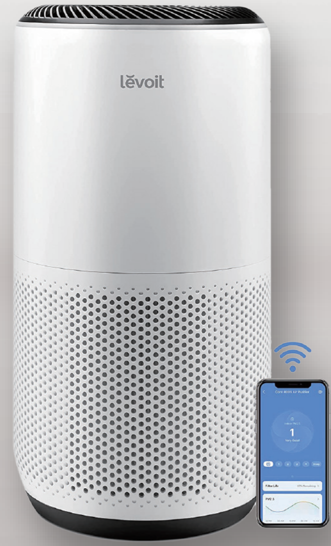
VESYNC CO., LTD

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



2022

Annual Report

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. Yang Lin *(Chairperson and Chief Executive Officer)*
Mr. Yang Hai
Mr. Chen Zhaojun *(Chief Financial Officer)*

Non-executive Director

Mr. Yang Yuzheng

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Ms. Yang Lin
Ms. Zhang Xiao

COMPANY SECRETARY

Ms. Zhang Xiao *ACG, HKACG*

REGISTERED OFFICE IN THE CAYMAN ISLANDS

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

PRINCIPAL PLACE OF BUSINESS IN THE UNITED STATES

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISER

As to Hong Kong law

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

AUDITOR

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

PRINCIPAL BANKS

U.S. Bank Newport Beach Branch
4100 Newport Pl Suite 900
Newport Beach, CA 92660
United States

DBS Bank (Hong Kong) Limited
180 Wai Yip Street
Hong Kong

Bank of China Limited Shenzhen Xixiang Sub-branch
1/F, Block 1, Shengtaoshajunyuan
Xinhu Road, Xixiang Street, Bao'an District
Shenzhen
China

STOCK CODE

2148

COMPANY'S WEBSITE

www.vesync.com

FIVE YEAR FINANCIAL SUMMARY

	FY2022 US$'000	FY2021 US$'000	FY2020 US$'000	FY2019 US$'000	FY2018 US$'000
Revenue	**490,378**	454,250	348,922	171,919	144,758
Gross profit	**142,289**	176,107	152,419	67,234	55,778
Profit/(loss) before tax	**(21,841)**	51,009	60,057	6,934	5,346
Profit/(loss) for the year attributable to owners of the parent	**(16,276)**	41,588	54,723	6,372	4,361
Total comprehensive income/(loss) for the year attributable to owners of the parent	**(20,495)**	42,685	56,752	6,349	3,835

	FY2022 US$'000	FY2021 US$'000	FY2020 US$'000	FY2019 US$'000	FY2018 US$'000
Assets:					
Non-current assets	**61,229**	45,138	30,602	12,728	6,718
Current assets	**396,065**	415,669	339,122	75,922	45,761
Total asset	**457,294**	460,807	369,724	88,650	52,479
Equity and liabilities:					
Share capital	**1,500**	1,503	1,449	1	—
Share premium	**186,955**	199,885	189,625	4,210	—
Reserves	**89,043**	113,250	69,057	12,183	8,364
Non-controlling interests	**(41)**	—	—	—	—
Total equity	**277,457**	314,638	260,131	16,394	8,364
Non-current liabilities	**11,585**	13,353	12,198	8,620	3,017
Current liabilities	**168,252**	132,816	97,395	63,636	41,098
Total liabilities	**179,837**	146,169	109,593	72,256	44,115
Total equity and liabilities	**457,294**	460,807	369,724	88,650	52,479

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".

2022 WAS A YEAR FULL OF EFFORTS IN OVERCOMING CHALLENGES

Long as the journey is, we will reach our destination if we stay the course; difficult as the task is, we will get the job done if we keep working on it.

In 2022, we encountered unprecedented challenges, such as channel customers storage adjustments, increasingly competitive environments, the long period of high global container prices, and the Voluntary Recall based on social responsibility and emphasis on user health considerations, but we did not surrender to fear or choose evasion from these challenges in the face of the complex environment and the growth of our business, because all of us concerted efforts in overcoming difficulties and hardships, we grew iteratively; because of the great opportunity and potential in the health and wellness market; because the company's products and brand are gaining popularity more and more; because our product sales based on user insight, product strength, channels development, regional development and other capabilities have achieved good market performance.

In 2022, our sales revenue registered continuous growth and the gross merchandise value to the consumers of channel customers recorded year-on-year increase of approximately 40% as compared with 2021, which demonstrate the strong market demands for our products. In 2022, as channel customer storage adjustments, coupled with the shift of more of our businesses from the Seller Central model to the Vendor Central model, and the difference in the measurements for these two models under accounting standards, so our reported revenue for 2022 reached USD490.4 million, representing a year-on-year increase of approximately 8.0%.

In 2022, our Levoit air purifier continued to make breakthroughs, ranking first in omni-channel shares in the U.S. from the dimensions of sales amount and sales volume according to the statistics of NPD Group, Inc. (''NPD'')[Note], rendering us a leader in the U.S. market. This is attributable to our continuous technology accumulation and sedimentation, creating technical barriers, and our continuous optimization of iterative product development platforms, which enabled platformized and standardized development of products, effectively supporting the differentiated demands for products in multiple channels and markets. Secondly, by leveraging our in-depth insights into user needs, we have provided a diversified product portfolio, especially in high-value products, to meet the needs of different users. In addition, we have also achieved positive results in expanding our non-Amazon channels in the U.S., establishing highly varied offline channels for more products to enter offline channels and improving product coverage and the diversity of sales channels. While strengthening offline expansion, our online operations have also become more refined and systematic, which enabled us to upgrade and iterate marketing strategies in a bid to provide users with a better purchasing experience. We firmly believe that with the help from those continuous efforts and improvements and our spirits of persistent pursuit and constantly surpassing, we will continue to maintain a leading position in the industry.

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

CHAIRPERSON'S STATEMENT

In 2022, our Levoit air humidifier business grew at an accelerated pace, achieving the No. 1 position in the U.S. Amazon channel sales amount share and the No. 2 position in the overall U.S. market share according to the statistics of NPD Group, Inc. (''NPD''). This rapid growth is the result of multiple factors. First of all, in terms of user insight, we have had an in-depth understanding of user needs, grasped the market trends, accurately positioned user needs such as healthy environment for users and plant cultivation, and launched innovative products to meet their needs. In terms of technology, the efficiency of humidification has been greatly improved through high-efficiency atomization, cold and hot mist humidification, and other technologies, thereby solving the core needs of air humidifier users. In addition, we have focused on integrating technical hardware and software resources, constantly improved the product's software and hardware integration solutions, enhanced the comprehensive value and competitiveness of the product, and allowed users to obtain value far exceeding expectations.

In 2022, we continued to achieve breakthroughs in the expansion of non-Amazon channels. Non-Amazon channel revenue reached $79.9 million, up approximately 95% year over year. For the U.S. market, our sales revenue to Target and Walmart increased by more than 130% and 170%, respectively, as compared with the same period last year. In the European market, our products are now in more offline stores, and the sales revenue from non-Amazon channels in Europe has increased by more than 500%. We have not only gained a firm foothold, but also made good performance, which fully validates the great improvement in our channel development capabilities.

In 2022, our regional expansion has also delivered satisfactory results. Business in the European market grew rapidly at an overall revenue growth rate of approximately 33%. Among them, our air fryer business has developed rapidly and achieved the No. 1 position in share in the European Amazon channel. Regarding European offline business, our products have occupied the core shelf positions of over 800 offline stores of major retailers in Spain and the Northern Europe, and the COSORI brand has also been highly recognized by retailers and users. In addition, good results have been achieved in Eastern European countries such as Hungary. In addition to the European market, our business in Japan, the Middle East, and Southeast Asia has also been growing at a significant rate.

In 2022, we have also made great progress in software, content and services, and facilitated product innovation by in-depth insight into users and strong technical support. The number of smart devices connected to VeSync App increased from approximately 2.8 million to 4.4 million. The downloads of VeSync App in the iOS App Store ranked No.25 in the lifestyle category, improving 56 placements from No.81 as of December 31, 2021 with a high score of 4.8 stars rated by more than 20,000 users, which shows the users' preference and recognition of our VeSync App. Our success is primarily attributable to that we continued to maintain the optimal experience of individual product control and device interconnection, and determined the strategic direction of integrating hardware, software, content and service. We also focused on "better wellness, better life", and launched the scenario content of VeSync Wellness online, which received unanimous praise from users. In 2022, we built scenarios of environmental management diet management and weight management etc based on the Company's core products. Environmental management is for an example, we have built a plant management scenario by developing a one-stop solution for intelligent scanning identification, plant care guides and intelligent control of humidifiers applicable to more than 500 kinds of plant on the basis of the plant encyclopedia, greatly addressing user needs. Another supporting factor is the continuous development and innovation of our technologies such as cloud-based big data and streaming media VR. For example, we have optimized the personalized recommendation engine and increased the browsing time in terms of the community section; Our newly launched streaming media technology has been applied in scenarios such as video recipe courses and community videos, which greatly improves user experience when they watch videos; We have completed the rehearsal and development of object model, and completed the development of common IoT devices connecting to cloud codes in cloud. In 2022, we have introduced other various technologies and applications, which not only improves user experience, but also became our technical barriers.

During the scale expansion of a company, it is very challenging to develop organizational capabilities that support its business growth, as different development stages have different requirements. But once there is a breakthrough in establishing the capability that supports the next stage, it can prop up a long-term growth in the future. In 2022, the improvement of our organizational capabilities strongly boosted the above business development and performance growth. As a company that pursues excellence, we continue to improve our management system and enhance the capabilities of our team, so as to better promote business expansion. Making continuous progress themselves by learning, our management team is committed to the growth of the Company driven by the mission of the Group, with user-oriented, open and enterprising concept in mind. In terms of R&D, we have transformed from product selection in early stages into independent R&D in recent years and further accelerated the process of independent R&D in the past year. We also have optimized the product development process, achieved standardized and platform-based development, and improved the quality and efficiency of product development. In terms of quality control, we have managed to control quality throughout the whole chain, and particularly strengthened the quality control of R&D and supply chain from R&D and design, production and manufacturing, testing and verification, after-sales service to product optimization and iteration circular, so as to ensure the quality and service of each link. The Company has established 7 advanced laboratories in 2022, which provides better guarantees for the safety, reliability and stability of products. In addition to R&D and quality control, we have accelerated inventory turnover through optimization of supply chain management, efficiency improvement, digitalization and effective management mechanism. The Company has also improved its fund management continuously. Through application of various tools, it has realized efficient fund management and generated positive cash flow.

2023 OUTLOOK

After experiencing the huge challenges of 2022, we believe that we will bounce back even stronger and start a new cycle of growth in 2023.

We will achieve better performance in terms of revenue growth as benefiting from multiple growth engines; international container prices have fallen back to pre-Covid-19 levels, which will reduce our international logistics costs and boost our gross profit margin; and our control of fixed fees will release some of our profits.

In 2023, we will further enhance our product innovation capability based on deep insight into user needs, combined with product development process optimization and talent optimization, so as to significantly improve our product development 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 industry development platform and innovation capabilities to achieve a balance among category, innovation and development cycle.

In 2023, we will accelerate the frequency and pace of product launches, with no fewer than 10 new products for existing key categories, including air purifiers, humidifiers, air fryers and ovens. Apart from this, we will continue to expand our market share by expanding into new key categories, such as vacuum cleaners, electric pressure cookers, electric rice cookers, tower fans, central air-conditioning filters and smart wireless food probes.

In 2023, we will continue to follow the strategic direction of integrating hardware, software, content and services to further improve the scenario-based content of VeSync Wellness, further magnify the value of smart products to users and help customers achieve a healthier and more active lifestyle.

CHAIRPERSON'S STATEMENT

In 2023, we will accelerate channel expansion, and step up more efforts for the expansion in non-Amazon channels and in regions, such as Europe and Asia. In the United States market, more of our products are selected for offline retailers, for example Walmart stores, such as ovens, air fryers, rice cookers, air purifiers and air humidifiers, and more stores are covered; in Europe, our air fryer products will enter more countries and offline mainstream superstores.

In 2023, 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, create a more differentiated and recognizable brand image, promote full-contact brand management throughout the product lifecycle and the consumer purchase decision path, and enhance brand awareness and influence among users.

There is a promising future ahead.

Yang Lin
Chairperson of the Board

March 29, 2023

BUSINESS OVERVIEW

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

For us, 2022 is a year to further strengthen our foundation. Becoming an international brand is a process of accumulating strength for steady development, which involves the fostering of various abilities. We have encountered numerous challenges, such as channel dealers destocking, the sharp increase in international container freight rates, leading to increased in cost of sales in 2022, and the Voluntary Recall. These challenges prompted us to further strengthen our organizational capacity to counter the challenges posed by the uncertainty of the external environment.

We continued to improve our product strength, operational efficiency, non-Amazon channel development capability and regional expansion capability. As a result of the improvement of these capabilities, we have achieved good market performance in 2022.

Our Levoit air purifier ranked No. 1 in terms of sales volume and sales amount in the American market according to the statistics of NPD Group, Inc. ("**NPD**")[Note], occupying approximately 33% and 23% market share in terms of sales volume and sales amount respectively, increased by approximately 10 percentage points and 7 percentage points as compared with 2021. The ability to grow rapidly and sustainably, and the capability to stand out from the competition against many well-known brands, as demonstrated by our No. 1 rankings on the American amazon channel and by NPD, has proven our sustainable competitive advantages in areas such as user insight innovation, global value chain and our streamlined and agile operation capacities.

In addition to air purifiers, our Levoit air humidifier achieved exponential growth after several years of deep cultivation. The new generation products were fully launched, and sales recorded a year-on-year increase of approximately 68%. In the U.S. market, according to our internal statistics, our air humidifiers have become another No. 1 category in terms of market share on Amazon following our air purifiers, body weight scales, Etekcity smart fitness scales, kitchen scales, luggage scales, temperature guns, water bottles and food dehydrators; and ranked No. 2 in terms of sales amount by NPD, occupying approximately 20.2% sales amount market share, which was less than 1 percentage point below the top ranking product as well. We hope our Levoit humidifier will continue the success of our air purifier products.

For smart home solution providers, software and content are an important part of our scenario building. As of December 31, 2022, there were approximately 4.4 million activated devices on VeSync App, increased by approximately 57.1% as compared with 2021. The number of downloads of VeSync App in IOS App Store ranked No. 25 in the Lifestyle category as of December 31, 2022, up 56 places from No. 81 as of December 31, 2021.

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

Revenue from non-Amazon channels recorded a year-on-year increase of approximately 95.1%, and accounted for approximately 16.3% of our total revenue, representing an increase from approximately 9% as compared with 2021. In the U.S. market, for example, our sales amount to Target and Walmart increased by more than 130% and 170%, respectively, as compared with the same period last year. In the European market, our products have entered more offline stores and the sales amount in the European non-Amazon channels increased by more than 500%. Our firm foothold, together with our outstanding sell-through performance, have facilitated the persistent increase in our sales revenue in these channels.

Sales in the European market increased by approximately US$26.9 million or approximately 33.2% as compared with the same period in 2021. Our Cosori kitchen appliances successfully seized promising growth opportunities in Europe. According to our internal statistics, Cosori air fryers achieved No. 1 rankings in Europe on Amazon in 2022 and reached more than 800 stores of sizable supermarkets in Spain, Romania, Northern Europe and other countries and regions.

In part of product research and development and quality control capabilities:

Our product development process has become more comprehensive and is conducted to a higher standard. We established whole-process quality control, from product research and development, technical and performance testing, supplier quality management, manufacturing process control, product delivery quality inspection and after-sales technical support and other business areas, to achieve an end-to-end closed loop.

We have established an efficient product development and quality control team of 519 employees, accounting for 40.5% of the total number of employees in the Group. We also attracted Simeon Jupp, Vice President of Research and Development, whose more than 30 years of consumer facing, product innovation and design experience at global industry leaders will help us take our brands to the next level of growth.

We have launched more smart products such as the Levoit EverestAir Air Purifier, Vital 200s Air Purifier, OasisMist 4.5L Cool and Warm Mist Humidifier, Cosori Aeroblaze Indoor Grill, Dual Blaze Smart Air Fryer, and Etekcity Apex Smart Body Fitness Scale. Some newly launched products such as Levoit air purifiers, air humidifiers and air fryers achieved high rankings or best sellers on the Amazon channel in U.S..

FINANCIAL REVIEW

In 2022, the Group's revenue amounted to approximately US$490.4 million, representing an increase of approximately 8% as compared with 2021. Excluding the impact of the Voluntary Recall on the Group's financial performance, the gross profit would have been approximately US$190.1 million, representing an increase of approximately 7.9% or US$14.0 million as compared with 2021, the gross profit margin of the Group was approximately 38.3% (2021: 38.8%), almost the same as 2021. Including the impact of the Voluntary Recall, the gross profit amounted to approximately US$142.3 million. The loss attributable to owners of the parent was approximately US$16.3 million. The basic loss per share was approximately US1.44 cents (2021: basic earnings per share of US3.68 cents).

For the year ended December 31, 2022, the Group's overall revenue amounted to approximately US$490.4 million, representing an increase of approximately 8.0% as compared with approximately US$454.3 million recorded for the year ended December 31, 2021. This was mainly driven by the strong sales of various home products in terms of quantities sold, including Levoit air purifiers, air purifiers filters and humidifiers, Cosori air fryers, and Etekcity smart fitness scales etc. Consumers worldwide have gradually become 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 products such as Levoit air purifier, air humidifier and Cosori air fryers achieved high rankings in U.S. or in Europe on the Amazon channel, which enabled us to capture the online traffic from keyword searches on Amazon and robust consumer demand for home products, thereby benefitting from the favorable market trends. In the non-Amazon channels, our products are sold in no less than 8,400 offline stores, the sales amount increased by approximately 95.1% as compared with 2021.

Business Review by Sales Channel

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

	2022 US$'000	2021 US$'000
Seller Central	**5,346**	74,741
Vendor Central	**405,097**	338,536
Non-Amazon channels	**79,935**	40,973
Total	**490,378**	454,250

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 etc.

