31, 2020, Ms. Jiang Junxiu was granted and vested of 8,000,000 Shares.

REPORT OF DIRECTORS (CONTINUED)

Awarded Shares to be granted after the Listing

A total of 34,104,800 awarded shares, representing 2.93% of the issued shares as at the date of this report, may be granted to the Selected Employees after the Listing at full discretion of the Board pursuant to the rules of the Pre-IPO Share Award Scheme.

Save as disclosed above, no further Shares will be transferred and no new Shares will be issued by the Company for the purpose of the Pre-IPO Share Award Scheme.

(3) Administration

The Pre-IPO Share Award Scheme shall be subject to the administration of our Board in accordance with the rules of the Pre-IPO Share Award Scheme. The Board will make all determination in relation to the Pre-IPO Share Award Scheme. The Board may delegate the authority to administer this scheme to any committee thereof or any third party duly appointed thereby, including without limitation third-party service providers and professional trustees (collectively, the "**Authorized Administrators**"). Any decision of the Board made with respect to any matter arising under the Pre-IPO Share Award Scheme (including the interpretation of any rules therein) shall be final and binding on all parties.

(4) Term

Subject to any early termination pursuant thereto, the Pre-IPO Share Award Scheme shall be valid and effective for a term of ten (10) years, commencing from the date of adoption.

(5) Grant of Awarded Shares

A grant of the Awarded Shares to any Selected Employee shall be made by a grant notice (the "**Grant Notice**") specifying the number of Awarded Shares so granted and the conditions (if any) upon which such Awarded Shares were granted.

A grant of the Awarded Shares shall be deemed to have been accepted when the acceptance form attached to the Grant Notice is duly signed and delivered to the Company by the Selected Employee within five (5) business days after the date of the Grant Notice.

(6) Awarded Shares to be Personal to the Selected Employees

The Awarded Shares granted pursuant to the Pre-IPO Share Award Scheme shall be personal to the Selected Employees. Before the Awarded Shares are vested in a Selected Employee pursuant to the Pre-IPO Share Award Scheme, the Awarded Shares shall not be assignable or transferrable. The Selected Employees shall not sell, transfer, charge, mortgage, encumber or create any interest in favor of any other person over or in relation to any Awarded Shares granted to him or any interest or benefits therein.

REPORT OF DIRECTORS (CONTINUED)

(7) Vesting of Awarded Shares

The vesting principles of the Pre-IPO Share Award Scheme are summarized as follows:

(i) A Selected Employee is not entitled to enjoy the voting rights nor any rights in respect of the Awarded Shares, including but not limited to, any dividends or other distributions, before such Awarded Shares are vested in him.

(ii) Subject to the terms of the Pre-IPO Share Award Scheme and the specific terms and conditions set out in the Grant Notice to each Selected Employee, the Awarded Shares shall be vested in such Selected Employee in accordance with the following schedule provided that the vesting conditions set out in the Grant Notice applicable to such Selected Employee are satisfied:

(a) As to the 10,000 Awarded Shares granted to Ms. Jiang Junxiu (a director of Yoowo HK) as the Selected Employee before the Listing (the "**Pre-IPO Vested Awarded Shares**") (together with the 7,990,000 Shares issued pursuant to the Capitalisation issue), they have been vested on Ms. Jiang Junxiu on a one-off basis before the Listing, and subject to a five-year undertaking period on the Pre-IPO Vested Awarded Shares from the date of vesting as imposed by the Board (the "**Undertaking Period**"), and the Pre-IPO Vested Awarded Shares granted to Ms. Jiang Junxiu will be considered as fulfilled during the Undertaking Period in accordance with the following schedule (the "**Fulfillment Schedule**"):

- 10% of Ms. Jiang Junxiu's vested Shares shall become fulfilled upon the first anniversary of the date of vesting;
- 10% of Ms. Jiang Junxiu's vested Shares shall become fulfilled upon the second anniversary of the date of vesting;
- 20% of Ms. Jiang Junxiu's vested Shares shall become fulfilled upon the third anniversary of the date of vesting;
- 30% of Ms. Jiang Junxiu's vested Shares shall become fulfilled upon the fourth anniversary of the date of vesting; and
- 30% of Ms. Jiang Junxiu's vested Shares shall become fulfilled upon the fifth anniversary of the date of vesting.

REPORT OF DIRECTORS (CONTINUED)

During the Undertaking Period, if Ms. Jiang Junxiu ceases to be able to satisfy the vesting conditions applicable to her including but not limited to paragraph (7)(iii) below, Ms. Jiang Junxiu shall pay to the Company an amount equivalent to the difference between the vesting price as specified in the Grant Notice (the "**Vesting Price**") and the Offer Price multiplied by the unfulfilled portion of the Pre-IPO Vested Awarded Shares according to the Fulfillment Schedule based on the following formula:

$A = B \times C$

Where:

A is the amount to be paid by Ms. Jiang Junxiu

B is the difference between the Vesting Price and the Offer Price

C is the number of Shares representing the unfulfilled portion of the Pre-IPO Vested Awarded Shares according to the Fulfillment Schedule

(b) As to the Awarded Shares granted to the Selected Employees after the Listing, they shall be vested in such Selected Employee in three tranches on the following vesting dates:

- 20% on the first anniversary of the date of grant;
- 30% on the second anniversary of the date of grant; and
- 50% on the third anniversary of the date of grant;

For the avoidance of doubt, except for the Pre-IPO Vested Awarded Shares, the Awarded Shares which are vested in three tranches after the Listing are not subject to the requirements in relation to the Undertaking Period as specified in paragraph (ii)(a) above.

(iii) The Board and/or the Authorized Administrator(s) has absolute discretion in determining whether the vesting conditions applicable to a Selected Employee are satisfied. The vesting conditions include but not limited to:

(a) the Selected Employee shall remain an employee of the Group on the relevant vesting dates;

(b) there shall be no occurrence of triggering events for the surrender of the Awarded Shares; and

(c) the Selected Employee and his associate(s) shall not be employed by or operate or invest in any entity, during the period from the date of grant to the relevant vesting dates, the business of which competes with the core business of the Group.

REPORT OF DIRECTORS (CONTINUED)

As at the end of the Reporting Period, a total of 8,000,000 Shares were granted and vested under the Pre-IPO Share Award Scheme. The remaining life of the Pre-IPO Share Award Scheme is nine years and three months.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the Latest Practicable Date, the Directors confirm that the Company has maintained the prescribed public float under the Listing Rules during the period from the Listing Date and up to December 31, 2020.

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 period from the Listing Date and up to December 31, 2020.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company, or the laws of Cayman Islands, which would oblige the Company to offer new shares of the Company on a pro-rata basis to its existing Shareholders.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

The over-allotment option has been fully exercised by the Joint Global Coordinators (as defined in the Prospectus), for themselves and on behalf of the International Underwriters (as defined in the Prospectus), on January 8, 2021, in respect of an aggregate of 42,150,000 Shares (the "**Over-allotment Shares**"), representing approximately 15% of the total number of the offer shares initially available under the Global Offering before any exercise of the over-allotment option. The Over-allotment Shares were allotted and issued by the Company on January 13, 2021 at HK$5.52 per share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), being the offer price per offer share under the Global Offering.

REPORT OF DIRECTORS (CONTINUED)

CONTINGENT LIABILITIES

As at December 31, 2020, the Group had no material contingent liabilities.

CONNECTED TRANSACTIONS

During the Reporting Period, the Group did not have any transactions with any of its connected persons, which was not fully exempt from shareholders' approval, annual review and all disclosure requirements under the Chapter 14A of the Listing Rules.

RELATED PARTY TRANSACTIONS

The related party transactions undertaken during the Reporting Period are set out in note 30 to the financial statements, among which, item (c) also constituted continuing connected transaction as defined in Chapter 14A of the Listing Rules. The Company has complied with all disclosure requirements as set out in Chapter 14A of the Listing Rules.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Company is committed to improving environmental sustainability and will closely monitor the performance. In accordance with Rule 13.91 of and Appendix 27 to the Listing Rules, details of environmental policies and performance of the Company will be disclosed in the Environment, Social and Governance Report (the "**ESG Report**") to be published within 3 months after the publication of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the Reporting Period are set out in note 13 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 1 to the financial statements.

AUDITOR

The consolidated financial statements for the year ended December 31, 2020 of the Group have been audited by Ernst & Young, the auditor of the Company, who shall retire and, being eligible, have offered itself for re-appointment as auditor of the Company at the 2021 AGM. A resolution will be proposed at the 2021 AGM to reappoint Ernst & Young as the auditor of the Company and to authorize the Board to fix the remuneration of the auditor. There was no change in the auditor of the Company in the preceding three years.

REPORT OF DIRECTORS (CONTINUED)

COMPLIANCE WITH LAWS AND REGULATIONS

During the Reporting Period, the Group had not been and were not involved in any non-compliance incidents that led to fines, enforcement actions or other penalties that could, individually or in the aggregate, had a material adverse effect on the Group's business, financial condition or results of operations. As far as the Company is aware, the Group had complied, in all material respects, with all relevant laws and regulations in the jurisdictions which the Group operated in during the Reporting Period.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's business may be materially and adversely affected by these risks, including the following:

Risk Category	Risk Description	Response to Risk
Strategic Risk	**Risk of Sino-U.S. trade war and other trade or import protection policies** A Sino-U.S. trade war has developed in recent years between the United States and the PRC, under which the Group's products exported from the PRC to the United States may be subject to high tariff rates. The Group strategically focuses on the U.S. market, thus suffering material impact. Any further trade restrictions imposed by the United States on small home appliances and smart home devices could significantly increase the import costs of our products manufactured in the PRC, and thus make the Group's product lack competitiveness. The Group's business, financial condition and results of operations could be materially and adversely affected, and may even record financial losses. In addition, the Group also sells products to other countries, including Canada, Japan, the UK and other European countries. Changes to the trade or investment policies, treaties or tariffs in the places where the Group operate could adversely affect the Group's international and cross-border operations, financial condition and results of operations. In the event that any of these countries impose trade sanctions, import restrictions or extra customs duties on the products the Group sells, the Group's business and operations may be materially and adversely affected.	In response to the Sino-U.S. trade war, the Group plans to optimize its product mix. The Group enhanced its product development and marketing efforts on products with a higher profit margin. The Group also focused on launching new models and upgrades of these higher-margin products such as air purifiers and air fryers, which are our top selling products. The Group also devoted more marketing resources for these higher margin products to optimize their detailed product pages on e-commerce platforms and enhance marketing content about these products on social media. The Group also actively participated in tradeshows to increase the exposure of these products. The Group also expanded into markets outside the United States. The Group has been actively exploring markets outside the United States. Amazon offers global selling channels, based on which the Group has opened accounts in Canada, the United Kingdom, Germany and Japan. The Group plans to further strengthen or expand our market share in countries other than the United States. The Group believes its diversification efforts in regional sales will help mitigate the impact of the Sino-U.S. trade war on it. In the future, the Group plans to set up production plants outside China, including Vietnam and Malaysia, so as to further mitigate the impact of Sino-U.S. trade war on it.

REPORT OF DIRECTORS (CONTINUED)

Risk Category	Risk Description	Response to Risk
Operational Risk	**Risk of personnel turnover** In the future, the Group will develop more smart home products and continue to develop and optimize its own applications to expand its business and enhance its competitiveness. As a result, the Group will have a greater demand for high-quality talents with rich experience at all levels. Due to the fierce competition for talents, the Group needs to offer higher compensation and other benefits to retain and recruit qualified employees. Due to the fierce competition for talents, if the Group fails to maintain a steady talents pool, it may be difficult for the Group to recruit and train new employees in time to maintain the Group's operations and research and development. Under such circumstance, failing to recruit new employees in time may not only hinder the Group's daily operation and research and development progress but also cause negative impact on the Group's development plan due to a lack of suitable personnel or the vacancies filled with inexperienced hands.	At present, the Group is committed to providing employees with a harmonious working environment and enhancing their sense of belonging to the Group. The Group also has a sound performance management system to ensure that employees can get fair returns for their efforts. In addition, the Group has an equity incentive mechanism, which will provide equities for important technical and management personnel to retain employees and encourage them to continue to make contributions to the Group. The listing status of the Group has also enhanced the confidence of employees in the Company, increased the attractiveness of the Group in recruitment, and made it easier for the Group to recruit needed talents. Therefore, the Group's management is confident that it will continue to effectively stabilize the mobility of personnel and help retain talents in the future.
Operational Risk	**Risk of operational disruption due to public health crisis** At the beginning of 2020, COVID–19 began to break out all over the world, which adversely affected global economic activities. In the first quarter of 2020, extensive epidemic prevention measures were taken in certain regions of China, some of which resulted in the slowdown or disruption of business operations of a large number of enterprises, including factory shutdowns and bans on brick-and-mortar businesses. In the United States, Europe and other regions, the COVID–19 epidemic has also hindered business operations of a large number of enterprises. Many enterprises have adopted work-from-home arrangements and a series of precautions, such as temperature checks and mask requirements, to prevent community outbreaks and protect their employees from the virus. If the Group fails to take measures to monitor the health of its employees and employees are infected with highly infectious diseases, its business operations may be seriously disrupted. The above risks may cause significant financial losses to the Group and even lead to business interruption.	Currently, the Group measures the body temperature of its employees on a daily basis and adopts work-from-home arrangements for employees in need during the peak period of COVID–19 to reduce the chance of virus infection. The Group has also stocked up on supplies such as masks and disinfectants to ensure that employees have sufficient supplies for epidemic prevention. In addition, the Group also supervises the daily hygiene of employees, disinfects the working environment and prepares epidemic prevention plans to enable employees to properly respond to emergencies. To address the risk of business interruption due to infection of employees, the Group has also taken measures to diversify the risk, such as allowing employees in US offices to work from home and decentralizing warehouse goods from a single warehouse to three warehouses to reduce the risk of business interruption due to the suspension of warehouse operations as a result of infection of warehouse personnel.

