VESYNC CO., LTD

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

Annual Report 2021

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 *ACG, HKACG*

REGISTERED OFFICE IN THE CAYMAN ISLANDS

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PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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Registered Public Interest Entity Auditor
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United States

Hang Seng Bank Limited
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Hong Kong

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1/F & 3/F, Caifugang Building
Baoyuan Road, Bao'an CBD
Shenzhen City
PRC

STOCK CODE

2148

COMPANY'S WEBSITE

www.vesync.com

FIVE YEAR FINANCIAL SUMMARY

	FY2021 US$'000	FY2020 US$'000	FY2019 US$'000	FY2018 US$'000	FY2017 US$'000
Revenue	**454,250**	348,922	171,919	144,758	85,210
Gross profit	**176,107**	152,419	67,234	55,778	34,698
Profit before tax	**51,009**	60,057	6,934	5,346	3,136
Profit for the year attributable to owners of the parent	**41,588**	54,723	6,372	4,361	1,867
Total comprehensive income for the year attributable to owners of the parent	**42,685**	56,752	6,349	3,835	1,821

	FY2021 US$'000	FY2020 US$'000	FY2019 US$'000	FY2018 US$'000	FY2017 US$'000
Assets:					
Non-current assets	**45,138**	30,602	12,728	6,718	7,013
Current assets	**415,669**	339,122	75,922	45,761	31,730
Total asset	**460,807**	369,724	88,650	52,479	38,743
Equity and liabilities:					
Share capital	**1,503**	1,449	1	—	—
Share premium	**199,885**	189,625	4,210	—	—
Reserves	**113,250**	69,057	12,183	8,364	5,161
Total equity	**314,638**	260,131	16,394	8,364	5,161
Non-current liabilities	**13,353**	12,198	8,620	3,017	6,495
Current liabilities	**132,816**	97,395	63,636	41,098	27,087
Total liabilities	**146,169**	109,593	72,256	44,115	33,582
Total equity and liabilities	**460,807**	369,724	88,650	52,479	38,743

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 2021 WAS A YEAR OF COUNTER-TREND BREAKTHROUGH

The Year of 2021 was extraordinary 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. We successfully made our initial public offering on the Main Board of the Hong Kong Stock Exchange on December 18, 2020. The listing in Hong Kong 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 2021, our sales revenue reached US$454.3 million, with a year-on-year increase of approximately 30.2%, and our product capabilities were further enhanced. The Levoit purifier Core400S was named to Good Housekeeping's Best Air Purifier List; three Levoit humidifiers were included in the New York Times' Wirecutter Best Humidifier List, with the Levoit Classic300S as the Top Pick. In addition, newly-launched products in 2021 including the Cosori Air Grill won the Red Dot Design Award.

We kept expanding our channels in 2021 and our products had entered into over 7,649 stores in North America, including but not limited to Walmart, Target, Best Buy, HomeDepot, Bed Bath & Beyond, Costco and Macy's. In May, 2021, we have launched our VeSync Store, breaking the closed commercial loop preliminary. The number of smart devices connected to VeSync increased from approximately 1.8 million to 2.8 million, and the number of download of VeSync App in iOS App Store ranked No. 81 in the Lifestyle category as of December 31, 2021, improved by 90 placements as compared with No. 171 as of December 31, 2020.

We recruited more talents in 2021. Our product development team grew by approximately 104.9% to 502 employees, while we also attracted many outstanding talents into our management team with diversified professional backgrounds and working experiences such as in Huawei, Tencent, Dyson, Microsoft, etc., to serve as our vice president of global supply chain, vice president of human resources and administration in Greater China, vice president of global hardware R&D and vice president of global branding, which is conducive to the diversification and globalization of our management team.

In 2021, we advanced the implementation of our long-term strategy, which is focusing on "better wellness, better life" and commitment of helping customers achieve a healthier and more active lifestyle through smart products, software, content and services.

HONING GIVES A SHARP EDGE TO A SWORD: CHALLENGES ARISING FROM ENVIRONMENT ARE OPPORTUNITIES TO HONE OUR INTERNAL ORGANS

2021, even looking ahead to 2022, were filled with unprecedented challenges.

In 2021, Amazon underwent a massive overhaul of non-compliant merchants, which saw price fluctuations in certain categories during the short term. Meanwhile, some categories such as air purifiers and air fryers, which are our main sales, were subject to additional tariffs as the tariff exclusion lists were not extended upon expiration on January 1, 2021. Moreover, global container price stayed high, even further soared in the second half of 2021, which was several times of the average price for previous years.

Recently, the external environment for business operations has become even more challenging amidst volatility in commodity prices due to the effect of international economic and geopolitical conflicts, rising inflation index in the United States and increasing likelihood of divergence in national political and economic policies. Although there will always be economic cycles and volatilities, the COVID-19 pandemic has complicated the change in economic cycles. Even so, through throwing light on the mist of economic cycle, strategic direction is certain; consumer demand for products is certain; and the continuous upgrading of operational and organizational capabilities within the corporate is certain. Focusing on the said key defined tasks, the challenges arising from external environment and pressure on costs and expenses are the best impetus to deepen our efficiency and improve process capabilities.

2022 OUTLOOK

The external fluctuations and various cost pressures will continue in 2022. However, we remain confident in the globalized value chain and the prospect of human responses to the COVID-19 pandemic. In the long run, we believe that various major costs will return to normal or balanced levels. Therefore, we remain focused on our long-term strategy and are committed to improving the underlying capabilities of the Company.

In 2022, we will further increase the market share of our main products, including air purifiers, humidifiers, air fryers and ovens, through a comprehensive product layout. At the same time, we will continue to expand into new categories, such as vacuum cleaners and pressure cookers.

In 2022, we will further enhance our product innovation capability base primarily on user insight, combined with product development process optimization and talent optimization, so as to significantly improve our product capabilities. Based on the development and innovation capabilities of China's supply chain, we will make good use of industry resources, and combine our core product development platform and innovation capabilities to achieve a balance among category, innovation and development cycle.

In 2022, we will accelerate channel expansion, and step up more efforts for the expansion in Europe, Japan and other regions. Correspondingly, we will integrate the Group's brands and establish a global brand organization to carry out the construction of global brand asset starting from top-level design, and expand local talent pool.

In 2022, the scenario-based contents of VeSync Wellness will be launched and continue to iterate, which we believe will further magnify the value of smart products to users, thereby significantly expanding the sales scale of VeSync Store while increasing the premium of smart products.

There is a promising future ahead.

THE UNDERLYING LOGIC (1): 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, deeply improved the user experience of our products, and continued to grow iteratively. Our online sales platform, which has a relatively transparent customer evaluation system, may mitigate the information asymmetry between customers and brands on one hand, and constitute 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 user insight and also bring back various user feedbacks. We have been committed to providing rapid response to customers' demands all the way, providing customer services satisfying their needs and keep upgrading our products constantly.

THE UNDERLYING LOGIC (2): CROSS-JURISDICTION INTEGRATION AS OUR DRIVING FORCE FOR PROGRESS

The Group was established in the United States in 2011 and subsequently established branches in China. 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 smart solutions can give full play to the linkage value of smart home appliances.

Cross-jurisdiction integration puts forward higher requirements for corporate culture, organizational capability and learning capability. However, those that are hard-won are more valuable.

THE UNDERLYING LOGIC (3): THE EXPANSION OF CHANNELS AS DIVERSIFIED GROWTH ENGINES

In 2021, 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 launched 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, developing 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 increase the exposure of our products towards consumers.

Channels and products are vehicles that we contact with customers and promote each other.

THE UNDERLYING LOGIC (4): 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. It is believed that the combination of hardware, software, content and services will upgrade the upper limit of our future.

We have seen vigorous internet development in e-commerce and consumer in China, and believe that technology changes life. The future world is an intelligent one. Besides smart phones as a kind of smart devices, cars are smart terminals for going out and traveling, 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 31, 2022

BUSINESS OVERVIEW

With our mission to "build a better living", we are dedicated to continuously improving consumers' daily lives in small but meaningful ways with innovative and user-friendly products. In 2021, with our goal to foster a connected lifestyle, we launched more smart products such as the Levoit Core 400s Smart Air Purifier and Dual 200s Smart Humidifier, Cosori Aeroblaze Indoor Grill and Dual Blaze Smart Air Fryer, and Etekcity Apex Smart BMI (Body mass index) Fitness Scale.

We primarily design, develop and sell small home appliances and smart home devices under our three core brands, namely, "Levoit" for home environment appliances; "Etekcity" for smart home gadgets, health monitoring devices, outdoor recreation products and personal care products; and "Cosori" for kitchen appliances and dining ware. By constantly introducing new products and iterating existing products with new technology, functionality, features and design, as well as building up our VeSync app which enables users to achieve centralized control of smart home devices for home automation experience, we could make our customers' daily life more convenient, efficient and enjoyable. As of December 31, 2021, there were approximately 2.8 million activated devices on our VeSync app, representing an increase of approximately 55.6% as compared with approximately 1.8 million as of December 31, 2020, and the number of download of VeSync app in IOS App Store ranked No. 81 in the Lifestyle category as of December 31, 2021, improved by 90 placements as compared with No. 171 as of December 31, 2020.

We are one of the market players in the small home appliance online market in the United States. In 2021, Levoit grew its market share[Note] within air purifiers by approximately 5.2 percentage point to approximately 22.6% and humidifiers by approximately 3.7 percentage point to approximately 8.6%, while Cosori's market share[Note] within air fryers grew to approximately 4.9% in the United States according to the statistics of NPD Group, Inc. ("**NPD**").

FINANCIAL REVIEW

In 2021, the Group's revenue amounted to US$454.3 million. Gross profit was US$176.1 million, representing an increase of approximately 15.5% as compared to that for the year ended December 31, 2020. The profit attributable to owners of the parent was US$41.6 million, representing an decrease of approximately 24.0% as compared to US$54.7 million in 2020. The basic earnings per share was US3.68 cents (2020: US6.76 cents).

For the year ended December 31, 2021, the Group's overall revenue amounted to US$454.3 million, representing an increase of approximately 30.2% as compared with US$348.9 million recorded for the year ended December 31, 2020. This was mainly driven by the strong sales of various home products in terms of quantities sold, including Levoit air purifiers and humidifiers, Cosori air fryers, and Etekcity body weight scales and smart fitness scales, as consumers in the U.S. and worldwide have gradually accustomed to the new norm under the COVID-19 pandemic and many of them have modified their household hygiene practices to cope with the risk propensity of the COVID-19 pandemic. With our experienced marketing team and our successful marketing and advertising strategies, our newly launched products such as Levoit air humidifier and air purifier achieved high rankings on Amazon in 2021, and our key products, such as Levoit air purifiers and Cosori air fryers, maintained their ranking positions on Amazon in 2021 as compared with those of 2020, which enabled us to capture the online traffic from keyword searches on Amazon and robust consumer demand for home products, thereby benefitted from the favorable market trends.

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 in turns of unit from the retailer/data partner.

Business Review by Sales Channel

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

	2021 US$'000 (audited)	2020 US$'000 (audited)
Seller Central	**74,741**	102,340
Vendor Central	**338,536**	232,815
Others	**40,973**	13,767
Total	**454,250**	348,922

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

Revenue of the Group generated from the Vendor Central program increased by approximately 45.4% in 2021 primarily due to (i) the increases in sales volume of products and (ii) our channel strategy of completely shifting our program type on Amazon from the Seller Central program to the Vendor Central program in the United States.

Revenue of the Group generated from the Seller Central program decreased by approximately 27.0% in 2021 primarily due to our channel strategy of completely shifting our program type on Amazon from the Seller Central program to the Vendor Central program in the United States.

Sales growth of the Group in other channels in 2021 came primarily from the chain retailers, representing a year-on-year increase of approximately 197.6% as compared with that of 2020. Revenue growth of the Group in the chain retailers was primarily due to (i) the increases in sales volume of Levoit air purifiers, humidifiers and Cosori air fryers and (ii) the increases in the number of offline stores we entered in 2021. As the reputation of our brands, products and our track records in chain retailers continues to grow, we have secured favorable shelf positions in key chain retailers in the United States.

Business Review by Geographic Location

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

	2021 US$'000 (audited)	2020 US$'000 (audited)
North America	**358,060**	302,318
Europe	**81,041**	40,718
Asia	**15,149**	5,886
Total	**454,250**	348,922

Revenue generated from North America increased by approximately 18.4% in 2021, primarily driven by growth in revenue from the United States. The revenue growth from the United States was mainly attributable to the increase in sales volume of (i) home environment appliances such as the Levoit air purifier and air humidifier; and (ii) kitchen appliances and dining ware such as Cosori air fryer. The Group's revenue in European sales in 2021 increased by approximately 99.0% to US$81.0 million as compare to that of 2020, which were primarily due to (i) increases in sales in Great Britain, Germany, Spain and Italy and (ii) the increase in sales volume of Cosori and Levoit products, which were partially offset by the decrease in sales volume of Etekcity products. Revenue from Asia increased by approximately 157.4% in 2021, primarily attributable to the increased sales in Japan and China.

GROSS PROFIT AND GROSS PROFIT MARGIN

For the year ended December 31, 2021, the gross profit of the Group was US$176.1 million (2020: US$152.4 million), representing a year-on-year increase of approximately 15.5%. The increase in gross profit was mainly due to the higher sales recognized for the year ended December 31, 2021. For the year ended December 31, 2021, the gross profit margin of the Group was 38.8% (2020: 43.7%) representing a year-on-year decrease of approximately 4.9 percentage points. The decrease in the gross profit margin was attributable to: (i) the increase in the proportion of shipping and insurance cost to the overall cost of sales. The year of 2021 saw a sudden and unusual price increase in global container freight market, bringing extra freight and insurance cost of approximately US$14.4 million to the cost of sales as compared to that for the year ended December 31, 2020, and resulting in approximately 3.2p.p decrease of the gross profit margin for the year ended December 31, 2021; (ii) the Group's key products, air purifiers and air fryers were included in the product list of additional tariffs since January 1, 2021, bringing extra customs duties of approximately US$16.4 million to the cost of sales and resulting in approximately 3.6p.p. decrease of the gross profit margin for the year ended December 31, 2021; and (iii) the increase of subcontracting cost due to the soared price of raw material in 2021, partially offset by the increases in average selling price of Levoit air purifier filters and the decrease in Amazon fulfillment fee.

OTHER INCOME AND GAINS

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

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

	2021 US$'000 (audited)	2020 US$'000 (audited)
Bank interest income	**665**	10
Government grants	**469**	96
Fair value gains, net	**40**	—
Others	**203**	235
Total	**1,377**	341

For the year ended December 31, 2021, other income and gains of the Group recorded approximately US$1.4 million (2020: US$0.3 million), representing a year-on-year increase of approximately 304.0%. This was mainly attributable to (i) the increase of bank interest income; and (ii) the increase of government grant under the Paycheck Protection Program ("**PPP**") administered by the Small Business Administration ("**SBA**").

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:

	2021 US$'000 (audited)	2020 US$'000 (audited)
Marketing & advertising expenses	**21,165**	12,270
Commission to platform	**12,839**	17,180
Staff cost	**12,763**	8,203
Warehousing expenses	**17,624**	6,273
Others	**4,442**	3,315
Total	**68,833**	47,241

The Group's selling and distribution expenses increased by approximately 45.7% from US$47.2 million for the year ended December 31, 2020 to US$68.8 million for year ended December 31, 2021. Such increase was driven by (i) the increase in marketing and advertising expenses to increase the market presence of the Group's key products; (ii) the increase in staff cost due to the expansion of the Group's sales and marketing team to support the Group's robust business growth in 2021; and (iii) the increase in warehousing expenses as the Group's inventory increased during 2021, which was partially offset by the decrease in commission to platform as the Group's sales generated through the Seller Central program decreased.

ADMINISTRATIVE EXPENSES

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

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

	2021 US$'000 (audited)	2020 US$'000 (audited)
Research and development	**17,308**	10,459
Administrative staff costs	**19,088**	11,974
Professional fees	**4,499**	9,917
Office expenses	**3,987**	2,710
Depreciation & amortization	**3,632**	1,931
Travelling and entertainment expenses	**505**	444
Others	**2,116**	1,485
Total	**51,135**	38,920

The Group's administrative expenses increased by approximately 31.4% from US$38.9 million for the year ended December 31, 2020 to US$51.1 million for the year ended December 31, 2021, primarily due to (i) the increase in research and development expenses to prepare for product upgrades and new products; and (ii) the increase in office expenses as the number of staff increased during 2021. The increase in administrative expenses was partially offset by the decrease in professional fee.

OTHER EXPENSES

The Group's other expenses remained relatively stable at US$5.6 million for the year ended December 31, 2021 (2020: US$5.3 million).

FINANCE COST

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

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

	2021 US$'000 (audited)	2020 US$'000 (audited)
Interest on bank loans	**88**	444
Interest on loans from related parties	**—**	85
Interest on lease liabilities	**675**	611
Total	**763**	1,140

The Group's finance costs decreased from US$1.1 million for the year ended December 31, 2020 to US$0.8 million for the year ended December 31, 2021, primarily due to the decrease in interest on bank loans.

INCOME TAX EXPENSE

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

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

The Group's subsidiary, Chongqing Xiaodao Information Technology Company Limited, is currently qualified as small and micro-sized enterprise, and was entitled to a preferential income tax rate of 2.5% 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 2021.

Dongguan Zhilun is entitled to a preferential income tax rate of 2.5% for the taxable income less than or equal to RMB1,000,000 and a preferential income tax rate of 10% for the taxable income between RMB1,000,000 and RMB3,000,000 during the year.

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

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

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

Income tax expenses of the Group increased from approximately US$5.3 million for the year ended December 31, 2020 to approximately US$9.4 million for the year ended December 31, 2021, primarily due to the strong growth of taxable income driven primarily by the increased sales and profit in the United States and other countries, and decrease in deferred tax assets mainly arising from the unrealized profit from inter-company transactions.

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

As a result of the foregoing, the Group had a profit attributable to owners of parent of US$41.6 million for the year ended December 31, 2021, compared with a profit attributable to owners of parent of US$54.7 million for the year ended December 31, 2020.

LIQUIDITY AND FINANCIAL RESOURCES

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

The Group meets its capital needs through cash flows from operations and financing as a result of the net proceeds from the Global Offering. The Group had cash and cash equivalents of US$183.5 million as of December 31, 2020 and US$126.7 million as of December 31, 2021. The cash and cash equivalents of the Group are mainly denominated in RMB, US$ and EUR.

As of December 31, 2021, the Group had total bank borrowings of approximately US$34.9 million (2020: approximately US$2.9 million), which were all denominated in US$ and RMB. Approximately US$4.3 million of the bank borrowings were at fixed interest rates and approximately US$30.6 million of the bank borrowings were at floating interest rates.

The table sets forth a breakdown of the bank borrowings of the Group as of December 31, 2021:

	2021 **US$'000** **(audited)**	2020 US$'000 (audited)
Interest-bearing bank borrowings (current portion)	**34,900**	2,888
Total	**34,900**	2,888

The table below sets forth the aging analysis of the repayment terms of interest-bearing bank borrowings as of December 31, 2021:

	2021 US$'000 (audited)	2020 US$'000 (audited)
Bank loans repayable:		
Within one year or on demand	**34,900**	2,888
Total	**34,900**	2,888

TREASURY POLICY

The Group adopts a prudent approach in its cash management and risk control. Most of the sales are denominated in US$, with the remaining mainly denominated in currencies of the countries to which the Group sells its products. The Group pays subcontractors and suppliers (including those located in the PRC) mainly in US$ and RMB. As a result of the foregoing, the Group's consolidated financial results are affected by currency exchange rate fluctuations. The Group recorded a currency exchange loss of approximately US$4.2 million for the year ended December 31, 2021 (2020: approximately US$2.2 million).

As of December 31, 2021, the Group manages its foreign exchange risk by using appropriate financial derivatives, and priority will be given to simple, cost-efficient and effective hedge instruments which meet the HKFRS 9 in performing foreign exchange risk management responsibilities. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

As of December 31, 2021, there were no significant investments held by the Group or future plans for significant investments or capital assets.

The Company did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures for the year ended December 31, 2021.

EMPLOYEES AND REMUNERATION POLICY

As of December 31, 2021, the Group had 1,236 employees in total, in which 1,089 employees were in the PRC, 144 employees were in the Unites States and 3 employees were in other locations. For the year ended December 31, 2021, the Group recognized staff costs of US$44.6 million (2020: approximately US$27.0 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. For the year ended December 31, 2021, several culture webinars were held to drive forward our employees' understanding of the connection between product design and our end-users.

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

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

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

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

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

CHARGES ON ASSETS

As of December 31, 2021, the Group's bank borrowings of approximately US$30.6 million were secured by pledged bank deposits (2020: Nil).

GEARING RATIO

As of December 31, 2021, the Group's gearing ratio (calculated as the total borrowings (bank and other borrowings and lease liabilities) divided by total equity as of the end of each year) was 15.4% (December 31, 2020: 5.7%).

MANAGEMENT DISCUSSION AND ANALYSIS

IMPACT OF COVID-19

The COVID-19 has so far by the end of December 2021 infected 285.6 million people globally and contributed to 5.4 million deaths, according to the World Health Organization ("**WHO**"). In 2021, we have actively taken measures to mitigate the impact of the COVID-19 pandemic.