Revenue of the Group generated from the Vendor Central program increased by approximately 19.7% in 2022 primarily due to (i) the increases in sales volume of products and (ii) our channel strategy of almost completely shifting our program type on Amazon from the Seller Central program to the Vendor Central program.

Revenue of the Group generated from the Seller Central program decreased by approximately 92.8% in 2022 primarily due to our channel strategy of almost completely shifting our program type on Amazon from the Seller Central program to the Vendor Central program.

Strong sales growth of the Group in other channels in 2022 came primarily from the chain retailers, representing a year-on-year increase of approximately 95.1% as compared with that of 2021. 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) continuous growth of the reputation of our brands, products and our track records in chain retailers. We have secured favorable shelf positions in key chain retailers in the United States and our single store sales increased, for example Target and Best Buy etc. In the European market, our products have entered more offline stores.

Business Review by Geographic Location

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

	2022 US$'000	2021 US$'000
North America	**366,182**	358,060
Europe	**107,946**	81,041
Asia	**16,250**	15,149
Total	**490,378**	454,250

Revenues generated in North America increased to approximately US$366.2 million in 2022, primarily driven by revenue from the United States. The revenue of the United States was mainly attributable to the sales volume of (i) home environment appliances such as the Levoit air purifier filters and air humidifiers; and (ii) the revenue from the non-Amazon channels. The Group's revenue in European sales in 2022 increased by approximately 33.2% to US$107.9 million as compared to that of 2021, which was primarily due to (i) increases in sales in Great Britain, Germany, Spain and Italy and (ii) the increase in sales volume of Cosori air fryers, which were partially offset by the decrease in sales volume of Etekcity and Levoit products. Revenue in Asia increased by approximately 7.3% in 2022, primarily attributable to the increased sales in Japan and United Arab Emirates.

Business Review by Brand

The following table sets forth the breakdown of the revenue by brand:

	2022 US$'000	2021 US$'000
Levoit	**276,459**	246,841
Cosori	**166,779**	154,876
Etekcity	**46,663**	52,293
Others	**477**	240
Total	**490,378**	454,250

Revenue generated from the Levoit brand increased by approximately US$29.6 million in 2022, primarily driven by revenue from air humidifiers and air purifier filters in the United States. The revenue from air humidifiers was mainly attributable to the sales volume, and grew approximately 68% as compared with the same period in 2021, ranking No.1 on the American Amazon channel and No. 2 by NPD in terms of sales amount in the United States market. Revenue generated from the Cosori brand increased by approximately US$11.9 million or 7.7% as compared to the year ended December 31, 2021, mainly driven by air fryer sales in the European market. In addition, Cosori water bottles and food dehydrators performed well, which increased by approximately 100% and 33% as compared to 2021. Revenue generated from Etekcity products decreased by approximately 10.8%, mainly due to the body weight scale market decline, resulting in approximately US$7.5 million decrease in body weight scale sales, but the body fitness scale sales increased by approximately 44% or US$3 million.

GROSS PROFIT AND GROSS PROFIT MARGIN

For the year ended December 31, 2022, excluding the impact of the Voluntary Recall on the Group's financial performance, the gross profit would have been approximately US$190.1 million, representing an increase of approximately 7.9% or US$14.0 million as compared with 2021, the gross profit margin of the Group was approximately 38.3% (2021: 38.8%), almost the same as 2021. Including the impact of the Voluntary Recall, the gross profit was approximately US$142.3 million. In addition to the Voluntary Recall, the significant increase in freight costs in cost of sales, which increased by approximately 42% or US$14.8 million compared to the corresponding period in 2021, resulted in a decrease in the overall gross profit margin.

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:

	2022 **US$'000**	2021 US$'000
Bank interest income	**775**	665
Government grants	**2,562**	469
Fair value gains, net	**—**	40
Others	**705**	203
Total	**4,042**	1,377

For the year ended December 31, 2022, other income and gains of the Group amounted to approximately US$4 million (2021: US$1.4 million), representing a year-on-year increase of approximately 193.5%. This was mainly attributable to the government grants which mainly represent subsidies from the local government to support their operation and to compensate the subsidies. In 2022, we received forgiveness loan amounted US$928,000 under the Paycheck Protection Program and payroll tax credits amounted US$1,039,000 under Employee Retention Credit.

SELLING AND DISTRIBUTION EXPENSES

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

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

	2022 US$'000	2021 US$'000
Marketing & advertising expenses	**35,993**	21,165
Commission to platform	**2,409**	12,839
Staff costs	**23,319**	12,763
Warehousing expenses	**20,680**	17,624
Others	**6,838**	4,442
Total	**89,239**	68,833

The Group's selling and distribution expenses increased by approximately 29.6% from approximately US$68.8 million for the year ended December 31, 2021 to approximately US$89.2 million for year ended December 31, 2022. Such increase was driven by (i) the increase in marketing and advertising expenses to increase the market presence of the Group's key products; (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 2022.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses primarily consists 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:

	2022 US$'000	2021 US$'000
Research and development	**29,954**	17,308
Administrative staff costs	**22,535**	19,088
Professional fees	**8,128**	4,499
Office expenses	**2,776**	3,987
Depreciation & amortization	**4,146**	3,632
Travelling and entertainment expenses	**528**	505
Others	**1,524**	2,116
Total	**69,591**	51,135

The Group's administrative expenses increased by approximately 36.1% from approximately US$51.1 million for the year ended December 31, 2021 to approximately US$69.6 million for the year ended December 31, 2022, primarily due to (i) the increase in research and development expenses to prepare for product upgrades and new products; and (ii) the increase in the administrative staff costs as the number of staff increased.

OTHER EXPENSES

The Group's other expenses totaled approximately US$8.0 million for the year ended December 31, 2022 (2021: US$5.6 million).

FINANCE COST

Finance costs of the Group primarily represent (i) interest on bank loans and other borrowings; (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:

	2022 **US$'000**	2021 US$'000
Interest on bank loans	**893**	88
Interest on lease liabilities	**653**	675
Interest on discounted bank notes and others	**145**	—
Total	**1,691**	763

The Group's finance costs increased from approximately US$0.8 million for the year ended December 31, 2021 to approximately US$1.7 million for the year ended December 31, 2022, primarily due to the increase in interest on bank loans and other borrowings.

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 2022.

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

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

Shenzhen City Chenbei Technology Company Limited, a wholly-owned subsidiary of the Company, is currently qualified as a high and new technology enterprise under the PRC income tax law, and was entitled to a preferential tax rate of 15% during the Reporting Period.

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

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

All of the Company's subsidiaries in the U.S. were subject to federal corporation income tax at the rate of 21% and California state tax rate of 8.84% pursuant to the relevant tax laws of the United States during the Reporting Period.

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

The Company's subsidiary in Macau was subject to Macau profit tax rate of 12% pursuant to the relevant tax law of the Administrative Especial de Macau. The first MOP$600,000 of assessable profits of this subsidiary are tax-free and the remaining assessable profits are taxed at 12%.

The Company's subsidiary in the Netherlands is entitled to a preferential income tax rate of 15% (2021: 15%) for the taxable income less than or equal to EUR395,000 (2021: EUR245,000) and an income tax rate of 25.8% (2021: 25%) for the taxable income over EUR395,000 (2021: EUR245,000).

The Company's subsidiary in Germany is entitled to a combined tax rate of 29.13% (2021: 29.13%), consisting of a corporate tax rate of 15%, a solidarity surcharge thereon of 5.5% and a trade tax rate of 13.3%.

Income tax expenses of the Group changed from income tax expenses of approximately US$9.4 million for the year ended December 31, 2021 to income tax gains of approximately US$5.5 million for the year ended December 31, 2022, primarily due to the decreased profit in 2022 as compared with the corresponding period in 2021 and the deferred income tax.

LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT

As a result of the foregoing, the Group had a loss attributable to owners of parent of approximately US$16.3 million for the year ended December 31, 2022, compared with a profit attributable to owners of parent of approximately US$41.6 million for the year ended December 31, 2021.

LIQUIDITY AND FINANCIAL RESOURCES

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

The Group meets its capital needs through cash flows from operations and financing as a result of the net proceeds from the Global Offering. The Group had cash and cash equivalents of approximately US$126.7 million as of December 31, 2021 and approximately US$93.6 million as of December 31, 2022. The cash and cash equivalents of the Group are mainly denominated in RMB, US$ and EUR.

As of December 31, 2022, the Group had total bank borrowings of approximately US$9.2 million (2021: approximately US$34.9 million), which were all denominated in US$ and RMB. Approximately US$5.1 million of the bank borrowings were at fixed interest rates and approximately US$4.1 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, 2022:

	2022 US$'000	2021 US$'000
Interest-bearing bank borrowing		
— current portion	**8,495**	34,900
— non-current portion	**741**	—
	9,236	34,900

The table below sets forth the aging analysis of the repayment terms of interest-bearing bank borrowings as of December 31, 2022:

	2022 US$'000	2021 US$'000
Bank loans repayable:		
Within one year or on demand	**8,495**	34,900
Over one year	**741**	—
Total	**9,236**	34,900

TREASURY POLICY

The Group adopts a prudent approach in its cash management and risk control. Most of the sales are denominated in US$, with the remaining mainly denominated in currencies of the countries to which the Group sells its products. The Group pays subcontractors and suppliers (including those located in the PRC) mainly in US$ and RMB. As a result of the foregoing, the Group's consolidated financial results are affected by currency exchange rate fluctuations. The Group recorded a currency exchange loss of approximately US$4.4 million for the year ended December 31, 2022 (2021: approximately US$4.2 million).

As of December 31, 2022, 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, 2022, there were no significant investments held by the Group or future plans for significant investments or capital assets.

The Company did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures for the year ended December 31, 2022.

EMPLOYEES AND REMUNERATION POLICY

As of December 31, 2022, the Group had 1,280 employees in total, in which 1,130 employees were in the PRC, 145 employees were in the Unites States and 5 employees were in other locations. For the year ended December 31, 2022, the Group recognized staff costs of approximately US$69.5 million (2021: approximately US$44.6 million).

The Company believes that the ability to recruit and retain experienced and skilled labor is crucial to the Group's growth and development. The Group provides training to its new employees to familiarize them with the working environment and work culture. The Group also provides on-the-job training to the employees, which aims at developing their skills so as to meet the strategic goals and customer requirements. In addition to providing the Group's staff with the opportunities to receive on-the-job trainings, the Group strives to create a harmonious and warm working and living environment for the staff. For the year ended December 31, 2022, several culture webinars were held to drive forward our employees' understanding of the connection between product design and our end-users.

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

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

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

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

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

CHARGES ON ASSETS

As of December 31, 2022, the Group had US$12.0 million of bank deposits pledged, of which US$6.3 million was a deposit for issuing banker's acceptances to subcontractors and US$5.7 million of time deposits pledged for issuing banker's acceptances (2021: US$30.6 million).

GEARING RATIO

As of December 31, 2022, 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 7.4% (December 31, 2021: 15.4%).

IMPACT OF COVID-19

The COVID-19 has so far by the end of December 2022 infected 758.4 million people globally and contributed to 6.7 million deaths, according to the World Health Organization ("**WHO**"). In 2022, we have actively taken measures to mitigate the impact of the COVID-19 pandemic.

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

The year of 2021 saw an especially steep increase in Global Container Freight Index ("**GCFI**"), reaching a record price of over approximately US$11,109 in September 2021. The rise in international freight rates in 2021 and the first half of the 2022 had a significant impact on the Group's cost of sales in 2022, thereby reducing the Group's gross profit. For the year ended December 31, 2022, the proportion of shipping and insurance cost to revenue increased from approximately 7.8% in 2021 to 10.2% in 2022, lowering the Group's gross profit margin by 2.4 percentage points. By the end of December 2022, the GCFI dropped to US$2,120 per 40-foot container, and decreased by approximately 81% as compared to the GCFI in September 2021. Therefore, it is expected that the impact on the Group's gross profit margin caused by the increase in freight rates will be alleviated in 2023.

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 2023, we aim to continue focusing on our strategies which is focusing on “better wellness, better life” and commitment of helping consumers achieve a healthier and more active lifestyle through smart products, software, content and services: (i) further upgrade our product mix and expand our product portfolio; (ii) expand geographic coverage, especially deepen the market share of Cosori and Levoit products in the European market; (iii) bring greater business potential from other sales channels by enlarging our product portfolio in existing stores, entering into new stores and getting access to more new chain retailers, thus leveraging our brand recognition; and (iv) continue to invest in technologies with an aim to develop VeSync App into a home IoT platform.

We aim to further enhance our product portfolio, in particular smart home devices in the consumer space, while leveraging our track record for developing relevant, consumer-friendly products in the business-to-business space.

In 2023, based on our product development and quality control capabilities with deep consumer insight, we will enrich our smart product range and improve our wellness scene building. We aim to release higher-level air purifiers and air humidifiers, two-pot air fryers and third generation innovative air fryers, second generation ovens, and enter into new product categories like vacuum cleaners, tower fans, pressure cookers, rice cookers, smart food probes, electric toothbrushes, and more. These will be the one of engines of our performance in 2023.

The future is already here, 2023 is worth looking forward to.

DIRECTORS

Executive Directors

Ms. Yang Lin (楊琳), aged 49, 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. 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 U.S. 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 47, 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 18 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 is currently an independent non-executive director of Howkingtech International Holding Limited (濠暻科技國際控股有限公司) (stock code: 2440), a company listed on the Stock Exchange.

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 46, 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 18 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 80, 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.

Independent Non-executive Directors

Mr. Fong Wo, Felix (方和), *BBS*, *JP*, aged 72, 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 40 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), a company incorporated in Hong Kong with limited liability, and an independent non-executive director of the following companies listed on the Stock Exchange: Howkingtech International Holding Limited (濠暻科技國際控股有限公司) (stock code: 2440), 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 50, 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), a company listed on the Stock Exchange. From September 2018 to January 2023, Mr. Gu was an independent non-executive director of DaFa Properties Group Limited (大發地產集團有限公司) (stock code: 6111), a company listed on the Stock Exchange.

Since September 2016, Mr. Gu has been the vice president 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: Howkingtech International Holding Limited (濠暻科技國際控股有限公司) (stock code: 2440), Mulsanne Group Holding Limited (stock code: 1817) 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 49, 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.

The Board is pleased to present this annual report and the audited financial statements of the Group for the year ended December 31, 2022.

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.

SHARE CAPITAL

Details of the share capital of the Company during the Reporting Period are set out in note 29 to the financial statements.

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 not to recommend the payment of any final dividend for the year ended December 31, 2022.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement of the Shareholders to attend and vote at the 2023 AGM to be held on Tuesday, May 30, 2023, the register of members of the Company will be closed from Wednesday, May 24, 2023 to Tuesday, May 30, 2023, both days inclusive, during which period no transfer of shares will be registered. In order to be qualified for attending and voting at the 2023 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 Tuesday, May 23, 2023.

AUDIT COMMITTEE

The Audit Committee, consisting of three independent non-executive Directors, namely, Mr. Gu Jiong (Chairman), Mr. Fong Wo, Felix and Mr. Tan Wen, has reviewed the audited consolidated financial statements of the Group for the year ended December 31, 2022, 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 39 to the financial statements.

DISTRIBUTABLE RESERVES

As of December 31, 2022, the amount of reserves available for distribution of the Company was approximately US$187.0 million.

DONATIONS

During the Reporting Period, the Group made charitable donations of US$5,222.

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, 2022 was as below:

Purpose	Approximate Percentage of total amount	Allocation of Net Proceeds HK$ million	Unutilized as of December 31, 2021 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	225.4	75.0	150.4	By December 2023
Upgrade and iterate existing products	5%	83.2	59.2	54.0	5.2	By December 2023
Research and development of new products and upgrade and iteration of existing products	5%	83.2	67.7	1.4	66.3	By December 2023
Enhance testing capability	5%	83.2	73.5	19.7	53.8	By December 2023
2. Expand our sales channels and geographic coverage and enhance brand awareness						
Expand sales channels and market presence in existing major markets	8%	133.0	76.7	76.7	0	By December 2023
Expand and solidify market presence in regions	8%	133.0	117.9	22.0	95.9	By December 2023
Devote more resources in brand promotion	9%	149.7	128.5	101.5	27.0	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	131.0	80.6	50.4	By December 2023
Acquire or partner with companies in the data technology industry	15%	249.4	155.3	7.9	147.4	By December 2023
4. Develop and launch smart solutions, including smart security solutions, for business customers						
Research and development of smart solutions for business customers	5%	83.1	77.5	17.4	60.1	By December 2023
Expand North America market of smart solutions for business customer	5%	83.1	72.0	22.5	49.5	By December 2023
5. Working capital	10%	166.3	0	0	0	—
Total		1,662.9	1,184.7	478.7	706.0	

Note:

1. 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$446.0 million, representing approximately 90.9% 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$405.1 million, representing approximately 82.6% of the Group's total revenue.

During the Reporting Period, purchase value from the five largest suppliers of the Group amounted to approximately US$161.5 million, representing approximately 52.8% of the Group's total purchase value; and purchase value from the largest supplier of the Group amounted to approximately US$70.4 million, representing approximately 23.0% 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. Yang Hai, an executive Director, Mr. Gu Jiong and Mr. Fong Wo, Felix, independent non-executive Directors, were appointed as independent non-executive directors of Howkingtech International Holding Limited (stock code: 2440.HK) on November 11, 2022.

Mr. Gu Jiong has resigned as an independent non-executive director of DaFa Properties Group Limited (大發地產集團有限公司) (stock code: 6111) on January 10, 2023.