REPORT OF DIRECTORS (CONTINUED)

RELATIONSHIPS WITH STAKEHOLDERS

The Group acknowledges the importance of stakeholders to corporate development and pays attention to matters of concern to stakeholders including the government and regulators, shareholders and investors, employees, business partners, suppliers, customers and the community. The Group maintains transparent and bilateral exchange, strengthens mutual trust and cooperation and establishes harmonious relationship with its stakeholders. The Group's success depends on the support from key stakeholders which comprise the Directors and senior management, employees, customers and suppliers.

For details on the Group's relationships with employees, customers and suppliers during the Reporting Period, please refer to ESG Report to be published by the Company.

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

Hong Kong, March 29, 2021

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report of the Company for the year ended December 31, 2020.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to the 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 the CG Code.

Save for compliance with A.2.1 of the CG Code as described below, the Company had complied with all applicable code provisions set out in the CG Code during the period from the Listing Date up to December 31, 2020.

THE BOARD

Composition of the Board

The Board currently consists of seven Directors comprising three executive Directors, namely Ms. Yang Lin (chairperson), Mr. Yang Hai and Mr. Chen Zhaojun, one non-executive Director, namely Mr. Yang Yuzheng, and three independent non-executive Directors, namely Mr. Fong Wo, Felix, Mr. Gu Jiong and Mr. Tan Wen.

Responsibilities and Delegation by the Board

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance, and is collectively responsible for promoting the success of the Company by directing and supervising its affairs.

The functions and duties of the Board include, but are not limited to, convening the general meetings, reporting on the performance of the Board's work at the general meetings, implementing the resolutions passed at the general meetings, determining business and investment plans, formulating annual financial budget and final accounts, formulating the Company's proposals for profit distributions, and formulating proposals for increase or reduction of capital as well as exercising other powers, functions and duties as conformed by the Articles of Association.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Board reserves its right of decision for all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the Group's daily operations, management and administration are delegated to the senior management of the Company. The Board regularly reviews the functions and powers delegated to ensure that the assignments are still appropriate. To oversee specific aspects of the Company's affairs, the Board has established three board committees, including the Audit Committee, the Remuneration Committee and the Nomination Committee. The Board has assigned responsibilities to the Board committees in accordance with their respective scopes of powers and functions. The Board shall not delegate matters to the board committees, executive Directors or the senior management to an extent that would significantly hinder or reduce the ability of the Board as a whole to perform its functions.

CHAIRPERSON AND CHIEF EXECUTIVE OFFICER

Under the code provision A.2.1 of the CG Code, the roles of chairperson and chief executive officer should be separate and should not be performed by the same individual. The Company does not have a separate chairperson and chief executive officer and Ms. Yang Lin currently performs these two roles concurrently.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the period from the Listing Date and up to December 31, 2020, the Company had three independent non-executive Directors, in compliance with the Rules 3.10(1) and 3.10(2) of the Listing Rules, with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise. The number of independent non-executive Directors accounts for more than one-third of the number of the Board members.

CORPORATE GOVERNANCE REPORT (CONTINUED)

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Code provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 of the CG Code states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association.

In accordance with Article 84 of the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. A retiring Director shall be eligible for re-election. Accordingly, Ms. Yang Lin, Mr. Yang Hai and Mr. Chen Zhaojun will retire from office by rotation at the 2021 AGM, and being eligible, offer themselves for re-election.

COMPLIANCE WITH MODEL CODE REGARDING SECURITIES TRANSACTIONS

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

The Company has made specific enquiries with each Director, and each of them confirmed that he/she had complied with all required standards under the Model Code during the period from the Listing Date and up to December 31, 2020.

TRAINING AND CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Each newly appointed director shall be provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under the Listing Rules, relevant laws, rules and regulations. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties. Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretary of the Company has from time to time updated and provided written training materials relating to the roles, functions and duties of a director.

During the Reporting Period, all Directors attended the training on the obligations of a Hong Kong listed company and its directors given by its Hong Kong legal advisor.

CORPORATE GOVERNANCE REPORT (CONTINUED)

According to records provided by the Directors, a summary of training received by the Directors during the Reporting Period is as follows:

Name of Director	Attending training session	Reading regulatory materials
Executive Directors		
Ms. Yang Lin	✓	—
Mr. Yang Hai	✓	—
Mr. Chen Zhaojun	✓	—
Non-executive Director		
Mr. Yang Yuzheng	✓	—
Independent Non-executive Directors		
Mr. Fong Wo, Felix	✓	—
Mr. Gu Jiong	✓	✓
Mr. Tan Wen	✓	—

DIRECTORS' RESPONSIBILITY ON FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the Reporting Period.

The Directors are responsible for overseeing the preparation of financial statements of the Company with a view to ensuring that such financial statements give a true and fair view of the financial position of the Group and relevant statutory and regulatory requirements and applicable accounting standards are complied with.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

CORPORATE GOVERNANCE REPORT (CONTINUED)

BOARD MEETINGS, BOARD COMMITTEES MEETINGS AND GENERAL MEETINGS

No Board meeting, board committees meeting or general meeting was held by the Company during the period from the Listing Date and up to December 31, 2020 as the Shares were only listed on the Main Board of the Stock Exchange on December 18, 2020. Subsequent to the Reporting Period and up to the Latest Practicable Date, (i) one Board meeting was held and approved, among others, the annual results and report for the Reporting Period; (ii) one audit committee meeting was held and reviewed, among others, the annual results and report for the Reporting Period and the internal control and risk management systems; (iii) one nomination committee meeting was held and assessed the independence of the independent non-executive Directors, considered the re-election of Directors and reviewed the structure, size and composition of the Board; and (iv) one remuneration committee meeting was held and reviewed the remuneration packages of the executive Directors and senior management and remuneration of the non-executive Director. All Directors and members of the Board committees attended the aforementioned meetings respectively.

Going forward, the board will meet regularly and board meetings will be held at least four times a year at approximately quarterly intervals. Notices of regular Board meetings are served to all of the Directors at least 14 days before the meetings. For other Board and Board committee meetings, reasonable notices were generally given. Minutes of meetings are kept by the company secretary with copies circulated to all Directors or Board committee members for information and records within a reasonable time after the date of the meeting. Directors who have conflicts of interest in a resolution are required to abstain from voting.

BOARD COMMITTEES

The Company has established three Board committees in accordance with the relevant laws and regulations and the corporate governance practice under the Listing Rules, including the Audit Committee, the Remuneration Committee and the Nomination Committee.

Audit Committee

The Audit Committee was established by the Company pursuant to a resolution of our Board on December 1, 2020 with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to make recommendations to our Board on the appointment and dismissal of the external auditor, monitor and review the financial statements and information and oversee the financial reporting system, risk management and internal control systems of the Company. The members of the Audit Committee are Mr. Gu Jiong, Mr. Fong Wo, Felix and Mr. Tan Wen, all of whom are independent non-executive Directors. Mr. Gu Jiong is the chairman of the Audit Committee.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Remuneration Committee

The Remuneration Committee was established by the Company pursuant to a resolution of our Board on December 1, 2020 with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration Committee are to make recommendation to our Board on the overall remuneration policy and structure for all Directors and senior management of the Group, make recommendation to the Board on the remuneration packages of individual executive Directors and senior management and make recommendation to the Board on the remuneration of non-executive Directors and to ensure that none of our Directors determine their own remuneration. The members of the Remuneration Committee are Mr. Fong Wo, Felix, Mr. Gu Jiong, Mr. Tan Wen, Ms. Yang and Mr. Yang Hai. Mr. Fong Wo, Felix is the chairman of the Remuneration Committee.

Pursuant to the code provision B.1.5 of the CG Code, the following table sets forth the remuneration of the members of senior management categorized by remuneration group for the year ended December 31, 2020:

Band	**Number of Individuals**
Nil to US$500,000	3
Total	3

Further details of the Directors' emoluments and the top five highest paid employees required to be disclosed under Appendix 16 to the Listing Rules are set out in notes 8 and 9 to the financial statements.

Nomination Committee

The Nomination Committee was established by the Company pursuant to a resolution of the Board on December 1, 2020 with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee are to review the structure, size, composition and diversity of our Board at least annually and make recommendation to our Board regarding candidates to fill vacancies on our Board and/or in senior management. The members of the Nomination Committee are Ms. Yang Lin, Mr. Gu Jiong, Mr. Fong Wo, Felix, Mr. Tan Wen and Mr. Yang Hai. Ms. Yang Lin is the chairperson of the Nomination Committee.

Nomination Policy

The Company has established a nomination policy which sets out the selection criteria and nomination procedures for the appointment of Directors. The selection criteria used as reference by the Nomination Committee in assessing the suitability of a proposed candidate include but not limited to:

(1) character and integrity;

(2) qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;

CORPORATE GOVERNANCE REPORT (CONTINUED)

(3) accomplishment and experience business from time to time conducted, engaged in or invested in by any member of the Group;

(4) commitment in respect of available time and relevant interest;

(5) requirement for the Board to have independent directors in accordance with the Listing Rules and whether the candidates would be considered independent with reference to the independence guidelines set out in the Listing Rules;

(6) the board diversity policy and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board; and

(7) such other perspectives appropriate to the Company's business.

The nomination procedure is as follows:

- for filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation.

- the Nomination Committee shall, upon receipt of the proposal on appointment of new director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the selection criteria as set out above to determine whether such candidate is qualified for directorship.

- if the process yields one or more desirable candidates, the Nomination Committee shall rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).

- the Nomination Committee shall then recommend to appoint the appropriate candidate for directorship. The Board shall have the ultimate responsibility for selection and appointment of Directors.

- for any person that is nominated by a Shareholder for election as a director at the general meeting of the Company pursuant to its constitutional documents, the Nomination Committee shall evaluate such candidate based on the selection criteria as set out above to determine whether such candidate is qualified for directorship and where appropriate, the Nomination Committee and/or the Board shall make recommendation to shareholders in respect of the proposed election of director at the general meeting.

Board Diversity Policy

The Company has adopted a board diversity policy which sets out the approach to achieve and maintain an appropriate balance of skills, experience and diversity perspectives of the Board that are relevant to the business growth. Pursuant to the Board diversity policy, selection of Board candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry experience. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

CORPORATE GOVERNANCE REPORT (CONTINUED)

CORPORATE GOVERNANCE FUNCTION

The Board is responsible for performing the duties on corporate governance functions set out below:

- to develop and review the Company's policies and practices on corporate governance and make recommendation to the Board;
- to review and monitor the training and continuous professional development of directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
- to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

The Board has reviewed the Company's corporate governance policies and practices, Directors' and senior management's training and continuing professional development, the Company's policies and practices in complying with legal and regulatory requirements, compliance with the Model Code, and the Company's compliance with the Code and its disclosure in the corporate governance report.

COMPANY SECRETARY

Ms. Zhang Xiao was appointed as the company secretary of the Company on May 27, 2020.

Ms. Zhang is a manager of SWCS Corporate Services Group (Hong Kong) Limited, a professional services provider specializing in corporate services, and has over seven years of experience in the corporate secretarial field. Ms. Zhang has been admitted as an associate member of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute in the United Kingdom in 2019.

Ms. Zhang obtained a bachelor's degree in Computer Science from The Chinese University of Hong Kong in 2010 and a master's degree in corporate governance from The Open University of Hong Kong in 2018.