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

The year of 2021 saw an especially steep increase in Global Container Freight Index ("**GCFI**"), reaching a record price of over approximately US$11,109 in September 2021. By the end of December 2021, world container shipping market imbalances still remained a concern, with the GCFI standing at US$9,293 per 40-foot container. The China Containerized Freight Index ("**CCFI**") recorded approximately 3,265 points in December 2021, representing a year-on-year increase of approximately 125.7% compared with 1,446 points recorded in December 2020. Such increase in CCFI was primarily due to: (i) the disruptions to the global supply chain, resulting in port congestions and container shortages; (ii) the temporary port closure due to the COVID-19 variants outbreak; and (iii) the strengthening of China's exports and improvement in the trade surplus. For the year ended December 31, 2021, the proportion of shipping and insurance cost to revenue increased from approximately 4.6% to 7.8%, lowering the Group's gross profit margin by 3.2 percentage points. We have maintained long-term relationships with multiple logistic companies and we introduced more trailer vendors for overseas cargo offloading and product deliveries to ensure on-time delivery.

At this stage, almost a year after COVID-19 has emerged, consumers worldwide have adapted to the "new normal": work-from-home mode for adults, study-at-home mode for children, temporary quarantine, the mandatory wearing of face masks in public and higher standards of public hygiene. As customers spent more time at home, the Group continued to capture the increasing demand for home products such as air purifiers, humidifiers and air fryers and a growth of our revenue, which was largely generated from Levoit and Cosori, increased to approximately US$401.7 million for the year ended December 31, 2021, partially offset by the decreased sales in outdoor recreation products, such as air mattress and camping lanterns. We will continue to follow various government policies and advice and, on the other hand, we will do our utmost to continue our operations in the best and safest way possible without jeopardizing the health of our employees. Moreover, we will monitor the situation and update the Shareholders and potential investors of the Company as and when appropriate.

FUTURE OUTLOOK

We remain firmly committed to our core belief to foster connected lifestyles and make life better by creating smarter products under the brands of Levoit, Cosori and Etekcity. Going forward in 2022, we aim to continue focusing on the following strategies: (i) further upgrade our product mix and expand our product portfolio; (ii) expand geographic coverage, especially deepen the market share of Cosori and Levoit products in the European market; (iii) bring greater business potential from other sales channels by enlarging our product portfolio in existing stores, entering into new stores and getting access to more new chain retailers, thus leveraging our brand recognition; and (iv) continue to invest in technologies with an aim to develop VeSync app into a home IoT platform.

We aim to further enhance our product portfolio, in particular smart home devices in the consumer space, while leveraging our track record for developing relevant, consumer-friendly products in the business-to-business space. Cosori has launched new products such as coffee grinders, aeroblaze indoor grills and air fryers for the year ended December 31, 2021. In addition, we have launched new Levoit air purifiers and humidifiers in the year 2021, successfully leveraging our expertise and experience in smart home devices.

We also plan to enlarge our market presence in our existing major markets including North America, Europe and Japan. As of December 31, 2021, we have maintained long-term business relationship with e-commerce operators, such as C-discount, Rakutan and other renowned chain retailers in the United States, such as Target, Best Buy, Walmart, Home depot, Macy's, Costco and Wayfair, selling smart home devices and small home appliances. As of December 31, 2021, we have entered into over 7,649 stores or locations of above chain retailers in the United States.

Moreover, the Group's wholly-owned subsidiary, Ecomine Co., Ltd, entered into a joint venture agreement with Zhou Yang, Shenzhen Leqi Network Technology Co., Ltd (深圳市樂其網絡科技有限公司) and Shenzhen Shengrui Enterprise Management LLP (深圳市晟睿企業管理合夥企業(有限合夥)) which has deep roots and profound insight in the data technology industry and a fund of experience in the capital market. By actively seizing opportunities in data technology industry such as IoT and big data, we can further boost the product intellectualization and create synergy in our research and development process.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Ms. Yang Lin (楊琳), aged 48, 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 46, 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.

Mr. Chen Zhaojun (陳兆軍), aged 45, 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 redesignated 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 79, 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 of whom are the executive Directors.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. Fong Wo, Felix (方和), *BBS, JP*, aged 71, 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. From June 8, 2015 to October 31, 2021, he served as an independent non-executive director of Xinming China Holdings Limited (新明中國控股有限公司) (Stock Code: 2699), an investment holding company principally engaged in property development 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), 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.

Mr. Gu Jiong (顧炯), aged 49, 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 September 2013 to August 2016, 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. From June 2015 to June 2021, Mr. Gu was an independent non-executive director of Xinming China Holdings Limited (新明中國控股有限公司) (stock code: 2699).

Since September 2016, Mr. Gu has been the vice president 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) and Ascletis Pharma Inc. (歌禮製藥有限公司) (stock code: 1672).

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).

Mr. Tan Wen (檀文), aged 48, 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 to September 2021, 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 September 2021, Mr. Tan served as deputy general manager of Guoxing (Xiamen) Investment management Ltd, a private equity investment company. 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. Since October 2021, Mr. Tan served as the director of Success Biotech Co., Ltd, a company mainly engaged in the manufacture and sale of implanted medical equipment in mainland China.

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.

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, 2021.

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 27 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 "Five Year Financial Summary" of this annual report.

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 2022 AGM of a final ordinary dividend of HK6.40 cents (equivalent to approximately US0.82 cents) per Share for the Reporting Period (2020: HK12.74 cents), and a final special dividend of HK$6.40 cents (equivalent to approximately US0.82 cents) per share (collectively the "**Proposed Final Dividends**") for the Reporting Period (2020: Nil) to be paid on Thursday, July 28, 2022 to the Shareholders whose names appear on the register of members of the Company on Friday, June 10, 2022.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement of the Shareholders to attend and vote at the 2022 AGM to be held on May 31, 2022, the register of members of the Company will be closed from Thursday, May 26, 2022 to Tuesday, May 31, 2022, both days inclusive, during which period no transfer of shares will be registered. In order to be qualified for attending and voting at the 2022 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 Wednesday, May 25, 2022.

For determining the entitlement of the Shareholders to the Proposed Final Dividends, the register of members of the Company will be closed from Wednesday, June 8, 2022 to Friday, June 10, 2022, both days inclusive, during which period no transfer of Shares shall be registered. In order to qualify for the Proposed Final Dividends, all transfers of Shares accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Boardroom Share Registrars (HK) Limited at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong for registration not later than 4:30 p.m. on Tuesday, June 7, 2022.

AUDIT COMMITTEE

The Audit Committee, consisting of three independent non-executive Directors, namely, Mr. Gu Jiong (Chairman), Mr. Fong Wo, Felix and Mr. Tan Wen, has reviewed the audited consolidated financial statements of the Group for the year ended December 31, 2021, including the accounting principles and practices adopted by the Group and has recommended for the Board's approval thereof. 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 36 of the Consolidated Statement of Changes in Equity.

DISTRIBUTABLE RESERVES

As of December 31, 2021, the amount of reserves available for distribution of the Company was approximately US$199.7 million.

DONATIONS

During the Reporting Period, the Group made charitable donations of approximately US$72,000.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Company's shares have been listed on the Main Board of the Stock Exchange since December 18, 2020. The net proceeds from the Global Offering (after the full exercise of the over-allotment option) after deducting the underwriting fees and commissions and related expenses was HK$1,662.9 million (the "**Net Proceeds**"). The Group will continue to utilize the net proceeds from the Global Offering as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. The intended application of the net proceeds as stated in the Prospectus and the actual utilization of the net proceeds from the Global Offering up to December 31, 2021 was as below:

Purpose	Approximate Percentage of total amount	Allocation of Net Proceeds HK$ million	Unutilized as of December 31, 2020 HK$ million	Utilized during the Reporting Period HK$ million	Unutilized as of the end of the Reporting Period HK$ million	Expected timeline for the use of unutilized Net Proceeds(Note 1)
1. Research and development of new products and upgrade and iteration of existing products						
Research and development of new products	15%	249.4	249.4	24.0	225.4	By December 2023
Upgrade and iterate existing products	5%	83.2	83.2	24.0	59.2	By December 2023
Research and development of new products and upgrade and iteration of existing products	5%	83.2	83.2	15.5	67.7	By December 2023
Enhance testing capability	5%	83.2	83.2	9.7	73.5	By December 2023
2. Expand our sales channels and geographic coverage and enhance brand awareness						
Expand sales channels and market presence in existing major markets	8%	133.0	133.0	56.3	76.7	By December 2023
Expand and solidify market presence in regions	8%	133.0	132.9	15.0	117.9	By December 2023
Devote more resources in brand promotion	9%	149.7	149.4	20.9	128.5	By December 2023
3. Upgrade VeSync app into a home IoT platform						
Build and expand talent pools in cloud infrastructure, IoT technology, data technology	10%	166.3	166.3	35.3	131.0	By December 2023
Acquire or partner with companies in the data technology industry	15%	249.4	249.4	94.1	155.3	By December 2023
4. Develop and launch smart solutions, including smart security solutions, for business customers						
Research and development of smart solutions for business customers	5%	83.1	83.1	5.6	77.5	By December 2023
Expand North America market of smart solutions for business customer	5%	83.1	83.1	11.1	72.0	By December 2023
5. Working capital	10%	166.3	166.3	166.3	0	—

Notes:

1. During the Reporting Period, the Net Proceeds had been and will be used according to the purposes as stated in the Prospectus, and there are no material change or delay in the use of 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$359.2 million, representing approximately 79.1% 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$338.5 million, representing approximately 74.5% of the Group's total revenue.

During the Reporting Period, purchase value from the five largest suppliers of the Group amounted to approximately US$132.4 million, representing approximately 87.2% of the Group's total purchase value; and purchase value from the largest supplier of the Group amounted to approximately US$48.8 million, representing approximately 32.1% 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)*

Non-executive Director

Mr. Yang Yuzheng

Independent Non-executive Directors

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

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

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

Mr. Tan Wen (檀文), an independent non-executive director, served as deputy general manager of Guoxing (Xiamen) Investment management Ltd, a private equity investment company since September 2021. Since October 2021, Mr. Tan served as the director of Success Biotech Co., Ltd, a company mainly engaged in the manufacture and sale of implanted medical equipment in mainland China.

Mr. Fong Wo, Felix (方和), an independent non-executive Director, has resigned as an independent non-executive director of Xinming China Holdings Limited (新明中國控股有限公司) (stock code: 2699.HK) on October 31, 2021.

Save as disclosed above and in this annual 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 Reporting Period, none of the Directors had any interest in any businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group under Rule 8.10 of the Listing Rules.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Saved as disclosed in note 31 to the financial statements, 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, during Reporting Period.

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 of December 31, 2021, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO, or (iii) notified to the Company and the Stock Exchange under the Model Code, were as follows:

Interest in Shares and underlying Shares

Name of Director or chief executive	Capacity/ Nature of interest	Long position/ short position	Number of Shares	Number of underlying Shares	Total	Approximate percentage of interest in the Company
Ms. Yang Lin[(2)(5)]	Founder of a discretionary trust who can influence how the trustee exercises his discretion	L[(10)]	406,040,800	—		
	Interests held jointly with another person	L[(10)]	375,786,400	1,350,000		
	Beneficial owner		—	1,150,000		
					784,327,200	67.32%

Name of Director or chief executive	Capacity/ Nature of interest	Long position/ short position	Number of Shares	Number of underlying Shares	Total	Approximate percentage of interest in the Company
Mr. Yang Hai[(3)(5)]	Interest of corporation controlled	L[(10)]	8,067,200	—		
	Interests held jointly with another person	L[(10)]	773,760,000	1,350,000		
	Beneficial owner		—	1,150,000		
					784,327,200	67.32%
Mr. Yang Yuzheng[(4)(5)]	Interest of corporation controlled	L[(10)]	367,719,200			
	Interests held jointly with another person	L[(10)]	414,108,000	2,300,000		
	Beneficial owner	L[(10)]	—	200,000		
					784,327,200	67.32%
Mr. Chen Zhaojun[(6)]	Beneficial owner	L[(10)]	—	2,000,000	2,000,000	0.17%
Mr. Fong Wo, Felix[(7)]	Beneficial owner	L[(10)]	—	200,000	200,000	0.017%
Mr. Gu Jiong[(8)]	Beneficial owner	L[(10)]	—	200,000	200,000	0.017%
Mr. Tan Wen[(9)]	Beneficial owner	L[(10)]	—	200,000	200,000	0.017%

Notes:

1. The calculation is based on the total number of 1,165,049,800 Shares in issue as of December 31, 2021.

2. Karis I LLC and Karis II LLC hold 243,624,800 Shares and 162,416,000 Shares respectively. Each of Karis I LLC and Karis II LLC is wholly owned by North Point Trust Company L.L.C., the trustee of the Annuity Trusts, on trust for the benefit of the Annuity Trusts, which were established by Ms. Yang for the ultimate benefit of the Family Trusts, pursuant to certain arrangements. The Family Trust I and Family Trust II were established by Ms. Yang as both the settlor and the trustee, and the beneficiaries of which are any children born to or adopted by Ms. Yang and their respective issue, and Mr. Ryan Xu, being Ms. Yang's child, during his lifetime, and any charitable organizations to be subsequently determined by the independent trustee (if any) at its discretion upon its appointment, respectively. Pursuant to the Annuity Trusts, Ms. Yang, as the powerholder, has the power to appoint additional trustees and remove and replace North Point Trust Company L.L.C., and as the sole manager of Karis I LLC and Karis II LLC, has the authority to make all decisions in relation to them. Ms. Yang is deemed to be interested in both Karis I LLC and Karis II LLC, and is therefore deemed to be interested in any Shares in which each of Karis I LLC and Karis II LLC is interested.

   Ms. Yang Lin is interested in 1,150,000 share options granted to her under the Share Option Scheme to subscribe for 1,150,000 Shares.

3. Arceus Co., Ltd holds 8,067,200 Shares. Arceus Co., Ltd is wholly owned by Mr. Yang Hai. Mr. Yang Hai is therefore deemed to be interested in any Shares in which Arceus Co., Ltd is interested.

   Mr. Yang Hai is interested in 1,150,000 share options granted to him under the Share Option Scheme to subscribe for 1,150,000 Shares.

4. Caerus Co., Ltd holds 367,719,200 Shares. Caerus Co., Ltd is wholly owned by Mr. Yang Yuzheng. Mr. Yang Yuzheng is therefore deemed to be interested in any Shares in which Caerus Co., Ltd is interested.

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

5. Each of Ms. Yang Lin, Mr. Yang Yuzheng and Mr. Yang Hai is family member of one another, and is therefore deemed to be interested in any Shares in which one another is interested.

6. Mr. Chen Zhaojun is interested in 2,000,000 share options granted to him under the Share Option Scheme to subscribe for 2,000,000 Shares.

7. Mr. Fong Wo, Felix is interested in 200,000 share options granted to him under the Share Option Scheme to subscribe for 200,000 Shares.

8. Mr. Gu Jiong is interested in 200,000 share options granted to him under the Share Option Scheme to subscribe for 200,000 Shares.

9. Mr. Tan Wen is interested in 200,000 share options granted to him under the Share Option Scheme to subscribe for 200,000 Shares.

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

Save as disclosed above, so far as the Directors are aware, as of December 31, 2021, none of the Directors or chief executive of the Company had any interest or short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO, or (iii) notified to the Company and the Stock Exchange under the Model Code.

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

As of December 31, 2021, the following persons (other than the Directors and chief executive of the Company) had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company, pursuant to Section 336 of the SFO:

Interest in Shares and underlying Shares

Name	Capacity/ Nature of interest	Long position/ short position	Number of Shares	Number of underlying Shares	Total	Approximate percentage of interest in the Company
North Point Trust Company L.L.C.[(2)]	Trustee	L [(7)]	406,040,800	—	406,040,800	34.85%
Karis I LLC[(2)]	Beneficial owner	L [(7)]	243,624,800	—	243,624,800	20.91%
Karis II LLC[(2)]	Beneficial owner	L [(7)]	162,416,000	—	162,416,000	13.94%
Caerus Co., Ltd[(3)]	Beneficial owner	L [(7)]	367,719,200	—	367,719,200	31.56%
Mr. Xu Bo[(4)]	Interest of spouse	L [(7)]	781,827,200	2,500,000	784,327,200	67.32%
Ms. Li Jisu[(5)]	Interest of spouse	L [(7)]	781,827,200	2,500,000	784,327,200	67.32%
Ms. Chen Shuyong[(6)]	Interest of spouse	L [(7)]	781,827,200	2,500,000	784,327,200	67.32%

Notes:

1. The calculation is based on the total number of 1,165,049,800 Shares in issue as of December 31, 2021.

2. Karis I LLC and Karis II LLC hold approximately 20.91% and 13.94% 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. Caerus Co., Ltd is wholly owned by Mr. Yang Yuzheng. Mr. Yang Yuzheng is therefore deemed to be interested in any Shares in which Caerus Co., Ltd is interested.

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

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

6. Ms. Chen Shuyong is the spouse of Mr. Yang Hai. Under the SFO, Ms. Chen Shuyong is deemed to be interested in any Shares in which Mr. Yang Hai is interested.

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

Save as disclosed above, as of December 31, 2021, 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", "Share Option Scheme" and "Post-IPO Share Award 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 Reporting Period.

EQUITY-LINKED AGREEMENT

Save as disclosed in the sections headed "Pre-IPO Share Award Scheme", the "Share Option Scheme" and "Post-IPO Share Award Scheme" the Company did not enter into any equity-linked agreement during the Reporting Period.

PERMITTED INDEMNITY PROVISION

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

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

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.

(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.

As at the date of this annual report, the total number of securities available for issue under the Share Option Scheme is 111,425,480 Shares which represent approximately 9.56% of the issued Shares as at the date of this annual report.

(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.

(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.

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

Grantees	Date of grant	Exercise price (HK$/Share)	Closing price immediately prior to the grant (HK$/Share)	Outstanding options as of January 1, 2021	Granted	Exercised	Cancelled	Lapsed	Outstanding options as of December 31, 2021	Exercise period (Note)
Directors										
Yang Lin	May 14, 2021	12.880	10.360	—	1,150,000	—	—	—	1,150,000	May 14, 2021 to May 13, 2031
Yang Hai	May 14, 2021	12.880	10.360	—	1,150,000	—	—	—	1,150,000	May 14, 2021 to May 13, 2031
Chen Zhaojun	May 14, 2021	12.880	10.360	—	2,000,000	—	—	—	2,000,000	May 14, 2021 to May 13, 2031
Yang Yuzheng	May 14, 2021	12.880	10.360	—	200,000	—	—	—	200,000	May 14, 2021 to May 13, 2031
Fong Wo, Felix	May 14, 2021	12.880	10.360	—	200,000	—	—	—	200,000	May 14, 2021 to May 13, 2031
Gu Jiong	May 14, 2021	12.880	10.360	—	200,000	—	—	—	200,000	May 14, 2021 to May 13, 2031
Tan Wen	May 14, 2021	12.880	10.360	—	200,000	—	—	—	200,000	May 14, 2021 to May 13, 2031
Total				—	5,100,000	—	—	—	5,100,000	

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

The fair value of the options was measured at the date of grant and recognized as expense in the financial statements of the Group over the vesting period. The fair value of the options granted during the Reporting Period was HK$21,146,000 (equivalent to US$2,722,000) using the binominal option pricing model as the date of grant of the options, of which the Group recognized a share-based payment expense of US$558,000 during the Reporting Period.

The binomial option pricing model is a generally accepted method of valuing options. The following table lists the inputs to the model used:

	2021
Dividend yield (%)	1.00
Expected volatility (%)	41.54
Risk-free interest rate (%)	1.21
Early exercise multiple	2.8
Weighted average share price (HK$ per Share)	10.36
Forfeiture rate (%)	0.00

The measurement dates used in the valuation calculations were the dates on which the options were granted. The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself. The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

As of December 31, 2021, the Company had 5,100,000 share options outstanding under the Share Option Scheme. Should they be fully exercised, the Company will receive HK$65,688,000 (before issue expenses). The fair value of these unexercised options measured in accordance with the Group's accounting policy amounted to HK$21,146,000.

No other feature of the options granted was incorporated into the measurement of fair value. The remaining life of the Share Option Scheme is eight 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 28 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.

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.

(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 Listing (the "**Pre-IPO Vested Awarded Shares**"), they 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 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.

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 42,631 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 as specified in paragraph (8) below; 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.

During the Reporting Period, no award Shares had been granted, exercised, outstanding, lapsed and canceled. As of December 31, 2021, there was no outstanding award Share granted under the Pre-IPO Share Award Scheme. The remaining life of the Pre-IPO Share Award Scheme is eight years and three months.

POST-IPO SHARE AWARD SCHEME

(1) Summary

On July 20, 2021, the Board adopted the Post-IPO Share Award Scheme (i) to recognize the contributions by certain eligible participants of the Post-IPO Share Award Scheme and to provide them with incentives in order to retain them for the continual operation and development of the Group; and (ii) to attract suitable personnel for further development of the Group.

(2) Scheme Limit

The Board shall not make any further award of Awarded Shares which will result in the nominal value of the Shares awarded by the Board under the Post-IPO Share Award Scheme exceeding 10% of the issued share capital of the Company from time to time. The maximum number of Shares which may be awarded to a Selected Participant under the Post-IPO Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

(3) Who may join

(A) Eligible Participant

Eligible Participant who may join the Post-IPO Share Award Scheme includes any employee, director (including without limitation any executive, non-executive and independent non-executive Directors), officer, agent, consultant, supplier, customer, adviser, business partner or representative of any member of the Group or any other person as determined in its absolute discretion by the Board who has contributed to the business development of the Group;

Subject to the Scheme Rules, the Board may, from time to time, at its absolute discretion select any Eligible Participant (other than any Excluded Participant) for participation in the Post-IPO Share Award Scheme as a Selected Participant, and grant such number of Awarded Shares to any Selected Participant at no consideration and in such number and on and subject to such terms and conditions as it may in its absolute discretion determine.