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 34 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, 2022, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO, or (iii) notified to the Company and the Stock Exchange under the Model Code, were as follows:

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	L[(10)]	5,387,000	1,150,000		
					789,714,200	67.91%

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)]	779,147,000	1,350,000		
	Beneficial owner	L[(10)]	—	1,150,000		
					789,714,200	67.91%
Mr. Yang Yuzheng[(4)(5)]	Interest of corporation controlled	L[(10)]	367,719,200			
	Interests held jointly with another person	L[(10)]	419,495,000	2,300,000		
	Beneficial owner	L[(10)]	—	200,000		
					789,714,200	67.91%
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 1,162,884,800 Shares in issue as of December 31, 2022.

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

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

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

As of December 31, 2022, the following persons (other than the Directors and chief executive of the Company) had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company, pursuant to Section 336 of the SFO:

Interest in Shares and underlying Shares

Name	Capacity/ 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	34.92%
Karis I LLC[(2)]	Beneficial owner	L[(7)]	243,624,800	—	243,624,800	20.95%
Karis II LLC[(2)]	Beneficial owner	L[(7)]	162,416,000	—	162,416,000	13.97%
Caerus Co., Ltd[(3)]	Beneficial owner	L[(7)]	367,719,200	—	367,719,200	31.62%
Mr. Xu Bo[(4)]	Interest of spouse	L[(7)]	787,214,200	2,500,000	789,714,200	67.91%
Ms. Li Jisu[(5)]	Interest of spouse	L[(7)]	787,214,200	2,500,000	789,714,200	67.91%
Ms. Chen Shuyong[(6)]	Interest of spouse	L[(7)]	787,214,200	2,500,000	789,714,200	67.91%

Notes:

1. The calculation is based on the total number of 1,162,884,800 Shares in issue as of December 31, 2022.

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

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

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

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

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

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

Save as disclosed above, as of December 31, 2022, the Company had not been notified by any person (other than the Directors or the chief executive of the Company) who had an interest or short position in the Shares or the underlying Shares which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

EQUITY-LINKED AGREEMENT

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

PERMITTED INDEMNITY PROVISION

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

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

SHARE SCHEMES

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 shares available for issue under the Share Option Scheme is 112,310,480 Shares which represent approximately 9.66% 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	Exercise price (HK$/Share)	Closing price immediately prior to the grant (HK$/Share)	Outstanding options as of January 1, 2022	Granted	Exercised	Canceled	Lapsed	Outstanding options as of December 31, 2022	Exercise period(Note)
Directors									
Yang Lin	12.880	10.360	1,150,000	—	—	—	—	1,150,000	May 14, 2021 to May 13, 2031
Yang Hai	12.880	10.360	1,150,000	—	—	—	—	1,150,000	May 14, 2021 to May 13, 2031
Chen Zhaojun	12.880	10.360	2,000,000	—	—	—	—	2,000,000	May 14, 2021 to May 13, 2031
Yang Yuzheng	12.880	10.360	200,000	—	—	—	—	200,000	May 14, 2021 to May 13, 2031
Fong Wo, Felix	12.880	10.360	200,000	—	—	—	—	200,000	May 14, 2021 to May 13, 2031
Gu Jiong	12.880	10.360	200,000	—	—	—	—	200,000	May 14, 2021 to May 13, 2031
Tan Wen	12.880	10.360	200,000	—	—	—	—	200,000	May 14, 2021 to May 13, 2031
Total			5,100,000	—	—	—	—	5,100,000	

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

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

Pre-IPO Share Award Scheme

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

The Pre-IPO Share Award Scheme is valid and effective from June 16, 2020 and for a term of 10 years, subject to any early termination as determined by the Board. To reduce administrative cost, the Board has resolved to terminate the Pre-IPO Share Award Scheme with effect from October 25, 2022 (the "**Termination Date**"). For further details, please refer to the announcement of the Company dated October 25, 2022.

Since January 1, 2022 up to the Termination Date, no share awards had been granted, exercised, vested, outstanding, lapsed or canceled. As of the Termination Date, there was no unvested awarded Share granted under the Pre-IPO Share Award Scheme.

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.

The total number of share available for issue under the Post-IPO Share Award Scheme is 33,544,000 and it represents 2.88% of the issued shares as of the date of this annual report.

(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 approximately eight years and three months.

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

Grantees	Date of grant	Purchase price (HK$/Share)	Closing price immediately prior to the grant (HK$/Share)	Fair value as of date of grant of the awards granted during the Reporting Period (HK$/Share)	Unvested awards as of January 1, 2022	Granted	Vested	Canceled	Lapsed	Unvested awards as of December 31, 2022	Vesting period[Note]
Employees											
	July 21, 2021	—	11.10	11.32	255,000	—	—	—	—	255,000	July 21, 2021 to July 20, 2026 (Note 1)
	January 1, 2022	—	9.47	9.29	—	2,493,000	560,800	—	—	1,932,200	October 30, 2022 to October 17, 2026 (Note 2)
	January 19, 2022	—	8.45	8.42	—	234,000	—	—	—	234,000	January 18, 2023 to January 18, 2025 (Note 3)
	April 9, 2022	—	5.01	4.83	—	113,000	—	—	—	113,000	April 8, 2023 to April 8, 2025 (Note 4)
	July 6, 2022	—	4.96	4.99	—	1,003,000	—	—	—	1,003,000	July 5, 2023 to July 5, 2025 (Note 5)
	November 1, 2022	—	2.09	2.18	—	1,200,000	—	—	—	1,200,000	July 5, 2023 to July 5, 2027 (Note 6)
	December 27, 2022	—	4.90	4.90	—	224,000	—	—	—	224,000	December 27, 2023 to December 27, 2025 (Note 7)
Total				—	255,000	5,267,000	560,800	—	—	4,961,200	

Notes:

1. The 255,000 share awards shall vest in accordance with the below vesting schedule:

   (i) 11,000 share awards shall vest after March 31, 2022 and subject to certain vesting conditions;

   (ii) 16,500 share awards shall vest in 2023;

   (iii) 27,500 share awards shall vest in 2024; and

   (iv) 200,000 share awards shall vest based on certain performance targets relating to the Group's sales results.

2. The 2,493,000 share awards shall vest in accordance with the below vesting schedule:

   (i) 560,800 share awards has vested in 2022;

   (ii) 710,200 share awards shall vest in 2023;

   (iii) 974,000 share awards shall vest in 2024;

   (iv) 134,000 share awards shall vest in 2025; and

   (v) 114,000 share awards shall vest in 2026.

3. The 234,000 share awards shall vest in accordance with the below vesting schedule:

   (i) 46,800 share awards shall vest in 2023;

   (ii) 70,200 share awards shall vest in 2024; and

   (iii) 117,000 share awards shall vest in 2025.

4. The 113,000 share awards shall vest in accordance with the below vesting schedule:

   (i) 22,600 share awards shall vest on in 2023;

   (ii) 33,900 share awards shall vest on in 2024; and

   (iii) 56,500 share awards shall vest in 2025.

5. The 1,003,000 share awards shall vest in accordance with the below vesting schedule:

   (i) 200,600 share awards shall vest in 2023;

   (ii) 300,900 share awards shall vest on in 2024; and

   (iii) 501,500 share awards shall vest in 2025.

6. The 1,200,000 share awards shall vest in accordance with the below vesting schedule:

   (i) 120,000 share awards shall vest in 2023;

   (ii) 120,000 share awards shall vest in 2024;

   (iii) 240,000 share awards shall vest in 2025;

   (iv) 360,000 share awards shall vest in 2026; and

   (v) 360,000 share awards shall vest in 2027.

7. The 224,000 share awards shall vest in accordance with the below vesting schedule:

   (i) 44,800 share awards shall vest in 2023;

   (ii) 67,200 share awards shall vest in 2024; and

   (iii) 112,000 share awards shall vest in 2025.

The fair value of the awards was measured at the date of grant and recognized as expense in the financial statements of the Group over the vesting period. The fair value of the awards granted was HK$37,281,000 in total. For details, please refer to note 30 to the financial statements.

The number of awards available for grant under the Post-IPO Share Award Scheme mandate at the beginning and the end of the Reporting Period are 116,249,980 and 111,327,280 respectively.

The number of Shares that may be issued in respect of options and awards granted under all schemes of the Company (i.e. Share Option Scheme, Pre-IPO Share Award Scheme and Post-IPO Share Award Scheme) during the Reporting Period divided by the weighted average number of Shares in issue (i.e. 1,128,921,068 Shares) is nil.

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

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

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association, 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, 2022, 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 34 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, 2022 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 2023 AGM. A resolution will be proposed at the 2023 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 operational disruption due to public health crisis — Operational Risk

2. Risk of stockpiling of goods — Operational Risk

3. Risks of talent training and development — Operational Risk

Operational Risk

(1) Risk of operational disruption due to public health

In 2022, the novel coronavirus pneumonia (COVID-19) continued to occur around the world, with more mutations of the virus emerging, adversely affecting global economic activity. By the end of December 2022, the COVID-19 pandemic has taken a toll of 758.4 million confirmed cases and approximately 6.7 million lives around the world, according to the World Health Organization (WHO).

From March to May 2022, large-scale regional outbreaks occurred in Shenzhen, Jilin, Shanghai and other regions of China. In March 2022, when the pandemic in Shenzhen broke out in a concentrated manner, the municipal government immediately mobilized the efforts of the whole city to deal with it, carried out zoning tracking, isolation and control, and implemented measures such as regional closure and no one leaving the zone in key areas. At the most serious moment, the city's buses and subways were suspended, multiple rounds of nucleic acid testing for all employees were carried out, and home office was allowed for the city's government agencies and enterprises. After strong management and control, in May 2022, Shenzhen achieved zero new COVID-19 infections, smoothly passed the incubation period of the virus, and achieved zero community transmission in the city.

With the spread of the COVID-19 virus after three years of mutation, the virus toxicity and fatality rates continue to decrease, the universal COVID-19 vaccination rate is realized (the overall vaccination rate is 90%), and the international pandemic prevention keeps synchronized. On November 11, 2022 and December 7, 2022, the Chinese government issued the "Twenty Articles" and the "New Ten Articles" for pandemic prevention, and according to the pandemic prevention regulations, negative nucleic acid certificate and health code are no longer required for cross-regional personnel. With the approval of the State Council, starting from January 8, 2023, the prevention and control measures for Class A infectious diseases stipulated in the Law of the People's Republic of China on the Prevention and Treatment of Infections Diseases adopted for the COVID-19 were removed with "class-B disease" implemented. The COVID-19 is no longer included in the management of quarantine infectious diseases, and isolation measures are no longer implemented for infected people; no more high- and low-risk zones; it's necessary to implement graded and categorical admission of people infected with the COVID-19 and adjust medical security policies in a timely manner. In accordance with the Frontier Health and Quarantine Law, quarantine infectious disease control measures are no longer taken for persons and goods entering the country.

After the domestic pandemic tends to be normalized, from December 2022 to January 2023, the COVID-19 broke out across the country in a concentrated manner; according to the data of the Centers for Disease Control, when the first wave of large-scale impact reached its peak, the infection rate in the population was about 60%, and as of the first round of the COVID-19, during the Spring Festival holiday, the COVID-19 has not rebounded significantly, and the overall infection rate reached 80%. Employees and product manufacturers in the Shenzhen office and Chongqing office of the Group, as well as service providers and partners such as warehousing and logistics, were infected with the COVID-19.

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 a 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 obstacles to business operations or 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.

In 2022, the Group issued the Guidelines for the Company's Response to the COVID-19, released the Latest Notice on Further Optimizing the Implementation of National COVID-19 Prevention and Control Measures, established the Group's COVID-19 prevention team according to the guidelines, formulated a COVID-19 emergency plan, divided into 4 levels of low-risk, medium-risk, high-risk and confirmed early warning, and formulated corresponding emergency response plans for each scenario corresponding to different warning levels. The COVID-19 Self-Recovery Manual (WHO) and the COVID-19 prevention tips are listed in the notice issued to employees, so as to specify the COVID-19 prevention and control policies, home isolation or other situation handling measures, travel policies and COVID-19 prevention plans in detail to deal with this risk.

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; the Group's decentralized storage of goods in 7 overseas warehouses (US, Germany, UK, Canada, Japan, UAE) to reduce the risk of business suspension due to the suspension of warehouse operations resulting from the infection of warehouse personnel. In addition, the Group has established a scientific inventory level baseline, which can quickly distribute goods to customers and consumers through overseas warehousing throughout the globe. In 2022, office there were no confirmed cases of COVID-19 among any of the Group's employees in the US, and there were no interruptions or disruptions to the normal operation of the Company's business due to the COVID-19.

In 2022, during the repeated occurrence of COVID-19 in China, the Group's main suppliers were distributed in Xiamen, Jiangsu, Zhejiang, Pearl River Delta and other places in China. Some suppliers of the Group were temporarily and slightly affected by the pandemic in the first half of the year (for example, during the pandemic in Shenzhen in March 2022, the production of one supplier was affected for one week; when the pandemic situation was serious in Shanghai, the production of one model material was affected for one week). In terms of delivery, the supplier gave us sufficient and timely production capacity. In summary, in the first half of 2022, the relevant health organizations and companies of various governments and companies were timely, smooth and effective in their pandemic prevention and control and response specifications, and the Group did not see a significant impact on its overall business operations from order-production-delivery-international logistics-end-of-line warehousing.

During the concentrated outbreak of COVID-19 in China from December 2022 to January 2023, employees of the Group's Chongqing and Shenzhen office areas were successively infected with the COVID-19, with an infection rate of about 70%. During this period, employees returned to work after 1-2 weeks of working from home and fully recovered (with "negative" nucleic acid certificate), and office staff were affected for only about 1 week. The wave of COVID-19 infection has brought certain negative impacts on the production of factories in various places, and at the production and delivery ends, the Group's suppliers actively deployed the remaining personnel of the factories during the COVID-19, temporarily increased production lines, and reasonably arranged production plans to ensure the timely delivery of products. In summary, the normal operation of the Group's production, delivery, logistics and warehousing business during the period was not affected. Based on the maturity of the Group's overall response strategy, implementation and experience, it has made advance plans and arrangements at the office end — operation order end — production end — delivery end — international logistics end — end-of-line warehousing end; it is believed that this risk will be within the control of the Group in 2023.

(2) Risk of stockpiling of goods

The Group provides small household appliances and smart home devices, which are sold to the US, Canada, Japan, UK, Southeast Asia and other countries through online and offline channels, so it is necessary to maintain a certain inventory level to meet sales. At the same time, the industries that the Group is involved face a complex external market environment, including changing consumer trends and customer preferences, innovative product launches, competitors, disruptions of international and local transportation, and economic and political factors (such as the US-China trade war), so there is a risk that changes in these factors may lead to stockpiling of goods.

If the Group fails to accurately forecast the relevant market trends and thus fails to adjust the quantity of goods in stock according to the sales forecast, the Group may experience stockpiling of inventory goods, resulting in the risk of increased inventory costs. In addition, if there is stockpiling of obsolete goods in stock, the Group may need to sell the obsolete goods by way of discounts or promotions or scrap them if they are not sold, resulting in economic losses.

As at December 31, 2022, the Group had inventories valued at approximately $114.65 million (as at December 31, 2021, the Group had inventories valued at approximately $128.55 million). As at December 31, 2022, the Group's average number of days of inventory turnover was 127 (as at December 31, 2021, the Group's average number of days of inventory turnover was 147). Group average inventory turnover days decreased by 20 days in 2022 compared with 2021, indicating an increase in inventory turnover speed.

Risk Response

The Group's Sales Department is responsible for forecasting and monitoring sales activities, setting up a special sales planning position to promptly monitor changes in sales demand and make reasonable forecasts to accurately forecast actual market demand and timely adjust future sales demand in accordance with market conditions. In 2022, the Company included the accuracy of sales forecasts into the annual performance evaluation of the marketing unit, and urged to improve the accuracy of sales forecasts. Through these efforts, the accuracy rate of sales forecast showed an obvious upward trend this year. Continuous efforts will be made in 2023 and the Group's Sales Department is constantly improving sales forecasting and operation capabilities to improve the accuracy of sales forecasts, with a view to reducing the risk of inventory backlog.

The Group's Supply Chain Department has established inventory administrative regulations and programs to set minimum inventory levels and control warehouse inventory levels, aiming to avoid the risk of stockpiling, minimize inventory waste and avoid inventory obsolescence. Meanwhile, it carries out early warning of inventory backlog focusing on those with a long inventory age, conducts monthly review, and implements inventory clearance through promotion and other means for overdue inventory stockpiling. In 2023, the Group plans to strengthen its efforts to clear overdue inventory and improve its inventory turnover rate.

In 2022, ocean freight shipping schedules gradually declined amid fluctuations and returned to normal schedules (e.g., European shipping cycle declined from the previous 60 days to approximately the current 45–50 days, and North American from 60 days to 30–35 days). The Supply Chain Department has negotiated with key suppliers to shorten delivery cycles in order to speed up inventory turnover rate. In 2023, the Group's Supply Chain Department will make continuous efforts to shorten delivery cycles thorough negotiations with more suppliers.

The Group attempts to plan and implement digital construction to improve its operation and management efficiency. In 2022, the Global Operation and Management Department began to develop and test big data sales forecasting models, which will further improve the accuracy of sales forecasting and provide more scientific and reasonable model guidance for sales preparation. In 2023, the Global Operation and Management Department will increase its effort in the research and development of big data models to optimize the computing logic of big data models and improve the accuracy of sales forecasts.

The results in 2022 saw a decline in inventory turnover days with a decrease of approximately 20 days in 2022 compared to 2021. Significant results have been achieved by the Group in improving the inventory turnover rate. Coupled with the persistent implementation of administrative regulations on inventory backlog and enhancement of profit assessment in overdue inventory, both of which contributes continuous urge to improve the accuracy rate of sales forecasts in 2023, the Group's management believes that the above measures will enhance the Group's sales forecasting and stocking capacity, improve inventory management and further mitigate the risk of commodity stockpiling in 2023.