Mr. Chen Zhaojun, an executive Director and chief financial officer of the Company, is the primary contact of Ms. Zhang at the Company. All Directors have access to the advice and services of Ms. Zhang to ensure that board procedures, and all applicable law, rules and regulations, are followed. During the Reporting Period, Ms. Zhang has taken more than 15 hours of relevant professional training according to Rule 3.29 of the Listing Rules.

CORPORATE GOVERNANCE REPORT (CONTINUED)

AUDITOR'S REMUNERATION

The remunerations paid or payable to the external auditor of the Company in respect of audit and non-audit services provided to the Group for the Reporting Period are set out as below. The amount of audit services fee also included the service fee in connection with the Global Offering. The non-audit services mainly include professional services on transfer pricing and tax compliance services.

Type of services provided by the external auditor	Fees paid/ payable US$'000
Audit and audit related services	1,068
Non-audit services	414
Total	1,482

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the risk management and internal control systems of the Company. The Board is committed to implementing an effective and sound risk management and internal control system to safeguard the interest of our shareholders and the assets of the Company.

The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has delegated its responsibilities (with relevant authorities) of risk management and internal control to the Audit Committee, who oversees management in the design, implementation and monitoring of the risk management and internal control systems.

The Board has conducted a review of the systems of risk management and internal control for the Reporting Period to ensure the effectiveness and adequacy of the systems. Such review shall be conducted annually. The Board considered that the risk management and internal control systems of Company for the Reporting Period were effective and adequate.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Main features of the risk management and internal control systems

The main features of the risk management and internal control structure of the Company are as follows:

(i) Heads of key departments manage and mitigate identified risks in accordance with internal guidelines approved for adoption by the Board of Directors and the Audit Committee;

(ii) Management ensures that appropriate measures have been taken in response to significant risks affecting the Group's business and operations; and

(iii) An external independent consultant will be engaged to confirm the effectiveness of risk management and internal control to the Audit Committee and the Board of Directors.

The process used to identify, evaluate and manage significant risks

The Company has established a risk management system consisting of relevant policies and procedures that the Company believes are appropriate for our business operations. Pursuant to the Company's risk management policy, the key risk management objectives include: (i) identifying different types of risks; (ii) assessing and prioritizing the identified risks; (iii) developing appropriate risk management strategies for different types of risks; (iv) identifying, monitoring and managing risks and risk tolerance level; and (v) execution of risk response measures.

Internal audit function

The Company had no internal audit function for the Reporting Period but engaged an external independent consultant, BT Corporate Governance Limited, on internal audit, to conduct the annual review of the effectiveness of the risk management and internal control systems for the Reporting Period. The Group has properly followed all recommendations provided by the external independent consultant, and ensures these recommendations will be implemented within a reasonable time.

Handling and dissemination of inside information

The Group regulates the handling and dissemination of inside information according to the inside information policy of the Company and the "Guidelines on Disclosure of Inside Information" published by the Securities and Future Commission in June 2012 to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made. The Company regularly reminds the Directors and employees about due compliance with all policies regarding the inside information. Also, the Company keeps Directors, senior management and employees appraised of the latest regulatory updates. The Company shall prepare or update appropriate guidelines or policies to ensure the compliance with regulatory requirements.

CORPORATE GOVERNANCE REPORT (CONTINUED)

SHAREHOLDERS' RIGHTS

The Company encourages the Shareholders to attend the general meetings of the Company.

The Procedures for Shareholders to Convene an Extraordinary General Meeting ("EGM") and for Putting Forward Proposals at General Meeting

Pursuant to Article 58 of the articles of association, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit, the Board fails to proceed to convene such meeting, the shareholder(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the shareholder(s) as a result of the failure of the Board shall be reimbursed to the shareholder(s) by the Company.

The above written requisition shall be addressed to the Company's principal place of business in Hong Kong at 40th Floor, Dah Sing Financial Centre, No.248 Queen's Road East, Wanchai, Hong Kong.

There are no provisions in the Articles of Association or the Cayman Islands Companies Law for shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the above procedures for shareholders to convene an extraordinary general meeting.

Procedures for Directing Shareholders' Enquiries to the Board

Should any questions as to the Company arise, shareholders and investors may contact the Company. The contact details of the Company are as follows:

Vesync Co., Ltd
Address: 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong
Email: ir@vesync.com

Shareholders may also make enquiries with the Board at the general meetings of the Company.

AMENDMENTS TO CONSTITUTIONAL DOCUMENT

According to the written resolutions passed by the then Shareholders on December 1, 2020, the amended and restated memorandum of association has been adopted with effect from the resolution date, and the articles of association have been adopted with effect from the Listing Date. Save as disclosed, there had been no other changes in constitutional documents of the Company during the Reporting Period.

INDEPENDENT AUDITOR'S REPORT

EY 安永

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To the shareholders of Vesync Co., Ltd
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Vesync Co., Ltd (the "Company") and its subsidiaries (the "Group") set out on pages 66 to 147, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Variable returns for rights of return and promotion rebates The Group primarily sells its products to customers through Amazon's two programs, namely Seller Central and Vendor Central, and sells a small portion of its products through other sale channels. The Group recognises revenue from the sale of a product at the point in time when control of the asset is transferred to the customer, generally on the receipt of product by the customer or on delivery of the product by Amazon as a retailer through Vendor Central program. The Group provides a right of return to its customers for products under certain sale channels and promotion rebates to the retailer under Vendor Central program. These arrangements result in deductions to gross revenue and give rise to variable considerations. Considerations received or receivable from the customers for products that are expected to be returned are recognised as refund liabilities. The Group uses the expected value method to estimate the amount of products that will be returned from its customers and the amount of promotion rebates that will be entitled by the retailers which requires management significant judgement and estimation in determining an appropriate expected sales return rate for the products sold based on the contracted sales return rate, the Group's sales return policy, marketing strategy and the historical sales return rate, and expected promotion rebate percentage based on the Group's promotion plans, historical promotion rebates and actual subsequent promotion activities of each type of products. The Group's disclosures about estimating variable consideration for rights of return and promotion rebates are included in notes 2.3 and 3 to the financial statements.	We reviewed the key terms of major contracts with customers to test the terms and conditions related to sales returns and promotion rebates. We evaluated management's estimates on the expected sales returns by comparing historical sales returns, contracted sales return rate, the Group's sales return policy and the actual level of returns recorded subsequent to the period end, and management's estimates on the expected promotion rebates by comparing the Group's promotion plans and actual subsequent promotion activities. We also reviewed the calculation of the expected sales returns and expected promotion rebates and the deduction from revenue and recognition of refund liabilities.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment of inventories As at 31 December 2020, the net carrying value of inventories amounted to US$95,598,000, netting off a provision for impairment of US$4,392,000, representing 26% of the Group's total assets. The Group's inventories are stated at the lower of cost and net realisable value which requires management's significant estimation of the net realisable value of the inventories of different products based on the historical experience, current market condition, subsequent market trend, expected selling prices, estimated costs to sell and judgements in determining the appropriate level of inventory provisions against identified surplus or obsolete items based on ageing, product lifecycle, customer demands, future market trend and marketing strategies. The Group's disclosures about impairment of inventories are included in notes 2.3 and 3 to the financial statements.	We evaluated the Group's inventory provision policy by discussing with management to obtain an understanding and to corroborate the assumptions applied in estimating inventory provisions. We reviewed historical inventory consumption information and tested, on a sampling basis, the ageing of inventory by checking the purchase dates recorded in the inventory ageing report against suppliers' invoices. We test checked inventories movement and inquired management's overview of potential market trend and the Group's product marketing strategy to assess the condition and indicators of slow moving and obsolete inventories and evaluated the provision for slow moving and obsolete inventories. We assessed the expected selling prices of different products by making reference to the most recent retail price and estimated costs to sell by reviewing the costs incurred historically.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the Management Discussion and Analysis of the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Chairperson's Statement, the Report of Directors and the Corporate Governance Report, which are expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Chairperson's Statement, the Report of Directors and the Corporate Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lai Chee Kong.

Ernst & Young
Certified Public Accountants
Hong Kong
29 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

	Notes	2020 US$'000	2019 US$'000
REVENUE	5	**348,922**	171,919
Cost of sales		**(196,503)**	(104,685)
Gross profit		**152,419**	67,234
Other income and gains	5	**341**	1,182
Selling and distribution expenses		**(47,241)**	(37,779)
Administrative expenses		**(38,920)**	(21,253)
Impairment losses on financial assets, net		**(141)**	(36)
Other expenses		**(5,261)**	(1,131)
Finance costs	7	**(1,140)**	(1,283)
PROFIT BEFORE TAX	6	**60,057**	6,934
Income tax expense	10	**(5,334)**	(562)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		**54,723**	6,372
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**2,029**	(23)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**2,029**	(23)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		**56,752**	6,349
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	12	**US6.76 cents**	US0.80 cents
Diluted	12	**US6.74 cents**	US0.80 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 US$'000	2019 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,858	1,594
Right-of-use assets	14(a)	11,056	8,067
Other intangible assets	15	406	207
Other non-current assets		280	23
Deferred tax assets	25	17,002	2,837
Total non-current assets		30,602	12,728
CURRENT ASSETS			
Inventories	16	95,598	33,278
Trade receivables	17	35,241	17,880
Prepayments, other receivables and other assets	18	24,577	7,415
Tax recoverable		256	2,051
Due from directors	19	—	970
Due from related parties	30(b)	—	4,625
Pledged short-term deposits	20	—	588
Cash and cash equivalents	20	183,450	9,115
Total current assets		339,122	75,922
CURRENT LIABILITIES			
Trade payables	21	45,617	19,418
Other payables and accruals	22	27,217	14,367
Provision	24	1,999	368
Interest-bearing bank and other borrowings	23	2,888	18,354
Lease liabilities	14(b)	2,634	1,500
Tax payable		17,040	729
Due to directors		—	7,868
Due to related parties	30(b)	—	1,032
Total current liabilities		97,395	63,636
NET CURRENT ASSETS		241,727	12,286
TOTAL ASSETS LESS CURRENT LIABILITIES		272,329	25,014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2020

	Notes	2020 US$'000	2019 US$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**272,329**	25,014
NON-CURRENT LIABILITIES			
Lease liabilities	14(b)	**9,183**	6,802
Provision	24	**3,015**	1,818
Total non-current liabilities		**12,198**	8,620
Net assets		**260,131**	16,394
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	**1,449**	1
Share premium		**189,587**	4,210
Reserves	28	**69,095**	12,183
Total equity		**260,131**	16,394

Yang Lin
Director

Chen Zhaojun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Notes	Attributable to owners of the parent								
		Share capital US$'000 (note 26)	Share premium account US$'000 (note 26)	Share held for share award scheme* US$'000 (note 26)	Other reserve* US$'000	Share award reserve* US$'000	Statutory surplus reserve* US$'000 (note 28)	Exchange fluctuation reserve* US$'000 (note 28)	Retained profits* US$'000	Total equity US$'000
At 1 January 2020		1	4,210	—	(2,102)	—	1,449	(464)	13,300	16,394
Profit for the year		—	—	—	—	—	—	—	54,723	54,723
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations		—	—	—	—	—	—	2,029	—	2,029
Total comprehensive income for the year		—	—	—	—	—	—	2,029	54,723	56,752
Capitalisation issue of shares	26	1,085	(1,079)	(6)	—	—	—	—	—	—
Issue of shares for the initial public offering	26	363	199,718	—	—	—	—	—	—	200,081
Share issue expenses		—	(9,052)	—	—	—	—	—	—	(9,052)
Equity-settled share award arrangement	27	—	—	—	—	166	—	—	—	166
Dividends declared and paid	11	—	(4,210)	—	—	—	—	—	—	(4,210)
Transfer to statutory surplus reserve		—	—	—	—	—	1,389	—	(1,389)	—
At 31 December 2020		1,449	189,587	(6)	(2,102)	166	2,838	1,565	66,634	260,131

	Notes	Attributable to owners of the parent							
		Share capital US$'000 (note 26)	Share premium account US$'000 (note 26)	Other reserve* US$'000	Capital reserve* US$'000	Statutory surplus reserve* US$'000 (note 28)	Exchange fluctuation reserve* US$'000 (note 28)	Retained profits* US$'000	Total equity US$'000
At 1 January 2019		—	—	(3,753)	4,181	979	(441)	7,398	8,364
Profit for the year		—	—	—	—	—	—	6,372	6,372
Other comprehensive loss for the year:									
Exchange differences on translation of foreign operations		—	—	—	—	—	(23)	—	(23)
Total comprehensive income for the year		—	—	—			(23)	6,372	6,349
Disposal of a subsidiary		—	—	1,651	—	—	—	—	1,651
Issue of shares to the then shareholders	26	1	4,210	—	—	—	—	—	4,211
Acquisition of equity interests from the then shareholders of subsidiaries as part of the reorganisation		—	—	—	(4,181)	—	—	—	(4,181)
Transfer to statutory surplus reserve		—	—	—	—	470	—	(470)	—
At 31 December 2019		1	4,210	(2,102)	—	1,449	(464)	13,300	16,394