(B) Disqualification of Selected Participant

In the event that prior to or on the Vesting Date, a Selected Participant is found to be an Excluded Participant or is deemed to cease to be an Eligible Participant, including but not limited to the following circumstances:

(a) where such person has committed any act of fraud or dishonesty or serious misconduct, whether or not in connection with his employment or engagement by any member of the Group and whether or not it has resulted in his employment or engagement being terminated by the relevant member of the Group;

(b) where such person has been declared or adjudged to be bankrupt or winding up by a competent court or governmental body or has failed to pay his debts as they fall due (after the expiry of any applicable grace period) or has entered into any arrangement or composition with his creditors generally or an administrator has taken possession of any of his assets;

(c) where such person has been convicted of any criminal offence; or

(d) where such person has been convicted of or is being held liable for any offence under or any breach of the SFO or other securities laws or regulations in Hong Kong or any other applicable laws or regulations in force from time to time,

the relevant Award made to such Selected Participant shall automatically lapse forthwith and the relevant Awarded Shares shall not vest on the relevant Vesting Date but shall remain part of the Trust Fund.

In respect of a Selected Participant who died or retired by agreement with a member of the Group at any time prior to or on the Vesting Date, the relevant Award made to such Selected Participant shall automatically lapse forthwith and the relevant Awarded Shares shall not vest on the relevant Vesting Date but shall remain part of the Trust Fund.

(4) Administration

The Post-IPO Share Award Scheme shall be subject to the administration of the Board and the Trustee in accordance with the Scheme Rules and the Trust Deed. The decision of the Board with respect to any matter arising under the Post-IPO Share Award Scheme (including the interpretation of any provision) shall be final and binding.

The Trustee shall hold the Trust Fund in accordance with the terms of the Trust Deed.

(5) Vesting of Awarded Shares

Subject to the terms and conditions of the Post-IPO Share Award Scheme and the fulfillment of all vesting conditions, the respective Awarded Shares held by the Trustee on behalf of the Selected Participant pursuant to the provision of the Scheme Rules shall vest in such Selected Participant in accordance with the vesting schedule (if any), and the Trustee shall, at the instruction of the Selected Participant, cause the Vesting Shares to be transferred to such Selected Participant on the Vesting Date.

If there occurs an event of change in control (as specified in The Codes on Takeovers and Mergers and Share Buy-backs from time to time) of the Company prior to the Vesting Date, whether by way of offer, merger, scheme of arrangement or otherwise, the Board shall determine at its discretion whether such Awarded Shares shall vest in the Selected Participant and the time at which such Awarded Shares shall vest.

The Board may at its discretion, with or without further conditions, grant additional Shares out of the Trust Fund representing all or part of the income or distributions declared by the Company or derived from such Awarded Shares during the period from the date of Award to the Vesting Date to a Selected Participant upon the vesting of any Awarded Shares.

(6) Duration

Subject to any early termination as may be determined by the Board pursuant to the Scheme Rules, the Post-IPO Share Award Scheme shall be valid and effective for a term of 10 years commencing on the Adoption Date.

As of the Latest Practicable Date, the remaining life of the Post-IPO Share Award Scheme is nine years and three months.

During the Reporting Period, no award Shares had been granted, exercised, outstanding, lapsed and canceled. As of December 31, 2021, there was no outstanding award Share granted under the Post-IPO Share Award Scheme.

SUFFICIENCY OF PUBLIC FLOAT

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

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

During the Reporting Period, the Company repurchased a total of 205,000 Shares (the "**Shares Repurchased**") on the Stock Exchange, at an aggregate consideration of HK$1,835,068.15. Details of the Shares Repurchased are as follows:

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

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Reporting Period. The Shares Repurchased were cancelled.

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

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

CONTINGENT LIABILITIES

As of December 31, 2021, 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 31 to the financial statements which do not constitute connected or 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

In order to continuously increase brand value, the Group adheres to the core value of quality first by providing customers with safe, high-quality and innovative products and services. To this end, the Group has developed a comprehensive quality management system in respect of product design, product manufacturing and product recall. At the same time, we operate our business in a responsible manner, and regard information protection, integrity and supply chain management as key factors of stable business development.

We also value the efforts of each employee, and actively build all possible personal development opportunities and spaces for our employees to achieve their self-worth. We are committed to embedding environmental protection concepts and practices into all of our operations, in order to minimise the adverse impacts on the environment and continually improve our environmental performance.

The Group is committed to being a responsible member of the community and is dedicated to promoting a thriving society and giving back to the society. We participate and invest in the local community through partnerships with charities and non-government organizations. Looking ahead, we will continue to promote a culture of active engagement in social service and encourage our employees to actively participate in voluntary services to maintain the harmonious relationship with the society.

The Company is committed to improving environmental sustainability and will closely monitor its performance in accordance with Rule 13.91 of and Appendix 27 to the Listing Rules.

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, 2021 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 2022 AGM. A resolution will be proposed at the 2022 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.

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:

1. Risk of delay or interruption in delivery due to congestion in global logistics chain — Operational Risk

2. Risk of non-compliance of the platform operational policy of Amazon — Operational Risk

3. Risk of operational disruption due to public health crisis — Operational Risk

4. Risk of non-compliance of relevant laws and policies on product and packaging safety, responsibilities and environmental protection — Compliance Risk

5. Risk of Sino-U.S. trade war and other trade or import protection policies — Strategic Risk

1. Operational Risk

(1) Risk of delay or interruption in delivery due to congestion in global logistics chain

The Group's products are sold primarily in the United States, Canada, Europe, Japan and Southeast Asia, while the products are manufactured in the PRC mostly, and then delivered to sales destination countries via cross border logistics. The Group's products are mainly transported by international shipping, and certain goods are also transported by air transportation and express delivery.

Since 2020, influenced by of the changing international situation and the global spreading pandemic, the international shipping market has experienced several ups and downs. Since 2021, global shipping continues to be blocked as the pandemic situation continuously fluctuate and affected by the local government pandemic prevention policies, crew changes and shortage, weather, Suez Canal blockage and other factors, and containers in many countries around the world are unable to circulate in a normal way, creating continuing tensions on the balance of demand and supply. The West Coast of the United States is in the heat of the global port congestion, especially in the Port of Los Angeles, California and the Port of Long Beach, the number of container vessels pending to discharge has been increasing significantly. A large number of containers blocking up in the West Coast of the United States are unable to manage in time due to series of problems including lack of truck driver, it is expected that the congestion situation will last for some time. Certain ports in the PRC, such as Yantian Port, Ningbo Port and Shanghai Port, were closed or restricted from import and export as a result of the pandemic or severe weather, which raised the seriousness of the congestion in the ports in the PRC.

Furthermore, affected by the spread of the COVID-19 pandemic overseas, the shortage of dock workers has led to congestion and stoppages at the terminals from time to time, and the turnaround efficiency of vessels has dropped, with a continuous shortage of cargo space and lack of availability containers. The international container shipping market has also seen a rise in prices.

Under this circumstance, if the Group fails to effectively entrust high-quality and stable logistics providers and arrange transportation properly, or suffer from delays due to transportation process or terminal congestion, the Group may face the risk of being unable to deliver its products overseas in time, resulting in out-of-stock sales, and the business, financial condition and results of operations of the Group may be materially and adversely affected.

Response to Risk

As stated by the Group's management, we have maintained long-term strategic cooperative relationships with multiple leading quality logistics companies to ensure cargo space booking and delivery. Leveraging on the Group's effective measures such as timely production and supply, reasonable logistics arrangements, overseas warehousing centres and Strategically select early delivery, the Group achieved timely delivery of products in 2021 to meet customers' procurement and sales needs. The Group's sales and deliveries did not experience a materially and adversely impacted by the cross-border logistics congestion caused by the COVID-19 pandemic.

The Group established a professional logistics management team at an early stage for the effective arrangement and management of the Group's logistics and transportation chain. The Group has in place a scientific and reasonable logistics supplier selection mechanism; the Group's logistics management team adopts comprehensive evaluation criteria in selecting logistics suppliers, including the companies' legitimacy, delivery period, cost, settlement, service capability and risk resistance of logistics suppliers. Regular performance evaluations are conducted to evaluate the performance of logistics suppliers, the Group has therefore accumulated a group of leading quality cross-border logistics service providers.

Under the changing international economic situation and the global COVID-19 pandemic, the Group's logistics department has closely monitored the changes in the international shipping market. Flexible adjustments on the advance period of consignment will be made according to the changes in external actual conditions, as well as the diversified international mode of transportation, such as shipping from different ports in domestic ports, sea freight by ordinary vessels + express vessels of different timings, railway transportation in Central Europe, air transportation and express delivery (in the event of an emergency, air transportation and express delivery methods are activated immediately as a remedy so as to avoid supply shortage), so as to ensure the international transportation capacity and sufficient shipping space can be booked for delivery during the peak sales season. In addition, the Group has started and will continue to enter into annual contract in relation to locking vessels position directly with ship-owner companies in 2021 to further secure vessels space and cross-border deliveries.

The Group is committed to enhancing its quick response ability in the global supply chain. The Group has established local warehousing centers in various countries, including the United States, Germany, the United Kingdom, Canada, Japan and the United Arab Emirates. Furthermore, numerous overseas warehouses have been built up and a scientific baseline for stock levels was formulated in 2021. When responding to sales orders, the Group can quickly deliver goods to customers and consumers through its overseas warehouses around the world. During the period of COVID-19 pandemic, global shipping became intense, the Group seeks to adequately accelerated deliver products manufactured in China to overseas warehouses to ensure adequate stock availability, avoid shortage of supply and ensure timely delivery of goods.

In addition, the Group has taken out marine transportation cargo insurance. In the event of damage to the Group's products during transportation, it will cover the losses in accordance with the terms of coverage specified in the insurance policy.

(2) Risk of non-compliance of the platform operational policy of Amazon

The Group is principally engaged in selling small home appliances and smart home devices through global e-commerce platforms such as Amazon, a world-renowned e-commerce marketplace. The Group obtains purchase orders from Amazon, completes the sales delivery and obtains the payment settlement from Amazon mainly through Amazon's Vender Central program. As the largest e-commerce market in the United States, Amazon has clear policy specifications and Code of Conduct requirements for settled merchants and trading partners to ensure that the rights and interests of all parties are protected. Relevant policies are as follows: (i) do not attempt to influence customers' reviews, feedback, and ratings; (ii) do not send unsolicited or inappropriate communications; (iii) do not contact customers by means other than Amazon's built-in Message function; (iv) do not attempt to circumvent Amazon's sales process; (v) do not operate multiple merchant accounts on Amazon without reasonable business needs; (vi) do not misuse Amazon's features or services; (vii) do not attempt to damage or abuse other merchants' listings or ratings. For any violation of the above Code of Conduct or any other policies of Amazon, Amazon may take action against the account, such as cancellation of relevant listings, freeze or forfeiture of payments, and revocation of selling privileges, which may cause adverse effects.

In 2021, Amazon extensively investigated and cracked down on merchants who did not follow its Code of Conduct and policy specifications. According to information from Shenzhen Cross-border E-commerce Association in July, more than 50,000 Chinese merchants were banned due to violations such as "improper use of the review function", "requesting false reviews from consumers", and "manipulating reviews through gift cards" on the Amazon platform from May to July. The amount of industry losses caused was estimated to exceed RMB100 billion, and the involved merchants included top merchants such as Patosun, Aukey, Zebao, and Youkeshu. For example, according to an announcement of TIZΛ, the parent company of Youkeshu, a top merchant of cross-border e-commerce, Youkeshu had additional blocked or frozen sites of approximately 340 in 2021 for allegedly violating Amazon's platform rules, with suspected frozen funds of approximately RMB130 million, resulting in serious operating losses.

In summary, any sales operations of the Group that fail to comply with Amazon's rules may lead to penalties such as Amazon's warning, deal cancellation, or product listing being hidden or closed, or even fined, account blocked, and funds frozen, which may adversely affect the product sales business, financial condition and results of operations of the Group.

Response to Risk

According to the management of the Group, the Group has been adhered to the operating philosophy and management approach of comprehensive compliance. Compliance operation is the bottom line strictly followed by the Group's operation and management to ensure the healthy, stable and sustainable development of the Group.

The Group has established a special Amazon platform management department in 2019, which is fully responsible for the operations of the Group in strict compliance with norms and rules of conduct, and paying close attention to and interpreting changes in platform policies and rules. The department, on behalf of the Group, maintains proper communication with Amazon, and it will communicate with Amazon as soon as possible and make optimization and improvements once it receives any operational-related suggestions from Amazon.

The Amazon platform management department has formulated and published the Operation Guidelines for Amazon Platform Rules Compliance to guide employees to operate in a standardized manner, ensuring the understanding and implementation of the platform policies and company rules by the operators of the Group. The platform management department will also revise the guidelines from time to time to maintain consistency with the platform policies and rules. The platform management department regularly conducts compliance operation training, policy interpretation, practical guidance and other activities to clearly convey the Group's philosophy and requirements of compliance operation to employees. At the same time, the compliance with Amazon's policies in operations is ensured by irregular self-inspection of the sales operation department and regular spot checks on violations of platform compliance by the Group.

The legal department, product compliance department, intellectual property department and other departments of the Group provide comprehensive support and protection for specific product compliance requirements, intellectual property infringement, and product listing promotion compliance in Amazon platform policies and rules. In addition, the Group has also set out regulations on non-compliant behaviors such as serious irregular operations in the employee handbook, so as to enhance the awareness and initiative of compliance operation among all employees.

Based on the above, thanks to the operating philosophy of comprehensive compliance, specialized organizational functions and effective management measures promoted and implemented by the Group's management, the Group has complied with Amazon's code of conduct and various policies and rules to be followed in material aspects. In recent years, the Group has not had any abnormal or frozen records in its accounts.

(3) Risk of operational disruption due to public health crisis

At the end of 2019 and the beginning of 2020, the novel coronavirus pneumonia (COVID-19) began to break out all over the world, which adversely affected global economic activities. In 2021, COVID-19 has continued to spread across the globe with several mutations of the virus emerging, and the adverse impact on global economic activities still persists. As of December 29, 2021, the COVID-19 pandemic has taken a toll of 281 million confirmed cases and approximately 5.4 million lives around the world, according to the World Health Organization (WHO).

Thanks to the proactive deployments and adamantly implementation of the prevention and control measures for the pandemic by the Chinese government, the pandemic in China was generally under control, but there were sporadic outbreaks in some regions. COVID-19 pandemic prevention measures were taken promptly in these regions, some of which resulted in the continuous slowdown or disruption of business operations of enterprises. For example, Bantian Street, Longgang District and Fuyong Street, Bao'an District, Shenzhen reported COVID-19 positive patients in January and June 2022, respectively. The local COVID-19 pandemic preventing and controlling centre immediately implemented the control measures of regional lockdown and travel restrictions in key areas through zoning and tracking, quarantine and nucleic acid testing for the streets where the patients lived. In these areas, some enterprises were forced to suspend their work, and their employees were put into quarantine or worked from home. Meanwhile, in 2021, the United States, Europe and other regions were still severely affected by the COVID-19 pandemic with the cumulative number of cases and deaths increasing, which hindered business operations of a large number of enterprises. Many enterprises have adopted the arrangements of vaccination, work from home, nucleic acid testing and temperature checks and a series of precautions such as 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, or the street where its office is located is listed as an COVID-19 pandemic control area, its business operations may be seriously disrupted. The above risks may cause significant financial losses to the Group and even lead to business interruption.

Response to Risk

In order to prevent the spread of COVID-19 in a timely manner and mitigate the impact of the COVID-19 outbreak, the Group has adopted various effective enhanced hygiene and precautionary measures across its offices worldwide.

We work closely with local governments in the prevention and control of COVID-19 pandemic by issuing notification of COVID-19 pandemic prevention and control in a timely manner and implementing preventive measures such as arranging vaccination and mass nucleic acid testing for employees, requiring employees to wear masks when entering office premises and disinfecting office premises, as well as preparing COVID-19 pandemic prevention plans to enable employees to take proper actions in case of emergency. Employees are also provided with materials, such as masks and disinfectants, to ensure that they have sufficient supplies for COVID-19 pandemic prevention. In addition, during the tense period, employees must present the Nucleic Acid Testing Report (Negative) before entering the office buildings to reduce the risk of operational disruption due to employees' infection.

Besides, the Group has also taken other measures to diversify risks, such as allowing employees in US offices to work from home with only warehouse and logistics employees allowed to work in offices, to minimise the number of employees in offices, quarantining employees returning to Shenzhen from medium to high-risk areas or overseas as required by the government and arranging for remote work or flexible staggered working hours if necessary. Furthermore, in 2021, the Group built seven new warehouses overseas to decentralise the storage of goods in different warehouses to reduce the risk of operational disruption due to the suspension of warehouse operations as a result of infection of warehouse personnel.

At present, there have been no regional infections and lockdowns or controls in the communities where the Group's offices are located, and the Group's business operations have not been affected. There were no cases of infection among employees in the offices in China, while some US-based employees were infected but the infection did not spread widely due to early detection, proper isolation and treatment. Therefore, it had no impact on the Company's operations.

2. Compliance Risk

Risk that non-compliance of product and its packaging in regulations and policies related to safety, liability and environmental protection

The Group mainly sells small home appliances and smart home devices to United States, Canada, Japan, China and other Southeast Asian countries, as well as United Kingdom and other European countries. Therefore, the Group is subject to the laws, regulations and policies related to product safety, liability and environmental protection in the countries (regions) where products are sold during the course of business operation.

The Group is required to strictly comply with the laws and regulations related to safety, liability and environmental protection, including Product Safety Act, Product Liability Act and Consumer Protection Law in each country. Specifically, the Group is subject to, among others, the product liability requirements under the Consumer Product Safety Act and its Improvement Act (CPSC) and the Code of Federal Regulations (CFR), Proposition 65 (commonly known as "California 65"), the (EU) Market Surveillance and Compliance of Products binding on EU member states, the German Product Safety Act (ProdSG) and the Product Quality Law of the People's Republic of China. For rules and requirements on environmental protection and packaging, the Group is required to strictly comply with the WEEE EU Directive, the German Packaging Act (VerpackG), the Act Governing the Sale, Return and Environmentally Sound Disposal of Electrical and Electronic Equipment (ElektroG) in German and the Environmental Protection Law of the People's Republic of China, etc.

With respect to product liability, the state laws of the United States generally hold all subcontractors and retailers (and parties in the supply chain) liable for injuries caused by the sale of unsafe, defective and dangerous products to consumers. In the United States, product liability claims are generally based on three legal theories: strict liability, negligence, and breach of warranty. In addition, the laws and regulations of the United States may require subcontractors and retailers (and parties in the supply chain) to remedy product defects, including product recalls. Product liability lawsuits and recalls in the United States may involve personal injury and property damage, and may give rise to significant monetary damages.

Since the above regulations may vary from region to region and are updated and changed from time to time, if the Group fails to keep abreast of such updates and changes, the Group may be required to pay fines or suffer other penalties for failure to comply with the jurisdictional regulations of each region, or may fail to minimize the risks. Under such circumstances, the Group's goods may be subject to seizure by local law enforcement authorities, prohibition of sale, recall of products, substantial fines and legal proceedings, which may result in serious financial and reputational damage to the Group.

Response to Risk

The Group's compliance with product compliance and its commitment to quality for consumers are the highest requirements of the Group. The Group has further established a dedicated Product Compliance Department in 2021, which is responsible for researching, interpreting and updating the product compliance rules and requirements in each country of destination (regional market) to ensure that the Group's products comply with laws and regulations in respect of safety, liability and environmental protection in the regions where they are sold.

The Group's product compliance team has strictly stipulated the points to assess and review product compliance in all links from R&D, production to sales, and has assigned one-to-one product certification engineers in the four product lines of Cosori, Levoit, Etekcity and Arize, to ensure that all products listed for sale by the Group meet the compliance requirements of the targeted sales areas. In addition, professional third-party institutions and laboratories will be engaged to perform professional certification and testing on the Group's sales products, so as to ensure the comprehensiveness of safety certification and testing of the Group's products in different targeted sales countries (regions).

The Group has a functional team dedicated to compliance with rules and requirements related to environmental protection and packaging. The team is responsible for explaining rules and requirements related to environmental protection and packaging in targeted sales areas, and making environmental declarations in accordance with relevant regulations. As of December 31, 2021, the countries involved in the Group's declarations include Germany, France and Spain, with a view to ensuring that the Group's products meet the requirements of laws and regulations related to environmental protection and packaging in targeted sales areas. In addition, the Group's Product Compliance Department and Legal Department will also regularly check the compliance of product safety regulations, environmental protection and packaging rules.

For product liability issues, the Group has established a quick response mechanism for product safety liability issues. In case of any product quality accident, the Group can respond quickly to solve it, so as to minimize the property and personal safety losses of consumers and customers and effectively reduce the risk of product liability. In addition, the Group has purchased product liability insurance for all products on sale to ensure that in the event of a product liability accident, the Group can transfer part of the risk and reduce its economic loss.

Based on the above control strategies and specific responses, the Group's management considers that the risk relating to compliance with the safety regulations and environmental protection policies in targeted sales countries (regions) of products sold by the Group and their packaging is within the control of the Group.

3. Strategic Risk

Risk of Sino-U.S. trade war and other trade or import protection policies

Sino-U.S. trade frictions began at the end of March 2018, and after June 2018, the United States imposed tariffs on Chinese imports, including small home appliances involving vacuum cleaners, water purifiers, toasters and related components. The Group's strategic focus on the United States market has been significantly affected by the fact that some of the Group's products are on the tariffed product list. The two countries have signed the phase I economic and trade agreement on January 15, 2020, which proposes that China will expand imports of agricultural products, energy products, manufactured products and service products from the United States, and increase the scale of imports in the next two years by no less than US$200 billion on the base of 2017. As of the expiration date of January 15, 2022, there is a certain deficiency in implementation, and the discussion between the two countries on the implementation of the phase I trade agreement and whether to sign a phase II economic and trade agreement to ease the tensions remains to be seen, thus there is uncertainty about the United States trade restrictions on China (e.g., additional tariffs and import restrictions). As a result, there is still uncertainty about the ongoing impacts of the trade war on the United States economy, Chinese economy, and the industries in which the Group operates.