(3) Talent training and development risks

In order to meet the growing demand of consumers for smart home device solutions, and expand the Group's business and strengthen its competitiveness, the Group has been following the trend of intelligent development of the industry, developing smart small home appliances and smart home products, ceaselessly optimizing the self-developed smart product applications and related systems, and constantly launching innovative products or optimized products and technologies. With the rapid development of the Group's operating business, along with the intense competition in the small home appliance industry in which the Group operates and the complexity and flexibility of cross-border operations, employees are expected to have rich up-to-date professional knowledge and job skills to support the Group's business development.

In recent years, the Group has brought in many mid- to senior-level professionals with an aim to further enhance the density of excellent talents and strengthen the Group's organizational capabilities. However, the introduction of new mid- to senior-level professionals and managers also poses challenges to cadre integration, management and culture shock of the whole organization. In 2022, the number of staff in the Group was nearly 1,300. From the perspective of business support provided by the talent team, a better talent development system is needed to guide employees' long-term career development and retention, so as to achieve the Group's capability precipitation and iterative development, and to provide a firm support for its high-quality development.

If the Group fails to provide scientific and reasonable training and cultivation for its employees in a timely manner, there will be uncertainties in the quality improvement of employees and employees may have difficulties in quickly adapting to the environment or mastering the necessary business skills, which in turn may adversely affect business operations. Furthermore, if the Group fails to provide employees with up-to-date knowledge and skills, and creativity exploration and cultivation necessary for their development, or if employees' career development path is not smooth and their promotion is unreasonable, it may affect the achievement of the Group's business operation targets in the short term and have a significant adverse impact on the Group's development in the long term.

Risk Response

The Group's management stated that the Human Resources Department has developed a certain talent capability building and development system to guide employees' progress in 2022. The Group has also established a dual-channel career development path for its employees, combined with a fixed promotion mechanism to support their long-term career development, mainly covering ranking system construction, qualification standard system, promotion mechanism, cadre management and review, and talent development to ensure its standardization and completeness in talent training and development, as well as its continuous operation of talent development.

The Group further strengthens the probationary management and evaluation of new managers, and identifies the suitability of cadres to the organization in terms of phased integration, key competencies, and performance output through the 360 evaluation method of mid-probationary period + 5 months, and enhances the guidance of and assistance in problems identified during the probationary management of cadres.

The Group regularly conducts training for new employees in an "online + offline" combined training methods to help them quickly adapt to the environment and master work skills, and better perform their business functions. It also provides centralized training and on-the-job training for graduates to enhance their understanding of business knowledge and get familiar with business operations through theoretical training in business departments, mentorship guiding, on-the-job practice, and stage appraisal assessment. For example, the Group's marketing line provides knowledge skills training and business guidance to employees, including platform basics and operational skills, back-end rules and operations, advertising operations, listing content production, etc. Business guidance on core strategies, such as advertising, traffic and promotion strategies will also be combined with business scenarios and practical business conditions for specialized instruction and empowerment. In addition, the product operating units and Internet business units will conduct internal thematic sharing sessions regularly.

The Group also attaches importance to employees' fair and long-term career development. In 2022, with the guidance of a professional consulting firm, the Group further optimized positions and ranking system with a dedicated scheme, and sorted positions out for integration to facilitate refined management of talents. It will persistently implement ranking management in 2023, which will serve as the basis for employee development within the organization.

The Group has further developed a competency system, and in combination with factors such as "business value chain, position value assessment, number of positions", established qualification standards for key positions in batches, covering key positions in product, R&D, quality, and supply chain, with a view to guiding the improvement and development of employees' professional capabilities, which will serve as the basis for talent selection. In 2023, the Group will make continuous efforts in the development, maintenance and iteration of the qualification standards in line with the development needs of the organization and its employees.

The Group has established a dual-channel career development path in aspects of management and professionalism for employees to help them give full play to their strengths. A fixed promotion mechanism is formed to conduct the annual review of employees' capabilities and performance, evaluate the outstanding ones, and promote them to meet the needs of employees' career development and the Group's talent construction. In 2023, the Group will persistently implement the promotion mechanism to give outstanding employees the opportunity and platform to play, so that employees can follow up on the rapid development rhythm and better support the development of the Company after their promotion and growth, thus realizing a virtuous cycle of mutual growth of employees and the Company.

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 29, 2023

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 third Environmental, Social and Governance Report (hereinafter referred to as the "ESG Report" or the "Report"), which outlines our strategies, objectives and efforts in respect of environmental, social and governance ("ESG"), and explains our sustainable development concepts.

Reporting Standards

This report has been prepared in accordance the "ESG 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 Company has complied with the reporting principles of the ESG Reporting Guide, including "comply or explain" provisions in the Guide and the requirements of the four reporting principles (materiality, quantitative, balance and consistency).

Materiality	In compliance with the requirements of materiality principle defined by the Stock Exchange, the process of and the criteria for the selection of material ESG factors, as well as the description of major stakeholders, the process and results of their participation are identified and disclosed in the Report.
Quantitative	Statistical standards, methodologies, assumptions and/or calculation tools used to report emissions/energy consumption (where appropriate), and the sources of the conversion factors are explained in the definitions of the Report.
Balance	This Report shall provide an unbiased picture of the Group's performance during the Reporting Period and should avoid selections, omissions, or presentation formats that may inappropriately influence the decision or judgment made by the report readers.
Consistency	The statistical methods in all data reporting are consistent with previous year. Any changes will be stated clearly in the Report.

Reporting Scope

This Report covers the actual business scope of the Group, and the data collection of environmental Key Performance Indicators ("KPIs") includes those from offices in Shenzhen and Chongqing, PRC, and the United States (U.S.), as well as the factory in Dongguan, PRC. This Report describes the sustainable development policies, initiatives and KPIs of the Group related to core businesses from January 1, 2022 to December 31, 2022 (hereinafter referred to as the "Year" or the "Reporting Period").

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 29, 2023 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 a responsible enterprise, the Group adheres to the management policies of sustainable development. As a key to its continued success in the future, the Group is also committed to handling its ESG affairs effectively and in a responsible manner, which becomes a core part of its business strategy.

We have established a robust ESG governance structure. The board of directors reviews and confirms the materiality assessment results and understands the concerns and requirements of all stakeholders to determine the Group's ESG management guidelines, strategies, priorities and objectives. The board of directors also actively discusses ESG matters, including supervising and reviewing the Group's corporate social responsibility and sustainability affairs, and makes recommendations. The Group has set environment-related goals for the Year. Our ESG related performance was reviewed by the board of directors on an on-going basis, which conducted progress review against ESG related objectives to oversee and improve our work in sustainable development.

2.2 ESG Governance

The Group actively integrates sustainable development concept into our daily operation. We conduct a top-down management approach to establish the ESG governance structure consisting of the board of directors and the ESG working group, so as to better prepare for future challenges and opportunities. As the supreme leadership body, the board of directors is responsible for supervising the Group's ESG related matters.

Our ESG working group, consisting of executive directors, personnel from risk management department and others, is responsible for assisting the board of directors in reviewing, evaluating and recommending ESG initiatives to be implemented by business units to achieve the stated goals. Our ESG working group makes ESG-related recommendations, strategies, and objectives to the board of directors, and reports ESG issues and progress and performance of implementing initiatives to the board of directors regularly.

DECISION MAKING LEVEL: the Board of Directors

- Taking full responsibilities for ESG strategies and reporting
- Determining ESG management guidelines, strategies, plans, goals and annual work, including assessing, prioritizing and managing significant ESG issues, risks and opportunities
- Delegating authority to the ESG working group
- 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 (risk management department serves concurrently)

- Reporting regularly to the board of directors 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

ESG Governance Structure

2.3 Stakeholders' Engagement

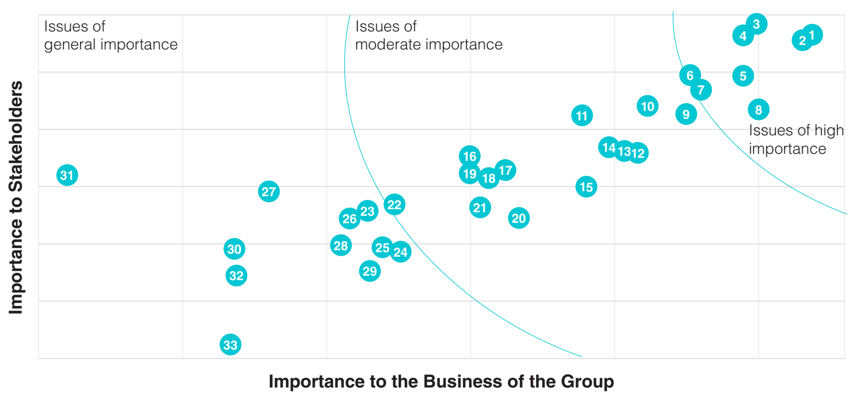
In order to strengthen our understanding of stakeholders' expectations and needs, as well as to identify material issues and assess the effectiveness of our sustainability measures, we maintained contact with different stakeholders. Stakeholders play an important role in our business development and strategy. We strive to understand their emerging expectations and needs, so as to continuously review and improve our sustainability performance.

Stakeholders	Major Communication and Response 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 • Shareholder visits
Customers	• Customer satisfaction surveys and opinion forms • Customer service centre • Daily operation/communication • Online service platform • Telephone • Email
Employee	• Channels (such as forms and suggestion boxes) for employee to express opinions • Work performance appraisal and reviews • Group discussion • Face-to-face meetings • Business briefings • Seminars/workshops/talks • Publications (such as staff newsletters) • Staff communication conference • Employee intranet forums
Business partners	• Cooperative projects • Meetings • Visits • Talks
Government — Human Resources and Social Security Bureau/ Taxation Bureau	• Policy documents and guidelines • Working conference • Information delivery • Seminars
Suppliers	• Supplier/contractor evaluation system • Meetings • On-site visits
Media	• News conference • Press releases • Interviews with senior management • Results announcements • Media events
Community/non-governmental organizations	• Community activities • Seminars/talks/workshops • Meetings • Daily information and communication symmetry
Regulators	• Regulatory policies • Investigations and visits • Presentations

2.4 Materiality Assessment

Independent consultants have been engaged by the Group to conduct internal and external ESG questionnaire surveys. We concluded a series of material issues applicable to the Group's business with reference to the disclosure obligations covered by the Stock Exchange's Guide, the Materiality Map of the U.S. Sustainability Accounting Standards Board (SASB) and peer comparison. During the Year, the Group conducted materiality assessment through questionnaires to collect, identify and determine the concerns and interactions of internal and external stakeholders on different ESG issues. Internal and external stakeholders include directors, senior management, middle management, employees, customers and suppliers. Based on the dimensions of "importance to the Group's business" and "importance to stakeholders", the Group analysed 33 issues identified, of which 8 were of high importance, 14 were of moderate importance and 11 were of general importance, and the results of the ESG importance issues were approved by the Board. In light of the importance of these issues, they are disclosed in the ESG report with varying degrees of importance and are taken into account in the development of the ESG strategy and approach.

Materiality Matrix



Issues of high importance	Issues of moderate importance	Issues of general importance
1. Operation in compliance with laws and regulations 2. Anti-corruption 3. Respecting intellectual property rights 4. Product and service quality assurance 5. Product innovation 6. Protection of customers' privacy 7. Information security 8. Complaint handling and responding mechanism	9. Product after-sale management 10. Whistle-blowing mechanism 11. Product promotion 12. Internal control 13. Supply chain social responsibility management 14. Green supply chain 15. Employees' rights 16. Employee diversity, non-discrimination and equal opportunity 17. Occupational health and safety 18. Staff training and development 19. Labor relations 20. Climate change 21. Hazardous substances management 22. Use of materials/resources	23. Energy consumption and efficiency management 24. Wastewater discharge and treatment 25. Greenhouse gas emissions 26. Air pollutant emissions 27. Water consumption and efficiency management 28. Green design 29. Environmental awareness of employees 30. Managing the impact of operations on the environment and natural resources 31. Value and impact of community investment 32. Child and forced labour 33. Employees' awareness and participation of public welfare activities

In response to stakeholders' concerns, we set out the major initiatives and performance in relation to ESG material issues during the Reporting Period. In addition, we will review relevant ESG policies and make appropriate adjustments in the future to meet stakeholders' expectations.

Issues of high importance	Corresponding Chapter
Operation in compliance with laws and regulations	4. Operation Responsibility
Anti-corruption	4. Operation Responsibility
Respecting intellectual property rights	4. Operation Responsibility
Product and service quality assurance	3. Quality Assurance
Product innovation	3. Quality Assurance
Protection of customers' privacy	4. Operation Responsibility
Information security	4. Operation Responsibility
Complaint handling and responding mechanism	3. Quality Assurance

3. QUALITY ASSURANCE

3.1 Product Quality Assurance

The Group comply with 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 and has established a rigorous quality management system. Our products are designed to meet customer and regulatory requirements, including quality that meets or exceeds national and industry safety and quality standards. Shenzhen office has adopted the GB/T 19001-2006 and ISO9001: 2015 quality system certification, and will carry out review every year within the validity period.

We have implemented a quality control mechanism to monitor the quality of raw materials and finished product delivery, and have established "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》). In the process improve of quality management, whether in product planning and development, manufacturing, or service, we always certify and test all products for safety and compliance. In the manufacturing process of products, each product has its own standardized process which shall be strictly restriction. The quality of our products is strictly controlled to ensure compliance with legal requirements, and final inspection of products shall be conducted according to the established procedures before delivery, and all potential hazards in the product life cycle are reviewed to determine how to minimise risks.

Our products are subject to stringent quality control requirements, which include the resident quality control staff conducting random checks on the finished products in our factory and recording the unqualified conditions in the "Finished Product Inspection Report" (《成品檢驗報告》) when the quality control standards are not met. Then, the qualified products will be selected from the unqualified products, and the selected qualified products will be tagged with a qualified label after the quality control staff in the factory has randomly inspected the products, while the unqualified products will be tagged with an unqualified label and prohibited to enter the next process. If a product quality inspector finds any non-conformity during process supervision and product sampling, he/she should immediately mark and isolate the non-conforming material and give advice to the factory on how to handle it. Batch problems are recorded in the "Quality Exception Contact Form" (《品質異常聯絡單》). The methods we use to handle non-conforming products include: selection, rework/repair, special procurement and scrap. We have established a "Market Return List" (市場退貨列表). For reworking of finished products in stock, the engineering department will draw up the guidelines for the return of products and then execute the process. The repaired products should be re-submitted to the quality control staff for inspection before they are accepted into the inventory, and the unsatisfactory repaired products should be re-submitted to the factory or the engineering department for processing. We keep a record of unqualified products in our scrap application forms as a reference for future product research and development. During the Reporting Period, no products and services were recalled for safety and health reasons.

3.2 Pursuit of Quality Service

We are committed to providing our customers with quality products and services. We prioritise our customers and provide timely and reasonable handling of customer complaints, answering customer queries and solving customer problems and providing quality after-sales service to enhance customer satisfaction with our products and brands; we are attentive to customer needs and insist on providing high quality and high standard customer services. We feedback on issues and improve performance, thereby promoting product quality, iteration and reducing complaints about similar issues. Our US and Chinese customer service teams work together to share information and synchronise information with the US team in a timely manner to improve consistency in customer service.

We take customer feedback and satisfaction as a priority and do our best to resolve customer issues by optimising our user communication channels and complaint handling mechanism. We provide our customers with two major customer service platforms, including Zendesk and our after-sales system. Zendesk is an integrated third party customer complaint email response platform. We focus our customer service complaints on online after-sales mailbox support for products in North America and Europe, and after-sales mailboxes in the Mall of America. The system can set up rules to classify and assign mail to individual team members, which effectively improves mail processing efficiency, monitors customer service quality, and greatly improves team work evaluation and management efficiency. The second platform is the company's self-developed after-sales system. The system is designed to provide a one-stop solution for customer complaint response, product problem transmission and analysis, and other post-sales actions such as post-sales re-delivery, refunds, assistance in exporting classified complaints, adverse feedback and other data for automated analysis.

Our customer service team is required to comply with the Customer Service Code and respond to the doubts from our customers in a professional and timely manner. The team solves problems for customers through professional knowledge about customer service. We also improve our customer satisfaction through friendly service attitude. Committed to providing high quality customer service, we actively respond to and satisfy the requests of our customers. In case that we receive a customer complaint, we will file a case to analyze the cause of the problem at the first place, and then reply to the customer in respect of the solution as soon as possible. In case of a problem that can explain the cause, we will explain it to the customer. In case of a quality problem, we will not proactively explain, but directly replace the product or refund instead. Besides, we ask for product related information according to the actual situation, while submit a return request to the customer and ask for order information and address. We handle customer feedback on all dealer platforms and their reviews about the product, so as to give effective feedback to consumers in the first time.

Our Chinese and American customer service teams work closely together. Our Chinese team communicates with American team to make timely adjustments and proactively share product knowledge to improve the efficiency of our Chinese and American teams, thereby improving the consistency of domestic and overseas customer service. We also actively understand the needs of Chinese and American customers by actively contacting our customers through different online platforms, such as the customer service platform of Amazon sellers, Amazon backend, VeSync/VeSyncfit Email response, the support email in the application, the official contact number and the Facebook community, etc., so that we can accurately understand the problems of our customers to provide accurate solutions.

During the Reporting Period, the Group recorded a satisfaction rate of customer service of 91.8%, and no major complaints were received from customers regarding products or services.

Innovation Driving Brands

As a leading provider of smart home devices and solutions, the Group's products are highly preferred by the users in the market. Based on the positive reviews from various sources, the high performance and excellent compatibility of Vesync's products are the features that users appreciate the most.

VeSync系列品牌

Among the products of Vesync, smart socket is one of the most popular products. Our users praise its ease of setup and use in their reviews, and also appreciate its compatibility, which allows it to seamlessly connect with virtual helpers like AmazonAlexa and Google Helper, thereby allowing users to control the smart sockets with their voice. Besides, our users also appreciate the reliability and high performance of the smart socket, allowing them to monitor and control the connected devices at all times.