* These reserve accounts comprise the consolidated reserves of US$69,095,000 (2019: US$12,183,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	Notes	2020 US$'000	2019 US$'000
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES			
Profit before tax		60,057	6,934
Adjustments for:			
Finance costs		1,140	1,283
Impairment of trade receivables, net	17	141	36
Impairment of inventories	6	3,210	591
Depreciation of property, plant and equipment	13	706	592
Depreciation of right-of-use assets	14(a)	2,702	1,514
Equity-settled share award expense		166	—
Amortisation of other intangible assets	15	266	79
Loss on disposal of items of property, plant and equipment, net	6	4	—
Foreign exchange differences, net	6	1,887	(234)
		70,279	10,795
Increase in trade receivables		(17,473)	(13,985)
Increase in prepayments, other receivables and other assets		(17,164)	(1,793)
Increase in inventories		(65,530)	(8,464)
Increase in other non-current assets		(257)	(1)
Increase in trade payables		26,199	11,270
Increase in provision		2,828	625
Decrease in other payables and accruals		11,562	4,625
Increase/(decrease) in pledged deposits		588	(588)
Cash generated from operations		11,032	2,484
Income tax paid		(1,384)	(3,744)
Net cash flows from/(used in) operating activities		9,648	(1,260)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(892)	(972)
Purchases of other intangible assets		(441)	(182)
Payments of right-of-use assets		—	(80)
Proceeds from disposal of items of property, plant and equipment		—	3
Disposal of a subsidiary		—	(22)
Loans to directors	30(a)	—	(731)
Repayments of loans to directors		970	370
Loans to related parties	30(a)	(14)	(310)
Repayments of loans to related parties		478	91
Acquisition of equity interests in subsidiaries from the then shareholders		(6,422)	—
Net cash flows used in investing activities		(6,321)	(1,833)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2020

	Notes	2020 US$'000	2019 US$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution by the then shareholders		4,224	—
Proceeds from issue of shares		200,081	—
Share issue expenses		(7,476)	—
New bank loans		21,776	16,746
Repayment of bank and other borrowings		(37,242)	(12,400)
Principal portion of lease payments		(2,187)	(1,370)
Loans from employees		12	29
Repayment of loans from employees		(41)	(422)
Loans from a director	30(a)	—	1,290
Repayment of loans from directors		(1,489)	(315)
Loans from a related party	30(a)	947	4,330
Repayment of loans from a related party		(1,979)	(4,274)
Dividend paid to shareholders		(4,224)	—
Interest paid		(1,293)	(1,242)
Net cash flows from financing activities		171,109	2,372
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		174,436	(721)
Cash and cash equivalents at beginning of year		9,115	9,856
Effect of foreign exchange rate changes, net		(101)	(20)
CASH AND CASH EQUIVALENTS AT END OF YEAR	20	183,450	9,115
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	183,450	9,115

NOTES TO FINANCIAL STATEMENTS

31 December 2020

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at the offices of Conyers Trust Company (Cayman) Limited, with the address of Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. During the year, the Company and its subsidiaries were principally engaged in research and development, manufacture and sale of smart household appliances and smart home devices. The Company's products are manufactured in the People's Republic of China (the "PRC") and sold to customers in locations including the United States ("USA"), Canada, the United Kingdom, France, Germany, Spain, Italy and Japan. In the opinion of the directors of the Company, the ultimate controlling shareholders of the Group are Ms. Yang Lin, Mr. Yang Yuzheng and Mr. Yang Hai.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Vitasync Co., Ltd ("Vitasync BVI")	The British Virgin Islands ("BVI") 27 February 2019	—	100%	—	Investment holding
Arcsync Co., Ltd ("Arcsync BVI")	BVI 27 February 2019	—	100%	—	Investment holding
Ecomine Co., Ltd ("Ecomine HK")	PRC/Hong Kong 25 March 2019	HK$10,000	—	100%	Investment holding
L&H Y Trading Inc. ("L&H Y US")	USA/California 3 October 2006	US$50	—	100%	Sale of products
Vesync Corporation ("Vesync US")	USA/California 1 April 2015	—	—	100%	Sale of products
Etekcity Company Limited ("Etekcity Macau")	PRC/Macau 21 February 2019	MOP25,000	—	100%	Import and export trade

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's subsidiaries are as follows: (continued)

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shenzhen City Chenbei Management Consulting Company Limited* ("WFOE") (note (a))	PRC/Mainland China 26 April 2019	RMB30,000,000	—	100%	Investment holding
Etekcity Corporation ("Etekcity US")	USA/California 5 December 2011	US$50	—	100%	Sale of products
Atekcity Corporation ("Atekcity US")	USA/California 3 July 2012	—	—	100%	Customs clearance and declaration
Arovast Corporation ("Arovast US")	USA/California 20 October 2016	—	—	100%	Sale of products
Cosori Corporation ("Cosori US")	USA/California 8 September 2015	—	—	100%	
Shenzhen City Chenbei Technology Company Limited* ("Shenzhen Chenbei") (note (b))	PRC/Mainland China 27 February 2013	RMB28,500,000	—	100%	Research, development and sale of products
Rongyi (Shanghai) Information Technology Company Limited* ("Rongyi Shanghai") (note (b))	PRC/Mainland China 17 March 2015	RMB1,000,000	—	100%	Technical support

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's subsidiaries are as follows: (continued)

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Dongguan City Zhilun Electronic Technology Company Limited* ("Dongguan Zhilun") (note (b))	PRC/Mainland China 14 February 2017	RMB5,000,000	—	100%	Manufacture and sale of products
Chongqing Xiaodao Information Technology Company Limited* ("Chongqing Xiaodao") (note (b))	PRC/Mainland China 8 April 2015	RMB1,000,000	—	100%	Technical support
Yoowo Co., Ltd ("Yoowo HK")	PRC/Hong Kong 23 September 2015	HK$1,000,000	—	100%	Import and export trade
Etekcity Company Limited ("Etekcity Japan")	Japan 28 January 2019	JPY2,000,000	—	100%	Sale of products
Etekcity GmbH ("Etekcity Germany")	Germany 16 November 2017	EUR150	—	100%	Customs clearance and declaration
Adiman B.V. ("Adiman Netherlands")	Netherlands/Amsterdam 4 January 2016	EUR1,000	—	100%	Sale of products

(a) This entity is a wholly-foreign-owned company established under PRC law.

(b) These entities are limited liability enterprises established under PRC law.

(c) On 15 July 2020, a subsidiary of the Group, Chengdu City Xiaodu Information Technology Company Limited ("Chengdu Xiaodu") was deregistered.

* The English names of these entities registered in the PRC represent the best efforts made by management of the Company to directly translate their Chinese names as they did not register any official English name.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. All HKFRSs effective from the accounting period commencing from 1 January 2020, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the financial statements for the year ended 31 December 2019. The Group has early adopted the Amendment to HKFRS 16 *Covid-19-Related Rent Concessions* for rent concessions occurring as a direct consequence of the covid-19 pandemic after 1 January 2020 in the preparation of the financial statements for the year ended 31 December 2020. They have been prepared under the historical cost convention. These financial statements are presented in United States dollars ("US$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform — Phase 2*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKFRS 17	*Insurance Contracts*[3, 6]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[3, 5]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to HKAS 37	*Onerous Contracts — Cost of Fulfilling a Contract*[2]
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[2]

1 Effective for annual periods beginning on or after 1 January 2021

2 Effective for annual periods beginning on or after 1 January 2022

3 Effective for annual periods beginning on or after 1 January 2023

4 No mandatory effective date yet determined but available for adoption

5 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion.

6 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 are intended to replace a reference to the previous Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group’s financial statements.

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

- HKFRS 9 Financial Instruments: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group’s financial statements.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	20%–63.16%
Machinery and equipment	10%–100%
Office equipment	14.3%–100%
Electronic equipment	20%–100%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Trademarks and software

Trademarks and software are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives as follows.

Trademarks	10 years
Software	1–10 years

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful life of the assets as follows:

Offices and warehouses	16–78 months
Machinery and equipment	5–10 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g. a change to future lease payments resulting from a change in an index or rate) or a change in the assessment to purchase the underlying asset.

The Group's lease liabilities are presented separately in the statement of financial position.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of office premises and staff dormitory (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred assets is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach (continued)

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

The Group's Financial liabilities are classified, at initial recognition, as loans and borrowings, payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to directors and a related party and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, payables are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

Financial liabilities are derecognised when they are extinguished, i.e., when the obligation is discharged or cancelled, or expires.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

The Group provides for warranties in relation to the sale of certain products for general replacement of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of replacements, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each of the reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received, and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Sale of products

The Group primarily sells its products to customers through Amazon's two programs, namely Seller Central and Vendor Central and sells a small portion of its products through other channels such as chain retailers, other e-commerce marketplaces and its own online shopping sites. Revenue from contracts with customers is recognised when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods.

Revenue from the sale of product is recognised at the point in time when control of the asset is transferred to the customer, generally on the receipt of product by the customer or on delivery of product by Amazon as a retailer through Vendor Central program.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Sale of products

Some contracts for the sale of goods provide customers with rights of return or promotion rebates. The rights of return and promotion rebates give rise to variable consideration.

(i) Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in HKFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

(ii) Promotion rebates

For Vendor Central program, the Group can provide the retailer promotion rebates to encourage the retailer to do promotion for the Group's products. The Group provides the type of promotion, the desired start and end dates of the promotion, the products subject to the promotion, and the funding amount. The retailer may at any time and in their discretion reject any promotion. Promotion rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future discounts, the expected value method is used for contracts with more than one product orders. The selected method that best predicts the amount of variable consideration is primarily driven by the promotion plan and historical promotion rebates. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future promotion rebates is recognised.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Contract balances

(i) Contract assets

A contract asset is the right to consideration in exchange for goods transferred to the customer. If the Group performs by transferring goods to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional (other than the passage of time). Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

(ii) Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Refund liabilities

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Share-based payments

The Group operates a share award for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a discounted cashflow model, further details of which are given in note 27 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each of the year until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China and the United States are required to participate in a central pension scheme operated by the local government. The subsidiaries operating in Mainland China and the United States are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as a part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currency

The financial statements are presented in the US$, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency (continued)

The functional currencies of certain subsidiaries are currencies other than the US$. As at the end of each of the reporting period, the assets and liabilities of these entities are translated into US$ at the exchange rates prevailing at the end of each of the Reporting period and their statements of profit or loss and other comprehensive income are translated into US$ at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into US$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into US$ at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Determining the method to estimate variable consideration and assessing the constraint

Certain contracts for the sale of products include a right of return and promotion rebates that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for the sale of products with rights of return and promotion rebates, given the large number of customer contracts that have similar characteristics. The selected method that better predicts the amount of variable consideration related to promotion rebates is primarily driven by promotion plan for more than one product orders.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Determining the method to estimate variable consideration and assessing the constraint (continued)

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Estimating variable consideration for return and promotion rebate

The Group estimates variable considerations to be included in the transaction price for the sale of goods with rights of return.

The Group develops a statistical model for forecasting sales returns. The model used the historical return data of products to come up with expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by the Group.

The Group estimates expected promotion rebates based on their promotion plans for each type of products monthly. Any significant changes in promotion plans as compared to actual subsequent promotion activities will impact the expected rebate percentages estimated by the Group.

The Group updates its assessment of expected returns and promotion rebates quarterly and the refund liabilities are adjusted accordingly. Estimates of expected returns are sensitive to changes in circumstances and the Group's past experience regarding returns may not be representative of customers' actual returns in the future. As at 31 December 2020, the amount recognised as refund liabilities was US$8,501,000 (2019: US$5,899,000) for the expected returns and promotion rebates.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables from customers other than the largest retailer. The provision rates are based on days past due of these customers. For the largest retailer, the provision rate is based on the Moody's credit rating.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for expected credit losses on trade receivables

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At the end of each of the reporting period, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 17 to the financial statements.

Impairment of inventory

The Group manufactures and sells goods which is subject to changing consumer demands and market trends Management has estimated the allowance for obsolete and slow-moving inventories based on review of an ageing analysis of inventories at the end of the reporting period. The assessment of the provision requires management's judgement and estimates on market conditions. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying amounts of inventories and the write-down/write-back of inventories in the period in which such estimate has been changed. At 31 December 2020, the Group's impairment of inventories amounted to US$4,392,000 (2019: US$1,182,000).