Any further trade restrictions (e.g., additional tariffs) imposed by the United States on small home appliances and smart home devices could significantly increase the costs of the products manufactured by the Group in the PRC, and thus weaken the competitiveness of the Group's products in the market. In 2021, several categories of the Group's products such as purifiers and air fryers were still subject to additional tariffs. As of December 31, 2021, the tariffs of the Group was approximately US$31.4 million (December 31, 2020: the tariffs of the Group was approximately US$7.79 million). Therefore, the Group's business, financial condition and operating results may be materially and adversely affected.

In addition, the Group also sells products to other countries, including Canada, Mexico, Japan, Southeast Asian, the UK, German 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.

Response to Risk

As advised by the management of the Group, in response to the Sino-U.S. trade war, the Group continues to optimize its product mix. The Group enhanced its product development and marketing efforts on products with a higher profit margin. On the one hand, the Group launched upgraded version of these products, such as updating air purifiers and air fryers, our top selling products. On the other hand, the Group enlarged categories with high profit margin by developing new products, such as including pressure cooker into kitchen appliance category. In addition, the Group also devoted more marketing resources for these higher margin products by focusing on optimizing website traffic structure and content to increase conversion rates and improving product rankings, which had achieved significant results and will keep delivering value. Moreover, the Group increased its investment in other selling channels and marketing, such as Google Ads, KOL promotion, etc. The Group also plans to set up a market and brand department specializing in brand building and brand marketing to increase the brand recognition of the Group.

The Group chose the product categories not on the tariff list of trade war when developing new products, such as the gooseneck kettle, food dehydrator and kitchen scale developed in 2021. The Group will keep paying attention to categories outside such list while complying with the Group's product positioning strategy in the future, and believes that diversification of products is beneficial for further reducing the adverse impact of imposing tariffs.

The Group is currently in a period of rapid growth. The management of the Group believes that expanding business and market share is the primary goal at this stage in order to achieve sustainable and long-term growth and development. The Group complies with the strategies mentioned above, and will also properly adjust the pricing of certain products in response to external competition by taking into account of various factors. For instance, the Group moderately adjusted the pricing of certain purifier filters in 2021 and intends to expand the coverage of price adjustment in 2022, aiming to mitigate the impact of rising tariffs and other costs on the Group's financial performance.

The Group has been actively exploring markets outside the United States. In addition to the Group's presence in Canada, the United Kingdom, Germany and Japan, it has further developed and expanded its market share in France, Italy, Spain, Mexico, the United Arab Emirates, Southeast Asia, China and other areas. Currently, the Group has achieved groundbreaking business development in the markets beyond the United States and will further increase or expand its market shares beyond the United States. The Group's sales across diversified regions will help mitigate the impact of Sino-U.S. trade conflicts.

In addition, the Group has been actively exploring opportunities to develop suppliers or establish plants beyond China. The Group has secured overseas suppliers in Mexico and cooperated with them to supply purifier filters products. In the future, the Group still plans to source suitable suppliers beyond China, including Vietnam, Malaysia and Southeast Asian countries, and will also consider the overseas development of suppliers in China to transfer production overseas and thereby further mitigate the impact of Sino-U.S. trade conflicts on the Group.

On March 24, 2022 (March 23, local time), the Office of the United States Trade Representative issued a statement announcing re-exemptions from tariffs on 352 items imported from China, and the new rules apply to goods imported from China between October 12, 2021 and December 31, 2022. The Group's core products, such as air purifiers and air fryers, are included in the exemption list. Accordingly, this risk will tend to be at a moderate level for the remainder of 2022.

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 in this annual report.

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

Hong Kong, March 31, 2022

1. ABOUT THIS REPORT

Vesync Co., Ltd (the "Company" or "We") and its subsidiaries (the "Group") are engaged in the small home appliance market, focusing on online marketing and sales of self-designed and developed small home appliances and smart home equipment. The Group is pleased to release the second Environmental, Social and Governance Report (hereinafter referred to as the "ESG Report" or the "Report"), which outlines the principles and sustainable development concepts we uphold in fulfilling our corporate social responsibility, and explains our commitment to social responsibility vision and responsibility.

Reporting Standards

This report has been prepared in accordance the "Environmental, Social and Governance Reporting Guide" (the "Guide") under Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The "comply or explain" provisions in the Guide and the requirements of the four reporting principles (materiality, quantification, balance and consistency). In the last chapter of this report, there is an index of the Guide compiled with reference to the content of this report, so that readers can quickly query. Readers may also refer to the "Corporate Governance Report" section in this annual report for a comprehensive understanding of the Group's ESG performance.

Materiality	We have identified and disclosed in the Report the process of and the criteria for the selection of material ESG topics. We have also identified and disclosed major stakeholders, the process and results of their participation in the Report.
Quantitative	We have disclosed the statistical standards, methodologies, assumptions and/or calculation tools used to report relevant Key Performance Indicators, and the sources of the conversion factors.
Balance	We have reflected in this Report both positive and negative information objectively and impartiality.
Consistency	We have used consistent statistical disclosure methodologies in this report. If there are any changes in statistical methodologies or Key Performance Indicators or any other relevant factors that affect meaningful comparison, we will clearly explain them in the ESG Report.

Reporting Scope

This Report describes the sustainable development policies, initiates and Key Performance Indicators ("KPIs") of the Group related to core businesses from January 1, 2021 to December 31, 2021 (hereinafter referred to as the "Year" or the "Reporting Period"). Unless otherwise specified, this Report covers the actual business scope of the Group, and the data collection of environmental KPIs includes those from offices in Shenzhen and Chongqing, PRC, and the United States (U.S.), as well as the factory in Dongguan, PRC, to assess KPIs within the environmental area.

Language of this Report

This Report is available in two languages, including traditional Chinese and English versions. Should there be any inconsistency between them, the traditional Chinese version shall prevail.

Approval of this Report

This Report was approved by the board of directors on March 31, 2022 upon confirmation of the management.

Feedback on this Report

We highly value your feedback on this Report. Should you have any questions or suggestions, please do not hesitate to contact us via email to companyinfo@vesync.com.cn.

2. SUSTAINABLE DEVELOPMENT STRATEGY

2.1 Statement of the Board of Directors

As the Group views ESG management as part of our responsibility, it is committed to incorporating ESG considerations into our decision-making process. We believe that a sound governance structure of sustainable development is critical to our corporate development. The board of directors has ultimate responsibility for overseeing the Group's ESG issues by reviewing its ESG strategy, risk management, materiality assessment, prioritization of ESG topics and management of ESG issues, regularly reviewing the progress of environmental objectives and determining the setting of these objectives, with the aim to ensure that the management approach is effective in minimising the environmental impact of the Group's operations.

2.2 Sustainability Governance

In order to create the long-term value, the Group actively integrates sustainable development into our daily operation. We conduct a top-down management approach to establish the decision-making level, organizational level and executive level related to ESG. The board of directors of the Group (the "Board") authorizes our ESG working group to fulfill its responsibilities to leverage the effectiveness of ESG governance.

Our ESG working group, consisting of representatives from different departments, is responsible for assisting the Board in reviewing, evaluating and recommending ESG initiatives to be implemented by business units to achieve the stated goals. Our ESG working group reports ESG issues and progress and performance of implementing initiatives to the Board regularly. Each department assists in collecting ESG data and tracking performance.

DECISION MAKING LEVEL: the Board of Directors

- Taking full responsibilities for ESG strategies and reporting
- Delegating authority to the ESG working group
- Determining ESG management guidelines, strategies, plans, goals and annual work, including assessing, prioritizing and managing significant ESG issues, risks and opportunities
- Reviewing and monitoring ESG performance and the progress in achieving goals regularly
- Approving the content of ESG report annually

ORGANIZATION LEVEL: the ESG Working Group

- Reporting regularly to the Board on ESG related issues and progress
- Responsible for reviewing and monitoring ESG policies and practices of the Group to ensure that the Group complies with relevant legal and regulatory requirements
- Coordinating and promoting the implementation of ESG policies by all departments, and monitoring the ESG related work of functional departments

EXECUTIVE LEVEL: representatives of departments

- Complying with various ESG related policies and systems
- Collecting and reporting ESG internal policies, systems and ESG related performance indicators

2.3 Stakeholders' Engagement

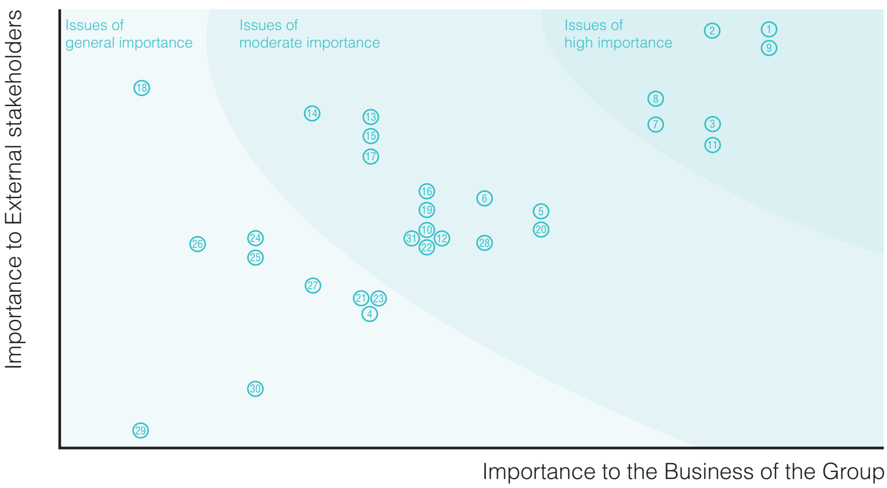
In order to effectively promote sustainable development and make positive effects on the long-term development of environmental community, we continue to communicate and interact with different stakeholders and understand the areas they concerned about through various channels. The Group values the opinions of all stakeholders and strive to create values for all stakeholders. The following major communication methods enable stakeholders to develop a more comprehensive understanding on the Group's commitments and achievements and are conducive to receiving stakeholders' opinions by the Group and incorporating them into the management policies or strategic planning of the Group for continuous improvement of products and services.

Stakeholders	Major Communication Methods
Shareholders/investors	• Annual general meetings and other general meetings • Interim reports and annual reports • Company correspondence (such as letters/circulars to shareholders and meeting notices) • Results announcements • Investors' meetings
Customers	• Customer satisfaction surveys and opinion forms • Online service platform • Email • Electronic communication software (such as Wechat)
Employee	• Channels (such as forms, suggestion boxes and employee communication meetings) for employee to express opinions • Group discussion • Face-to-face meetings • One-to-one communication interviews • Work performance reviews • Special advisory committee/panel discussion • Seminars/talks/workshops
Business partners	• Visits
Government	• Policy documents and guidelines
Suppliers	• Supplier management procedures • Supplier/subcontractor evaluation system • Meetings • On-site visits
Media	• Press releases • Interviews with senior management • Results announcements
Community/non-governmental organizations	• Community activities
Public	• Media information • Website of the group • Events of the group
Regulators	• Regulatory policies • Investigations • Visits

2.4 Materiality Assessment

Since there were no significant changes in the Group's strategic direction and business development of its operation during the Reporting Period, the materiality assessment results for 2020 have been adopted in the Report, taking into account the mutual importance and influence of each ESG topic on stakeholders. In 2020, the Group conducted a materiality assessment through questionnaires to collect, identify and determine the concerns of internal and external stakeholders on different ESG topics and the influence on each other. The Group has analyzed the 31 topics identified based on their importance to the business and to external stakeholders, and the 7 highly important topics summarized in the previous year are highlighted in the Report.

Materiality Matrix of the Group



Issues of high importance	Issues of moderate importance	Issues of general importance
1. Operation in compliance with laws and regulations 2. Product and service quality assurance 3. Product innovation 7. Protection of customers' privacy 8. Information security 9. Respecting intellectual property rights 11. Anti-corruption	5. Complaint handling and responding mechanism 6. Product after-sale management 10. Green supply chain 12. Whistle-blowing mechanism 13. Employees' rights 14. Labor relations 15. Occupational health and safety 16. Employee diversity, non-discrimination and equal opportunity 17. Employee training and development 19. Use of materials/resources 20. Air pollutant emissions 22. Waste disposal 28. Green design 31. Satisfaction with the community	4. Product promotion 18. Prohibiting child labor and forced labor 21. Greenhouse gas emissions 23. Energy consumption and efficiency management 24. Water consumption and efficiency management 25. Wastewater discharge and treatment 26. Environmental awareness of employees 27. Managing the impact of operations on the environment and natural resources 29. Employees' awareness and participation of public welfare activities 30. Value and impact of community investment

3. PRODUCT RESPONSIBILITY MANAGEMENT

In order to continuously increase brand value, the Group adheres to the core value of quality first by providing customers with safe, high-quality and innovative products and services. To this end, the Group has developed a comprehensive quality management system in respect of product design, product manufacturing and product recall. At the same time, we operate our business in a responsible manner, and regard information protection, integrity and supply chain management as key factors of stable business development.

3.1 Quality Management

With the policy of "putting customer and quality first to make constant improvement for perpetual development", the Group has established a rigorous quality management system. We strictly follow the laws and regulations such as the Law of the People's Republic of China on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》), the Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》) and Consumer Product Safety Act (《消費品安全法》) formulated by Consumer Product Safety Commission of the U.S. to ensure that our products meet customer and regulatory requirements. To ensure consistent delivery of high-quality services, our Shenzhen office has obtained the GB/T 19001-2006 and ISO9001: 2015 quality system certification, which will be reviewed annually during the validity period.

In order to effectively supervise product quality, we have formulated systems such as the Quality Control Measures (《質量控制措施》), Finished Product Delivery Management Procedures (《成品出貨管理程序》) and Production and Service Process Control Procedures (《生產和服務過程控制程序》). Every process in raw material procurement, manufacturing and shipping stages has strict standards to promote quality and acceptance management. We use certified test reports for all products sold as the basis for product safety and compliance. Each product is manufactured in strict compliance with its standard operating instructions and standardized procedures. We strictly control the quality of products, conduct regular random inspections in a scientific statistical method, and conduct final inspections according to established procedures before products are shipped.

When a product is found to fail to meet the quality control standard after delivery, we will conduct a risk assessment and deal with it according to the corresponding risk grade. When the quality department receives a customer return report, we will trace the batch of the corresponding product, identify and isolate any suspicious batch of products, and take actions according to the Customer Service Management Procedure (《客戶服務管理程序》). We have formulated the Quality Control Procedure for Unqualified Products (《不合格品控程序》) to identify the grade of unqualified products and follow the industry standards, testing standards and acceptance standards of products to judge the eligibility of products. We will make different levels of disposal according to the grade and quantity of unqualified products, including but not limited to selection, repair, accept on deviation, return and scrapping, etc. When a product is returned from the market, we will confirm the disposal of the returned product while updating the "market return list". Any recall of products will be implemented in accordance with the requirements of recall management. We properly keep records of all unqualified products for reference when developing products in the future. During the Reporting Period, no products or services of the Group had to be recalled for safety and health reasons.

In addition, the Group manages its marketing and advertising activities in a responsible manner and strictly abides by laws and regulations such as the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》) and Federal Trade Commission Act (《聯邦貿易委員會法》). We try our best to ensure that product descriptions and publicity data are not misleading, and strictly review the materials and language of external publicity materials to ensure the legality and compliance of advertising.

In terms of health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress, the Group did not violate relevant laws and regulations that had a significant impact on it during the Reporting Period.

3.2 Quality Customer Service

The Group is customer-oriented, based on the value of putting customers first, listening to customers' needs and insistently providing high quality and standard customer services. We are actively exploring new service models and creating our own applications that connect to our products to enhance the user experience and cater to their needs. Our applications feature the ability to monitor and receive important notifications from devices, possess the exclusive content relating to products and user-friendly automation modes to further increase customer interaction and stickiness by creating added value to products.

We attach great importance to our customer communication channels and complaint handling mechanism as an important basis for understanding customer needs, correcting errors, improving operations and optimising management. We are committed to providing high-quality customer service by actively responding to customers and meeting their requests. Our customer service team will respond to customers' queries in a professional manner according to the CX Job Content and Standards (《CX崗位工作內容與標準》). If we receive complaints from customers, we will first analyse the cause of the problem and then get back to the customer with a solution as soon as possible. To ensure the effectiveness of the resolution, we arrange visits and invite customers to rate our services once the complaint has been closed. During the Reporting Period, the Group received 0.93% of the total annual sales volume for customer service complaints.

Our Chinese and American customer service teams work closely together by sharing and synchronising all kinds of information so as to improve the consistency of our services to both domestic and overseas customers. In addition, we actively contact our customers through different online platforms such as the customer service platform of Amazon sellers, the brand's support emails, the support email in the application, the official contact number and the Facebook community to continuously improve our products and services.

We are committed to creating value for our customers by focusing on the user experience and constantly innovating our product designs. Our products have been widely recognised by many professional institutions and have won awards from various countries including Europe, Germany, USA and France.

Awarded Products		Awards
Levoit — Smart True HEPA Air Purifier	Core 300S	German Design Award iF Design Award European Product Design Award
	Core 400S	German Design Award Special Winner iF Design Award European Product Design Award
	Air Control Product Suite	German Design Award Special Winner
Cosori — Air Fryer CP358-AF		iF Design Award
Cosori — Eli Coffee Maker		Spark: Concept Pro Winner — Gold
Cosori — Brand Design Relaunch COSORI		Spark: Concept Pro
Etekcity — ESN00 Smart Nutrition Scale		European Product Design Award

3.3 Information Security Management

The Group strictly complies with the General Principles of the Civil Law of the People's Republic of China (《中華人民共和國民法通則》), the Cybersecurity Law of the People's Republic of China (《中華人民共和國網絡安全法》) and the laws and regulations in the regions where it operates relating to network security and personal information protection, and attaches great importance to the security of customer data and private data. We regard the data privacy of customers and consumers as the confidential information of the Company, and have formulated the "Security Inspection for Employees' Computers" (《員工電腦安全檢查》) and the "Network Equipment Inspection Report" (《網絡設備巡檢報告》), which stipulated that employees should strictly keep all files. Any breach of confidentiality or leakage accident shall be reported to the competent authority immediately with corresponding measures being taken.

We also strengthened the management of customer data from the Group's website, Vesync application and back-end of Amazon for the privacy protection of our customers. We have included a privacy policy on the Group's website, therefore, we only collect and use personal information of our customers for the purposes and in the manner as set out in the privacy policy. Customers may check the relevant terms and their own rights. We also strengthened customer data management on the third-party sales platforms. For users and customers of Amazon, two-step verification is required for login. In order to prevent data leakage, customers' data is not allowed to be exported in batches, and can only be viewed in the Amazon Sales Center. The authorization of Amazon is required to access the back-end data of Amazon.

At the same time, we strive to protect the privacy experience of our customers in the Vesync application by the following measures:

- Servers connected to the online platform are configured with security settings, and their information can only be viewed in the office network and access records will be kept;
- Search for after-sales service information through the Pharos System, and the system also controls permissions and conducts record;
- When registering, the user password will be encrypted and transmitted to our cloud, and the encrypted password will be saved to ensure security;
- A management system is established for internal access rights where no employee can access or download user data before approval;
- User data in the cloud can only be accessed by specific teams with approval through specific internal systems which require authorization for use.

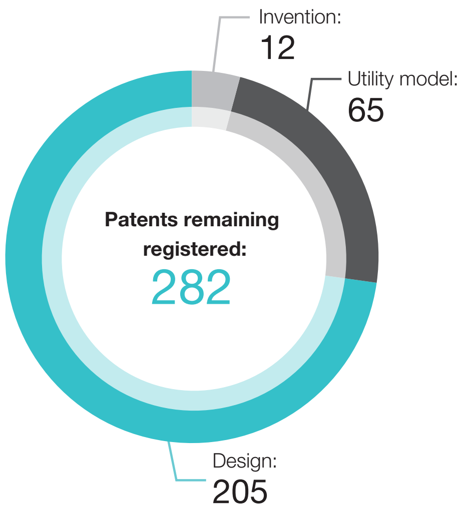
During the Reporting Period, the Group did not have any complaints or lawsuits regarding data protection and privacy protection.

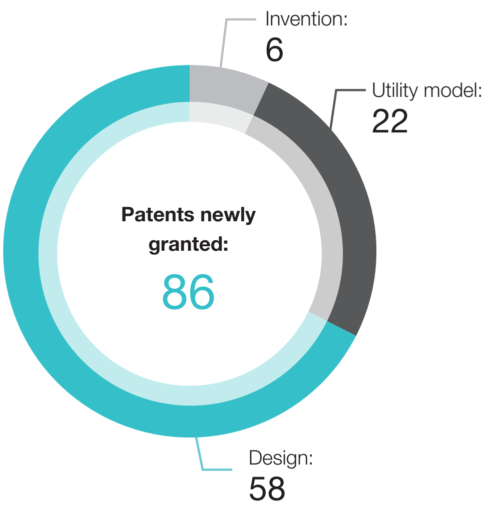
3.4 Respecting Intellectual Property Rights

The Group acknowledges the importance of intellectual property to the research and development of our products and strictly abides by the laws and regulations such as the Copyright Law of the People's Republic of China (《中華人民共和國著作權法》), the Patent Law of the People's Republic of China (《中華人民共和國專利法》), and other patent laws and trademark laws in jurisdictions where we operate. We have set up an intellectual property department under the legal department, which is responsible for formulating intellectual property strategies, applying for patents and handling litigation for the Group. In order to minimize the operational risks associated with intellectual property infringement, we have included the "Terms of Use" (《使用條款》) on the Group's website, which stipulates the legal protection of its copyrights, trademarks, patents, confidential commercial information and other intellectual property rights or ownership. If any infringement is found, the legal department and the intellectual property department will collect evidence of infringement and take legal actions when necessary. Besides, we enter into agreements with suppliers to prohibit their unauthorized use or misappropriation of our intellectual property rights and assign designated personnel to regularly monitor the use of our intellectual property rights by suppliers to ensure their proper use.