Among the products of Vesync, smart LED bulb is also well received. Its brightness and color options are praised by our users who state that it is easy to install and use, and it is also easy to integrate with smart home systems. In addition, the control application of Vesync smart LED bulbs has also been praised by our users for the powerful features and an easy-to-use interface.

Air purifiers, another product of Vesync, are also popular with our users who state that they have good function in purifying the air without making noise. The reliability, easy-to-use application and compatibility with virtual helpers of Vesync air purifiers are also highly praised by our users.

In all, the excellent performance of smart home products of Vesync is widely praised by our users. Regardless that users need smart sockets to control their home devices, better control the light or maintain the air quality indoor, the smart home products of Vesync have it all covered. They are easy to install and use and play an important role in improving the life quality of users.

Awarded Products	Awards
Vesync Smart Air Purifier	Global Smart Home Company Award
Cosori Air Fryer CAG-A601S-KUS	German Innovation Award, Red Dot Award
Etekcity Smart Fitness Scales EFS-A591S-KUS	German Innovation Award, Red Dot Award
Levoit Smart Vacuum Cup LTM-A401S-WUS	IF Design Award, German Innovation Award, Red Dot Award
Levoit Air Purifier Core 600S	IF Design Award, German Innovation Award
Levoit Air Purifier LAP-EL551-WUS	IF Design Award, German Innovation Award, Red Dot Award
Cosori Air Purifier CAF-L501-WJP	Excellent Design Award

Levoit Air Purifier

Etekcity Smart Fitness Scales

Advertising and Customer Management

We ensure that all our marketing activities shall comply with the state laws on false advertising, consumer protection and the Federal Trade Commission Act (《聯邦貿易委員會法》) in America, and the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》), 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》), as well as other laws and regulations of the places in which we operate. We have established the Advertising Compliance Guidelines to prevent the provision of false or exaggerated information. We put an end to false publicity and resist any improper behavior that restricts market competition, ensure verified accurate and reliable information, and strictly forbid to exaggerate the publicity by secretly changing the concept, so as to ensure the legal compliance of advertising. Besides, advertising should ensure legality, propriety, integrity and truthfulness, thereby fulfilling due social and professional responsibilities.

During the Reporting Period, the Group did not have any disputes related to advertising and information publicity that had a significant impact on the Group.

3.3 Sustainable Supply Chains

The Group acknowledges its influence in the supply chain. As part of our commitment to the environment and corporate responsibility, we have developed a sound supplier management system. Our suppliers are required to comply with the laws and regulations of the places where we operate, 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》). In order to ensure the quality of our suppliers' products, we have established the "Supplier Performance Management" to manage the performance of our suppliers in the form of data. For example, we score in terms of materials, quality, etc. and strengthen our management to ensure that we clearly understand the quality of our suppliers' products, thereby improving our production quality to meet the market standards.

We are concerned about whether our products are procured in a sustainable way. In order to meet expectations and resolve to be a responsible company, we have established the "Standards for Operation and Management of Procurement Committee", "Standards for Review and Management of Suppliers" and "Supplier and Procurement Management Procedures" for our supply chain team. Adhering to the concept of sustainable development, we ensure that the supply chain meets the requirements of sustainable development through strict practices. Taking environmental and social factors into account by the Group, we require our suppliers to take environmental responsibility for their products by signing the "Cooperation Framework Agreement" and "Quality Assurance Agreement" with them before cooperation. Our suppliers are also required to provide ISO14001 environmental management system certification or other quality management system certification of similar standard, which should cover all products that perform the agreement. For example, our suppliers are required to meet the environmental protection standards for their products and comply with the laws and regulations of the places where we operate. Besides, our suppliers are also required to send samples to legally qualified institutions for testing of environmental protection.

We develop a Procurement and Supply Chain Management Policy to govern our procurement process and serve as a guide for strictly fair and ethical conduct for our suppliers and contractors. We regard our suppliers as important partners in our sustainability efforts. Therefore, suppliers of all of our business units adopt such policy applicable to their business. We conduct regular monitoring and assessment to assess the performance of our suppliers. For the review of new suppliers, we will review the suppliers based on the review priorities specified in the List of Supplier Review, which covers the main processes of quality management.

We require suppliers to comply with the ISO9001 quality system or have third-party certification to initially screen out the list of suppliers that meet the specified conditions, scale and other information when looking for new suppliers. Before we sign formal service contracts and relevant agreements with suppliers, the contents of the contracts and agreements include requirements for security, confidentiality and intellectual property protection, such as the content and scope of allowing suppliers to use VeSync resources, and the security and confidentiality requirements that need to be met when using such information; security and confidentiality measures involving VeSync customer information and sensitive information; agreements defining the exchange of information to protect the security of transmitted information; ownership of information and intellectual property rights generated, processed, and interacted in the course of service; prohibition of various commercial activities carried out by suppliers in the name of VeSync, to reduce the Company's social risks.

We implement the "Supplier Hierarchical Management", and at the end of each year, the procurement department will grade suppliers according to their performance and significance. We have graded our suppliers, and suppliers with higher ratings continue to retain their qualifications as qualified suppliers; while lower-level suppliers need to be analyzed and corrected in accordance with the requirements of the "Corrective Action Management Procedures". The audit team and the project team review the scoring results and select suppliers reasonably, which specific rating standards with reference to the "Supplier Certification Management Procedure". We monitor its suppliers by formulating internal procedures and measures to manage environmental and social risks in the supply chain. Before entering into business cooperation with suppliers, suppliers must sign the "Integrity Purchasing Agreement".

We have standardized the procurement management process and required the suppliers we cooperate with to comply with laws and regulations. If any violations exist, the Group will suspend or terminate the relationship with the supplier, including but not limited to environmental protection, employment, health and safety, anti-corruption and others.

During the Reporting Period, the Group had a total of 208 Chinese suppliers, including 5 in North China and East China, 59 in South China, 27 in the Yangtze River Delta region, 13 in Fujian region and 104 in the Pearl River Delta region, with the major procurement categories being filter paper, plastics, electronic materials, hardware and other products and services.

4. RESPONSIBILITY OPERATION

We operate our business in a responsible manner, abide by national laws and regulations as well as group rules, and maintain business ethics. In order to ensure the sustainable and stable development of the Group and protect the assets of the Company, we strictly abide by the "Company Law of the People's Republic of China" (《中華人民共和國公司法》), " Appendix 14 to the Listing Rules of the Hong Kong Stock Exchange" and the "Articles of Association" and other laws, regulations and rules. We developed the "Management Measures for Comprehensive Risk " to ensure that the Company's various operations and management activities comply with relevant laws and regulations, manage the basic process of risk management in the course of management, and cultivate a good risk management culture.

4.1 Protection of Information Security

In terms of protecting confidentiality, we established the "Information Security and Privacy Compliance Laws and Regulations Compendium" (《信息安全及隱私合規法律法規彙編表》) and strictly comply with the laws and regulations on the compendium, such as the Regulations on the Implementation of the Law of the People's Republic of China on Guarding State Secrets (《中華人民共和國保守國家秘密法實施條例》), the Regulations on Security Protection of Computer Information Systems of the PRC (《中華人民共和國計算機信息系統安全保護條例》) and Federal Trade Commission Act (《聯邦貿易委員會法》). We apply information technology to comprehensive risk management, unify risk management with the Company's various management business processes and management software, and unify planning, design, implementation and synchronized operation, and we establish the Company's risk management information system. The network administrators develop a thorough network backup and emergency recovery plan, and conduct and record emergency drills once a year. When a network security event occurs, it should be handled in accordance with the information security event handling process. Employees are granted relevant access rights after gaining the authorization and can only use the network within the scope of authorization. Network administrators assign network rights according to their job responsibilities and limit, the network channels and services that authorized users can connect to. Employees must take encryption measures or encrypt channels when transmitting sensitive information on the Company network to ensure the confidentiality and integrity of the transmission process.

We have established the "Management Measures of IT Information Technology Security" (《IT信息技術安全管理辦法》), which not only protects customer privacy, but also effectively protects the integrity, confidentiality and availability of information assets, and controls the operation of information processing-related activities to ensure the continuous and stable development of the Company's business. We have an information security team, which is responsible for formulating IT technology security management measures, and guiding and supervising all business departments to comply with the "Management Measures of IT Information Technology Security" (《IT信息技術安全管理辦法》) in the work process. The information security group inspect, audit, and supervise the implementation of various requirements of the information security incident management measures in a regular or sample basis manner and the violations of these measures should be corrected in a timely manner, and those who seriously violate or cause security incidents should be held accountable for the corresponding responsibilities.

The information security group is responsible for the management of information security incidents, which aims to grasp the security status of networks and information systems in a timely manner, laying the foundation for coordinating and organizing relevant forces to conduct emergency response processing of information system security incidents, reducing the losses and impacts caused by information security incidents, and ensuring that networks and information systems operate safely and stably.

During the Year, we received no complaints of material data breaches.

Customer Information Management

The Group is committed to ensuring the privacy of its customers and 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 Personal Information Protection Law of the People's Republic of China (《中華人民共和國個人信息保護法》) and the laws and regulations in the regions where it operates relating to network security and personal information protection, and fully respects the privacy interests of individuals when collecting and processing personal data. We have formulated the "Vesync Group Personal Data Protection System" (《Vesync集團個人數據保護制度》), 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》), and shall be responsible for the processing of relevant personal data within the department and shall take appropriate technical and organizational measures internally to ensure the security of such personal data. We 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 have also strengthened the implementation of data security measures to further protect the privacy of customers. All data management departments and technical departments should take different measures to ensure the security of personal data. 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 have established the " Management Measures of IT Information Technology Security" (《IT信息技術安全管理辦法》) to protect information assets accordingly. We strive to protect our customers' privacy experience through the following measures:

- Each department shall disclose to the individuals whose personal data are collected the processing rules of their personal data, and make clear the purpose, manner and scope of processing.

- Each department shall have a clear and reasonable purpose for processing personal data, and shall be directly related to the purpose of processing, adopt a manner that minimizes the impact on the rights and interests of individuals, limit the minimum scope of achieving the purpose of processing, and shall not collect personal data excessively.

- Appropriate technical and organizational measures are used to ensure the security of personal data, prevent unauthorized or illegal processing, and prevent accidental loss, destruction or damage.

- Each department shall process sensitive personal data after prior analysis and evaluation by the Legal Department, and shall clearly document the basis for processing such sensitive personal data. Meanwhile, in view of the sensitivity of such data, each department should take adequate security measures to ensure data security.

- Each department shall, at a minimum, obtain the consent or authorization of the child's guardian if its products or services are intended for children or may involve the processing of children's personal data. Given the complexity of personal data protection requirements for children in multiple jurisdictions, each department should consult with the Legal Department's data compliance team before commencing specific operations.

4.2 Construction of Integrity Culture

The Group strictly abides by the Criminal Law of the People's Republic of China (《中華人民共和國刑法》), 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 Company Law of the People's Republic of China (《中華人民共和國公司法》) and other national laws and regulations related to anti-corruption, bribery, extortion, fraud, money laundering, etc. The Group also strictly abides by 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 resolutely prohibits any corruption behaviour, giving priority to prevention and supplementing with cracking-down efforts, with zero tolerance towards corruption or fraud.

The Group has formulated the " Regulations on the Administration of Anti-bribery, Anti-corruption, Anti-fraud and Reporting" (《反賄賂反腐敗反舞弊與舉報管理條例》). The objective of anti-bribery, anti-corruption and anti-fraud work is to regulate the professional conduct of all employees of the Company, establish a clean, diligent and professional work ethics, and comply with relevant laws and regulations, professional ethics and the Company's internal management system. At the same time, employees should sign the "Letter of Commitment for Employees to Comply with the" Vesync Regulations on Anti-Bribery, Anti-Corruption, Anti-Fraud and Reporting Management" (《Vesync反賄賂反腐敗反舞弊與舉報管理條例承諾書》)when signing labor contracts, to ensure that each employee is aware of the Company's requirements on integrity, clean, and anti-bribery, anti-corruption, and anti-fraud.

The Group has formulated the "Vesync Regulations on Anti-Bribery, Anti-Corruption, Anti-Fraud and Reporting Management" (Vesync反賄賂反腐敗反舞弊與舉報管理條例) 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, our directors and employees have received anti-corruption related training during the reporting period. In this year, we held a "Corporate Anti-Corruption and Anti-Fraud Training" (《企業反腐敗反舞弊培訓》), which mentioned the concept of fraud, prohibited corporate anti-fraud behaviors, fraud case sharing, and corporate fraud reporting mechanism. Directors and employees were required to be strict and integrity with themselves to establish the Group's core business philosophy with law-abiding and integrity and high-quality services. The anti-fraud and anti-bribery policy outlines the Group's zero tolerance policy on bribery and corruption, and provides guidance to employees on how to handle situations that may lead to or be mistaken for involvement in corruption or unethical business practices.

We advocate an integrity, honest and clean corporate culture with zero tolerance for corruption and fraud. We require our employees to abide by laws, disciplines, integrity, and ethics in their daily work and business operations, and to properly handle inappropriate conflicts of interest and temptations that arise in their work.

The Company's principles for prohibited anti-fraud behaviors:

The Company advocates an integrity, honest and clean corporate culture to create a corporate cultural environment conducive to combating bribery, corruption, and fraud.

The Company encourages its employees to abide by laws, disciplines, integrity, and ethics in their daily work and business operations, and to properly handle inappropriate conflicts of interest and temptations that arise in their work.

The Company' s senior management insists on acting as a role model and takes the lead in complying with national laws and regulations as well as its internal systems, with a view to establish a sound anti-bribery, anti-corruption and anti-fraud internal control mechanism.

We solemnly promise to give top priority to the confidentiality of reports, comply with national laws and regulations and the Company's confidentiality requirements for whistleblowers and reported information, and strictly maintain confidentiality in all aspects of acceptance, registration, storage, and investigation to prevent leakage or loss. The Group strictly prohibits any form of retaliation against whistleblowers and investigators. Any fraudulent behavior is a violation of the Company's high pressure line and is subject to a "zero tolerance" policy. Any violation of the "Vesync Anti-Bribery, Anti-Corruption, Anti-Fraud, and Reporting Management Regulations" (《Vesync反賄賂反腐敗反舞弊與舉報管理條例》) will result in dismissal and cancellation of the Company's performance bonuses, dividends, and other incentive benefits that have been granted. Those suspected of violating the law and committing crimes will be transferred to the judicial authority for handling in accordance with the law.

During the Reporting Period, there were no litigation cases related to corruption and fraud, nor any reported complaints of corruption or malpractice against the Group.

4.3 Protection of Intellectual Property Rights

We strictly abides by the intellectual property laws and regulations in the place where we operate such as the Patent Law of the People's Republic of China (《中華人民共和國專利法》), Trademark Law of the People's Republic of China (《中華人民共和國商標法》), the Copyright Law of the People's Republic of China (《中華人民共和國著作權法》), and other patent laws and trademark laws in jurisdictions where we operate. We have set up an intellectual property 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, there is an intellectual property system, which further strengthens the protection of intellectual property rights of the Company and its branches, and standardizes intellectual property management.

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. The intellectual property rights herein include patents, trademarks (including registered or unregistered trademarks of the Company and its affiliates), copyrights and related royalties, integrated circuit layout designs, commercial secrets, firm names, domain names, and other intellectual property rights entitled in accordance with local laws, regulations, or contractual agreements. 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》) and the "ETEKCITY Intellectual Property Management System" (《ETEKCITY知識產權管理制度》) to encourage employees' enthusiasm for technological innovation. Issues such as the limitation of protection of intellectual property rights and the definition of other property rights shall be governed by the relevant laws, regulations, and rules of the country or region where the Company is located. If there is a conflict with local laws and regulations, the local laws and regulations shall be followed. The provisions of this system are not exhausted in order to maximize the protection of the Company's intellectual property rights.

We have established the "Patent Process Standardization" (《專利流程規範》) and "Regulations for Patent Application and Review" (《專利申請審核規範》). We sort out the patents list of the previous quarter on a quarterly basis to discuss and determine the pending list of inventive patents, including the components of assessors. The process associates will send the scoring sheets and relevant attachments to each assessor, which shall be completed and returned for review before any further processing.

During the Reporting Period, the Group maintained 407 registered patents and obtained 126 new patents.

5. CONCERN FOR EMPLOYEES

Vesync regards talent as our core competitiveness. We spare no effort to protect the legal rights of all employees in terms of employment, compensation and benefits, training and development, etc., to build an equal, inclusive and harmonious career platform for our employees. As of December 31, 2022, we had a total workforce of 1,280 employees. Detailed employee profile is as follows:

Employee Profile		No. of employees
Employee distribution by gender	Female employees	611
	Male employees	669
Employee distribution by employee category	Full-time junior employees	1,214
	Full-time middle management	51
	Full-time senior management	15
Employee distribution by age group	Aged below 30 employees	688
	Aged between 30–50 employees	565
	Aged above 50 employees	27
Employee distribution by geographical location[1]	Employee in China	1,130
	Employee in the United States	145
	Employee in other regions[2]	5

5.1 Compliance with Employment Practices

The Group is dedicated to providing diversified opportunities for the growth and development of its employees and considers it as a strategic and fundamental initiative to achieve the future sustainable development of the Company and maintain its competitiveness, The Group also fully protects the legitimate interests of its employees in terms of recruitment, promotion, resignation, working hours, compensation and benefits, etc..

1 Calculated according to the actual working locations

2 Other regions: Japan and Germany

In order to fully regularize the employment and protect the legitimate interests of employees, 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. Our recruitment procedure is strict and prudent, requiring the Human Resources Department to verify the valid identification document provided by each applicant. The Group has formulated Recruitment Management System (《招聘管理制度》) to build a diversified team. 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. We uphold a policy of equal and impartial employment, and do not discriminate against employees in terms of recruitment, promotion or remuneration packages due to their race, religion, gender, age or marital status. We specify our requirements in recruitment policy by law and prohibits any form of child labor and forced or compulsory labor in all operations during the recruitment process.