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an IBR to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each of the reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 25 to the financial statements.

Equity-settled share award schemes

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the discounted cash flow method and guideline company method, which involve estimating performance conditions, service conditions and leaver rate as detailed in note 27 to the financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

4. 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:

	2020 US$'000	2019 US$'000
North America	**302,318**	148,634
Europe	**40,718**	21,976
Asia	**5,886**	1,309
Total	**348,922**	171,919

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

	2020 US$'000	2019 US$'000
North America	**8,471**	5,139
Mainland China	**4,359**	4,165
Hong Kong	**519**	492
Europe	**166**	5
Other	**85**	90
Total	**13,600**	9,891

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

4. OPERATING SEGMENT INFORMATION (continued)

Information about a major customer

Revenue of approximately US$232,815,000 for the year ended 31 December 2020 (2019: US$87,284,000), 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.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2020	2019
	US$'000	US$'000
Revenue from contracts with customers	**348,922**	171,919

(i) Disaggregated revenue information

	2020	2019
	US$'000	US$'000
Timing of revenue recognition		
Goods transferred at a point in time	**348,922**	171,919

The following table shows the amount of revenue recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2020	2019
	US$'000	US$'000
Revenue recognised that was included in contract liabilities at the beginning of the year:		
Sale of products	**180**	167

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(ii) Performance obligations

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

Sale of products

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

At 31 December 2020, 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.

(iii) Refund liabilities

	2020	2019
	US$'000	US$'000
Refund liabilities arising from sales return	**595**	263
Refund liabilities arising from promotion rebates	**7,906**	5,636
	8,501	5,899

An analysis of other income and gains is as follows:

	2020	2019
	US$'000	US$'000
Bank interest income	**10**	2
Government grants*	**96**	187
Other income from suppliers	**—**	522
Foreign exchange gains, net	**—**	364
Others	**235**	107
	341	1,182

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2020 US$'000	2019 US$'000
Cost of inventories sold		153,315	75,163
Amazon fulfilment fee		17,664	18,712
Commission to platform		17,180	12,809
Research and development costs*		10,459	8,178
Depreciation of property, plant and equipment	13	706	592
Amortisation of other intangible assets**	15	266	79
Depreciation of right-of-use assets	14(a)	2,702	1,514
Auditor's remuneration		504	111
Lease payments not included in the measurement of lease liabilities	14(c)	1,272	191
Listing expenses		4,460	879
Loss on disposal of items of property, plant and equipment		4	—
Bank interest income		(10)	(2)
Foreign exchange differences, net		2,239	(364)
Employee benefit expenses (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		20,828	13,363
Pension scheme contributions		1,512	1,439
Staff welfare expenses		3,266	1,355
Equity-settled share award expense		166	—
		25,772	16,157
Impairment of trade receivables, net	17	141	36
Impairment of inventories, net***	24	3,210	591
Product warranty provision:			
Addition provision		1,096	469

* Research and development costs include part of employee benefit expense, depreciation of property, plant and equipment and amortisation of other intangible assets.

** The amortisation of other intangible assets is included in "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

*** The net impairment of inventories is included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2020	2019
	US$'000	US$'000
Interest on bank loans and other borrowings	444	862
Interest on loans from a related party	85	196
Interest on loans from employees	—	17
Interest on lease liabilities	611	208
	1,140	1,283

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Group	
	2020	2019
	US$'000	US$'000
Fees:	5	—
Other emoluments:		
Salaries, allowances and benefits in kind	829	830
Performance related bonus	307	—
Pension scheme contributions	29	27
	1,165	857
	1,170	857

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(a) Independent non-executive directors

The fees payable to independent non-executive directors during the year were as follows:

	2020 US$'000	2019 US$'000
Mr. Fong Wo, Felix	2	—
Mr. Gu Jiong	2	—
Mr. Tan Wen	1	—
	5	—

* Mr. Fong Wo, Felix, Mr. Gu Jiong and Mr. Tan Wen were appointed as independent non-executive directors of the Company on 1 December 2020.

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

(b) Executive directors, a non-executive directors and the chief executive

	Salaries, allowances and benefits in kind US$'000	Performance related bonuses US$'000	Pension scheme contributions US$'000	Total remuneration US$'000
2020				
Executive directors:				
Ms. Yang Lin	337	116	9	462
Mr. Yang Hai	212	87	13	312
Mr. Chen Zhaojun	279	104	7	390
	828	307	29	1,164
Non-executive director:				
Mr. Yang Yuzheng	1	—	—	1
	829	307	29	1,165
2019				
Executive director:				
Ms. Yang Lin	305	—	11	316
Mr. Yang Hai	285	—	11	296
Mr. Chen Zhaojun	240	—	5	245
	830	—	27	857

Ms. Yang Lin was appointed as an executive director and chief executive of the Company on 9 January 2019. Mr. Yang Hai and Mr. Chen Zhaojun were appointed as executive directors of the Company on 27 May 2020. Mr. Yang Yuzheng were appointed as non-executive director of the Company on 27 May 2020.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the reporting year. No remuneration was paid by the Group to directors as an inducement to join or upon joining the Group or as compensation for the loss of office as a director of any member of the group or of any other office in connection with the management of the affairs of any member of the group distinguishing between contractual and other payments.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors who are also the chief executives (2019: three directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2019: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2020	2019
	US$'000	US$'000
Salaries, allowances and benefits in kind	**482**	268
Performance related bonuses	**70**	—
Pension scheme contributions	**21**	16
	573	284

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2020	2019
Nil to HK$1,000,000	**—**	—
HK$1,000,001 to HK$2,000,000	**2**	2
	2	2

10. INCOME TAX

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% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

10. INCOME TAX (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% (2019: 15%) during the year.

Chongqing Xiaodao is entitled to a preferential income tax rate of 5% (2019: 5%) for the taxable income less than or equal to RMB1,000,000 and a preferential income tax rate of 10% (2019: 10%) for the taxable income between RMB1,000,000 and RMB3,000,000 during the year.

United States

Pursuant to the relevant tax laws of the United States, tax at a maximum of 21% (2019: 21%) federal corporate income tax rate and 8.84% (2019: 8.84%) California state tax rate have been provided on the taxable income arising in the United States during the year.

Netherlands and Germany

Pursuant to the relevant tax laws of the Netherlands and Germany, the subsidiaries which operate in the Netherlands and Germany have been subject to corporate income tax at a rate of 16.5% (2019: 19%) and 15% (2019: 15%), respectively, on the taxable income arising in the Netherlands and Germany during the year.

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

	2020 US$'000	2019 US$'000
Current tax:		
— Mainland China	1,701	130
— Hong Kong	14,742	—
— United States	3,017	895
— Netherlands and Germany	19	96
Deferred tax (note 25)	(14,145)	(559)
Total tax charge for the year	5,334	562

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

10. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries in which the Company and the subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2020 US$'000	2019 US$'000
Profit before tax	**60,057**	6,934
Tax at the statutory tax rates	**6,379**	1,382
Preferential income tax rates applicable to subsidiaries	**(1,554)**	(459)
Expenses not deductible for tax	**1,126**	342
Additional deduction allowance for research and development costs	**(793)**	(731)
Tax losses utilised from previous years	**(142)**	(65)
Effect on opening deferred tax of decrease in rate	**9**	—
Tax losses not recognised	**309**	93
Tax charge at the Group's effective rate	**5,334**	562

11. DIVIDENDS

On 15 June 2020, the Company declared a cash dividend of US$4,210,000 (equivalent to RMB29,853,000) to the shareholders of the Company, which has been fully paid in June 2020 (2019: Nil).

The board resolved to recommend to the shareholders of a final dividend of HK12.74 cents (equivalent to approximately US1.64 cents) per share for the year ended 31 December 2020. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. 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 year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 810,008,219 (2019: 800,000,000) in issue during the year, on the assumption that the capitalisation issue had been completed on 1 January 2019.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

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 year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued on the deemed exercise of all dilutive potential ordinary shares into ordinary shares arising from awarded shares granted by the Company.

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

	2020 US$'000	2019 US$'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculation	54,723	6,372

	Number of shares	
	2020	2019
Shares		
Weighted average number of ordinary shares during the year used in the basic earnings per share calculation	810,008,219	800,000,000
Effect of dilution - weighted average number of ordinary shares arising from shares awarded	1,336,985	—
	811,345,204	800,000,000

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements US$'000	Machinery and equipment US$'000	Office equipment US$'000	Electronic equipment US$'000	Total US$'000
31 December 2020					
At 1 January 2020:					
Cost	552	1,353	451	605	2,961
Accumulated depreciation	(328)	(426)	(293)	(281)	(1,328)
Exchange realignment	(7)	(13)	(10)	(9)	(39)
Net carrying amount	217	914	148	315	1,594
At 1 January 2020, net of accumulated depreciation	217	914	148	315	1,594
Additions	60	514	32	286	892
Disposals	—	(2)	—	(2)	(4)
Depreciation provided during the year (note 6)	(93)	(389)	(49)	(175)	(706)
Exchange realignment	13	31	9	29	82
At 31 December 2020, net of accumulated depreciation	197	1,068	140	453	1,858
At 31 December 2020					
Cost	612	1,863	483	887	3,845
Accumulated depreciation	(421)	(813)	(342)	(454)	(2,030)
Exchange realignment	6	18	(1)	20	43
Net carrying amount	197	1,068	140	453	1,858

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold improvements US$'000	Machinery and equipment US$'000	Office equipment US$'000	Electronic equipment US$'000	Total US$'000
31 December 2019					
At 1 January 2019:					
Cost	485	717	427	379	2,008
Accumulated depreciation	(207)	(162)	(224)	(159)	(752)
Exchange realignment	(4)	(5)	(7)	(5)	(21)
Net carrying amount	274	550	196	215	1,235
At 1 January 2019, net of accumulated depreciation	274	550	196	215	1,235
Additions	68	638	24	242	972
Disposals	—	(1)	—	(2)	(3)
Depreciation provided during the year (note 6)	(122)	(265)	(69)	(136)	(592)
Exchange realignment	(3)	(8)	(3)	(4)	(18)
At 31 December 2019, net of accumulated depreciation	217	914	148	315	1,594
At 31 December 2019:					
Cost	552	1,353	451	605	2,961
Accumulated depreciation	(328)	(426)	(293)	(281)	(1,328)
Exchange realignment	(7)	(13)	(10)	(9)	(39)
Net carrying amount	217	914	148	315	1,594

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

14. LEASES

The Group as a lessee

The Group has lease contracts for offices, warehouses, machinery and equipment such as forklifts and racks used for its operations. Leases of office premises generally have lease terms between 2 and 10 years, while machinery and equipment generally have lease terms between 5 and 10 years. Other office equipment generally has lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There are no lease contracts that include extension and termination options and variable lease payments.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Offices and warehouses	**Machinery and equipment**	**Total**
	US$'000	US$'000	US$'000
As at 1 January 2019	2,978	64	3,042
Additions	6,246	335	6,581
Depreciation charge (note 6)	(1,481)	(33)	(1,514)
Exchange realignment	(42)	—	(42)
As at 31 December 2019 and 1 January 2020	**7,701**	**366**	**8,067**
Additions	**5,416**	**99**	**5,515**
Depreciation charge (note 6)	**(2,633)**	**(69)**	**(2,702)**
Exchange realignment	**176**	**—**	**176**
As at 31 December 2020	**10,660**	**396**	**11,056**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

14. LEASES (continued)

The Group as a lessee (continued)

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2020 US$'000	2019 US$'000
Carrying amount at 1 January	8,302	3,214
New leases	5,515	6,501
Accretion of interest recognised during the year	611	208
Payments	(2,798)	(1,578)
Exchange realignment	187	(43)
Carrying amount at 31 December	11,817	8,302
Analysed into:		
Current portion	2,634	1,500
Non-current portion	9,183	6,802

The maturity analysis of lease liabilities is disclosed in note 33 to the financial statements.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2020 US$'000	2019 US$'000
Interest on lease liabilities	611	208
Depreciation charge of right-of-use assets	2,702	1,514
Expense relating to short-term leases (included in selling and distribution expenses and administrative expenses)	1,272	191
Total amount recognised in profit or loss	4,585	1,913

(d) The total cash outflow for leases is disclosed in note 29(c) to the financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

15. OTHER INTANGIBLE ASSETS

	Software US$'000	Trademarks US$'000	Total US$'000
31 December 2020			
Cost at 1 January 2020, net of accumulated amortisation	**207**		**207**
Additions	**441**	**—**	**441**
Amortisation provided during the year (note 6)	**(266)**		**(266)**
Exchange realignment	**24**	**—**	**24**
At 31 December 2020	**406**	**—**	**406**
At 31 December 2020:			
Cost	**771**	**835**	**1,606**
Accumulated amortisation and impairment loss	**(383)**	**(849)**	**(1,232)**
Exchange realignment	**18**	**14**	**32**
Net carrying amount	**406**	**—**	**406**
31 December 2019			
Cost at 1 January 2019, net of accumulated amortisation	107	—	107
Additions	182	—	182
Amortisation provided during the year (note 6)	(79)	—	(79)
Exchange realignment	(3)	—	(3)
At 31 December 2019	207	—	207
At 31 December 2019:			
Cost	330	835	1,165
Accumulated amortisation and impairment loss	(117)	(849)	(966)
Exchange realignment	(6)	14	8
Net carrying amount	207	—	207

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

16. INVENTORIES

	2020 US$'000	2019 US$'000
Raw materials	**420**	912
Work in progress	**43**	31
Finished goods	**99,527**	33,517
Less: Provision for inventories	**(4,392)**	(1,182)
	95,598	33,278

At 31 December 2019, the inventories owned by Etekcity US, Arovast US, Atekcity US and L&H Y US with an aggregate carrying amount of US$28,106,000, were pledged as security for the Group's bank loans, as further detailed in note 23(b).