In addition, ETEKCITY, a brand of the Group, has also formulated the "ETEKCITY Patent Incentive Compensation System" (《ETEKCITY專利獎勵報酬制度》) to encourage employees' enthusiasm for technological innovation.

During the Reporting Period, we maintained 282 patents and obtained 86 new patents.





3.5 Operating with Integrity

The Group operates with integrity and abides by the Anti-Money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》), the Anti-corruption Law of the People's Republic of China (《中華人民共和國反貪污法》), the Anti-Unfair Competition Law of the People's Republic of China (《中華人民共和國反不正當競爭法》), the Criminal Law of the People's Republic of China (《中華人民共和國刑法》), the Interim Provisions on Banning Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》), the Foreign Corrupt Practices Act of the U.S. (《美國腐敗海外行為法案》) (FCPA) and other applicable laws and regulations in the places where it operates.

The Group has formulated the "Integrity and Self-discipline System" (《廉潔自律制度》) to regulate internal illegal and non-compliant practices. We prohibit employees from duty encroachment, malpractice, commercial bribery, misappropriation of funds and etc., and oppose unethical interests obtained in any form of unethical means. In order to create a self-disciplined and honest business environment, directors and employees of the Group have received anti-corruption-related training during the Reporting Period, in which employees were required to be strict and integrity with themselves, and to establish the Group's core business philosophy with law-abiding and integrity and high-quality services.

To effectively monitor the integrity of the Group, we encourage employees to proactively participate in the management of the Company and to report corporate irregularities in a timely manner. We have formulated the "Internal Whistle-blowing Management Regulations" (《內部舉報管理規定》), set up unimpeded whistle-blowing channels and keep strictly confidential about the Whistleblower's identity. Employees can report the suspected cases confidentially via hotline or email. We collect relevant information and carry out fair and impartial investigations, and in the event that an employee is proven to have violated the law, an action will be taken in accordance with national laws and regulations and corporate systems.

During the Reporting Period, there were no litigation cases related to corruption or breaches of any relevant laws and regulations that have a material impact on the Group's operation.

3.6 Supply Chain Management

As part of its commitment to environmental and corporate responsibility, the Group attaches great importance to supplier management and improves its supplier management system. We monitor the performance of suppliers by formulating internal procedures and measures for managing the environmental and social risks of the supply chain. We standardize the suppliers access, certification, performance management and procurement management procedures, and require cooperated suppliers to comply with applicable laws and regulations, including but not limited to environmental protection, employment, health and safety, anticorruption and other aspects.

In order to standardize supplier evaluation indicators, we have formulated the "Standard Document for Supplier Performance Rating" (《供應商績效評級標準文件》), which provides data-based management for scoring quality, procurement, delivery, R&D and engineering to continuously monitor the quality of our supply chain to ensure that our products can meet the standards of the target market.

We require all suppliers to comply with local laws and regulations, including but not limited to the Bidding Law of the People's Republic of China (《中華人民共和國招標投標法》), the Anti-Unfair Competition Law of the People's Republic of China (《中華人民共和國反不正當競爭法》) and the Interim Provisions on Banning Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》), and to pass background checks. We prescribe regular anti-commercial bribery terms in the contract, and sign confidentiality agreements and integrity agreements with suppliers, so as to prohibit any form of commercial bribery and safeguard the common legitimate rights and interests of both parties. On the social aspect, we are also developing a "cooperation framework agreement" that requires suppliers not to infringe the intellectual property rights of third parties. Meanwhile, we also require suppliers to sign labor contracts in accordance with the law in the recruitment of their employees to protect the labor rights and interests of employees. On the environment aspect, we require suppliers to take environmental responsibilities for products. For example, suppliers need to affix any relevant environmental protection labels on the products with environmental protection requirements; environmental protection substance standards of the products need to comply with the laws and regulations of the place of operation; suppliers need to send samples to the legally qualified institutions for environmental project testing.

During the Reporting Period, the Group had a total of 177 Chinese suppliers, including 3 in North China and East China, 55 in South China, 14 in the Yangtze River Delta region, 10 in Fujian region and 95 in the Pearl River Delta region, with the major procurement categories being filter paper, plastics, electronic materials, hardware and other products and services.

4. PEOPLE-ORIENTATION

Our employees are essential to the sustainable development of the Group and are our most valuable asset. We value the efforts of each employee, and actively build all possible personal development opportunities and spaces for our employees to achieve their self-worth. As of December 31, 2021, we had a total workforce of 1,236 employees. Detailed employee profile is as follows:

Employee Profile		No. of employees
Employee distribution by gender	Female employees	570
	Male employees	666
Employee distribution by employee category[1]	Full-time junior employees	1,176
	Full-time middle management	46
	Full-time senior management	14
Employee distribution by age group	Aged below 30 employees	681
	Aged between 30–50 employees	535
	Aged above 50 employees	20
Employee distribution by geographical location[2]	Employee in China	1,089
	Employee in the United States	144
	Employee in other regions[3]	3

1 The Group has no part-time employees in the Year

2 This is counted based on the actual working region

3 Other regions: Japan and Europe

4.1 Lawful Labor

The Group upholds the belief that employee is the core factor to maintain corporate competitiveness, therefore it fully protects the legitimate interests of its employees in terms of recruitment, promotion, resignation, working hours, compensation and benefits, etc.

We strictly abide by the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), the Law on the Protection of Minors of the People's Republic of China (《中華人民共和國未成年人保護法》) and the Provisions on the Prohibition of Using Child Labor (《禁止使用童工的規定》), and the Labor Law (《勞動法》), the Age Discrimination Act (《年齡歧視法》), the Pregnancy Discrimination Act (《懷孕歧視法》), the Americans with Disabilities Act (《殘疾人士保護法》), the Fair Labor Standards Act (《公平勞動標準法》) of the United States and other laws and regulations in relation to labor and employment. We strictly prohibit and reject any forms of child labor and forced labor, adopt a strict and meticulous recruitment process as our human resources department requires candidates to provide valid identity documents to ensure that the employees have reached the legal working age.

The Group is committed to building a diversified team and has formulated Recruitment Management System (《招聘管理制度》). By adhering to the principle of fairness and equality in the recruitment process, the Group focuses on professional ethics, expertise, experience and development potential of the candidates to ensure that they enjoy equal opportunities. By sticking to an equal and compliant employment policy, we strictly prohibit and reject any forms of child labor and forced labor, fairly treat all employees regardless of genders, ages, ethnicities and cultural backgrounds and provide them equal job opportunity.

The Group enters into legally binding employment agreements with each employee in accordance with the Labor Law of the People's Republic of China (《中華人民共和國勞動法》 and Fair Labor Standards Act (《公平勞動標準法》) of the United States, which specify the minimum age of employment, regular working hours and arrangements for overtime work, if required, in according with the laws of the place where the Group operates. The Group will investigate, take disciplinary action or deal with any non-compliance or violation of the labour law once identified in accordance with the relevant laws and regulations in a timely manner. Additionally, the Group follows the guidance of the relevant employment laws if there is a need to dismiss an employee, and handles the case in accordance with the standard procedures. We also respect employees who have left the Group on their own initiative and inquire their reasons for departure. During the Reporting Period, there were no case of non-compliance in relation to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, other benefits and welfare, employment, child labour or forced labour in the Group.

4.2 Employee Welfare

The Group recognizes its employees as its greatest assets. In order to attract, motivate and retain talents, we offer attractive and competitive remuneration packages and benefits.

As an international enterprise, the Group will design remuneration systems compatible to the local conditions for its overseas operating bases with reference to the local government decree, the salary levels in the industry as well as market conditions, as to encourage local employees to work for long term and grow together with the Group. We purchase social insurance and provident funds for employees working in China under the requirements of the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》), and provide the basic medical insurance for employees working in the United States pursuant to the requirements under the Employee Retirement Income Security Act (《僱員退休收入保障法》), the Family and Medical Leave Act (《家庭醫療休假法》) and the Worker Adjustment and Retraining Notification Act (《工人調整及再培訓通告法案》) of the United States. We provide annual leave, sick leave and statutory holiday for employees working in China and the United States. In addition, we also provide the Pre-IPO Share Award Scheme, Share Option Scheme and Post-IPO Share Award Scheme to reward employees for their contributions and motivate their work enthusiasm, as well as to enable employees to share the operating results of the Group.

4.3 Employee Health and Safety

The Group considers the health and safety of its customers and employees as top priority and is committed to providing a safe, healthy and secure working environment for them. In compliance with the related occupational health and safety regulations in the places where it operates, instructions and training regarding health and safety issues are developed and provided to the employees periodically

Internal systems have been developed in accordance with the relevant laws and regulations for safe of the Group's operating locations (including but not limited to the Occupational Safety and Health Act (《職業健康與安全法》) in the United States) and the actual operation conditions, to implement preventive and control systems and measures in the prevention of safety accidents, implementation of safety responsibilities and disposal of safety accidents, to ensure production safety in all aspects. To fully leverage on the supervision and management functions of our Company and production teams, we have established a production safety committee for production lines and we also implemented a regular meeting system for production safety, which convenes regular production safety meetings to analyse and evaluate the production safety situation of the Group, so as to implement production safety management targets, and consistently eliminate potential safety risks and avoid the occurrence of safety production related accidents.

PRODUCTION SAFETY MANAGEMENT TARGETS

- No fire and explosion accidents caused by management negligence
- No work-related fatalities and serious injuries caused by inadequate safety measures
- Control the rate of injuries due to accidents caused by management responsibility

We have implemented a sound accountability mechanism with the establishment of a "Production Safety Accountability System" (安全生產責任制), which determines the responsibilities of all levels in the production department and to encourages management employee related to production safety to fulfill their duties. Production employees are required to strictly enforce the accident reporting system and to fill out the statistical reports on production safety responsibilities in an accurate and timely manner.

In addition, we have formulated internal policies related to safety production such as the "Occupational Health Management System" (《職業健康管理制度》 and the "Safety Education and Training System" (《安全教育培訓制度》), which require employees working in production lines to equip themselves with the necessary production safety knowledge and ability. We provide all employees of the Group with regular safety education training and job-related operational skills training to familiarise them with relevant production safety rules and operation safety procedures and master the operation safety skills of the position.

In addition, the Group has formulated the Management System of Emergency Rescue Plans (《應急救援預案管理制度》), covering all safety accidents that might affect the production safety, such as hazardous chemicals leak, environmental emergencies, fire, flood and special equipment accidents, etc. We organize training for relevant department and employee specified in Emergency Rescue Plans on a regular basis to enable them familiar with the enterprise emergency rescue plans and rescue procedures, so as to help employees cultivate all-round self-help and self-protection abilities.

Pandemic Prevention and Control Measures

Under the COVID–19 pandemic, the Group keeps a close eye to the development of the pandemic and protects employees by implementing strict infection preventive measures to response to the latest development of the pandemic.

- In order to monitor and respond to potential health risks in a timely manner, all employees are required to wear face masks at workplace and check the body temperature when entering and leaving the office area. We strive to keep our employee abreast with the latest COVID–19-related content by disseminating the most updated health information and tips through digital communication channels.

- In respect of daily prevention and control measures for the pandemic in office, we have prepared masks, disinfectants and other supplies in each office and workplace; besides, mask recycling bins were equipped to collect discarded masks and dispose by cleaners on time. To reduce the risk of cross infection, employees are allowed to work from home and, if practicable, work flexibly. Various methods of communication, such as video conference, phone and email are used as much as possible to reduce direct contact with personnel.

- Employee with abnormal body temperature or was suspected to have contracted COVID–19 will be sent to the hospital immediately for examination, and disinfection will be carrying out to the area, company vehicles and other place where employees with fever had been stayed in. If employees are admitted to the hospital during working hours, we will keep in touch with their relatives to keep them informed of the development of the disease.

- We conducted closed management for Shenzhen office, and strictly controlled personnel entering and leaving the office during the containment of the pandemic. Our administrative front-desk will disinfect all of the express delivery and mails, and will be delivered to recipients in each department of the company only after affixed with sterilized tag.

During the Reporting Period, the Group did not receive any complaints or lawsuits regarding violations of health and safety-related laws. Neither were there any cases of death due to work during the past three years.

4.4 Training and Development

We value personal development of employees, and understand that the Group's products and services have been undergoing rapid updates and iterations, so we are committed to providing employees with comprehensive training for joint growth.

We conduct regular trainings on product and service knowledge for new employees to improve their business capabilities. We provide elective and compulsory courses as well as specialized training tailored to the needs of our employees in different departments to engage them in acquiring the skills required for their positions. We annually formulate our training programs and courses with different types which include management and development, profession/technology, and general basic knowledge, so as to comprehensively improve the general and professional skills of our employees in basic knowledge, design and development, practical operation and other aspects.

We also care about the integration of new employees into the Group. We have developed 2021 Training Program for Graduates, and provide on-the-job counseling during the trial period. We would also regularly communicate with new employees to understand their work progress, counseling situation, learning feedback, etc., and adjust the training plan timely to ensure that they can smoothly adapt to the new working environment.

During the Reporting Period, the employee training of the Group was shown as follows:

Indicator		Average training hours (hours)	Training rate[4]
By employee category	Female employees	10.02	47.45%
	Male employees	9.05	52.55%
By gender	Full-time junior employees	12.36	95.75%
	Full-time middle management	33.17	3.40%
	Full-time senior management	28.86	0.85%

We value the contributions of our employees, therefore, we have formulated the "Operation Post Promotion and Evaluation Plan" (《運營崗職級晉升評估計劃》). Internal promotion will be considered prior to external recruitment when there is a job demand. In addition, we have a sound performance management system at place to measure employees' overall progress in the achievement of goals and performance, and the final results of which are the basis for the employees' promotions, rewards and remuneration, salary raise, training and personal development plans. With a comprehensive performance management system, we create a performance-oriented corporate culture, incentivize employees' performance and functional results and further nurture and develop employees' personal capabilities.

[4] Calculation method: number of trained employees of the category/total trained employees x 100%

5. GREEN OPERATION

We highly regard green development as an integral part of our operation concept. We are committed to embedding environmental protection concepts and practices into all of our operations to minimize the impact on the environment. Our business is complied with the related environmental laws and regulations in which we operate, including but not limited to the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Energy Conservation Law of the People's Republic of China (《中華人民共和國節約能源法》), the Atmospheric Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國大氣污染防治法》), the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》) and other laws and regulations related to environmental protection. During the Reporting Period, the Group was not aware of any cases of violation of environmental protection laws and regulations.

We are actively preparing to formulate environmental targets. During the Reporting Period, we have set preliminary directional objectives on energy use efficiency, water efficiency, waste reduction and greenhouse gases (GHG) emission. We will review the implementation progress of various environmental protection objectives and measures, monitor various emission sources and identify more opportunities for energy conservation and emission reduction, as well as establish relevant policies to ensure proper use of resources with an aim to reduce carbon footprint.

Objectives	Targets
GHG Emissions	Actively implement and maintain or gradually reduce the intensity of GHG emissions according to the power saving measures of the Group in future compared to 2021.
Energy Use Efficiency	Actively implement and maintain or gradually reduce the intensity of electricity consumption according to the power saving measures of the Group in future compared to 2021.
Water Efficiency	Actively implement and maintain or gradually reduce the intensity of water consumption according to the water conservation measures of the Group in future compared to 2021.
Reduce Waste	Actively implement and maintain or gradually reduce the intensity of waste generation according to the material conservation measures of the Group in future compared to 2021.

5.1 Emissions Management

The core business of the Group does not directly generate significant amounts of exhaust gases and GHG emissions. Major emissions of the Group during its daily operations are GHGs, which are mainly generated from office electricity utilization and vehicles of the Company. Despite the limited impact on the environment, the Group has made efforts to be more sustainable in terms of emissions and energy saving to create a green working environment. Our business activities also have no significant impact on the environment and natural resources.

According to the "Greenhouse Gas Protocol" (《溫室氣體盤查議定書》) formulated by World Resources Institute and World Business Council for Sustainable Development and the ISO14064-1 Standard set by International Organization for Standardization, we conducted GHG inventory for the offices of the Group in Shenzhen, Chongqing, PRC and US as well as the factory in Dongguan. During the Reporting Period, the GHG emissions are summarised below:

GHG emissions Performance	Unit	2020	2021
GHG emissions[5]			
Total GHG emissions (Scope 1 & 2)	tonnes of CO_2e	182.30	931.26[6]
GHG emissions intensity[5]			
GHG emissions intensity per square meter (Scope 1 & 2)	tonnes of CO_2e/m^2	0.035	0.027
GHG emissions intensity per employee (Scope 1 & 2)	tonnes of CO_2e/employee	0.31	0.75

Scope 1: GHG emissions from all sources owned and controlled by the Group, including fuel consumption of the Group's vehicles.

Scope 2: GHG emissions caused by power generation, heating and cooling or steam purchased by the Group, including the use of electricity during the Group's operations.

Apart from GHG emissions, the types and data of emissions generated by the vehicles are as follows:

Type of emissions[7]	Unit	2021
Nitrogen oxides (NOx)	kg	10.05
Sulfur oxides (SOx)	kg	0.028
Particulate matter (PM)	kg	9.63

5 Calculated by reference to the emission factors from Appendix II: Reporting Guidance on Environmental KPIs issued by the Stock Exchange and the IPCC Fifth Assessment Report (AR5).

6 In order to more fully reflect the performance of the Group's environmental data, the US office and the Dongguan factory in China were newly added to the environmental category this year. Therefore, the total amount of GHG for this year was a reasonable increase compared to last year.

7 In order to more fully reflect the performance of the Group's environmental data, the data of the US office and Dongguan factory in China were newly added to the environmental category of this year, and the data was calculated using the emission coefficient in the Reporting Guidance on Environmental KPI in Appendix II of the Stock Exchange.

5.2 Energy Management

As energy consumption accounts for a major part of the Group's greenhouse gas emissions, we have taken different energy saving measures to improve energy efficiency and reduce the energy consumption in the operation as shown in the table below:

Air conditioning system	• Conducting regular cleaning and maintenance of the system to maintain the efficiency • Setting appropriate temperature of the system
Lighting system	• Utilizing the natural light • Replacing equipment with those of high energy efficiency when necessary • Dividing offices into several different lighting areas where switches with independent control are installed • Building up the habit of turning off lights before leaving the office

The energy consumption of the Group was mainly due to the impact of its daily operation on environment. During the Reporting Period, data of our energy consumption is as follows, among which electricity consumption increased compared with last year[8].

Energy consumption performance	Unit	2020	2021
Total electricity consumption	kWh	298,800.00	1,282,844.92
Electricity consumption per square meter	kWh/m^2	57.38	37.40
Electricity consumption per employee	kWh/employee	512.52	1,028.74

5.3 Waste Management

The Group actively encourages its employees to support environmental initiatives in daily operations and focus on environmental sustainability in the course of its business operations. We acknowledge that both paper and waste are part of our precious resources. Therefore, in terms of solid waste treatment, we separate hazardous waste and non-hazardous waste and adopt appropriate disposal methods to prevent pollution of the environment.

8 In order to more fully reflect the performance of the Group's environmental data, the US office and the Dongguan factory in China were newly added to the environmental category this year, so the electricity consumption for this year was a reasonable increase compared to last year.

The Group reduces waste generation with an aim of waste management from the source through the following measures:

Paper management	• Presetting the printer to double-sided printing • Monitoring the use of copiers and printers in the office • Encouraging the use of recycled paper • Using smaller font size and adjusting line spacing when printing • Electronic office system has been used in Shenzhen office to replace the paper-based system • Sending e-mails to replace letters or faxes whenever possible
Non-hazardous waste management	• Cleaning workers are arranged for each office of the Group to clean the office waste generated every working day, the property management of the office building will then handle the waste
Hazardous waste management	• Using recyclable and reusable ink cartridges • Out-of-use computers will be handed over to recyclers for disposal • Waste battery recycling bins have been set up in Shenzhen office

Set out below is the details of the total waste performance for the Reporting Period, which show a decrease in non-hazardous waste produced per employee as compared to last year:

Total waste performance	Unit	2020	2021
Total production of hazardous waste	piece (computer)	65	70
	piece (battery)	5	205
	piece (ink cartridge)	4	26
Total production of non-hazardous waste	tonnes	38.52	48.30
Non-hazardous waste produced per employee	tonnes/employee	0.070	0.039
Total paper consumption	kg	1,166.16	3,786.39
Paper consumption per employee	kg/employee	2.00	3.04
Total packing material consumption[9]	kg (carton)	—	21,255.00
	kg (wrapper)	—	101.48
	kg (plastic wrap)	—	20,000.00

9 The Group did not carry out packaging activities in the environmental scope of 2020

5.4 Water Resources Management

The Group cherishes every drop of water. Our water consumption is mainly supported by the local municipal water supply system and we did not have any problems in sourcing water during the Reporting Period. As we involve only the assembly process but the discharge of wastewater in the production process, the wastewater produced in our operations is mainly general domestic wastewater, which is discharged through the city sewage network and then treated by the relevant local government departments. We have implemented the following measures to avoid wasting water:

- arranging regular inspection on water pipes and water facilities, and carry out timely repairs when dripping or leaking conditions are discovered in order to avoid waste of water resources
- using water-saving sanitary products in offices
- cultivating a habit of turning off water taps when water is not in use
- cultivating employees to develop a habit of cherishing water resources by putting up water conservation reminder stickers

Set out below is the data of our domestic sewage for the Reporting Period, which show an increase in total water consumption as compared to last year[10]:

Water consumption performance	Unit	2020	2021
Total water consumption	m^3	1,788.00	22,411.29
Total water consumption density (per square meter)	m^3/m^2	0.34	0.65
Total water consumption density (per employee)	m^3/employee	3.05	17.97

10 In order to more fully reflect the performance of the Group's environmental data, the US office and the Dongguan factory in China were newly added to the environmental category this year. Therefore, the total water consumption for this year was a reasonable increase compared to last year.