In order to standardize the Company's recruitment management, we have developed the "Administrative for Background Check" (《背景調查管理辦法》) to understand the authenticity and reliability of the background information provided by applicants through such investigation so as to only admit qualified candidates and reduce relevant risks during recruitment. In case of issues relating to integrity, violation of laws or regulations, etc., identified in the investigation, such applicant will not be considered for employment. In case of severe violation of the Company's rules and discipline by an employee, incompetence for his/her position, dereliction of duty or held criminal liabilities for violation of laws and regulations, the Company will dismiss or expel such employee and terminate the employment in accordance with the regulations and laws.

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 the decision of an employee for resign and find out the reason. Upon the approval of resignation application, the employee shall handover all his/her work to relevant staff according to the Work Handover Form before the leaving day, and then complete the resignation procedure at the Human Resources Department.

During the Reporting Period, there was no incident of non-compliance with laws regarding remuneration and termination, recruitment and promotion, working hours, equal opportunities on leave, diversity, anti-discrimination, other treatment and benefits, employment, or employment of child labour or forced labour.

5.2 Protection of Employees' Interests

The Group is well aware that the rights and interests of employees are the foundation for stable development. We take into account the needs of our employees and continue to improve the communication channels with them. We provide comprehensive compensation and benefits to our employees, and our overseas offices have also established incentive systems and employee care initiatives in accordance with local government regulations, industry norms and labour market conditions.

We strictly abide by 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 other relevant national or provincial regulations, as well as the Employee Retirement Income Security Act (《僱員退休收入保障法》), the Regulations on Paid Annual Leave for Workers (《職工帶薪年休假條例》) and the Measures for the Implementation of Paid Annual Leave for Enterprise Employees (《企業職工帶薪年休假實施辦法》) of the United States, 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, and provide paid annual leave, maternity leave, sick leave and the basic medical insurance for employees. 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.

Vesync places a high value on employee needs, and we hope that open and effective communication will help develop a shared culture, values and behavioral norms among all employees. Therefore, we have set up different communication channels. We hold staff gatherings and symposiums to praise individuals and teams with outstanding performance. The Human Resources Department organizes employee seminars from time to time with employees from various departments invited to discuss and seek solutions for issues. In addition, we conduct employee interviews to gather their opinions, including employment after probation of newly recruited workers, salary adjustment or position change and performance interview. The Company set a suggestion box and carries out anonymous satisfaction surveys to maintain efficient internal communication.

The welfare of its employees is important to the Company. We adopt a variety of working arrangements and advocate the work-life balance. The Company also organized a number of events during the Reporting Period, including:

Employee Activities	Introduction
Anniversary Celebration	Aiming to open a communication channel for employees in different cities, so that they can understand the working environment and status of each other and feel less strange to each other
Women's Day Activity	Carrying out DIY activity of flower arrangement and presenting bouquets to all female employees
Children's Day Activity	Providing gifts to colleagues with children, and playing lucky game with turntable
Mid-Autumn Festival Activity	A traditional Chinese festival, aiming to enriching the life of employees and enhancing the cohesion among them in the cheering mood
Christmas Activity	Taking and collecting photos and playing Lucky Draw

5.3 Talent Training and Development

We understand that attracting and cultivating talents is crucial to the long-term growth of the Group. We deeply implement the talent concept, optimize the internal talent cultivation system, consolidate the foundation of the Group's development, and are committed to building high-quality education and training platforms for employees to enhance their work performance and maximize their potential. We value the personal growth and development of employees. We understand that training and development provide employees with abundant opportunities to develop new skills, which is an important channel for employees to learn experience, while demonstrating our dedication to the personal and professional development of our employees.

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 hold a series of interactive workshops which teach basic skills, including different practical skills, for different departments, such as workshops on "New Media Operation + KOL Operation" and "Mall Operation System" in the Internet Business Department, and workshops on "Software Test Fundamentals" and "Java Foundation and Development Practice" in the IT Department, which aim to encourage participants to apply relevant skills in their work and improve their performance and productivity. Training programs in China offices include promoting ethical values and effective communication in the workplace.

The Group is committed to providing employees with an equal and adequately supported work environment. We care about the integration of new employees into the Group. We hold "New Employee Orientation Training", which lasts for eight hours, and provide on-the-job counseling during the trial period. We would also regularly communicate with new employees, such as the VeSync 2022 Corporate Training Program for Graduates, so as to help our newcomers in 2022 learn about our basic information and corporate culture as soon as possible. We held a three-day orientation training for graduates in Shenzhen, sharing the differences between the workplace and campus and coping strategies. Through this training, new employees have learned about our development history and corporate culture.

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

Indicator		Average training hours (hours)	Training rate[3]
By gender	Female employees	11.61	50.20%
	Male employees	12.80	49.80%
By employee category	Full-time junior employees	14.05	92.83%
	Full-time middle management	43.92	5.58%
	Full-time senior management	42.67	1.59%

We have a sound promotion mechanism in place, pursuant to which the promotion mainly depends on the work attitude, performance, and potential of employees, as well as the Company's operational and management needs. Employees' job positions and duties can be adjusted based on our business development requirements and employees' actual work abilities and performance; employees can also apply for transfer within the Company on a voluntary basis. The transfer of employees shall be subject to approval procedures in line with the prescribed procedures. Enterprises and individuals who intend to transfer can apply to the Human Resources Department. If they pass the review and evaluation, the Human Resources Department will initiate the transfer process and follow up with the transfer procedures. Training results are one of the important standards for employees to be directly employed, promoted and demoted. The Company will provide employees with opportunities to switch their career development paths based on its development requirements and employees' abilities and willingness, with corresponding training courses and content provided accordingly to ensure the common development of the Company and employees.

5.4 Occupational health and safety

We are committed to providing employees with a healthy and safe work environment. We strive to develop a "corporate culture for which everyone is accountable" to ensure safety and health every working day. The Group complies with the relevant laws and regulations on occupational health and safety in regions where it operates, and develops and provides employees with relevant instructions and training on health and safety issues regularly.

The Group abides by the relevant laws and regulations on safety in regions where it operates, such as the Production Safety Law of the People's Republic of China (《中華人民共和國安全生產法》), the Labour Law of the People's Republic of China(《中華人民共和國勞動法》) and the Occupational Health and Safety Law of the United States. In combination with its actual work conditions, the Group has developed internal systems and implemented prevention and control systems and measures from such aspects as safety accident prevention, implementation of safety responsibilities and disposal of safety accidents, so as to further improve the overall occupational health management. The Group has also organized each unit to establish a list of occupational hazard factors and relevant positions, and actively worked to create healthy enterprises. The Company's health and safety management system has passed the ISO45001 occupational safety and health management system certification.

3 Calculated as follows: (Number of trained employees under this category/total number of trained employees) x 100%

The Group believes that production safety and reducing work-related injuries is one of the most concerns of the Company. We require employees to use the “Production Safety Emergency Filing and Registration Form” and comply with the “Production Safety Accident Emergency Plan” during production. The “Production Safety Accident Emergency Plan” includes fire safety, production safety, attendance system, factory discipline and regulations, and plans the responsibilities of employees at all levels of the production department. The “Comprehensive Emergency Rescue Plan” incorporates emergency measures, safeguards and on-site treatment plans for all accidents that may affect production safety, such as hazardous chemical leakage and environmental emergencies. We comprehensively promote the construction of safety culture and improve the safety awareness of all employees. We also actively implement safety measures by posting safety reminders, equipment checklists and production instructions at production locations to ensure the safety of production processes and further reduce existing and potential risks in operations.

New employees are required to undergo induction safety training upon entry and fill in the induction safety training sign-in form after completion. The training covers fire safety, production safety, quality systems and etc. We strengthen production safety in all aspects and ensure the safety of employees through implementing safety responsibilities, improving the safety management system, strengthening construction safety management, enhancing safety equipment protection, and conducting safety education and training.

This year, we have established the Vesync Epidemic Prevention Working Group to provide employees with protection against the Covid-19 pandemic and ensure a healthy and safe working environment for everyone. The group is responsible for pandemic prevention before and after the resumption of work, and preparing and issuing the “Notice on VeSync’s Resumption Arrangement” based on the actual work schedule of each department of the Company and the actual situation of employees affected by the pandemic.

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.

Low Risk Warning

- Issue notification guidelines: pay attention to pandemic dynamics at all times and issue the Pandemic Prevention and Control Management (《疫情防控管理》) reminder, which is applicable to all scenario.
- Employees who are unable to return to work due to isolation at home can apply for leave (such as applying for annual leave or transfer leave) on Ding Talk, and if the annual leave or transfer leave is infeasible, they can apply for personal leave.
- The domestic and foreign express delivery in each workplace is divided into zones, and special personnels are arranged to disinfect the outer packaging of the express delivery regularly every day.
- During the pandemic prevention and control period, special personnels will be assigned to collect overseas express delivery every Friday.

Medium Risk Warning

- The inspection points set up at the entrances: Disinfection supplies are provided at each front desk, and the trilogy of disinfection, body temperature checking and mask inspections is performed. Special personnels are assigned at workplaces irregularly to conduct inspections at the entrances.
- The disinfection of office areas will be strengthened: In addition to the above-mentioned disinfection areas, the frequency of disinfection of employee desks and chairs is also increased. Special personnels will be assigned to open windows for ventilation and place air purifiers to enhance ventilation.
- Non-gathering dining: Employees are encouraged to dine in one table and not together.
- Employees are required to wear masks: masks are worn in public places and office areas, and it is not recommended to take off masks except for dining.

High Risk Warning

- When employees work at home: All employees are required to clock in online at home on time, and submit daily, weekly, and monthly reports to department leaders on time. Each department should adjust its manner of working and models in a timely manner, and take countermeasures for online office methods to strengthen business connections and keep the Company's business uninterrupted.
- The leaders of each department coordinate and arrange the internal work within the department, and actively promote the work progress with a result-oriented approach.

We highly value the health and well-being of our employees. Although the risk of physical injury in the industry where we operate is very low, we also arrange medical check-ups services for our employees, which includes routine examination, X-ray film, etc. We provide three gynecological examinations for married women. After the medical examination report comes out, the inquiry mode for electronic report will received on cell phone to access personal electronic medical examination results according to the hint. The paper reports will be sent to the relevant responsible person, in order to ensure the safety and health of employees. At the end/beginning of each year, the Company uniformly organizes annual physical examination for employees, and employees are required take physical examination at the institutions by the Company within the specified time frame on non-working days.

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 fatalities due to work during the past three years.

6. GREEN DEVELOPMENT

The Group has always insisted on emphasizing environmental protection while developing its business, by adopting strategies of resource conservation and environmental protection. We are committed to promoting a green and low-carbon lifestyle, accelerating the green transformation of the enterprise and continuing to improve the environmental management system. Our business has complied with the relevant laws and regulations of the place where we operate and of environmental protection. The Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》) states that the group has the obligation to protect the environment, and enterprises should prevent and reduce environmental pollution and ecological damage. The Group strictly abides by 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》and the Prevention and Control of Environmental Pollution by Solid Wastes of the People's Republic of China (《中華人民共和國固體廢物污染環境防治法》), which have a significant impact on the Company's operations. The Group will firmly promote the construction of ecological civilization, strive to overcome the challenges brought about by carbon peaking and carbon neutrality, and integrate the concept of green development into the Company's development. During the Reporting Period, the Group was not aware of any cases of violation of environmental protection laws and regulations.

We are formulating environmental targets. During the previous year, we set preliminary directional objectives on energy use efficiency, water efficiency, emission management, waste reduction and greenhouse gases (GHG) emission. We will review and examine 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 and clarify our work focus and direction.

6.1 Response to Climate Change

The Group acknowledges climate change is closely related to operations. The Group has actively responded to the country's strategic call for "carbon peaking" and "carbon neutrality", actively participated in the construction of dual-carbon demonstration projects and carbon verification and compliance work, continued to strengthen climate risk assessment and management, and identified impacts of major climate risk, thereby implementing targeted countermeasures. 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, whenever extreme weather occurs, 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.

We have identified and assessed climate change risks. After assessing the risk levels of such risks, different risk levels will be developed specific response strategies, measures and plans for each type of climate change risk for risk management.

Identified climate risks	Cases	Potential impact	Responses
Physical climate risk	Water shortages, high temperatures and urban flooding	• Employee commutes and outreach activities may be affected by extreme weather • Office locations may be required to close temporarily	• Formulate disaster response measures • Provide disaster response training and escape drills for employees
Transition risk	Policy and regulatory risk	• Penalties may be imposed for non-compliance • Loss of competitive advantage due to damaged reputation	• Keep up with policy changes
	Market risk	• Higher requirements from customers on the effectiveness of green design	• Continuously focus on the market demand for energy-saving materials and meet the needs of consumers in a timely manner
	Reputation risk	• Loss of competitive advantage over competitors with better sustainable performance	• A public disclosure of the Company's efforts in low-carbon operations in ESG report to actively maintain its corporate image

6.2 Efficient Use of Natural Resources

In order to enhance environmental protection in the course of operation on offices and projects, the Group has invested more resources in environmental protection and used energy in a manner with highest energy efficiency and cost efficiency. 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 • Posting signs containing energy saving and emission reduction responsibilities (such as electrical switch signs)

We have reviewed the environmental targets on energy efficiency, which are also applicable to this year. We have actively implemented and maintained or gradually reduced the intensity of electricity consumption according to the power saving measures of the Group compared to 2021. Progress on energy use efficiency is subject to further improvement and energy saving measures will be adopted to reduce electricity consumption intensity.

During the Reporting Period, data of our energy consumption is as follows, among which electricity consumption was 1,893,358.26 kWh, representing an increase compared to the last year[4].

Total waste performance	Unit	2022
Total electricity consumption	kWh	1,893,358.26
Electricity consumption per square meter	kWh/square meter	47.02
Electricity consumption per employee	kWh/employee	1,479.19

Water Resources Management

Being aware of the crisis on global water scarcity, the Group commits to promote water conservation and takes measures during operation to strengthen the efficient use of water. We arrange regular inspection on water pipes and water facilities, and carry out timely repairs when leaks are discovered in order to avoid waste of water resources. Our water consumption is mainly supported by the local municipal water supply system and we did not have any problems in sourcing water.

- 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

4 Due to the addition of equipment in the office this year, the electricity consumption rose by reasonable increase

- using water taps with infrared sensing
- conducting leakage tests for covered water pipes and check full water tanks on regular basis
- posting water conservation tips

Water consumption performance	Unit	2022
Total water consumption	m^3	28,517.00
Total water consumption density (per square meter)	m^3/m^2	0.71
Total water consumption density (per employee)	m^3/employee	22.28

We have reviewed the environmental targets on water efficiency, which are applicable to this year. We have actively implemented and maintained or gradually reduced the intensity of water consumption according to the water conservation measures of the Group compared to 2021. 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[5]. Progress on total water consumption is subject to further improvement and water conservation measures will be adopted to improve water efficiency.

6.3 Waste Management

In response to the call of waste reduction, the Group has implemented waste reduction measures proactively under its policy. Collection, segregation and transportation of waste was carried out by qualified waste collection service providers. In order to optimise waste management efficiency, all waste shall be sorted and consigned to qualified waste collection service providers or entrusted to the government for incineration or recycling, processing and disposal (Business scope of licensed contractor: recycling of renewable resources (including scrap metal recycling); waste gas treatment; sewage treatment; cleaning service).

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

Paper management	• Encouraging double-sided printing • Monitoring the use of copiers and printers • 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 • Communicating through e-mails and other electronic methods
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

5 Total water consumption presented a growing trend due to the full use of office space and new laboratories this year, Therefore, the total water consumption for this year was a reasonable increase compared to last year

We have reviewed the environmental targets on material conservation measures, which are applicable to this year. We have actively implemented and maintained or gradually reduced the intensity of water consumption according to the water conservation measures of the Group compared to 2021. Set out below is the data of the intensity of waste generation for the Reporting Period, which show an increase in non-hazardous waste as compared to last year[6]. Progress on waste generation is subject to further improvement and material conservation measures will be adopted to reduce waste.

6.4 Emissions Reduction

Major emissions of the Group during its daily operations are GHGs, which derive from office electricity utilization and vehicles of the Company. The core business of the Group does not directly generate significant amounts of exhaust gases and GHG emissions. We proactively operate in a low-carbon manner to minimise our carbon footprint in the course of operation to protect environment and save natural resources in a more effective way. Our business activities also have no significant impact on the environment and natural resources.

The Group complies with national environmental laws and regulations and conducts statistics on GHG emission on an annual basis. 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, PRC, Chongqing, PRC and the US as well as the factory in Dongguan. During the Reporting Period, the GHG emissions are summarised below:

GHG emissions Performance	Unit	2022
GHG emissions[7]		
Direct GHG emissions (Scopes 1)	tonnes of CO_2e	73.02
Indirect GHG emissions (Scopes 2)	tonnes of CO_2e	967.20
Total GHG emissions (Scopes 1 and 2)	tonnes of CO_2e	1,040.21
GHG emissions intensity		
GHG emissions per square meter (Scopes 1 and 2)	tonnes of CO_2e/m^2	0.03
GHG emissions per employee (Scopes 1 and 2)	tonnes of CO_2e/employee	0.81

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.

6 Waste generation intensity presented an upward trend due to the full use of office space followings its renovation during the year. As a result, the upward trend in waste generation intensity during the year is reasonable compared to last year

7 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

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

Type of emissions[8]	Unit	2022
Nitrogen oxides (NO_x)	kg	9.74
Sulfur dioxide (SO_2)	kg	0.03
Particulate matter (PM)	kg	0.87

We have reviewed environmental targets on emission, which are applicable to this year. We have actively implemented and maintained or gradually reduced the intensity of GHG emission according to the emission reduction measures of the Group compared to 2021. Progress on GHG emission is subject to further improvement[9] and emission reduction measures will be adopted to reduce emission.