17. TRADE RECEIVABLES

	2020 US$'000	2019 US$'000
Trade receivables	**35,777**	18,304
Impairment of trade receivables	**(536)**	(424)
	35,241	17,880

The credit period is generally one month, sometimes extending up to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

17. TRADE RECEIVABLES (continued)

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

	2020 US$'000	2019 US$'000
Less than 3 months	**34,965**	17,756
Between 3 and 6 months	**245**	94
Between 6 and 12 months	**23**	30
Between 1 and 2 years	**8**	—
	35,241	17,880

The movements in the loss allowance for impairment of trade receivables are as follows:

	2020 US$'000	2019 US$'000
At beginning of year	**424**	590
Disposal of a subsidiary	**—**	(202)
Impairment losses, net	**141**	36
Exchange realignment	**(29)**	—
At end of year	**536**	424

An impairment analysis is performed at the end of each of the reporting periods using a provision matrix to calculate ECLs for trade receivables from customers other than the largest retailer. The provision rates are based on days past due of these customers. For the largest retailer, the provision rate is based on the Moody's credit rating.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

17. TRADE RECEIVABLES (continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2020

	Gross carrying amount US$'000	Expected credit loss rate	Expected credit loss US$'000
The largest customer	33,514	0.07%	22
Others	2,263	22.71%	514
	35,777	1.50%	536

As at 31 December 2019

	Gross carrying amount US$'000	Expected credit loss rate	Expected credit loss US$'000
The largest customer	17,533	0.10%	17
Others	771	52.79%	407
	18,304	2.32%	424

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2020 US$'000	2019 US$'000
Deposits and other receivables	**16,351**	4,563
Prepayments	**2,055**	1,239
Deferred listing expenses	**—**	387
Other current assets	**6,171**	1,226
	24,577	7,415

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2020, the loss allowance was assessed to be minimal.

19. LOANS TO DIRECTORS

Loans to directors, disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

	At 1 January 2019 US$'000	**Maximum amount outstanding during the year** US$'000	**At 31 December 2019 and 1 January 2020** US$'000	**Maximum amount outstanding during the year** US$'000	**At 31 December 2020** US$'000
Ms. Yang Lin	609	1,069	951	951	—
Mr. Yang Yuzheng	—	19	19	19	—
Net carrying amount	609	1,088	970	970	—

The loans to directors are interest free and have no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2020 US$'000	2019 US$'000
Cash and bank balances	183,450	9,170
Short-term deposits	—	533
	183,450	9,703
Less: Pledged short-term deposits:		
Pledged for bank loans	—	(546)
Pledged for a lawsuit	—	(42)
Cash and cash equivalents	183,450	9,115
Denominated in RMB	1,605	2,544
Denominated in US$	10,420	5,954
Denominated in HK$	167,367	5
Denominated in EUR	2,502	602
Denominated in CA$	1,177	—
Denominated in GBP	4	—
Denominated in JPY	375	10
Cash and cash equivalents	183,450	9,115

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and four months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. Short-term time deposit of US$533,000 as at 31 December 2019 was pledged for loan facilities. The account balance of US$13,000 as at 31 December 2019 was escrowed and pledged for bank loans of RMB5,000,000. The account balance of US$42,000 as at 31 December 2019 was restricted to use due to a lawsuit brought by a former employee alleging that one of the Group's subsidiaries breached a labour contract. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

21. TRADE PAYABLES

	2020 US$'000	2019 US$'000
Trade payables	**45,617**	19,418

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

	2020 US$'000	2019 US$'000
Within 3 months	**37,741**	18,010
3 to 12 months	**7,630**	887
Over 1 years	**246**	521
	45,617	19,418

The trade payables are non-interest-bearing and are normally settled on 90-day terms and sometimes extend to 180 days.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

22. OTHER PAYABLES AND ACCRUALS

	Notes	2020 US$'000	2019 US$'000
Contract liabilities	(a)	**1,290**	180
Other payables	(b)	**2,332**	464
Refund liabilities		**8,501**	5,899
Payroll payable		**7,163**	2,492
Accrued listing expenses		**1,477**	99
Taxes payable other than corporate income tax		**6,454**	5,080
Interest payable		**—**	153
		27,217	14,367

Notes:

(a) Contract liabilities represented the obligations to transfer goods to a customer for which the Group has received consideration. The changes in the contract liabilities are mainly attributable to short-term advances received from customers in relation to sale of products.

(b) Loans from employees were included in other payables. These balances are unsecured, bear interests at rates between 7.2% and 12% per annum and have no fixed terms of repayment. All the loans from employees have been repaid during the year.

Except for loans from employees, other payables are non-interest-bearing and repayable on demand.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at 31 December 2020			As at 31 December 2019		
	Effective interest rate (%)	Maturity	US$'000	Effective interest rate (%)	Maturity	US$'000
Current						
Current portion of long-term bank loans of US$58,000 — secured	—	—	—	5.19	2020	10
Current portion of long-term bank loans — secured	—	—	—	WSJP*+1	2020	14,952
Bank overdraft — unsecured (a)	—	2021	161	—	2020	107
Bank loans of US$2,572,000 (b) — secured	1	2021	2,572	—	—	—
Bank loans of US$155,000 (c) — secured	1	2021	155	—	—	—
Bank loans of RMB5,000,000 — secured	—	—	—	5.4	2020	717
Other loans of HK$20,000,000 — secured	—	—	—	—	2020	2,568
			2,888			18,354

	2020 US$$'000	2019 US$$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	2,888	15,786
	2,888	15,786
Other borrowings repayable:		
Within one year or on demand	—	2,568
	2,888	18,354

* WSJP rate refers to Wall Street Journal Prime Rate

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

23. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Notes:

(a) The unsecured bank overdraft is an overdraft within credit from credit cards.

(b) The bank loans are guaranteed by the U.S. Small Business Administration ("SBA"). If the proceeds of loans were used by Etekcity US for eligible expenses as defined in Section 1102 of the CARES Act to include payroll costs, continuation of health care benefits, employee salaries, mortgage interest, rent, utilities, balances on SBA Economic Injury Disaster Loans ("EIDL") and interest on other outstanding debt incurred prior to 15 February 2020 ("Eligible Expenses"), then Etekcity US may apply for loan forgiveness of all Eligible Expenses excluding interest on outstanding non-mortgage debt, and existing EIDL balances not used for forgivable purposes from the SBA.

(c) The bank loans are guaranteed by the SBA. If the proceeds of loans were used by Vesync US for Eligible Expenses, then Vesync US may apply for loan forgiveness of all Eligible Expenses excluding interest on outstanding non-mortgage debt, and existing EIDL balances not used for forgivable purposes from the SBA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

24. PROVISION

	Warranties US$'000	Lawsuits US$'000	Surcharges US$'000	Total US$'000
At 1 January 2019	175	425	961	1,561
Additional provision	469	106	857	1,432
Amounts utilised during the year	(382)	(425)	—	(807)
At 31 December 2019 and 1 January 2020	**262**	**106**	**1,818**	**2,186**
Additional provision	**1,096**	**370**	**2,199**	**3,665**
Amounts utilised during the year	**(688)**	**(106)**	**(43)**	**(837)**
At 31 December 2020	**670**	**370**	**3,974**	**5,014**

	2020 US$'000	2019 US$'000
Analysed into:		
Portion classified as current liabilities	**1,999**	368
Non-current portion	**3,015**	1,818
	5,014	2,186

Warranties

The Group provides one-year warranties to its customers on their products sold. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of replacements. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

Lawsuits

The provision is mainly attributable to legal proceedings in relation to a product liability dispute with customers and patent infringement.

Surcharges

The provision is mainly attributable to tax surcharges in relation to customs duty, sales tax, value added tax and income tax mainly due to late payments and late filings of taxes.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

25. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Impairment of trade receivables US$'000	Unrealised profit from inter-company transactions US$'000	Inventory provision US$'000	Lease liabilities US$'000	Other payable US$'000	Allowance difference between tax and accounting US$'000	Inventory cost deduction difference US$'000	Losses available for offsetting against future taxable profits US$'000	Equity-settled share award arrangement US$'000	Total US$'000
At 1 January 2019	111	1,325	179	410	105	7	100	477	—	2,714
Deferred tax credited/(charged) to profit or loss during the year (note 10)	13	607	128	1,005	2	13	56	(244)	—	1,580
Disposal of a subsidiary	(33)	—	—	—	—	—	—	—	—	(33)
Exchange realignment	—	—	—	—	(1)	—	—	—	—	(1)
At 31 December 2019 and 1 January 2020	**91**	**1,932**	**307**	**1,415**	**106**	**20**	**156**	**233**	**—**	**4,260**
Deferred tax credited/(charged) to profit or loss during the year (note 10)	**31**	**12,938**	**887**	**1,132**	**81**	**(23)**	**238**	**(233)**	**25**	**15,076**
Exchange realignment	**—**	**2**	**2**	**—**	**15**	**—**	**—**	**—**	**1**	**20**
At 31 December 2020	**122**	**14,872**	**1,196**	**2,547**	**202**	**(3)**	**394**	**—**	**26**	**19,356**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

25. DEFERRED TAX (continued)

The movements in deferred tax assets and liabilities during the year are as follows: (continued)

Deferred tax liabilities

	Right-of-use assets US$'000	Total US$'000
At 1 January 2019	402	402
Deferred tax charged to profit or loss during the year (note 10)	1,021	1,021
At 31 December 2019 and 1 January 2020	**1,423**	**1,423**
Deferred tax charged to profit or loss during the year (note 10)	**931**	**931**
At 31 December 2020	**2,354**	**2,354**

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2020 US$'000	2019 US$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**17,002**	2,837

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

25. DEFERRED TAX (continued)

Deferred tax assets have not been recognised in respect of the following items:

	2020 US$'000	2019 US$'000
Tax losses arising in:		
Mainland China	14	611
United States	1,366	30
Japan	56	78
Others	118	35
	1,554	754

The above tax losses arising in Mainland China will expire in one to five years, tax losses arising in Japan will expire in nine years and tax losses arising in the United States are available indefinitely for offsetting against future taxable profit of the companies in which the losses arose.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. Pursuant to the US Corporate Income Tax Law, a 30% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the United States. Pursuant to the European Union Corporate Income Tax Law, a 25% withholding tax plus 5.5% solidarity surcharge is levied on dividends declared to foreign investors from the foreign investment enterprises established in the European Union.