5.5 Response to Climate Change

Climate change and global warming are the major global environmental issues. Notwithstanding that the Group's principal business does not directly generated a huge amount of waste gas and greenhouse gas, we understand climate change will bring about extreme weather conditions (e.g. tropical cyclone, rainstorm and thunderstorm), which would ultimately pose a threat to our business operations and may result in economic loss. Therefore, the Group still endeavors to advocate environmental protection and promote employees' environmental awareness.

In order to reduce carbon footprint and emissions, the Group actively adopts the relevant environmental policies and green office measures as stated in the ESG report. In the meanwhile, we understand that extreme weather may cause casualties to employees or damage to office premises. Therefore, whenever extreme weather such as typhoons occur, we will issue weather warnings to our employees by email and negotiate with suppliers and logistics companies in advance on emergency measures to be taken in extreme weather. At the same time, we also keep electronic copies of relevant documents for backup to avoid the destruction of internal documents due to extreme weather incidents.

6. GIVING BACK TO SOCIETY

The Group is committed to being a responsible member of the community and is dedicated to promoting a thriving society and giving back to the society. We participate and invest in the local community through partnerships with charities and non-government organizations.

During the Reporting Period, we partnered with Exceptional Minds, a non-profit organization in the U.S., to donate 530 air purifiers of various models from our brand to support the community. We hope to leverage our strengths to care for and help more people in need in the future. During the Reporting Period, the Group invested approximately RMB7.53 million in community investment and charity activities.

Looking ahead, we will continue to promote a culture of active engagement in social service and encourage our employees to actively participate in voluntary services to maintain the harmonious relationship with the society.

APPENDIX I: SUMMARY OF SUSTAINABILITY DATA

Environmental Scope[11]	Unit	2021
Types of Emission from Vehicle[7]		
NOx	kg	10.05
SOx	kg	0.028
PM	kg	9.63
GHG emissions[5]		
Direct GHG emissions (Scopes 1)	tonnes of CO_2e	221.18
Indirect GHG emissions (Scopes 2)	tonnes of CO_2e	710.08
Total GHG emissions (Scopes 1 and 2)	tonnes of CO_2e	931.26
GHG emissions intensity[5]		
GHG emissions per square meter (Scopes 1 and 2)	tonnes of CO_2e/m^2	0.027
GHG emissions per employee (Scopes 1 and 2)	tonnes of CO_2e/employee	0.75
Energy consumption		
Total electricity consumption	kWh	1,282,844.92
Electricity consumption per square meter	kWh/m^2	37.40
Electricity consumption per employee	kWh/employee	1,028.74
Fuel consumption of vehicles	liter	1,907.85
Water consumption		
Total water consumption	m^3	22,411.29
Water consumption per square meter	m^3/m^2	0.65
Water consumption per employee	m^3/employee	17.97
Production of hazardous waste		
Battery	piece	205
Computer	piece	70
Waste cartridge, waste toner cartridge	piece	26
Production of non-hazardous waste		
Total production of non-hazardous waste	tonnes	48.30
Non-hazardous waste consumed per employee	tonnes/employee	0.039
Paper consumption		
Total paper consumption	kg	3,786.39
Paper consumption per employee	kg/employee	3.04
Total consumption of packaging materials		
Carton	kg	21,255.00
Packaging paper	kg	101.48
Plastic packing	kg	20,000.00

11 KPI of environmental aspects includes: offices in Shenzhen China, Chongqing China and the US, as well as facilities in Dongguan China

Social	Units	2021
Total employees	No. of people	1,236
Total employees (by gender)		
Female employees	No. of people	570
Male employees	No. of people	666
Total employees (by type of employees[1])		
Full-time junior employees	No. of people	1,176
Full-time middle management	No. of people	46
Full-time senior management	No. of people	14
Total employees (by age group)		
Aged below 30 employees	No. of people	681
Aged between 30–50 employees	No. of people	537
Aged above 50 employees	No. of people	18
Total employees (by region[2])		
Total employees in China	No. of people	1,089
Total employees in the United States	No. of people	144
Total employees in other region[3]	No. of people	3
Turnover rate[12]		
Total employee turnover rate	%	29.76
Employee turnover rate[12] (by gender)		
Female employees	%	28.82
Male employees	%	30.57
Employee turnover rate[12] (by age group)		
Aged below 30 employees	%	32.01
Aged between 30–50 employees	%	27.29
Aged above 50 employees	%	17.65
Employee turnover rate[12](by region[2])[13]		
Employee turnover rate in China	%	30.30
Employee turnover rate in the United States	%	25.69
Percentage of employees trained[4] (by gender)		
Female employees	%	47.45
Male employees	%	52.55
Percentage of employees trained[4] (by type of employees[1])		
Full-time junior employees	%	95.75
Full-time middle management	%	3.40
Full-time senior management	%	0.85

12 Calculating method: number of employees lost of the type/total number of employees of the type

13 No employee of the Group in other regions has left office during the Reporting Period

Social	Units	2021
Average training hours(by gender)		
Female employees	Hour	10.02
Male employees	Hour	9.05
Average training hours (by type of employees[1])		
Full-time junior employees	Hour	12.36
Full-time middle management	Hour	33.17
Full-time senior management	Hour	28.86
Occupational health and safety		
Number of work-related fatalities in each of the past three years (including reporting years)	No. of people	0
Rate of work-related fatalities in each of the past three years (including reporting years)	%	0
Lost days due to work injury	day	33
Labour Standards		
Number of child labours found	case	0
Number of forced labours found	case	0
Anti-Corruption		
Number of concluded legal cases regarding corrupt practices brought against the Company or its employees	case	0

APPENDIX II: INDEX TO THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE OF THE STOCK EXCHANGE

Indicator			Related Chapter
A. Environmental			
A1: Emissions	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	5. Green Operation
	A1.1	The types of emissions and respective emissions data.	5.1 Emissions Management Appendix I: Summary of Sustainability Data
	A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	5.1 Emissions Management Appendix I: Summary of Sustainability Data
	A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	5.3 Waste Management Appendix I: Summary of Sustainability Data
	A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	5.3 Waste Management Appendix I: Summary of Sustainability Data
	A1.5	Description of emissions target(s) set and steps taken to achieve them.	5. Green Operation 5.1 Emissions Management
	A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	5. Green Operation 5.3 Waste Management
A2: Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	5.2 Energy Management
	A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	5.2 Energy Management Appendix I: Summary of Sustainability Data
	A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	5.2 Energy Management Appendix I: Summary of Sustainability Data
	A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	5. Green Operation 5.2 Energy Management
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	5. Green Operation 5.4 Water Resources Management
	A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	5.3 Waste Management Appendix I: Summary of Sustainability Data

Indicator			Related Chapter
A3: The Environment and Natural Resources	General Disclosure	Policies on minimising the issuer's significant impacts on the environment and natural resources.	5. Green Operation
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	5. Green Operation
A4: Climate Change	General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	5.5 Response to Climate Change
	A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	5.5 Response to Climate Change
B. Social			
B1: Employment	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	4.1 Lawful Labor 4.2 Employee Welfare
	B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	4.2 Employee welfare Appendix I: Summary of Sustainability Data
	B1.2	Employee turnover rate by gender, age group and geographical region.	Appendix I: Summary of Sustainability Data
B2: Health and Safety	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	4.3 Employee Health and Safety
	B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	4.3 Employee Health and Safety Appendix I: Summary of Sustainability Data
	B2.2	Lost days due to work injury.	Appendix I: Summary of Sustainability Data
	B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	4.3 Employee Health and Safety

Indicator			Related Chapter
B3: Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	4.4 Training and Development
	B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	4.4 Training and Development Appendix I: Summary of Sustainability Data
	B3.2	The average training hours completed per employee by gender and employee category.	4.4 Training and Development Appendix I: Summary of Sustainability Data
B4: Labour Standards	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	4.1 Lawful Labor
	B4.1	Description of measures to review employment practices to avoid child and forced labour.	4.1 Lawful Labor
	B4.2	Description of steps taken to eliminate such practices when discovered.	4.1 Lawful Labor
B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	3.6 Supply Chain Management
	B5.1	Number of suppliers by geographical region.	3.6 Supply Chain Management
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	3.6 Supply Chain Management
	B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	3.6 Supply Chain Management
	B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	3.6 Supply Chain Management

Indicator			Related Chapter
B6: Product Responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	3.1 Quality Management 3.3 Information Security Management
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	3.1 Quality Management
	B6.2	Number of products and service related complaints received and how they are dealt with.	3.2 Quality Customer Service
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	3.4 Respecting Intellectual Property Rights
	B6.4	Description of quality assurance process and recall procedures.	3.1 Quality Management
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	3.3 Information Security Management
B7: Anti-Corruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	3.5 Operating with Integrity
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Period and the outcomes of the cases.	3.5 Operating with Integrity Appendix I: Summary of Sustainability Data
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	3.5 Operating with Integrity
	B7.3	Description of anti-corruption training provided to directors and employee.	3.5 Operating with Integrity
B8: Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities interests.	6. Giving Back to Society
	B8.1	Focus areas of contribution (such as education, environment issues, labour needs, health, culture, sports).	6. Giving Back to Society
	B8.2	Resources contributed to the focus area.	6. Giving Back to Society

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report of the Company for the year ended December 31, 2021.

CORPORATE GOVERNANCE PRACTICES

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

Save for compliance with C.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 Reporting Period.

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

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

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 Function

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.

The Board has assigned the powers and responsibilities of the Group's daily operations, management and administration 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.

CHAIRPERSON AND CHIEF EXECUTIVE OFFICER

Under the code provision C.2.1 of the CG Code, the roles of chairperson and chief executive officer should be separate and should not be performed by the same individual. The Company did 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 Reporting Period, 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.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Code provision B.2.2 of the CG Code stipulates that every directors, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. The term of appointment of non-executive Directors and independent non-executive Directors is for a term of 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. Accordingly, Mr. Yang Yuzheng, Mr. Tan Wen and Mr. Fong Wo, Felix shall be retired from office by rotation at the 2022 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 Reporting Period.

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.

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.

BOARD MEETINGS, BOARD COMMITTEES MEETINGS AND GENERAL MEETINGS

The Board meets regularly and at least four times a year. Notice of at least 14 days in advance for the regular Board meeting is given, and the agenda together with Board papers are sent to the Directors in a timely manner before the intended date of Board meeting. During the Reporting Period, four regular Board meetings were held.

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.

Attendance at Meetings

The following table shows the attendance of the Directors at the Board, Board committees and general meetings held during the Reporting Period:

	Number of Meetings Attended/Held				
Name of Directors	Regular Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee	Annual general meeting held on May 21, 2021
Executive Directors					
Ms. Yang Lin	4/4	—	1/1	1/1	1/1
Mr. Yang Hai	4/4	—	1/1	1/1	1/1
Mr. Chen Zhaojun	4/4	—	—	—	1/1
Non-executive Director					
Mr. Yang Yuzheng	4/4	—	—	—	1/1
Independent non-executive Directors					
Mr. Fong Wo, Felix	4/4	2/2	1/1	1/1	1/1
Mr. Gu Jiong	4/4	2/2	1/1	1/1	1/1
Mr. Tan Wen	4/4	2/2	1/1	1/1	1/1

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.

The Audit Committee has discussed with the external auditor of the Company, Ernst & Young, and reviewed the annual and interim financial results and report, major internal audit issues, re-appointment of external auditors, and the effectiveness of the risk management and internal control systems of the Group.

The Audit Committee has reviewed the remuneration of the auditor for the year ended December 31, 2021 and has recommended the Board to re-appoint Ernst & Young as the auditor of the Company for the year ending December 31, 2021, subject to approval by the Shareholders at the 2022 AGM.

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 E.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, 2021:

Band	Number of Individuals
Nil to HK$3,000,000	2
	2

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.

The Remuneration Committee has reviewed and made recommendations to our Board on the overall remuneration policy and structure for Directors and senior management and reviewed the remuneration of Directors and senior management and other matters for the year ended December 31, 2021.

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, Mr. Gu Jiong, Mr. Fong Wo, Felix, Mr. Tan Wen and Mr. Yang Hai. Ms. Yang 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;

(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.

The Nomination Committee has reviewed the Board Diversity Policy, the structure, size and composition of the Board, assessed the independence of independent non-executive Directors, considered the Director Nomination Policy and made recommendation to the Board on the re-election of the retiring Directors and the appointment of new Director.

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 FUNCTION

The Audit Committee 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;
- 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 Audit Committee 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 senior manager of SWCS Corporate Services Group (Hong Kong) Limited, a professional services provider specializing in corporate services, and has over eight years of experience in the corporate secretarial field. Ms. Zhang has been admitted as an associate member of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute 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 Hong Kong Metropolitan University in 2018.

Mr. Chen Zhaojun, the 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.

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.

Type of services provided by the external auditor	Fees paid/ payable US$'000
Audit and audit related services	780
Total	780

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.

Main features of the risk management and internal control systems

(i) The Company has established the "Basic Measures for Vesync Risk Management". In accordance with these policies, the Company has developed a risk management system for the entire Vesync Group, consisting of a risk governance structure for the Group's internal controls, compliance, risk management and internal audit.

(ii) The Company has adopted the "Three Lines of Defence (IIA)" model of internal controls to establish a risk management and internal control system. The first line of defence consists mainly of our business and functional departments, which are responsible for the day-to-day operations and management, and for designing and implementing relevant controls to mitigate risks. The Company has an independent and dedicated risk management department, which is divided into an internal control department (風控內控部) and an internal audit department (審計監察部) to bear the risks and responsibilities by the second and third lines of defence respectively.

(iii) In 2021, the Company conducted a comprehensive annual risk assessment of the Group and issued the Annual Risk Management and Internal Control Assessment Report of the Vesync Group, covering the identification of material risks that may affect the Group's performance; the assessment and evaluation of such risks based on its possible impact and likelihood of its occurrence, as well as the development and implementation of measures, controls and contingency plans to manage and mitigate such risks, the purpose of which are to ensure that effective countermeasures are already in place for significant risks, and that the risks are controlled to an extent appropriate and affordable to the Company's business objectives.

(iv) All department heads are aware of their primary responsibility for risk management and, with the assistance of the Risk Management Department, have implemented appropriate and effective countermeasures to manage and mitigate material and fundamental risks.

(v) The management of the Group ensures that appropriate countermeasures are in place to address the significant risks affecting the business and operations of the Group;

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

During the Reporting Period, the internal audit department has carried out an overview on the effectiveness of the risk management and internal control systems of the Group. Based on the risk-based approach, the internal audit department continuously review and monitor the adequacy and effectiveness of the risk control measures of every business unit of the Group and to examine if relevant measures have been implemented. The senior executives of the internal audit function attended the Audit Committee meeting to explain the results of the internal audit and responded to the questions of the members of the Audit Committee.

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.

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

There was no changes in constitutional documents of the Company during the Reporting Period.

安永

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27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

安永會計師事務所
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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 102 to 185, which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021, 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

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 consideration 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 relatively 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 the Vendor Central programme. The Group provides rights of return to its customers for products under certain sale channels and promotion rebates to the retailer under the Vendor Central programme. 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's 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 2.4 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.

Key audit matter	How our audit addressed the key audit matter
Impairment of inventories As at 31 December 2021, the net carrying value of inventories amounted to US$128,547,000, netting off a provision for impairment of US$6,017,000, representing 28% 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 2.4 and 3 to the financial statements.	We evaluated the Group's inventory provision policy by discussing with management to obtain an understanding of 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 with 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 consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated 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.

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.

- 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.

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
31 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2021

	Notes	2021 US$'000	2020 US$'000
REVENUE	5	**454,250**	348,922
Cost of sales		**(278,143)**	(196,503)
Gross profit		**176,107**	152,419
Other income and gains	5	**1,377**	341
Selling and distribution expenses		**(68,833)**	(47,241)
Administrative expenses		**(51,135)**	(38,920)
Impairment losses on financial assets, net		**(172)**	(141)
Other expenses		**(5,572)**	(5,261)
Finance costs	7	**(763)**	(1,140)
PROFIT BEFORE TAX	6	**51,009**	60,057
Income tax expense	10	**(9,421)**	(5,334)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		**41,588**	54,723
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**1,097**	2,029
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**1,097**	2,029
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		**42,685**	56,752
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	12	**US3.68 cents**	US6.76 cents
Diluted	12	**US3.68 cents**	US6.74 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	2021 US$'000	2020 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**4,477**	1,858
Right-of-use assets	14(a)	**12,398**	11,056
Other intangible assets	15	**288**	406
Other non-current assets		**478**	280
Investment in a joint venture	16	**12,202**	—
Pledged deposits	21	**560**	—
Deferred tax assets	26	**14,735**	17,002
Total non-current assets		**45,138**	30,602
CURRENT ASSETS			
Inventories	17	**128,547**	95,598
Trade receivables	18	**106,019**	35,241
Prepayments, other receivables and other assets	19	**21,721**	24,577
Tax recoverable		**968**	256
Derivative financial assets	20	**120**	—
Pledged deposits	21	**31,635**	—
Cash and cash equivalents	21	**126,659**	183,450
Total current assets		**415,669**	339,122
CURRENT LIABILITIES			
Trade payables	22	**37,739**	45,617
Other payables and accruals	23	**36,945**	27,217
Provision	25	**1,931**	1,999
Interest-bearing bank borrowings	24	**34,900**	2,888
Lease liabilities	14(b)	**4,098**	2,634
Tax payable		**17,084**	17,040
Derivative financial liabilities	20	**119**	—
Total current liabilities		**132,816**	97,395
NET CURRENT ASSETS		**282,853**	241,727
TOTAL ASSETS LESS CURRENT LIABILITIES		**327,991**	272,329

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	2021 US$'000	2020 US$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**327,991**	272,329
NON-CURRENT LIABILITIES			
Lease liabilities	14(b)	**9,538**	9,183
Provision	25	**3,815**	3,015
Total non-current liabilities		**13,353**	12,198
Net assets		**314,638**	260,131
EQUITY			
Equity attributable to owners of the parent			
Share capital	27	**1,503**	1,449
Share premium		**199,885**	189,625
Reserves	29	**113,250**	69,057
Total equity		**314,638**	260,131

Yang Lin
Director

Chen Zhaojun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

	Attributable to owners of the parent									
	Share capital US$'000 (note 27)	Share premium US$'000 (note 27)	Treasury shares US$'000	Shares held for share award scheme* US$'000 (note 27)	Other reserve* US$'000	Share award and option reserve* US$'000	Statutory surplus reserve* US$'000 (note 29)	Exchange fluctuation reserve* US$'000 (note 29)	Retained profits* US$'000	Total equity US$'000
At 1 January 2021	**1,449**	**189,625**	**—**	**(44)**	**(2,102)**	**166**	**2,838**	**1,565**	**66,634**	**260,131**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**41,588**	**41,588**
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,097**	**—**	**1,097**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,097**	**41,588**	**42,685**
Shares repurchased	**—**	**—**	**(236)**	**—**	**—**	**—**	**—**	**—**	**—**	**(236)**
Issue of shares	**54**	**29,951**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**30,005**
Share issue expenses	**—**	**(894)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(894)**
Equity-settled share award and option arrangement	**—**	**—**	**—**	**—**	**—**	**1,508**	**—**	**—**	**—**	**1,508**
Cancellation of treasury shares	**—**	**(236)**	**236**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Transfer to statutory surplus reserve	**—**	**—**	**—**	**—**	**—**	**—**	**6**	**—**	**(6)**	**—**
Final 2020 dividend declared	**—**	**(18,561)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(18,561)**
At 31 December 2021	**1,503**	**199,885**	**—**	**(44)**	**(2,102)**	**1,674**	**2,844**	**2,662**	**108,216**	**314,638**

		Attributable to owners of the parent								
	Notes	Share capital US$'000 (note 27)	Share premium account US$'000 (note 27)	Shares held for share award scheme* US$'000 (note 27)	Other reserve* US$'000	Share award reserve* US$'000	Statutory surplus reserve* US$'000 (note 29)	Exchange fluctuation reserve* US$'000 (note 29)	Retained profits* US$'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	27	1,085	(1,041)	(44)	—	—	—	—	—	—
Issue of shares for the initial public offering	27	363	199,718	—	—	—	—	—	—	200,081
Share issue expenses		—	(9,052)	—	—	—	—	—	—	(9,052)
Equity-settled share award arrangement	28	—	—	—	—	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	189,625	(44)	(2,102)	166	2,838	1,565	66,634	260,131

* These reserve accounts comprise the consolidated reserves of US$113,250,000 (2020: US$69,057,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Notes	2021 US$'000	2020 US$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**51,009**	60,057
Adjustments for:			
Finance costs		**763**	1,140
Interest income		**(422)**	—
Impairment of trade receivables, net	18	**172**	141
Impairment of inventories	6	**1,625**	3,210
Depreciation of property, plant and equipment	13	**1,306**	706
Depreciation of right-of-use assets	14(a)	**4,048**	2,702
Equity-settled share award and option expense		**1,508**	166
Amortisation of other intangible assets	15	**510**	266
Loan forgiveness		**(157)**	—
Loss on disposal of items of property, plant and equipment, net		**15**	4
Loss on early termination of leases, net		**29**	—
Fair value gains, net:			
—Derivative instruments-transactions not qualifying as hedges		**(40)**	—
Foreign exchange differences, net		**1,670**	1,887
		62,036	70,279
Increase in trade receivables		**(70,950)**	(17,473)
Decrease/(increase) in prepayments, other receivables and other assets		**2,856**	(17,164)
Increase in inventories		**(34,574)**	(65,530)
Increase in other non-current assets		**(123)**	(257)
(Decrease)/increase in trade payables		**(7,878)**	26,199
Increase in derivative financial liabilities		**39**	—
Increase in provision		**732**	2,828
Increase in other payables and accruals		**9,728**	11,562
(Increase)/decrease in pledged deposits		**(724)**	588
Cash (used in)/generated from operations		**(38,858)**	11,032
Income tax paid		**(7,822)**	(1,384)
Net cash flows (used in)/from operating activities		**(46,680)**	9,648