7. GIVING BACK TO SOCIETY

Involving in charity

The Group spared no effort to serve the community and fulfilled its corporate social responsibility. To strive to promote the social development, we were involved in and invested in local society through the cooperation with charity groups and non-governmental organization.

During the Reporting Period, the office in the US of the Group made a donation of US$5,222 to the Red Cross to give back to community. Looking forward, the Group will continue to uphold the philosophy of giving back to society and maintain a harmonious relationship with the society by actively participating in charity activities, engaging in a culture of social service and encouraging our staff to actively participate in voluntary services.

8 Calculated by reference to the emission factors from Appendix II: Reporting Guidance on Environmental KPIs issued by the Stock Exchange

9 Emission was a reasonable increase, due to Dongguan Zhilun purchased additional trucks for the year

APPENDIX I: SUMMARY OF SUSTAINABILITY DATA

Environmental Scope[10]	Unit	2022
Types of Emission from Vehicle		
NO_x	kg	9.74
SO_x	kg	0.03
PM	kg	0.87
GHG emissions[8]		
Direct GHG emissions (Scopes 1)	tonnes of CO_2e	73.02
Indirect GHG emissions (Scopes 2)	tonnes of CO_2e	967.20
Total GHG emissions (Scopes 1 and 2)	tonnes of CO_2e	1,040.21
GHG emissions intensity		
GHG emissions per square meter (Scopes 1 and 2)	tonnes of CO_2e/m^2	0.03
GHG emissions per employee (Scopes 1 and 2)	tonnes of CO_2e/employee	0.81
Energy consumption		
Total electricity consumption	kWh	1,893,358.26
Electricity consumption per square meter	kWh/m^2	47.02
Electricity consumption per employee	kWh/employee	1,479.19
Fuel consumption of vehicles	liter	1,291.31
Water consumption		
Total water consumption	m^3	28,517.00
Water consumption per square meter	m^3/m^2	0.71
Water consumption per employee	m^3/employee	22.28
Production of hazardous waste		
Battery	piece	192
Computer	piece	24
Waste cartridge, waste toner cartridge	piece	20
Production of non-hazardous waste		
Total production of non-hazardous waste	tonnes	70.00
Non-hazardous waste consumed per employee	tonnes/employee	0.06
Paper consumption		
Total paper consumption	kg	12,130.55
Paper consumption per employee	kg/employee	9.48
Total consumption of packaging materials		
Carton	kg	1,004,357.45
Packaging paper	kg	19,928.00
Instruction manual, pearl cotton, warranty card, sealing stickers, sound-deadening cotton	kg	60,656.58

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

Social Scope	Units	2022
Total employees	No. of people	1,280
Total employees (by gender)		
Female employees	No. of people	611
Male employees	No. of people	669
Total employees (by type of employees)[1]		
Full-time junior employees	No. of people	1,214
Full-time middle management	No. of people	51
Full-time senior management	No. of people	15
Total employees (by age group)		
Aged below 30	No. of people	688
Aged between 30–50	No. of people	565
Aged above 50	No. of people	27
Total employees (by region[2])		
Total employees in China	No. of people	1,130
Total employees in the United States	No. of people	145
Total employees in other region[2]	No. of people	5
Turnover rate[11]		
Total employee turnover rate	%	41.09%
Employee turnover rate (by gender)[11]		
Female employees	%	41.08%
Male employees	%	41.10%
Employee turnover rate (by age group)[11]		
Aged below 30	%	43.46%
Aged between 30–50	%	38.76%
Aged above 50	%	48.15%
Employee turnover rate (by region)[1]		
Employee turnover rate in China	%	41.42%
Employee turnover rate in the United States	%	39.31%
Employee turnover rate in Other regions[2]	%	20.00%
Percentage of employees trained (by gender)[3]		
Female employees	%	50.20%
Male employees	%	49.80%
Percentage of employees trained (by type of employees)		
Full-time junior employees	%	92.83%
Full-time middle management	%	5.58%
Full-time senior management	%	1.59%

Social Scope	Units	2022
Average training hours (by gender)		
Female employees	Hour	11.61
Male employees	Hour	12.80
Average training hours (by type of employees)		
Full-time junior employees	Hour	14.05
Full-time middle management	Hour	43.92
Full-time senior management	Hour	42.67
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	0
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

11 Calculating method: number of employees lost of the type/total number of employees of the type ×100%

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.	6. Green Development
	A1.1	The types of emissions and respective emissions data.	6.4 Emission Reduction 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).	6.4 Emission Reduction 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).	6.3 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).	6.3 Waste Management Appendix I: Summary of Sustainability Data
	A1.5	Description of emissions target(s) set and steps taken to achieve them.	6. Green Development 6.4 Emission Reduction
	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.	6. Green Development 6.3 Waste Management
A2: Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	6.2 Efficient Use of Natural Resources
	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).	6.2 Efficient Use of Natural Resources Appendix I: Summary of Sustainability Data
	A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	6.2 Efficient Use of Natural Resources Appendix I: Summary of Sustainability Data
	A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	6. Green Development 6.2 Efficient Use of Natural Resources
	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.	6. Green Development 6.2 Efficient Use of Natural Resources
	A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	6.3 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 impact on the environment and natural resources.	6. Green Development
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	6. Green Development
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.	6.1 Climate Change Strategy
	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.	6.1 Climate Change Strategy
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.	5.1 Following Employment Practice 5.2 Protecting Employee Rights
	B1.1	Total workforce by gender, employment type (for example, full- or part time), age group and geographical region.	5.1 Following Employment Practice 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.	5.4 Occupational Health and Safety
	B2.1	Number and rate of work related fatalities occurred in each of the past three years including the reporting year.	5.4 Occupational 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, how they are implemented and monitored.	5.4 Occupational Health and Safety
B3: Development and training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	5.3 Talent Training and Development
	B3.1	The percentage of employees trained by gender and employee category (such as senior management, middle management, etc.).	5.3 Talent Training and Development Appendix I: Summary of Sustainability Data
	B3.2	The average training hours completed per employee by gender and employee category.	5.3 Talent Training and Development Appendix I: Summary of Sustainability Data

Indicator			Related Chapter
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.	5.1 Following Employment Practice
	B4.1	Description of measures to review employment practices to avoid child and forced labour.	5.1 Following Employment Practice
	B4.2	Description of steps taken to eliminate such practices when discovered.	5.1 Following Employment Practice
B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	3.3 Sustainable Supply Chain
	B5.1	Number of suppliers by geographical region.	3.3 Sustainable Supply Chain
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	3.3 Sustainable Supply Chain
	B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	3.3 Sustainable Supply Chain
	B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	3.3 Sustainable Supply Chain
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 Securing Product Quality
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	3.1 Securing Product Quality
	B6.2	Number of products and service related complaints received and how they are dealt with.	3.2 Pursuing Quality Service
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	4.3 Protecting Intellectual Property Rights
	B6.4	Description of quality assurance process and recall procedures.	3.1 Securing Product Quality
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	4.1 Protecting Information Security

Indicator			Related Chapter
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.	4.2 Building Integrity Culture
	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.	4.2 Building Integrity Culture Appendix I: Summary of Sustainability Data
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	4.2 Building Integrity Culture
	B7.3	Description of anti-corruption training provided to directors and staff.	4.2 Building Integrity Culture
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.	7. Giving Back to Society
	B8.1	Focus areas of contribution (such as education, environment issues, labour needs, health, culture, sports).	7. Giving Back to Society
	B8.2	Resources contributed to the focus area.	7. Giving Back to Society

The Board is pleased to present the corporate governance report of the Company for the year ended December 31, 2022.

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.

CULTURE

Since its establishment in the United States in 2011, the Company has established multiple branches across the globe, including but not limited to Shenzhen, Chongqing, Hong Kong, Macau, Germany and Japan, with nearly 1,300 employees collectively. The Company has been adhering to its mission and business philosophy, "Build a Better Living", since its establishment, and with "customer orientation, pursuit of excellence, focus and persistence, collaborative innovation" as its values, and with "constant innovation, synchronized service of 'software, hardware, and content', providing to families around the world with personalized and intelligent way of healthy life through deep interconnection with users" as its vision, aiming "globalized channel, interaction-enabled products, deep connection, and digitization" as its target for strategic development, the Company has developed rapidly in the growing market of smart appliances for home and create a one-stop smart life platform for users.

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 director, 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 Hai, Mr. Chen Zhaojun and Mr. Gu Jiong shall be retired from office by rotation at the 2023 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 meeting, Board committees meeting 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 31, 2022
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	3/3	1/1	1/1	1/1
Mr. Gu Jiong	4/4	3/3	1/1	1/1	1/1
Mr. Tan Wen	4/4	3/3	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 the 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 the 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 (including environmental, social and governance ("**ESG**") 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 (including ESG 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, 2022 and has recommended the Board to re-appoint Ernst & Young as the auditor of the Company for the year ending December 31, 2022, subject to approval by the Shareholders at the 2023 AGM.

Remuneration Committee

The Remuneration 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 Remuneration Committee are to make recommendation to the 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 the Directors determine their own remuneration, and review/approve matters relating to the Share Option Scheme and the Post-IPO Share Award Scheme. 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, 2022:

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

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

The Remuneration Committee has reviewed and made recommendations to the 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, 2022. Regular reviews are conducted on Directors' remuneration package with reference to companies with comparable business or scale and appropriate adjustments are proposed. The remuneration of the senior management is determined in respect of their performance to ensure that it is equitable and in accordance with the established guidelines.

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 the Board at least annually and make recommendation to the Board regarding candidates to fill vacancies on the 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. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In determining the Board's composition, board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Chaired by the founder of the Group, Ms. Yang Lin, the Board has achieved gender diversity since Listing. Among the workforce, the gender ratio (including senior management) is 669 male employees to 611 female employees.

The followings are the measureable objectives set up by the Company for achieving gender diversity and any mitigating factors or circumstances which make achieving gender diversity across the workforce (including senior management) more challenging or less relevant:

- The Nomination Committee will discuss and agree annually any applicable measurable objectives for implementing diversity on the Board and recommend them to the Board for adoption.

- Selection of Board candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Board Independence Mechanism

The Company recognises that Board independence is pivotal in good corporate governance and Board effectiveness. The Board has established mechanisms to ensure independent views and input from any Director of the Company are conveyed to the Board for enhancing an objective and effective decision making.

The governance framework and the following mechanisms are reviewed annually by Audit Committee as delegated by the Board, to ensure their effectiveness:

1. Three out of the seven Directors are independent non-executive Directors, which meets the requirements of the Listing Rules that the Board must have at least three independent non-executive Directors and must appoint independent non-executive Directors representing at least one-third of the Board.

2. The Nomination Committee will assess the independence of a candidate who is nominated to be a new independent non-executive Director and the contribution to the diversity of the Board according to the board diversity policy adopted by the Company from time to time before appointment and also the continued independence of existing independent non-executive Directors and their time commitments annually. On an annual basis, all independent non-executive Directors are required to confirm in writing their compliance of independence requirements pursuant to Rule 3.13 of the Listing Rules, and to disclose the number and nature of offices held by them in public companies or organisations and other significant commitments.

3. External independent professional advice is available as and when required by individual Directors.

4. All Directors are encouraged to express freely their independent views and constructive challenges during the Board/Board Committee meetings.

5. No equity-based remuneration with performance-related elements will be granted to independent non-executive Directors.

6. A Director (including independent non-executive Director) who has a material interest in a contract, arrangement or other proposal shall not vote or be counted in the quorum on any Board resolution approving the same.

7. The chairperson of the Board meets with independent non-executive Directors annually without the presence of the executive Director and non-executive Directors.

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 an assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited, a professional services provider specializing in corporate services, and has over nine 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 the 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 effectiveness the systems of risk management and internal control for the Reporting Period. Such review shall be conducted annually. The Board considered that the risk management and internal control systems of the 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 (including ESG 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 2022, 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. The Company considers its risk management and internal control systems effective and adequate.

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 Act 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.

INVESTOR RELATIONS

Amendments to Constitutional Documents

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

Shareholders' Communication Policy

The Company has adopted a shareholders' communications policy which aims to set out the provisions with the objective of ensuring the Shareholders are provided with equal and timely access to information about the Company, in order to enable the Shareholders to exercise their rights in an informed manner and to allow them to engage actively with the Company.

The Board will maintain an on-going dialogue with the Shareholders and will review the policy regularly to ensure its effectiveness. Information will be communicated to the Shareholders through the Company's financial reports, annual general meetings and other general meetings that may be convened, as well as all the disclosures submitted to the Stock Exchange. Shareholders may at any time make a request for the Company's information to the extent such information is publicly available.

As disclosed in the section headed "Procedures for Directing Shareholders' Enquiries to the Board" in this annual report, designated contacts, email addresses and enquiry telephone number of the Company are provided to Shareholders in order to enable them to make any query in respect of the Company.

Having considered the various existing channels of communication and the feedbacks from the Shareholders, investors and analysts, the Board considers that the Shareholders' communication policy has been properly implemented and effective during the Reporting Period.

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

安永會計師事務所
香港鰂魚涌英皇道979號
太古坊一座27樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

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 109 to 193, which comprise the consolidated statement of financial position as at 31 December 2022, 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 2022, 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 retailers such as Amazon and sells a relatively small portion of its products to consumers through online platforms. 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 or on delivery of the product according to the delivery term. The Group provides rights of return to its customers for products under certain sale channels and promotion rebates to certain retailers. 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 to which the Group entitles retailers requiring 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.	Our audit procedures included but not limited to the following: 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 2022, the net carrying value of inventories amounted to US$114,647,000, netting off a provision for impairment of US$8,045,000, representing 25% 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.	Our audit procedures included but not limited to the following: 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
29 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2022

	Notes	2022 US$'000	2021 US$'000
REVENUE	5	**490,378**	454,250
Cost of sales		**(348,089)**	(278,143)
Gross profit		**142,289**	176,107
Other income and gains	5	**4,042**	1,377
Selling and distribution expenses		**(89,239)**	(68,833)
Administrative expenses		**(69,591)**	(51,135)
Impairment losses on financial assets, net		**204**	(172)
Other expenses		**(8,032)**	(5,572)
Finance costs	7	**(1,691)**	(763)
Share of profits and losses of a joint venture		**177**	—
(LOSS)/PROFIT BEFORE TAX	6	**(21,841)**	51,009
Income tax credit/(expense)	10	**5,524**	(9,421)
(LOSS)/PROFIT FOR THE YEAR		**(16,317)**	41,588
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Share of other comprehensive loss of an associate		**(1,164)**	—
Exchange differences on translation of foreign operations		**(3,055)**	1,097
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		**(4,219)**	1,097
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT		**(20,536)**	42,685

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2022

	Notes	**2022 US$'000**	2021 US$'000
(Loss)/profit attributable to:			
Owners of the parent		**(16,276)**	41,588
Non-controlling interests		**(41)**	—
		(16,317)	41,588
Total comprehensive (loss)/income attributable to:			
Owners of the parent		**(20,495)**	42,685
Non-controlling interests		**(41)**	—
		(20,536)	42,685
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	12	**US(1.44 cents)**	US3.68 cents
Diluted	12	**US(1.44 cents)**	US3.68 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	Notes	2022 US$'000	2021 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**4,557**	4,477
Right-of-use assets	14(a)	**10,216**	12,398
Other intangible assets	15	**207**	288
Other non-current assets		**395**	478
Investment in a joint venture	16	**11,215**	12,202
Investment in an associate	17	**1,000**	—
Pledged deposits	23	**3,991**	560
Equity investments designated at fair value through other comprehensive income	18	**1,554**	—
Deferred tax assets	28	**28,094**	14,735
Total non-current assets		**61,229**	45,138
CURRENT ASSETS			
Inventories	19	**114,647**	128,547
Right-of-return assets		**3,216**	—
Trade and notes receivables	20	**149,217**	106,019
Prepayments, other receivables and other assets	21	**26,225**	21,721
Tax recoverable		**10**	968
Derivative financial assets		**—**	120
Pledged deposits	23	**9,149**	31,635
Cash and cash equivalents	23	**93,601**	126,659
Total current assets		**396,065**	415,669
CURRENT LIABILITIES			
Trade and notes payables	24	**60,751**	37,739
Other payables and accruals	25	**39,078**	36,945
Provision	27	**49,010**	1,931
Interest-bearing bank borrowings	26	**8,495**	34,900
Lease liabilities	14(b)	**4,128**	4,098
Tax payable		**5,561**	17,084
Derivative financial liabilities	22	**1,229**	119
Total current liabilities		**168,252**	132,816
NET CURRENT ASSETS		**227,813**	282,853
TOTAL ASSETS LESS CURRENT LIABILITIES		**289,042**	327,991

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	Notes	2022 US$'000	2021 US$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**289,042**	327,991
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	26	**741**	—
Lease liabilities	14(b)	**7,308**	9,538
Provision	27	**3,536**	3,815
Total non-current liabilities		**11,585**	13,353
Net assets		**277,457**	314,638
EQUITY			
Equity attributable to owners of the parent			
Share capital	29	**1,500**	1,503
Share premium		**186,955**	199,885
Reserves	31	**89,043**	113,250
		277,498	314,638
Non-controlling interests		**(41)**	—
Total equity		**277,457**	314,638