At 31 December 2020, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China, United States and European Union. In the opinion of the directors, it is not probable that these subsidiaries in Mainland China, United States and European Union will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China, United States and European Union which deferred tax liabilities have not been recognised totalled approximately US$12,645,000 as at 31 December 2020 (2019: US$2,954,000).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

26. SHARE CAPITAL AND SHARE PREMIUM

	US$'000
Authorisied:	
31 December 2019:38,000,000 ordinary shares of HK$0.01 each	48
31 December 2020:2,000,000,000 ordinary shares of HK$0.01 each	2,580

	US$'000
Issued:	
31 December 2019: 1,000,000 ordinary shares of HK$0.01 each	1
31 December 2020: 1,123,104,800 ordinary shares of HK$0.01 each	1,449

The movements in the Company's share capital and share premium during the year are as follows:

	Number of ordinary shares in issue	Share capital US$'000	Share premium US$'000	Share held for share award scheme US$'000	Total US$'000
At 9 January 2019 (date of incorporation)	1	—	—	—	—
Issue of shares on 22 March 2019	9	—	—	—	—
Issue of shares on 12 September 2019	999,990	1	4,210	—	4,211
At 31 December 2019 and 1 January 2020	1,000,000	1	4,210	—	4,211
Dividends paid to shareholders	—	—	(4,210)	—	(4,210)
Issue of shares on 22 June 2020	52,631	—	—	—	—
Capitalisation issue of shares	841,052,169	1,085	(1,079)	(6)	—
Issue of shares on 18 December 2020	281,000,000	363	199,718	—	200,081
Share issue expenses	—	—	(9,052)	—	(9,052)
At 31 December 2020	1,123,104,800	1,449	189,587	(6)	191,030

The Company was incorporated as an exempted company with limited liability under the laws of the Cayman Islands on 9 January 2019 with an authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each. Upon its incorporation, one share was allotted and issued to the initial subscriber, which was transferred it to Ms. Yang Lin on the same day.

On 22 March 2019, nine shares were further allotted and issued to Ms. Yang Lin at par.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

26. SHARE CAPITAL AND SHARE PREMIUM (continued)

On 25 June 2019, pursuant to the gift deeds, Ms. Yang Lin transferred six shares and four shares to Karis I LLC and Karis II LLC, respectively, by way of gift. Following the aforesaid transfers and allotments, the Company was held as to 60% and 40% by Karis I LLC and Karis II LLC, respectively.

On 12 September 2019, 304,525 shares, 203,016 shares, 459,649 shares, 12,632 shares, 10,084 shares and 10,084 shares were allotted and issued to Karis I LLC, Karis II LLC, Caerus BVI, Chen Wangcai Holdings Limited ("Chen Wangcai BVI"), The Gongjin Limited ("Gongjin BVI") and Arceus Co., Ltd ("Arceus BVI"), respectively, at a subscription price of US$4,211,000. Following the aforesaid allotments, the Company was held as to 30.4531%, 20.3020%, 45.9649%, 1.2632%, 1.0084% and 1.0084% by Karis I LLC, Karis II LLC, Caerus BVI, Chen Wangcai BVI, Gongjin BVI and Arceus BVI, respectively.

To recognise and reward the contributions of certain eligible employees of the Group and to incentive them for their future contribution to the Group, the Company adopted a share award scheme ("Pre-IPO Share Award Scheme") on 16 June 2020. Pursuant to the Trust Deed signed between the Company and Bank of Communications Trustee Limited ("BOCT") on 16 June 2020, BOCT was appointed as Trustee under the Share Award Trust to hold shares on trust for the benefit of the selected employees as determined by the board of directors. On 22 June 2020, 52,631 shares were allotted and issued to Bank of Communications Trustee Limited ("BOCT") at par for the purpose of the Pre-IPO Share Award Scheme. Following the aforesaid allotments, the Company was held as to 28.9305%, 19.2869%, 43.6667%, 1.2000%, 0.9580%, 0.9580% and 4.9999% by Karis I LLC, Karis II LLC, Caerus BVI, Chen Wangcai BVI, Gongjin BVI, Arceus BVI and BOCT, respectively.

Pursuant to an ordinary resolution passed on 1 December 2020, the Company increased its authorised share capital from HK$380,000 divided into 38,000,000 shares to HK$20,000,000 divided into 2,000,000,000 shares with a par value of HK$0.01 each by the creation of an additional 1,962,000,000 shares and a total of 841,052,169 shares would be allotted and issued, credited as fully-paid at par, by way of capitalisation from the share premium account to the holders of shares whose names appear on the register of members of the Company as of the date of the passing of the resolution in proportion to their then respective existing shareholdings in the Company. This allotment and capitalisation issue were conditional on the share premium account being credited as a result of the issue of new shares to the public in connection with the Company's initial public offering.

In connection with the Company's initial public offering, 281,000,000 ordinary shares of HK$0.01(equivalent to US$0.001) each were issued at a price of HK$5.52 per share for a total cash consideration, before expenses, of approximately HK$1,551,120,000 (equivalent to US$200,081,000). Dealings in these shares on the Stock Exchange commenced on 18 December 2020.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

27. SHARE-BASED PAYMENTS

On 16 June 2020, the Company adopted the Pre-IPO Share Award Scheme for the purpose to recognise and reward the contributions of certain eligible employees of our Group and to incentivize them for their future contribution to the continual operation and development of the Group. The participants (the "Selected Employee(s)") of the Pre-IPO Share Award Scheme are selected by the board of directors (the "Board") and if the context so permits, it shall include such committee or sub-committee or person(s) from time to time delegated with the power and authority by the board of directors to administer the Pre-IPO Share Award Scheme.

The Pre-IPO Share Award Scheme shall be subject to the administration of the Board in accordance with the rules of the Pre-IPO Share Award Scheme. The Board will make all determination in relation to the Pre-IPO Share Award Scheme. The Board may delegate the authority to administer this scheme to any committee thereof or any third party duly appointed thereby, including without limitation third-party service providers and professional trustees (collectively, the "Authorised Administrators"). Any decision of the Board made with respect to any matter arising under the Pre-IPO Share Award Scheme (including the interpretation of any rules therein) shall be final and binding on all parties.

Subject to any early termination pursuant thereto, the Pre-IPO Share Award Scheme shall be valid and effective for a term of 10 years, commencing from the date of adoption. The Board may at any time modify or terminate the operation of the Pre-IPO Share Award Scheme. If the Board terminates the Pre-IPO Share Award Scheme prior to the expiry of the effective term of the Pre-IPO Share Award Scheme, all the unvested awarded shares (the "Remaining Shares") will be held by BOCT. The Board may at its full discretion to direct and procure BOCT to transfer, repurchase, reallocate or to make on-market disposal of such remaining Shares within reasonable time and the Company is entitled to receive the net proceeds from such disposal.

On 16 June 2020, the Company established the Share Award Trust with BOCT for holding the awarded shares for the benefit of the Selected Employees.

On 22 June 2020, the Company issued and allotted 52,631 Shares, representing 5.0% of the issued shares of the Company, to BOCT for the Pre-IPO Share Award Scheme. On 1 November 2020, the Company granted and vested 10,000 shares with consideration of HK$100 to Ms. Jiang Junxiu before the Listing (the "Vested Award Shares") under the Pre-IPO Share Award Scheme. In connection with the aforesaid grant, as instructed by the Company, BOCT transferred 10,000 Awarded Shares at par to Gongjin BVI, an investment holding vehicle of Ms. Jiang Junxiu, accordingly. The remaining 42,631 awarded shares will be granted to the Selected Employees after the Listing at full discretion of the Board pursuant to the rules of the Pre-IPO Share Award Scheme.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

27. SHARE-BASED PAYMENTS (continued)

Pursuant to the terms of the Pre-IPO Share Award Scheme and the specific terms and conditions set out in the grant notice (“Grant Notice”), the awarded shares vested on shall be vested on Ms. Jiang Junxiu on a one-off basis on or before the Listing, and subject to a five-year undertaking period on the Vested Awarded shares from the date of vesting as imposed by the Board (the “Undertaking Period”), and the Vested Awarded shares granted to Ms. Jiang Junxiu will be considered as fulfilled during the Undertaking Period in accordance with the following schedule (the “Fulfillment Schedule”):

- 10% of Ms. Jiang Junxiu’s vested shares shall become fulfilled upon the first anniversary of the date of vesting;
- 10% of Ms. Jiang Junxiu’s vested shares shall become fulfilled upon the second anniversary of the date of vesting;
- 20% of Ms. Jiang Junxiu’s vested shares shall become fulfilled upon the third anniversary of the date of vesting; and
- 30% of Ms. Jiang Junxiu’s vested shares shall become fulfilled upon the fourth anniversary of the date of vesting.

During the Undertaking Period, if Ms. Jiang Junxiu ceases to be able to satisfy the vesting conditions applicable to her including performance conditions and service condition, Ms. Jiang Junxiu shall pay to the Company an amount equivalent to the difference between the vesting price as specified in the Grant Notice (the “Vesting Price”) and the Offer Price multiplied by the unfulfilled portion of the Vested Awarded shares according to the Fulfillment Schedule.

(a) Movements in the number of the Pre-IPO Share Award Scheme during the year are as follows:

	Number of awarded shares
Outstanding at 1 January 2019, 31 December 2019 and 1 January 2020	—
Granted during the year	10,000
Capitalisation issue of shares from share premium	7,990,000
Outstanding at 31 December 2020	**8,000,000**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

27. SHARE-BASED PAYMENTS (continued)

(a) (Continued)

Upon the grant of any of the shares granted as specified in grant notice (the "Awarded Shares"), the fair value of the Awarded Shares granted to the Selected Employees will be measured at the date of grant and will be recognised as expense in the financial statements of the Group over the undertaking period.

The fair value of the Awarded Share granted during the year was US$2,838,000, of which the Group recognised a share-based payment expense of US$166,000 (2019: Nil).

The fair value of the Awarded Share granted during the year were estimated as at the date of grant using a discounted cashflow model, taking into account the terms and conditions upon which the Awarded Share were granted.

28. RESERVES

The amounts of the Group's reserves and the movements therein for the reporting periods are presented in the consolidated statement of changes in equity on pages 69 of the financial statements.

Statutory surplus reserve

In accordance with the Company Law of the PRC , certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserves may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of entities of which the functional currencies are not US$.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

The Group had non-cash additions to right-of-use assets of US$5,515,000 (2019: US$6,501,000) and non-cash additions to lease liabilities of US$5,515,000 (2019: US$6,501,000) for the year ended 31 December 2020, respectively, in respect of lease arrangements for offices, warehouses, machinery and equipment.

(b) Changes in liabilities arising from financing activities

	Lease liabilities	Bank and other borrowings	Interest payable	Loans from directors*	Loans from employees**	Loans from a related party***
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2019	3,214	14,008	112	514	422	976
Changes from financing cash flows	(1,578)	4,346	(1,034)	975	(393)	56
Interest expense	208	—	1,075	—	—	—
New leases	6,501	—	—	—	—	—
Exchange realignment	(43)	—	—	—	—	—
At 31 December 2019 and 1 January 2020	**8,302**	**18,354**	**153**	**1,489**	**29**	**1,032**
Changes from financing cash flows	**(2,798)**	**(15,466)**	**(682)**	**(1,489)**	**(29)**	**(1,032)**
Interest expense	**611**	**—**	**529**	**—**	**—**	
New leases	**5,515**	**—**	**—**	**—**	**—**	
Exchange realignment	**187**	**—**	**—**	**—**	**—**	**—**
At 31 December 2020	**11,817**	**2,888**	**—**	**—**	**—**	**—**

* Loans from directors are included in amounts due to directors.

** Loans from employees are included in other payables.

*** Loans from a related party are included in an amount due to a related party.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(c) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statements of cash flows is as follows:

	2020 US$'000	2019 US$'000
Within operating activities	1,272	191
Within investing activities	—	80
Within financing Activities	2,798	1,578
	4,070	1,849

30. RELATED PARTY TRANSACTIONS

Details of the Group's principal related parties are as follows:

Name	Relationship with the Company
Ms. Yang Lin	A director and the controlling shareholder
Mr. Yang Hai	A director and the controlling shareholder
Mr. Yang Yuzheng	A director and the controlling shareholder
Mr. Chen Zhaojun	A director
Ms. Jiang Junxiu	A shareholder and a director of a subsidiary
HL Y	An entity controlled by Mr. Yang Yuzheng
Karis I LLC	An entity controlled by Ms. Yang Lin
Karis II LLC	An entity controlled by Ms. Yang Lin
Arceus BVI	An entity controlled by Mr. Yang Hai
Caerus BVI	An entity controlled by Mr. Yang Yuzheng

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

30. RELATED PARTY TRANSACTIONS (continued)

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

Loans granted to related parties

	2020 US$'000	2019 US$'000
HL Y	—	310
Ms. Jiang Junxiu	—	—
Arceus BVI	7	—
Caerus BVI	7	—
	14	310

Loans from a related party

	2020 US$'000	2019 US$'000
Ms. Jiang Junxiu*	947	4,330
	947	4,330

* The loans from Ms. Jiang Junxiu bear interest at 12% per annum.