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Notes	2021 US$'000	2020 US$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(3,961)**	(892)
Purchases of other intangible assets		**(384)**	(441)
Purchase of a shareholding in a joint venture		**(12,202)**	—
Increase in time deposits with original maturity of over three months		**(30,000)**	—
Interest received		**225**	—
Repayments of loans to directors		**—**	970
Loans to related parties	31(a)	**—**	(14)
Repayments of loans to related parties		**—**	478
Acquisition of equity interests in subsidiaries from the then shareholders		**—**	(6,422)
Net cash flows used in investing activities		**(46,322)**	(6,321)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution by the then shareholders		**—**	4,224
Proceeds from issue of shares		**30,005**	200,081
Share issue expenses		**(894)**	(7,476)
Repurchase of shares		**(236)**	—
New bank loans		**50,325**	21,776
Repayment of bank borrowings		**(18,170)**	(37,242)
Pledged for bank borrowings		**(31,471)**	—
Principal portion of lease payments		**(3,585)**	(2,187)
Loans from employees		**—**	12
Repayment of loans from employees		**—**	(41)
Repayment of loans from directors		**—**	(1,489)
Loans from a related party	31(a)	**—**	947
Repayment of loans from a related party		**—**	(1,979)
Dividend paid to shareholders		**(18,561)**	(4,224)
Interest paid		**(749)**	(1,293)
Net cash flows from financing activities		**6,664**	171,109
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(86,338)**	174,436
Cash and cash equivalents at beginning of year		**183,450**	9,115
Effect of foreign exchange rate changes, net		**(650)**	(101)
CASH AND CASH EQUIVALENTS AT END OF YEAR	21	**96,462**	183,450
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position		**126,659**	183,450
Time deposits with original maturity of over three months when acquired		**(30,197)**	—
Cash and cash equivalents as stated in the statement of cash flows	21	**96,462**	183,450

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		Principal activities
			Direct	Indirect	
Vitasync Co., Ltd ("Vitasync BVI")	British Virgin Islands ("BVI") 27 February 2019	—	100%	—	Investment holding
Arcsync Co., Ltd ("Arcsync BVI")	BVI 27 February 2019	—	100%	—	Investment holding
Avidsync Co., Ltd ("Avidsync BVI")	BVI 26 April 2021	—	100%	—	Investment holding
Vesync (Singapore) PTE. LTD. ("Vesync SG")	Singapore 10 June 2021	SG$10,000	—	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

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
Etekcity Company Limited ("Etekcity Macau")	PRC/Macau 21 February 2019	MOP25,000	—	100%	Import and export trade
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%	Sale of products
Arize Corporation ("Arize US")	USA/California 8 April 2021	—	—	100%	Sale of products
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

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
Vesync (UK) Limited ("Vesync UK")	Great Britain 11 March 2021	GBP200	—	100%	Customs clearance and declaration

Notes:

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

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

* 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.

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 disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. 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 2021. 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.

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 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9 HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021* (early adopted)

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

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

The Group had certain interest-bearing bank borrowings denominated United States dollars based on the London Interbank Offered Rate ("LIBOR") as at 31 December 2021. For the LIBOR-based borrowings, since the interest rates were not replaced by RFRs during the year, the amendments did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this the above-mentioned practical expedient upon the modification of these borrowings when instruments provided that the "economically equivalent" criterion is met.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(b) (Continued)

The Group has early adopted the amendment on 1 January 2021. However, the Group has not received covid-19-related rent concessions and plans to apply the practical expedient when it becomes applicable within the allowed period of application.

2.3 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*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKFRS 17	*Insurance Contracts*[2, 5]
Amendment to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 — Comparative Information*[2]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[2, 4]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[2]
Amendments to HKAS 8	*Definition of Accounting Estimates*[1]
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[1]
Amendments to HKAS 37	*Onerous Contracts — Cost of Fulfilling a Contract*[1]
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41[1]

1 Effective for annual periods beginning on or after 1 January 2022
2 Effective for annual periods beginning on or after 1 January 2023
3 No mandatory effective date yet determined but available for adoption
4 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.
5 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.

2.3 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 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 resulting from a downstream transaction 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 *Classification of Liabilities as Current or Non-current* 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.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Amendments to HKAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to HKFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments on the Group's accounting policy disclosures.

Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The Group has early adopted the amendments in the preparation of the historical financial information and recognised a deferred tax asset and a deferred tax liability for temporary differences arising from lease during the year ended 31 December 2021.

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.

2.3 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

(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.

(ix) 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

(x) 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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%
Machinery and equipment	10%–100%
Office equipment	14%–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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

Office premises 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.

(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 an option to purchase the underlying asset.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee (Continued)

(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 staff dormitory and warehouse (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 equipments 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (Continued)

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).

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

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.

Financial liabilities

Initial recognition and measurement

The Group's Financial liabilities are classified, at initial recognition, as loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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, interest-bearing bank borrowings and derivative financial instruments.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement (Continued)

Financial liabilities at fair value through profit or loss (Continued)

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

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 the obligation under the liability 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as options for foreign currency and forward currency contracts to hedge foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

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, and assets similar in nature to cash, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 joint ventures, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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 joint ventures, 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 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 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the Vendor Central programme.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Sale of products (Continued)

(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 the Vendor Central programme, 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.

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.

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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) 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 cash flow model or binomial model, further details of which are given in note 32 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 the reporting period and their statements of profit or loss and other comprehensive income are translated into US$ at the exchange rates that approximate to those prevailing at the dates of the transactions.

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.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Estimating variable consideration for return and promotion rebate (Continued)

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 2021, the amount recognised as refund liabilities was US$12,672,000 (2020: US$8,501,000) 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. 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 18 to the financial statements.

Impairment of inventories

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 2021, the Group's impairment of inventories amounted to US$6,017,000 (2020: US$4,392,000).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

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).

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 26 to the financial statements.

Equity-settled share award and option 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 28 to the financial statements.

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

	2021 US$'000	2020 US$'000
North America	**358,060**	302,318
Europe	**81,041**	40,718
Asia	**15,149**	5,886
Total	**454,250**	348,922

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

	2021 US$'000	2020 US$'000
North America	**6,837**	8,471
Mainland China	**10,210**	4,359
Hong Kong	**12,650**	519
Europe	**123**	166
Other	**583**	85
Total	**30,403**	13,600

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

Information about a major customer

Revenue of approximately US$338,536,000 for the year ended 31 December 2021 (2020: US$232,815,000) 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:

	2021 US$'000	2020 US$'000
Revenue from contracts with customers	**454,250**	348,922

(i) Disaggregated revenue information

	2021 US$'000	2020 US$'000
Timing of revenue recognition		
Goods transferred at a point in time	**454,250**	348,922

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:

	2021 US$'000	2020 US$'000
Revenue recognised that was included in contract liabilities at the beginning of the year:		
Sale of products	**1,290**	180

(ii) Performance obligations

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

Sale of products

The performance obligation of the Vendor Central programme is satisfied upon delivery of goods and payment is generally due within 30 to 90 days from delivery. The performance obligation of the Seller Central programme 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. The Seller Central programme, certain the Vendor Central programme and other marketplace channels provide customers with a right of return within 30 days, sometimes extending up to 60 days.

At 31 December 2021, the remaining performance obligations (unsatisfied or partially unsatisfied) were expected to be recognised within one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

5. REVENUE, OTHER INCOME AND GAINS (Continued)

(iii) Refund liabilities

	2021 US$'000	2020 US$'000
Refund liabilities arising from sales return	**282**	595
Refund liabilities arising from promotion rebates	**12,390**	7,906
	12,672	8,501

An analysis of other income and gains is as follows:

	2021 US$'000	2020 US$'000
Other income		
Bank interest income	**665**	10
Government grants*	**469**	96
Others	**203**	235
	1,337	341
Gains		
Fair value gains, net:		
Derivative instruments-transactions not qualifying as hedges	**40**	—
	1,377	341

* In April 2020, the Group's two subsidiaries in the United States received loans of US$2,727,000 in total under the Paycheck Protection Program ("PPP") administered by the Small Business Administration ("SBA"). The PPP is a part of the Coronavirus Aid, Relief, and Economic Security Act enacted by the United States Congress on 27 March 2020 in response to the covid-19 pandemic. The repayment of these loans, including interest, will be waived if the above mentioned received loans comply with certain requirements of the PPP loan program, which should be approved by SBA. The Group submitted applications for the forgiveness of the PPP loans on 26 March 2021 and received the notice of PPP forgiveness payment from the SBA regarding the approval of forgiveness of US$ 157,000 on 17 May 2021 in principal and associated interest, which was recognised as government grants.

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

6. PROFIT BEFORE TAX

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

	Notes	2021 US$'000	2020 US$'000
Cost of inventories sold		**207,962**	153,315
Amazon fulfilment fee		**12,162**	17,664
Commission to platform		**12,839**	17,180
Research and development costs*		**17,308**	10,459
Depreciation of property, plant and equipment	13	**1,306**	706
Amortisation of other intangible assets**	15	**510**	266
Depreciation of right-of-use assets	14(a)	**4,048**	2,702
Auditor's remuneration		**780**	504
Lease payments not included in the measurement of lease liabilities	14(c)	**2,323**	1,272
Listing expenses		**—**	4,460
Loss on disposal of items of property, plant and equipment		**15**	4
Interest income		**(665)**	(10)
Fair value gains, net:			
— Derivative instruments-transactions not qualifying as hedges		**(40)**	—
Foreign exchange differences, net		**4,190**	2,239
Employee benefit expenses (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**32,579**	20,828
Pension scheme contributions		**6,120**	1,512
Staff welfare expenses		**2,796**	3,266
Equity-settled share award expense		**950**	166
		42,445	25,772
Impairment of trade receivables, net	18	**172**	141
Impairment of inventories, net***	17	**1,625**	3,210
Product warranty provision			
— Addition provision	25	**958**	1,096

* 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.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2021 US$'000	2020 US$'000
Interest on bank loans	**88**	444
Interest on loans from a related party	**—**	85
Interest on lease liabilities	**675**	611
	763	1,140

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	
	2021 US$'000	2020 US$'000
Fee	**110**	5
Other emoluments:		
Salaries, allowances and benefits in kind	**1,073**	829
Performance related bonus	**447**	307
Pension scheme contributions	**38**	29
Equity-settled share option expense	**558**	—
	2,116	1,165

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 28 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

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

(a) Independent non-executive directors

The fees paid to or receivable by independent non-executive directors during the year were as follows:

	2021 US$'000	2020 US$'000
Mr. Fong Wo, Felix	39	2
Mr. Gu Jiong	39	2
Mr. Tan Wen	32	1
	110	5

The share option expense for non-executive directors during the year were as follows:

	2021 US$'000	2020 US$'000
Mr. Fong Wo, Felix	22	—
Mr. Gu Jiong	22	—
Mr. Tan Wen	22	—
	66	—

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

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

2021

	Salaries allowances and benefits in kind US$'000	Performance related bonuses US$'000	Pension scheme contributions US$'000	Equity-settled share option expense US$'000	Total US$'000
Executive directors:					
Ms. Yang Lin	**349**	**250**	**14**	**126**	**739**
Mr. Yang Hai	**395**	**150**	**18**	**126**	**689**
Mr. Chen Zhaojun	**310**	**47**	**6**	**218**	**581**
	1,054	**447**	**38**	**470**	**2,009**
Non-executive director:					
Mr. Yang Yuzheng	**19**	**—**	**—**	**22**	**41**
	1,073	**447**	**38**	**492**	**2,050**

2020

	Salaries, allowances and benefits in kind US$'000	Performance related bonuses US$'000	Pension scheme contributions US$'000	Total remuneration US$'000
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

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

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

Ms. Yang Lin is also the chief executive of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the reporting year.

During the 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.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors who are also the chief executives (2020: three directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2020: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2021 US$'000	2020 US$'000
Salaries, allowances and benefits in kind	**422**	482
Performance related bonuses	**104**	70
Pension scheme contributions	**19**	21
	545	573

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	
	2021	2020
HK$1,000,001 to HK$2,000,000	**—**	1
HK$2,000,001 to HK$3,000,000	**2**	1
	2	2

During the year, no remuneration was paid by the Group to the non-director and non-chief executive highest paid employee as an inducement to join or upon joining the Group or as compensation for loss of office.

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 British Virgin Islands ("BVI")

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

Hong Kong

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

Mainland China

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

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

Chongqing Xiaodao is qualified as a small and low-profit enterprise and was entitled to a preferential income tax rate of 2.5% (2020: 5%) for the taxable income less than or equal to RMB1,000,000 and a preferential income tax rate of 10% (2020: 10%) for the taxable income between RMB1,000,000 and RMB3,000,000 during the year.

Dongguan Zhilun is qualified as a small and low-profit enterprise and was entitled to a preferential income tax rate of 2.5% for the taxable income less than or equal to RMB1,000,000 and a preferential income tax rate of 10% for the taxable income between RMB1,000,000 and RMB3,000,000 during the year.

Macau

Macau profits tax has been provided at the rate of 12% on the estimated assessable profits arising in Macau during the year.

United States

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

Netherlands and Germany

The subsidiary in the Netherlands is entitled to a preferential income tax rate of 15% (2020: 16.5%) for the taxable income less than or equal to EUR245,000 and an income tax rate of 25% (2020: 25%) for the taxable income over EUR245,000. The subsidiary in Germany is entitled to a combined tax rate of 29.13% (2020: 29.13%), consisting of a corporate tax rate of 15%, a solidarity surcharge thereon of 5.5% and a trade tax rate of 13.3%.

10. INCOME TAX (Continued)

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

	2021 US$'000	2020 US$'000
Current tax:		
— Mainland China	**545**	1,701
Charge for the year	**264**	1,701
Underprovision in prior years	**281**	—
— Hong Kong	**—**	14,742
— Macau	**2,658**	—
— United States	**3,148**	3,017
Charge for the year	**2,231**	3,017
Underprovision in prior years	**827**	—
— Netherlands and Germany	**804**	19
Deferred tax (note 26)	**2,266**	(14,145)
Total tax charge for the year	**9,421**	5,334

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:

	2021 US$'000	2020 US$'000
Profit before tax	**51,009**	60,057
Tax at the statutory tax rates	**10,612**	6,379
Preferential income tax rates applicable to subsidiaries	**(1,743)**	(1,554)
Expenses not deductible for tax	**1,234**	1,126
Additional deduction allowance for research and development costs	**(2,160)**	(793)
Tax losses utilised from previous years	**(47)**	(142)
Effect on opening deferred tax of decrease in rate	**—**	9
Adjustments in respect of current tax of previous period	**1,108**	—
Tax losses not recognised	**417**	309
Tax charge at the Group's effective rate	**9,421**	5,334

11. DIVIDENDS

	2021 US$'000	2020 US$'000
Proposed final ordinary		
— HK6.40 cents (2020: HK12.74 cents) per ordinary share	**9,274**	18,561
Proposed final special		
— HK6.40 cents (2020: Nil) per ordinary share	**9,274**	—
	18,548	18,561

The proposed final dividend for the year ended 31 December 2021 amounting to a total of approximately HK$149,126,000 (equivalent to approximately US$19,107,000) is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. After deducting the dividend of HK$4,365,000 (equivalent to approximately US$559,000) which will be declared to Bank of Communications Trustee Limited ("BOCT"), the trustee of the Pre-IPO Share Award Scheme (note 28), the final 2021 cash dividend is US$18,548,000.

The cash dividend for the year ended 31 December 2020 amounting to a total of approximately HK$148,453,000 (equivalent to approximately US$19,121,000) was approved by the Company's shareholders on 21 May 2021 and was fully paid during the year. After eliminating the dividend of HK$4,345,000 (equivalent to approximately US$560,000) declared to BOCT, the final 2020 cash dividend was US$18,561,000.

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 129,672,995 (2020: 810,008,219) in issue during the year, as adjusted to reflect the overallotment of shares and repurchase of shares during the year.

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 and share options granted by the Company.

No adjustment has been made to the basic earnings per share amount presents for the year ended 31 December 2021 in respect of a dilution as the impact of share options outstanding had an anti-dilutive effect on the basic earnings per share amount presented.

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

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

	2021 US$'000	2020 US$'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculation	**41,588**	54,723

	Number of shares 2021	Number of shares 2020
Shares		
Weighted average number of ordinary shares during the year used in the basic earnings per share calculation	**1,129,672,995**	810,008,219
Effect of dilution — weighted average number of ordinary shares:		
Shares awarded	**—**	1,336,985
	1,129,672,995	811,345,204

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 2021					
At 1 January 2021:					
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
At 1 January 2021, net of accumulated depreciation	197	1,068	140	453	1,858
Additions	860	2,075	155	791	3,881
Depreciation provided during the year (note 6)	(256)	(657)	(78)	(315)	(1,306)
Disposals	(3)	(6)	(6)	—	(15)
Exchange realignment	9	29	5	16	59
At 31 December 2021, net of accumulated depreciation	807	2,509	216	945	4,477
At 31 December 2021:					
Cost	1,425	3,930	603	1,678	7,636
Accumulated depreciation	(634)	(1,468)	(390)	(769)	(3,261)
Exchange realignment	16	47	3	36	102
Net carrying amount	807	2,509	216	945	4,477

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 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

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 16 and 78 months, 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 US$'000	Machinery and equipment US$'000	Total US$'000
As at 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 and 1 January 2021	**10,660**	**396**	**11,056**
Additions	**5,341**	**—**	**5,341**
Disposal or early termination	**(54)**	**—**	**(54)**
Depreciation charge (note 6)	**(3,966)**	**(82)**	**(4,048)**
Exchange realignment	**97**	**6**	**103**
As at 31 December 2021	**12,078**	**320**	**12,398**

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:

	2021 US$'000	2020 US$'000
Carrying amount at 1 January	**11,817**	8,302
New leases	**5,341**	5,515
Accretion of interest recognised during the year	**675**	611
Payments	**(4,260)**	(2,798)
Disposal or early termination	**(25)**	—
Exchange realignment	**88**	187
Carrying amount at 31 December	**13,636**	11,817
Analysed into:		
Current portion	**4,098**	2,634
Non-current portion	**9,538**	9,183

The maturity analysis of lease liabilities is disclosed in note 34 to the financial statements.

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

	2021 US$'000	2020 US$'000
Interest on lease liabilities	**675**	611
Depreciation charge of right-of-use assets	**4,048**	2,702
Expense relating to short-term leases (included in selling and distribution expenses and administrative expenses)	**2,323**	1,272
Total amount recognised in profit or loss	**7,046**	4,585

(d) The total cash outflow for leases is disclosed in note 30(c) to the financial statements.

15. OTHER INTANGIBLE ASSETS

	Software US$'000	Trademarks US$'000	Total US$'000
31 December 2021			
Cost at 1 January 2021, net of accumulated amortisation	**406**	**—**	**406**
Additions	**384**	**—**	**384**
Amortisation provided during the year (note 6)	**(510)**	**—**	**(510)**
Exchange realignment	**8**	**—**	**8**
At 31 December 2021	**288**	**—**	**288**
At 31 December 2021:			
Cost	**1,155**	**835**	**1,990**
Accumulated amortisation and impairment loss	**(893)**	**(849)**	**(1,742)**
Exchange realignment	**26**	**14**	**40**
Net carrying amount	**288**	**—**	**288**
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)	(1232)
Exchange realignment	18	14	32
Net carrying amount	406	—	406

16. INVESTMENT IN A JOINT VENTURE

	2021 US$'000
Share of net assets	**12,202**

Particulars of the Group's joint venture is as follows:

Name	Place and date of registration	Nominal value of registered share capital	Percentage of ownership interest, voting power and profit sharing	Principal activities
Sanya City Fengyuan Chenle Equity Investment Fund PPL ("Fengyuan Chenle")	PRC/Mainland China 26 October 2021	RMB119,500,000	72.10%	Investment in industries of smart household appliances and smart home devices.

The above investment is directly held by the wholly-owned subsidiary of the Company.

Fengyuan Chenle, which is considered a joint venture of the Group, acts as the Group's investee to find the suppliers or platforms for business expansion in the industry and is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of Fengyuan Chenle adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	2021 US$'000
Cash and cash equivalents	16,924
Current asset	16,924
Net asset	16,924
Reconciliation to the Group's interest in the joint venture:	
Proportion of the Group's ownership	72.10%
Carrying amount of the investment	12,202

17. INVENTORIES

	2021 US$'000	2020 US$'000
Raw materials	**596**	420
Work in progress	**450**	43
Finished goods	**133,518**	99,527
	134,564	99,990
Less: Provision for inventories	**(6,017)**	(4,392)
	128,547	95,598

18. TRADE RECEIVABLES

	2021 US$'000	2020 US$'000
Trade receivables	**106,398**	35,777
Impairment of trade receivables	**(379)**	(536)
	106,019	35,241

The credit period is generally three months. Some customers have a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

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

	2021 US$'000	2020 US$'000
Less than 3 months	**104,089**	34,965
Between 3 and 6 months	**1,633**	245
Between 6 and 12 months	**210**	23
Between 1 and 2 years	**87**	8
	106,019	35,241

18. TRADE RECEIVABLES (Continued)

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

	2021 US$'000	2020 US$'000
At beginning of year	**536**	424
Impairment losses, net	**172**	141
Written-off	**(329)**	—
Exchange realignment	**—**	(29)
At end of year	**379**	536

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

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 2021

	Gross carrying amount US$'000	**Expected credit loss rate**	**Expected credit loss US$'000**
The largest customer	**97,276**	**0.04%**	**39**
Others	**9,122**	**3.73%**	**340**
	106,398	**0.36%**	**379**

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

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2021 **US$'000**	2020 US$'000
Deposits and other receivables	**5,680**	16,351
Prepayments	**10,088**	2,055
Other current assets	**5,953**	6,171
	21,721	24,577

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 2020 and 2021, the loss allowance was assessed to be minimal.

20. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2021	
	Assets US$'000	**Liabilities** US$'000
Forward currency contracts	120	46
Options for foreign currency	—	73
	120	119

Forward currency contracts and options for foreign currency are not designated for hedge purposes and are measured at fair value through profit or loss. Changes in the fair value of non-hedging derivative financial instruments amounting to US$40,000 were charged to profit or loss during the year.

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2021 US$'000	2020 US$'000
Cash and bank balances	**97,383**	183,450
Time deposits	**61,471**	—
	158,854	183,450
Less: Pledged time deposits	**31,471**	—
Restricted for lawsuits	**164**	—
Restricted for the share award scheme*	**560**	—
Cash and cash equivalents	**126,659**	183,450
Denominated in RMB	**32,956**	1,605
Denominated in US$	**74,021**	10,420
Denominated in HK$	**287**	167,367
Denominated in EUR	**18,898**	2,502
Denominated in CA$	**21**	1,177
Denominated in GBP	**2**	4
Denominated in JPY	**474**	375
Cash and cash equivalents	**126,659**	183,450

* Cash held by BOCT under the Pre-IPO Share Award Scheme (note 28) which can only be used exclusively for employees notified by the board of directors under the rules of the Pre-IPO Share Award Scheme during the trust period.

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. Pledged short term time deposits are made for periods with a maturity of the bank loans and non-pledged short term time deposits are made for varying periods of between three months and twelve months depending on the immediate cash requirements of the Group. Time deposits earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

22. TRADE PAYABLES

	2021 US$'000	2020 US$'000
Trade payables	**37,739**	45,617

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

	2021 US$'000	2020 US$'000
Within 3 months	**36,566**	37,741
3 to 12 months	**795**	7,630
Over 1 year	**378**	246
	37,739	45,617

The trade payables are non-interest-bearing and are normally settled on terms of 60 days and sometimes extending to 90 days.

23. OTHER PAYABLES AND ACCRUALS

	Notes	2021 US$'000	2020 US$'000
Contract liabilities	(a)	**1,044**	1,290
Other payables	(b)	**3,374**	2,332
Refund liabilities		**12,672**	8,501
Payroll payable		**7,273**	7,163
Accrued listing expenses		**—**	1,477
Taxes payable other than corporate income tax		**12,582**	6,454
		36,945	27,217

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) Other payables are non-interest-bearing and repayable on demand or have a term of one month.

24. INTEREST-BEARING BANK BORROWINGS

	As at 31 December 2021			As at 31 December 2020		
	Effective interest rate (%)	Maturity	US$'000	Effective interest rate (%)	Maturity	US$'000
Current						
Bank overdraft						
— unsecured (note (a))		**2022**	**229**	—	2021	161
US$15,686,000 Bank loans						
— secured	**LPR-30bps***	**2022**	**15,686**	—	—	—
US$14,902,000 Bank loans						
— secured	**LPR+3bps***	**2022**	**14,902**	—	—	—
US$1,511,000 Bank loans						
— unsecured	**2.4**	**2022**	**1,511**	—	—	—
US$2,572,000 Bank loans						
— secured (note (c))	**1**	**2022**	**2,572**	1	2021	2,572
US$155,000 Bank loans of						
— secured	**—**	**—**	**—**	1	2021	155
			34,900			2,888

	2021 US$'000	2020 US$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**34,900**	2,888

* LPR rate refers to Loan Prime Rate

24. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Notes:

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

(b) Certain of the Group's bank loans are secured by the pledge of time deposits with maturity of 3 and 6 months.

(c) The bank loan of total US$2,572,000 is the Paycheck Protection Program ("PPP") Loan guaranteed by the Small Business Administration ("SBA"). The PPP is a part of the Coronavirus Aid, Relief, and Economic Security Act enacted by the United States Congress on 27 March 2020 in response to the covid-19 pandemic. The repayment of this loan, including interest, will be forgiven if the above mentioned received loan complies with the forgiveness requirement of the PPP loan program and is approved by the SBA. Upon 31 December 2021, the loan has not been approved for forgiveness and should be repaid on 4 May 2022.

25. PROVISION

	Warranties US$'000	Lawsuits US$'000	Surcharges US$'000	Total US$'000
At 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 and 1 January 2021	**670**	**370**	**3,974**	**5,014**
Additional provision	**958**	**—**	**800**	**1,906**
Amounts utilised during the year	**(739)**	**(70)**	**(217)**	**(1,026)**
At 31 December 2021	**889**	**300**	**4,557**	**5,746**

	2021 **US$'000**	2020 US$'000
Analysed into:		
Portion classified as current liabilities	**1,931**	1,999
Non-current portion	**3,815**	3,015
	5,746	5,014

25. PROVISION (Continued)

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 due to late payments and late filings of taxes.

26. DEFERRED TAX

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

Deferred tax assets

	Impairment of trade receivables	Unrealised profit from inter-company transactions	Inventory provision	Lease liabilities	Provision for warranties	Depreciation allowance difference between tax and accounting	Inventory cost deduction difference	Losses available for offsetting against future taxable profits	Equity-settled share award and option arrangement	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 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 and 1 January 2021	**122**	**14,872**	**1,196**	**2,547**	**202**	**(3)**	**394**	**—**	**26**	**19,356**
Deferred tax credited/ (charged) to profit or loss during the year (note 10)	**(18)**	**(3,028)**	**459**	**460**	**18**	**4**	**25**	**—**	**186**	**(1,894)**
Exchange realignment	**—**	**—**	**1**	**—**	**(2)**	**—**	**—**	**—**	**—**	**(1)**
At 31 December 2021	**104**	**11,844**	**1,656**	**3,007**	**218**	**1**	**419**	**—**	**212**	**17,461**

26. 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 2020	1,423	1,423
Deferred tax charged to profit or loss during the year (note 10)	931	931
At 31 December 2020 and 1 January 2021	2,354	2,354
Deferred tax charged to profit or loss during the year (note 10)	372	372
At 31 December 2021	2,726	2,726

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:

	2021 US$'000	2020 US$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**14,735**	17,002

26. DEFERRED TAX (Continued)

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

	2021 US$'000	2020 US$'000
Tax losses arising in:		
Mainland China	**13**	14
United States	**2,151**	1,366
Japan	**278**	56
Others	**419**	118
	2,861	1,554

The above tax losses arising in Mainland China will expire in one to ten 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 the rules and regulations of Macau, dividends are not taxable if they are distributed by entities that have paid corporate income tax at the corporate level on the distributed income. Pursuant to the United States 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 Germany 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 Germany. Pursuant to Dutch Corporate Income Tax Law, a 15% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Netherlands.

At 31 December 2021, 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$15,606,000 as at 31 December 2021 (2020: US$12,645,000).

27. SHARE CAPITAL AND SHARE PREMIUM

	2021 US$'000	2020 US$'000
Authorised:		
2,000,000,000 (2020: 2,000,000,000) ordinary shares of HK$0.01 each	**2,580**	2,580
Issued:		
1,165,049,800 (2020: 1,123,104,800) ordinary shares of HK$0.01 each	**1,503**	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	Shares held for share award scheme US$'000	Total US$'000
At 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	(1,041)	(44)	—
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 and 1 January 2021	**1,123,104,800**	**1,449**	**189,625**	**(44)**	**191,030**
Issue of shares on 13 January 2021 (note (a))	**42,150,000**	**54**	**29,951**	**—**	**30,005**
Share issue expenses	**—**	**—**	**(894)**	**—**	**(894)**
Shares repurchased (note (b))	**(205,000)**	**—**	**(236)**	**—**	**(236)**
Dividend declared	**—**	**—**	**(18,561)**	**—**	**(18,561)**
At 31 December 2021	**1,165,049,800**	**1,503**	**199,885**	**(44)**	**201,344**

27. SHARE CAPITAL AND SHARE PREMIUM (Continued)

Notes:

(a) On 13 January 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, commissions and other expenses payable by the Company, was HK$225,670,000 (equivalent to US$29,111,000), representing the net price of approximately HK$5.15 per share.

(b) The Company repurchased 205,000 of shares on the Stock Exchange at a total consideration of HK$1,835,000 which was paid wholly out of retained profits in accordance with section 257 of the Hong Kong Companies Ordinance. The repurchased shares were cancelled during the year and the total amount paid for the repurchase of shares of HK$1,835,000 has been recorded to share capital and share premium of the Company.

28. SHARE-BASED PAYMENTS

Pre-IPO Share Award Scheme

On 16 June 2020, the Company adopted the Pre-IPO Share Award Scheme (the "Share Award Scheme") for the purpose to recognise and reward the contributions of certain eligible employees of the 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 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 Share Award Scheme.

The Share Award Scheme shall be subject to the administration of the Board in accordance with the rules of the Share Award Scheme. The Board will make all determination in relation to the 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 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 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 Share Award Scheme. If the Board terminates the Share Award Scheme prior to the expiry of the effective term of the 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.

28. SHARE-BASED PAYMENTS (Continued)

Pre-IPO Share Award Scheme (Continued)

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 (42,104,800 Shares after capitalisation), representing 5% of the issued shares of the Company, to BOCT for the Share Award Scheme. On 1 November 2020, the Company granted and vested 10,000 shares (8,000,000 Shares after capitalisation) with consideration of HK$100 to Ms. Jiang Junxiu before the Listing (the "Vested Award Shares") under the 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 (34,104,800 Shares after capitalisation) 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.

Pursuant to the terms of the Share Award Scheme and the specific terms and conditions set out in the grant notice ("Grant Notice"), the awarded shares 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 "Fulfilment 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 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 Fulfilment Schedule.

28. SHARE-BASED PAYMENTS (Continued)

Pre-IPO Share Award Scheme (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 Shares granted during the year ended 31 December 2020 was US$2,838,000, of which the Group recognised a share-based payment expense of US$950,000 (2020: US$166,000).

The fair value of the Awarded Shares granted during the year ended 31 December 2020 was estimated as at the date of grant using a discounted cashflow model, taking into account the terms and conditions upon which the Awarded Shares were granted.

Share Option Scheme

The Company has adopted a share option scheme (the "Share Option Scheme") on 1 December 2020 for the purpose of providing incentive or reward to Eligible Persons for their contribution to, and continuing efforts to promote the interests of the Group. There is no performance target required except that the eligible participant remains in service for the Group during the vesting period.

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. 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").

Any grant of options to a director, chief executive or substantial shareholder of the Company or any of their respective associates is required to be approved by the independent non-executive directors (excluding any independent non-executive director who is a proposed grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

An option is personal to the grantee and shall not be assignable nor transferable, and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option.

28. SHARE-BASED PAYMENTS (Continued)

Share Option Scheme (Continued)

The Share Option Scheme does not stipulate either a minimum period for which an option must be held or any performance targets a grantee is required to achieve before an option may be exercised. The board of directors of the Company may specify in the offer letter any conditions which must be satisfied before the option may be exercised, including, without limitation, such performance targets (if any) and minimum periods for which an option must be held before it can be exercised and any other terms in relation to the exercise of the option, including, without limitation, such percentages of the options that can be exercised during a certain period of time, as the board of the Company may determine from time to time.

5,100,000 share options were granted on 14 May 2021 (the "Grant Date"). The exercise terms and price of the share options is same with each person. The share options can be exercised in accordance with the following schedule:

- 10% of the total number of the options granted are exercisable at any time on or after the first anniversary of the Grant Date;
- another 10% of the total number of the options granted are exercisable at any time after the second anniversary of the Grant Date;
- another 20% of the total number of the options granted are exercisable at any time after the third anniversary of Grant Date;
- another 30% of the total number of the options granted are exercisable at any time after the fourth anniversary of the Grant Date; and
- the remaining 30% of the total number of the options granted are exercisable at any time after the fifth anniversary of the Grant Date.

The exercise price of share options is determinable by the directors but may not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Offer Date, 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 sheets for the five Business Days immediately preceding the Offer Date; and (iii) the nominal value of the shares. A consideration of RMB1 is payable on acceptance of the offer of an option or options.

28. SHARE-BASED PAYMENTS (Continued)

Share Option Scheme (Continued)

The following share options were outstanding under the Scheme during the year:

	2021	
	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	—	—
Granted during the year	**12.88**	**5,100**
At 31 December	**12.88**	**5,100**

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

Number of options '000	Exercise price (HK$) per share	Exercise period
5,100	12.88	2021/5/14-2031/5/13

The fair value of the options granted during the year was HK$21,146,000 (HK$4.15 each) (equivalent to US$2,722,000 (US$0.53 each)), of which the Group recognised as share option expense of US$558,000 during the year ended 31 December 2021.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2021
Dividend yield (%)	1.00
Expected volatility (%)	41.54
Risk-free interest rate (%)	1.21
Early exercise multiple	2.80
Weighted average share price (HK$ per share)	10.36
Forfeiture rate (%)	0.00

No other feature of the options granted was incorporated into the measurement of fair value.

29. 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 page 105 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$.

30. 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$5,341,000 (2020: US$5,515,000) and non-cash additions to lease liabilities of US$5,341,000 (2020: US$5,515,000) for the year ended 31 December 2021, respectively, in respect of lease arrangements for offices, warehouses, machinery and equipment.

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Changes in liabilities arising from financing activities

	Lease liabilities US$'000	Bank borrowings US$'000	Interest payable US$'000	Loans from directors* US$'000	Loans from employees** US$'000	Loans from a related party*** US$'000
At 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 and 1 January 2021	**11,817**	**2,888**	**—**	**—**	**—**	**—**
Changes from financing cash flows	**(4,260)**	**32,081**	**—**	**—**	**—**	**—**
Interest expense	**675**	**88**	**—**	**—**	**—**	**—**
New leases	**5,341**	**—**	**—**	**—**	**—**	**—**
Early termination	**(25)**	**—**	**—**	**—**	**—**	
Loan forgiveness	**—**	**(157)**	**—**	**—**	**—**	
Exchange realignment	**88**	**—**	**—**	**—**	**—**	**—**
At 31 December 2021	**13,636**	**34,900**	**—**	**—**	**—**	**—**

* 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.

30. 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:

	2021 US$'000	2020 US$'000
Within operating activities	2,323	1,272
Within financing Activities	4,260	2,798
	6,583	4,070

31. 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

(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

	2021 US$'000	2020 US$'000
Arceus BVI	—	7
Caerus BVI	—	7
	—	14

31. 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: (Continued)

Loans from a related party

	2021 US$'000	2020 US$'000
Ms. Jiang Junxiu*	—	947
	—	947

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

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

	2021 US$'000	2020 US$'000
Ms. Jiang Junxiu	—	20
Mr. Chen Zhaojun	—	65
	—	85

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

	2021 US$'000	2020 US$'000
Short-term employee benefits	**1,630**	1,141
Pension scheme contributions	**38**	29
Equity-settled share option expense	**558**	—
Total compensation paid to key management personnel	**2,226**	1,170

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

32. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets at fair value through profit or loss

	2021 US$'000	2020 US$'000
Derivative financial assets	**120**	—

Financial assets at amortised cost

	2021 US$'000	2020 US$'000
Trade receivables	**106,019**	35,241
Financial assets included in prepayments, other receivables and other assets	**5,673**	16,351
Pledged deposits	**32,195**	—
Cash and cash equivalents	**126,659**	183,450
	270,546	235,042

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Financial liabilities at fair value through profit or loss

	2021 US$'000	2020 US$'000
Derivative financial liabilities	**119**	—

Financial liabilities at amortised cost

	2021 US$'000	2020 US$'000
Trade payables	**37,739**	45,617
Financial liabilities included in other payables and accruals	**3,374**	3,809
Interest-bearing bank borrowings	**34,900**	2,888
	76,013	52,314

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

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, interest-bearing bank borrowings and lease liabilities 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 the non-current portion 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 2021 were assessed to be insignificant.

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

As at 31 December 2021, the mark-to-market value of the derivative asset position was net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

Fair value hierarchy

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

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank 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.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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.

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$'000
31 December 2021		
If the US$ weakens against the RMB	**5**	**2,158**
If the US$ strengthens against the RMB	**(5)**	**(2,158)**
If the US$ weakens against the HK$	**5**	**11**
If the US$ strengthens against the HK$	**(5)**	**(11)**
If the US$ weakens against the EUR	**5**	**1,506**
If the US$ strengthens against the EUR	**(5)**	**(1,506)**
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)

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 the reporting period.

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

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

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;

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.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

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 2021, the Group had certain concentrations of credit risk as 91.43% (2020: 93.67%) of the Group's trade receivables were due from the Group's largest customer.

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 2021					
	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	15,416	22,323	—	—	—	37,739
Interest-bearing bank borrowings	—	229	35,852	—	—	36,081
Financial liabilities included in other payables and accruals	2,078	1,296	—	—	—	3,374
Lease liabilities	—	1,118	3,512	6,978	3,272	14,880
	17,494	24,966	39,364	6,978	3,272	92,074

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

	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 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

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 2021 and 2020.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

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 borrowings, other payables and accruals and lease liabilities, less cash and cash equivalents and pledged deposits. The gearing ratios as at the end of the reporting periods were as follows:

	2021 US$'000	2020 US$'000
Trade payables	**37,739**	45,617
Interest-bearing bank borrowings	**34,900**	2,888
Other payables and accruals	**36,945**	27,217
Lease liabilities	**13,636**	11,817
Less: Cash and cash equivalents	**(126,659)**	(183,450)
Pledged deposits	**(32,195)**	—
Net debt	**(35,634)**	(95,911)
Equity attributable to owners of the parent	**314,638**	260,131
Capital and net debt	**279,004**	164,220
Gearing ratio	**N/A**	N/A

35. EVENTS AFTER THE REPORTING PERIOD

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

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2021 US$'000	2020 US$'000
NON-CURRENT ASSETS		
Investment in subsidiaries	**1,586**	166
Due from a related party (note a)	**604**	44
Total non-current assets	**2,190**	210
CURRENT ASSETS		
Other receivables	**1**	—
Due from subsidiaries	**203,417**	23,580
Cash and cash equivalents	**889**	167,331
Total current assets	**204,307**	190,911
CURRENT LIABILITIES		
Other payables and accruals	**11**	—
Due to a related party	**5,250**	—
Total current liabilities	**5,261**	—
NET CURRENT ASSETS	**199,046**	190,911
Net assets	**201,236**	191,121
EQUITY		
Share capital	**1,503**	1,449
Share premium (note b)	**199,885**	189,625
Reserves (note b)	**(152)**	47
Total equity	**201,236**	191,121

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note a: The balances represent shares held by BOCT with an amount of US$44,000 (2020: US$44,000) and cash held by BOCT with an amount of US$560,000 (2020: Nil) deriving from the dividend declared to BOCT under the Share Award Scheme (note 28) as at the end of the reporting period.

Note b: A summary of the Company's share premium and reserves is as follows:

	Share premium account US$'000	Share award and option reserve US$'000	Retained profit/ accumulated losses US$'000	Total US$'000
At 1 January 2020	4,210	—	56	4,266
Loss for the year	—	—	(175)	(175)
Capitalisation issue of shares	(1,041)	—	—	(1,041)
Issue of shares on 18 December 2020	190,666	—	—	190,666
Equity-settled share award arrangement	—	166	—	166
Dividends declared and paid	(4,210)	—	—	(4,210)
At 31 December 2020 and 1 January 2021	189,625	166	(119)	189,672
Loss for the year	—	—	(1,707)	(1,707)
Issue of shares on 13 January 2021	29,951	—	—	29,951
Share issue expenses	(894)	—	—	(894)
Equity-settled share award and option arrangement	—	1,508	—	1,508
Shares repurchased	(236)	—	—	(236)
Dividends declared	(18,561)	—	—	(18,561)
At 31 December 2021	199,885	1,674	(1,826)	199,733

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2022.

"2022 AGM"	the forthcoming annual general meeting of the Company to be held on May 31, 2022
"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 December 18, 2020, as amended or supplemented from time to time
"Audit Committee"	the audit committee of the Board
"Board"	the board of Directors
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"China" or "PRC"	the People's Republic of China, but for the purpose of this 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
"EUR"	Euros, the lawful currency of the member states of the European Union

"Family Trusts"	Lin Yang Family Trust I, an irrevocable trust established by Ms. Yang as both the settlor and trustee for the benefit of any children born to or adopted by Ms. Yang and their respective issue
"Global Offering"	the offer of the Shares for subscription as described in the section headed "Structure of the Global Offering" in the Prospectus
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
''Hong Kong''	the Hong Kong Special Administrative Region of the PRC
"Latest Practicable Date"	April 21, 2022, 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
''Macau''	the Macau Special Administrative Region of the PRC
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Nomination Committee"	the nomination committee of the Board
"Pre-IPO Share Award Scheme"	the pre-IPO share award scheme adopted by the Company on June 16, 2020 for the benefit of our employees
"Post-IPO Share Award Scheme"	the post-IPO share award scheme adopted by the Company on July 20, 2021
"Prospectus"	the prospectus of the Company dated December 8, 2020 in connection with the Global Offering
"Remuneration Committee"	the remuneration committee of the Board
"Reporting Period"	the year ended December 31, 2021
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

"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
"%"	per cent
"IoT"	internet of things