Loans granted to directors

	2020 US$'000	2019 US$'000
Ms. Yang Lin	—	712
Mr. Yang Yuzheng	—	19
	—	731

Loans from a director

	2020 US$'000	2019 US$'000
Mr. Chen Zhaojun*	—	1,290
	—	1,290

* The loans from Mr. Chen Zhaojun born interest at 12% per annum.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

30. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Interest expenses incurred for loans from a related party and a director

	2020 US$'000	2019 US$'000
Ms. Jiang Junxiu	20	138
Mr. Chen Zhaojun	65	58
	85	196

(b) Outstanding balances with related parties:

Due from directors

	2020 US$'000	2019 US$'000
Ms. Yang Lin	—	951
Mr. Yang Yuzheng	—	19
	—	970

Due from related parties

	2020 US$'000	2019 US$'000
Karis I LLC	—	1,303
Karis II LLC	—	869
Arceus BVI	—	43
Caerus BVI	—	1,967
Ms. Jiang Junxiu	—	81
HL Y	—	362
	—	4,625

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

30. RELATED PARTY TRANSACTIONS (continued)

(b) (continued)

Due to directors

	2020 US$'000	2019 US$'000
Mr. Chen Zhaojun	—	1,489
Ms. Yang Lin	—	4,369
Mr. Yang Hai	—	43
Mr. Yang Yuzheng	—	1,967
	—	7,868

Due to a related party

	2020 US$'000	2019 US$'000
Mr. Jiang Junxiu	—	1,032
	—	1,032

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

	2020 US$'000	2019 US$'000
Short-term employee benefits	1,141	830
Pension scheme contributions	29	27
Total compensation paid to key management personnel	1,170	857

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets at amortised cost

	2020 US$'000	2019 US$'000
Trade receivables	35,241	17,880
Financial assets included in prepayments, other receivables and other assets	16,351	4,563
Due from directors	—	970
Due from related parties	—	4,625
Pledged deposits	—	588
Cash and cash equivalents	183,450	9,115
	235,042	37,741

Financial liabilities at amortised cost

	2020 US$'000	2019 US$'000
Trade payables	45,617	19,418
Financial liabilities included in other payables and accruals	3,809	716
Interest-bearing bank and other borrowings	2,888	18,354
Due to directors	—	7,868
Due to related parties	—	1,032
	52,314	47,388

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, trade payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, amounts due from/to directors and related parties and the current portion of interest-bearing bank and other 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 31 December 2020 were assessed to be insignificant.

Fair value hierarchy

The Group did not have any financial assets and financial liabilities measured at fair value as at the end of each of the reporting periods.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, cash and cash equivalents and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between US$ and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity at the end of each of the reporting periods to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in foreign currency rate	Increase/ (decrease) in profit before tax
	%	US$'000
31 December 2020		
If the US$ weakens against the RMB	**5**	**(124)**
If the US$ strengthens against the RMB	**(5)**	**124**
If the US$ weakens against the HK$	**5**	**6,276**
If the US$ strengthens against the HK$	**(5)**	**(6,276)**
If the US$ weakens against the EUR	**5**	**153**
If the US$ strengthens against the EUR	**(5)**	**(153)**
31 December 2019		
If the US$ weakens against the RMB	5	(49)
If the US$ strengthens against the RMB	(5)	49
If the US$ weakens against the HK$	5	(96)
If the US$ strengthens against the HK$	(5)	96
If the US$ weakens against the EUR	5	43
If the US$ strengthens against the EUR	(5)	(43)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The carrying amounts of cash and cash equivalents, trade receivables, financial assets included in prepayments, other receivables and other assets included in the consolidated statements of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets as at the end of each of the reporting periods.

All cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

The Group groups financial instruments on basis of shared credit risk characteristics, such as instrument type and credit risk rating for the purpose of determining significant increases in credit risk and calculation of impairment. To manage risk arising from trade receivables, the Group has policies in place to ensure that credit terms are made only to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of the Group's counterparties. The credit period granted to the customers is generally from 30 to 60 days and the credit quality of these customers is assessed, taking into account their financial position, past experience and other factors. The Group also has other monitoring procedures to ensure that follow-up action is taken to recover overdue receivables. In addition, the Group reviews regularly the recoverable amount of trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group applies the simplified approach in calculating ECLs prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The expected credit losses also incorporated forward-looking information based on key economic variables.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the debtor;
- a breach of contract such as a default or past due event;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation;

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The Group has established a policy to perform an assessment of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. The Group groups its receivables except for trade receivables into Stage 1, Stage 2 and Stage 3, as described below:

Stage 1	When receivables except for trade receivables are first recognised, the Group recognises an allowance based on 12 months' ECLs.
Stage 2	When receivables except for trade receivables have shown a significant increase in credit risk since origination, the Group records an allowance for the lifetime ECLs.
Stage 3	When receivables except for trade receivables are considered credit-impaired, the Group records an allowance for the lifetime ECLs.

The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. The Group classified financial assets included in prepayments, other receivables and other assets in Stage 1 and continuously monitored their credit risk. The directors of the Company believe that there is no material credit risk inherent in the Group's outstanding balance of financial assets included in prepayments, other receivables and other assets. As at 31 December 2020, the Group had certain concentrations of credit risk as 95.04% (2019: 97.98%) of the Group's trade receivables were due from the Group's largest customer.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings to meet its working capital requirements.

The maturity profile of the Group's financial liabilities as at the end of each of the reporting periods, based on the contractual undiscounted payments, is as follows:

	31 December 2020					
	On demand US$'000	Less than 3 months US$'000	3 to 12 months US$'000	1 to 3 years US$'000	Over 3 years US$'000	Total US$'000
Trade payables	7,876	37,741	—	—	—	45,617
Interest-bearing bank and other borrowings	—	161	2,754	—	—	2,915
Financial liabilities included in other payables and accruals	3,809	—	—	—	—	3,809
Lease liabilities	—	833	2,361	5,423	4,689	13,306
	11,685	38,735	5,115	5,423	4,689	65,647

	31 December 2019					
	On demand US$'000	Less than 3 months US$'000	3 to 12 months US$'000	1 to 3 years US$'000	Over 3 years US$'000	Total US$'000
Trade payables	1,408	18,010	—	—	—	19,418
Interest-bearing bank and other borrowings	—	155	19,145	—	—	19,300
Financial liabilities included in other payables and accruals	716	—	—	—	—	716
Due to directors	7,868	—	—	—	—	7,868
Due to a related party	1,032	—	—	—	—	1,032
Lease liabilities	—	458	1,526	3,649	3,876	9,509
	11,024	18,623	20,671	3,649	3,876	57,843

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 31 December 2019.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt includes trade payables, interest-bearing bank and other borrowings, other payables and accruals, lease liabilities and amounts due to directors and a related party, less cash and cash equivalents and pledged deposits. The gearing ratios as at the end of the reporting periods were as follows:

	2020 US$'000	2019 US$'000
Trade payables	45,617	19,418
Interest-bearing bank and other borrowings	2,888	18,354
Other payables and accruals	27,217	14,367
Due to directors	—	7,868
Due to a related party	—	1,032
Lease liabilities	11,817	8,302
Less: Cash and cash equivalents	(183,450)	(9,115)
Pledged deposits	—	(588)
Net debt	(95,911)	59,638
Equity attributable to owners of the parent	260,131	16,394
Capital and net debt	164,220	76,032
Gearing ratio	N/A	78%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

34. EVENTS AFTER THE REPORTING PERIOD

The Company announces that an over-allotment option and the announcement has been fully exercised by the joint global coordinators, for themselves and on behalf of the international underwriters, on 8 January 2021, in respect of an aggregate of 42,150,000 shares, representing 15% of the offer shares initially available under the global offering at HK$5.52 per offer share. The additional net proceeds of approximately HK$225,700,000 have been received by the Company from the allotment and issue of the over-allotment shares after deducting the underwriting fees and commission on 13 January 2021.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	As at 31 December 2020 US$'000	As at 31 December 2019 US$'000
CURRENT ASSETS		
Cash and cash equivalents	167,331	—
Other receivables	—	97
Due from related parties	23,580	4,182
Total current assets	190,911	4,279
CURRENT LIABILITY		
Due to a related party	—	12
Total current liability	—	12
NET CURRENT ASSETS	190,911	4,267
TOTAL ASSETS LESS CURRENT LIABILITIES	190,911	4,267
Net assets	190,911	4,267
EQUITY		
Share capital	1,449	1
Share premium	189,587	4,210
Reserves (note)	125	56
Total equity	190,911	4,267

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2020

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account US$'000	**Share held for share award scheme** US$'000	**Retained profits/(deficits)** US$'000	**Total** US$'000
At 1 January 2019	—	—	—	—
Issue of shares to the then shareholders	4,210	—	—	4,210
Profit for the year	—	—	56	56
At 31 December 2019 and 1 January 2020	4,210	—	56	4,266
Loss for the year	—	—	(175)	(175)
Capitalisation issue of shares	(1,079)	(6)	—	(1,085)
Equity-settled share award arrangement	—	—	—	166
Issue of shares on 18 December 2020	190,666	—	—	190,666
Dividends declared and paid	(4,210)	—	—	(4,210)
At 31 December 2020	189,587	(6)	(119)	189,628

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2021.

DEFINITIONS AND GLOSSARY

"2021 AGM"	the forthcoming annual general meeting of the Company to be held on Friday, May 21, 2021
"Annuity Trust I"	Lin Yang Annuity Trust I, an irrevocable grantor retained annuity trust with a term of two years established by Ms. Yang, of which North Point Trust Company L.L.C. is the trustee for the benefit of Family Trust I
"Annuity Trust II"	Lin Yang Annuity Trust II, an irrevocable grantor retained annuity trust with a term of three years established by Ms. Yang, of which North Point Trust Company L.L.C. is the trustee for the benefit of Family Trust II
"Annuity Trust III"	Lin Yang Annuity Trust III, an irrevocable grantor retained annuity trust with a term of two years established by Ms. Yang, of which North Point Trust Company L.L.C. is the trustee for the benefit of Family Trust I
"Annuity Trust IV"	Lin Yang Annuity Trust IV, an irrevocable grantor retained annuity trust with a term of three years established by Ms. Yang, of which North Point Trust Company L.L.C. is the trustee for the benefit of Family Trust II
"Annuity Trusts"	Annuity Trust I, Annuity Trust II, Annuity Trust III and Annuity Trust IV
"Articles" or "Articles of Association"	the amended and restated articles of association of the Company conditionally adopted on December 1, 2020 and effective on the Listing Date, as amended or supplemented from time to time
"Audit Committee"	the audit committee of the Board
"Board"	the board of Directors
"Capitalisation Issue"	the issue of 841,052,169 Shares made upon capitalisation of certain sum standing to the credit of the share premium account of the Company which is set forth in the section headed "Statutory and General Information — A. Further Information about our Company and its Subsidiaries — 3. Written Resolutions of all the Shareholders passed on December 1, 2020" in Appendix IV to the Prospectus
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules

DEFINITIONS AND GLOSSARY (CONTINUED)

"China" or "PRC"	the People's Republic of China, but for the purpose of this annual report only and except where the context requires otherwise, references in this annual report to "China" or "PRC" do not include Hong Kong, the Macau Special Administrative Region and Taiwan
"Company"	Vesync Co., Ltd, an exempted company with limited liability incorporated in the Cayman Islands on January 9, 2019, and registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on June 15, 2020
"Director(s)"	the director(s) of the Company
"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
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Latest Practicable Date"	April 12, 2021, being the latest practicable date for the purpose of ascertaining certain information contained in this annual report prior to its publication
"Listing Date"	December 18, 2020, on which the Shares were listed on the Stock Exchange and from which dealings in the Shares were permitted to commence on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Nomination Committee"	the nomination committee of the Board
"Pre-IPO Share Award Scheme"	the pre-IPO share award scheme adopted by the Company on June 16, 2020 for the benefit of our employees
"Prospectus"	the prospectus of the Company dated December 8, 2020 in connection with the Global Offering
"RMB"	Renminbi, the lawful currency of the PRC

DEFINITIONS AND GLOSSARY (CONTINUED)

"Remuneration Committee"	the remuneration committee of the Board
"Reporting Period"	the year ended December 31, 2020
"Seller Central"	the seller program on Amazon, where retail customers purchase products through Amazon e-commerce marketplace directly from the seller
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share Award Trust"	a discretionary trust established on June 16, 2020 with the Company as the settlor and Bank of Communications Trustee Limited as the trustee
"Share Option Scheme"	the share option scheme conditionally adopted by the then Shareholders on December 1, 2020
"Shareholder(s)"	holder(s) of the Share(s)
"Share(s)"	the ordinary share(s) of nominal value of HK$0.01 each in the share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"United States" and "U.S."	the United States of America
"US$"	United States dollars, the lawful currency of the United States
"Vendor Central"	the seller program on Amazon, where Amazon makes a bulk purchase order for sellers' products which Amazon then sells to its customers through Amazon e-commerce marketplace under its own account
"%"	per cent