Yang Lin
Director

Chen Zhaojun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

Attributable to owners of the parent

	Share capital US$'000 (note 29)	Share premium US$'000 (note 29)	Treasury shares US$'000	Shares held for share award scheme* US$'000 (note 29)	Other reserve* US$'000	Share award and option reserve* US$'000 (note 31)	Statutory surplus reserve* US$'000 (note 29)	Exchange fluctuation reserve* US$'000 (note 31)	Retained profits* US$'000	Total equity US$'000	Non-controlling interest US$'000	Total Equity US$'000
At 1 January 2022	1,503	199,885	—	(44)	(2,102)	1,674	2,844	2,662	108,216	314,638	—	314,638
Loss for the year	—	—	—	—	—	—	—	—	(16,276)	(16,276)	(41)	(16,317)
Other comprehensive income for the year:												
Share of equity interest from an associate	—	—	—	—	—	—	—	(1,164)	—	(1,164)	—	(1,164)
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	(3,055)	—	(3,055)	—	(3,055)
Total comprehensive income for the year	—	—	—	—	—	—	—	(4,219)	(16,276)	(20,495)	(41)	(20,536)
Shares repurchased	—	—	(2,050)	—	—	—	—	—	—	(2,050)	—	(2,050)
Equity-settled share award and option arrangement	—	—	—	—	—	3,916	—	—	—	3,916	—	3,916
Equity-settled share award vested	—	—	—	1	—	—	—	—	—	1	—	1
Cancellation of treasury shares	(3)	(2,047)	2,050	—	—	—	—	—	—	—	—	—
Final 2021 dividend declared	—	(10,883)	—	—	—	—	—	—	(7,629)	(18,512)	—	(18,512)
At 31 December 2022	1,500	186,955	—	(43)	(2,102)	5,590	2,844	(1,557)	84,311	277,498	(41)	277,457

Attributable to owners of the parent

	Share capital US$'000 (note 29)	Share premium US$'000 (note 29)	Treasury shares US$'000	Shares held for share award scheme* US$'000 (note 29)	Other reserve* US$'000	Share award and option reserve* US$'000 (note 31)	Statutory surplus reserve* US$'000 (note 29)	Exchange fluctuation reserve* US$'000 (note 31)	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

* These reserve accounts comprise the consolidated reserves of US$89,043,000 (2021: US$113,250,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	Notes	2022 US$'000	2021 US$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(21,841)**	51,009
Adjustments for:			
Finance costs	7	**1,691**	763
Interest income		**(775)**	(422)
(Reverse of impairment)/impairment of trade receivables, net	20	**(204)**	172
Impairment of inventories	6	**2,028**	1,625
Depreciation of property, plant and equipment	13	**2,172**	1,306
Depreciation of right-of-use assets	14(a)	**4,589**	4,048
Amortisation of other intangible assets	15	**271**	510
Covid-19-related rent concessions from lessors		**(154)**	—
(Gain)/loss on disposal of items of property, plant and equipment, net		**(4)**	15
(Gain)/loss on early termination of leases, net		**(25)**	29
Equity-settled share award and option expense		**3,916**	1,508
Loan forgiveness		**(928)**	(157)
Share of profits and losses of joint venture		**(177)**	—
Fair value gains, net:			
— Derivative instruments-transactions not qualifying as hedges		**1,261**	(40)
Foreign exchange differences, net		**(171)**	1,670
		(8,351)	62,036
Increase in trade and note receivables		**(42,993)**	(70,950)
(Increase)/decrease in prepayments, other receivables and other assets		**(4,342)**	2,895
Decrease/(increase) in inventories		**11,872**	(34,574)
Decrease/(increase) in right-of-return assets		**(3,216)**	—
Decrease/(increase) in other non-current assets		**403**	(123)
Increase/(decrease) in trade and notes payables		**23,012**	(7,878)
Increase in provision		**46,800**	732
Increase in other payables and accruals		**1,919**	9,728
Increase in pledged deposits		**(5,409)**	(724)
Cash generated/(used in) from operations		**19,695**	(38,858)
Income tax paid		**(18,400)**	(7,822)
Net cash flows from/(used in) operating activities		**1,295**	(46,680)

Year ended 31 December 2022

	Notes	2022 US$'000	2021 US$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(2,961)**	(3,961)
Purchases of other intangible assets		**(213)**	(384)
Purchase of a shareholding in a joint venture		**—**	(12,202)
Purchase of a shareholding in a associate		**(1,000)**	—
Purchases of equity investments designated at fair value through other comprehensive income		**(1,554)**	—
Decrease/(increase) in time deposits with original maturity of over three months		**30,000**	(30,000)
Increase in pledged deposits		**(2,872)**	—
Interest received		**857**	225
Net cash flows from/(used in) investing activities		**22,257**	(46,322)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**—**	30,005
Share issue expenses		**—**	(894)
Repurchase of shares		**(2,050)**	(236)
New bank loans		**48,265**	50,325
Repayment of bank borrowings		**(71,396)**	(18,170)
Pledged for bank borrowings		**27,895**	(31,471)
Principal portion of lease payments		**(4,327)**	(3,585)
Dividend paid to shareholders		**(18,943)**	(18,561)
Interest paid		**(1,609)**	(749)
Net cash flows (used in)/from financing activities		**(22,165)**	6,664
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,387**	(86,338)
Cash and cash equivalents at beginning of year		**96,462**	183,450
Effect of foreign exchange rate changes, net		**(4,248)**	(650)
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	**93,601**	96,462
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position		**93,601**	126,659
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	23	**93,601**	96,462

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 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 U.S.")	USA/California 3 October 2006	US$50	—	100%	Sale of products
Vesync Corporation ("Vesync U.S.")	USA/California 1 April 2015	—	—	100%	Sale of products
Etekcity Company Limited ("Etekcity Macau")	PRC/Macau 21 February 2019	MOP25,000	—	100%	Import and export trade

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

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

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shenzhen City Chenbei Management Consulting Company Limited* ("WFOE") (note (a))	PRC/ Mainland China 26 April 2019	RMB30,000,000	—	100%	Investment holding
Etekcity Corporation ("Etekcity U.S.")	USA/California 5 December 2011	US$50	—	100%	Sale of products
Atekcity Corporation ("Atekcity U.S.")	USA/California 3 July 2012	—	—	100%	Customs clearance and declaration
Arovast Corporation ("Arovast U.S.")	USA/California 20 October 2016	—	—	100%	Sale of products
Cosori Corporation ("Cosori U.S.")	USA/California 8 September 2015	—	—	100%	Sale of products
Arize Corporation ("Arize U.S.")	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
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

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		Principal activities
			Direct	Indirect	
Chongqing Xiaodao Information Technology Company Limited* ("Chongqing Xiaodao") (note (b))	PRC/ Mainland China 8 April 2015	RMB1,000,000	—	100%	Provision of 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
Foshan Fanda Technology Co., Ltd. ("Foshan Fanda")*	PRC/ Mainland China 6 June 2022	RMB3,000,000	—	67.7%	Research
VESYNC (AUSTRALIA) PTY. LTD ("Vesync AU")	Australia/ New South Wales 18 February 2022	AUD1,000	—	100%	Customs clearance and declaration
Techvast Corporation ("Techvast")	USA/California 14 November 2022	US$500	—	100%	Sale of products

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 names.

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 2022. 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).

Generally, there is a presumption that a majority of voting rights results in control. 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 3	*Reference to the Conceptual Framework*
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to HKAS 37	*Onerous Contracts — Cost of Fulfilling a Contract*
Annual Improvements to HKFRSs 2018–2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

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

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

(b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendment that is 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. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

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 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*[2]
HKFRS 17	*Insurance Contracts*[1]
Amendments to HKFRS 17	*Insurance Contracts*[1, 5]
Amendment to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 — Comparative Information*[6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current* (the "2020 Amendments")[2, 4]
Amendments to HKAS 1	*Non-current Liabilities with Covenants* (the "2022 Amendments")[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
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]

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 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, 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 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.

6 An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of HKFRS 17

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 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 revisiting the accounting policy disclosures to ensure consistency with the amendments.

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. 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. In 2022, the HKICPA issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

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.

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

Amendments to HKAS 12 narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. 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 amendments are not expected to have any significant impact on the Group's financial statements.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates and joint ventures (Continued)

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*.

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);

(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 equipment that are considered to be of low value.

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

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 designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are 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, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

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 that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

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 not designated as hedging instruments.

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.

The Group has present obligations which constitute onerous contracts by providing customers and consumers free replacements to address a risk of thermal events in an extremely rare rate and limited circumstances and customer satisfaction. The present obligation under the contract is recognised and measured as a provision.

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 some retailers.

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)

Right-of-return assets

A right-of-return asset is recognised for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods and any potential decreases in the value of the returned goods. The Group updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned goods.

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 share award and option schemes 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 in exchange 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 30 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.

Other 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 statical 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 2022, the amount recognised as refund liabilities was US$11,585,000 (2021: US$8,496,000) for the expected returns and promotion rebates.

Provisions for obligations arising from recall

The Group submitted reports to relevant institutions to recall certain models of air fryers and replace the sold units with new models to address a risk of thermal events in an extremely rare rate and limited circumstances and customer satisfaction before the year end of 2022. Since the commitment to settle the obligation arising from recall by free replacement constitutes onerous contract, the present obligation is recognised and measured as a provision.

The provisions recognised by the Group are the best estimate of the Group's liabilities arising from their recall plan based on the estimated future expenditure of new air friers, transportation fees, rework fees and other management and supervision costs after considering the predicted customer recall response rate using a statical method. The amount of the obligation arising from the recall is mainly determined by customer overall response rate, incremental cost to fulfilling the replacement and other management and supervision costs directly relating to the recall. The predicted customer recall response rate is determined by an external specialist and the Group's management and is based on historic recall samples, foreseeable changes in the major recall drivers and correctively adjustments by comparing actual responses. As at 31 December 2022, amounts of US$47,277,000 in provisions for obligations arising from a voluntary recall are reported.

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 20 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

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 2022, the Group's impairment of inventories amounted to US$8,045,000 (2021: US$6,017,000).

Leases — Estimating the incremental borrowing rate

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

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 28 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 30 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:

	2022 US$'000	2021 US$'000
North America	**366,182**	358,060
Europe	**107,946**	81,041
Asia	**16,250**	15,149
Total	**490,378**	454,250

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

	2022 US$'000	2021 US$'000
North America	**5,597**	6,837
China	**25,306**	22,860
Europe	**92**	123
Other	**2,140**	583
Total	**33,135**	30,403

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

5. REVENUE, OTHER INCOME AND GAINS

Information about a major customer

Revenue of approximately US$405,097,000 for the year ended 31 December 2022 (2021: US$338,536,000) 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.

An analysis of revenue is as follows:

	2022 US$'000	2021 US$'000
Revenue from contracts with customers	**490,378**	454,250

(i) Disaggregated revenue information

	2022 US$'000	2021 US$'000
Timing of revenue recognition		
Goods transferred at a point in time	**490,378**	454,250

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:

	2022 US$'000	2021 US$'000
Revenue recognised that was included in contract liabilities at the beginning of the year:		
Sale of products	**1,044**	1,290

(ii) Performance obligations

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

Sale of products

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

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(ii) Performance obligations (Continued)

At 31 December 2022, 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.

(iii) Refund liabilities

	2022 US$'000	2021 US$'000
Refund liabilities arising from sales return	**6,940**	282
Refund liabilities arising from promotion rebates	**4,645**	8,214
	11,585	8,496

An analysis of other income and gains is as follows:

	2022 US$'000	2021 US$'000
Other income		
Bank interest income	**775**	665
Government grants*	**2,562**	469
Others	**705**	203
	4,042	1,337
Gains		
Fair value gains, net:		
Derivative instruments		
— transactions not qualifying as hedges	**—**	40
	4,042	1,377

* The government grants mainly represent subsidies from the local government to support their operation and to compensate the subsidies. During the year, the Group received a forgiveness loan amounting to US$928,000 under the Paycheck Protection Program and payroll tax credits amounting to US$1,039,000 under Employee Retention Credit.

6. PROFIT BEFORE TAX

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

	Notes	2022 US$'000	2021 US$'000
Cost of inventories sold		**235,781**	207,962
Amazon fulfilment fee		**963**	12,162
Commission to platform		**2,409**	12,839
Research and development costs*		**29,954**	17,308
Depreciation of property, plant and equipment	13	**2,172**	1,306
Amortisation of other intangible assets	15	**271**	510
Depreciation of right-of-use assets	14(a)	**4,589**	4,048
Auditor's remuneration		**780**	780
Lease payments not included in the measurement of lease liabilities	14(c)	**382**	2,323
(Gain)/loss on disposal of items of property,plant and equipment		**(4)**	15
Interest income		**(775)**	(665)
Loss on disposal of derivative instruments		**2,436**	—
Fair value gains, net:			
— Derivative instruments — transactions not qualifying as hedges		**1,261**	(40)
Foreign exchange differences, net		**4,421**	4,190
Employee benefit expenses (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**51,538**	32,579
Pension scheme contributions		**7,249**	6,120
Staff welfare expenses		**5,757**	2,796
Equity-settled share award expense		**3,051**	950
		67,595	42,445
Impairment of trade receivables, net	20	**(204)**	172
Impairment of inventories, net**	19	**2,028**	1,625
Product warranty provision			
— Addition provision	27	**1,407**	958
Provisions arising from recall			
— Addition provision	27	**48,610**	—

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

** 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:

	2022 US$'000	2021 US$'000
Interest on bank loans	**893**	88
Interest on lease liabilities	**653**	675
Interest on discounted bank notes and others	**145**	—
	1,691	763

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	
	2022 US$'000	2021 US$'000
Fee	**109**	110
Other emoluments:		
Salaries, allowances and benefits in kind	**954**	1,073
Performance related bonus	**62**	447
Pension scheme contributions	**19**	38
Equity-settled share option expense	**865**	558
	2,009	2,226

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 30 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:

	2022 US$'000	2021 US$'000
Mr. Fong Wo, Felix	**38**	39
Mr. Gu Jiong	**38**	39
Mr. Tan Wen	**33**	32
	109	110

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

	2022 US$'000	2021 US$'000
Mr. Fong Wo, Felix	**34**	22
Mr. Gu Jiong	**34**	22
Mr. Tan Wen	**34**	22
	102	66

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

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

2022

	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	**342**	**—**	**6**	**195**	**543**
Mr. Yang Hai	**293**	**—**	**6**	**195**	**494**
Mr. Chen Zhaojun	**300**	**62**	**7**	**339**	**708**
	935	**62**	**19**	**729**	**1,745**
Non-executive director:					
Mr. Yang Yuzheng	**19**	**—**	**—**	**34**	**53**
	954	**62**	**19**	**763**	**1,798**

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

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.

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 two directors who are also the chief executives (2021: three directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2021: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2022 US$'000	2021 US$'000
Salaries, allowances and benefits in kind	**726**	422
Performance related bonuses	**200**	104
Pension scheme contributions	**14**	19
	940	545

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	
	2022	2021
HK$2,000,001 to HK$3,000,000	**3**	2

10. INCOME TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The Cayman Islands and the 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% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 of assessable profits of this subsidiary are taxed at 8.25% 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% (2021: 15%) during the year.

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

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 5% 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% (2021: 12%) on the estimated assessable profits arising in Macau during the year. The first MOP$600,000 of assessable profits of this subsidiary are tax-free and the remaining assessable profits are taxed at 12%.

United States

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

10. INCOME TAX (Continued)

Netherlands and Germany

The subsidiary in the Netherlands is entitled to a preferential income tax rate of 15% (2021: 15%) for the taxable income less than or equal to EUR395,000 and an income tax rate of 25.8% (2021: 25%) for the taxable income over EUR395,000. The subsidiary in Germany is entitled to a combined tax rate of 29.13% (2021: 29.13%), consisting of a corporate tax rate of 15%, a solidarity surcharge thereon of 5.5% and a trade tax rate of 13.3%.

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

	2022 US$'000	2021 US$'000
Current tax:		
— Mainland China	**853**	545
Charge for the year	**847**	264
Underprovision in prior years	**6**	281
— Hong Kong	**(498)**	—
Charge for the year	**453**	—
Overprovision in prior years	**(951)**	—
— Macau	**177**	2,658
— United States	**6,825**	3,148
Charge for the year	**7,229**	2,321
Overprovision in prior years	**(404)**	827
— Netherlands and Germany	**527**	804
— Others	**1**	—
Deferred tax (note 28)	**(13,409)**	2,266
Total tax (credit)/charge for the year	**(5,524)**	9,421

10. INCOME TAX (Continued)

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

	2022 US$'000	2021 US$'000
(Loss)/Profit before tax	**(21,841)**	51,009
Tax at the statutory tax rates	**2,518**	10,612
Preferential income tax rates applicable to subsidiaries	**(2,561)**	(1,743)
Expenses not deductible for tax	**87**	1,234
Income not subject to tax	**(1,337)**	—
Additional deduction allowance for research and development costs	**(3,370)**	(2,160)
Tax losses utilised from previous years	**(106)**	(47)
Recognition of tax losses previously not recognised	**(246)**	—
Adjustments in respect of current tax of previous period	**(1,349)**	1,108
Tax losses not recognised	**840**	417
Tax (credit)/charge at the Group's effective rate	**(5,524)**	9,421

11. DIVIDENDS

	2022 US$'000	2021 US$'000
Proposed final ordinary		
— Nil (2021: HK6.40 cents) per ordinary share	**—**	9,274
Proposed final special		
— Nil (2021: HK6.40 cents) per ordinary share	**—**	9,274
	—	18,548

The board of directors did not recommend the payment of any final dividend for the year ended 31 December 2022.

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

The calculation of the basic (loss)/earnings per share amounts is based on the (loss)/profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,128,921,068 (2021: 1,129,672,995) in issue during the year, as adjusted to reflect repurchase of shares during the year.

The calculation of the diluted (loss)/earnings per share amounts is based on the (loss)/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 (loss)/earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued on the deemed exercise of all dilutive potential ordinary shares into ordinary shares arising from awarded shares and share options granted by the Company.

The calculations of basic and diluted (loss)/earnings per share are based on:

	2022 **US$'000**	2021 US$'000
(Loss)/earnings		
(Loss)/profit attributable to ordinary equity holders of the parent used in the basic and diluted (loss)/earnings per share calculation	**(16,276)**	41,588

	Number of shares	
	2022	2021
Shares		
Weighted average number of ordinary shares during the year used in the basic earnings per share calculation	**1,128,921,068**	1,129,672,995
Effect of dilution — weighted average number of ordinary shares:		
Shares awarded	**4,038,012**	—
	1,132,959,080	1,129,672,995

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 2022					
At 1 January 2022:					
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
At 1 January 2022, net of accumulated depreciation	807	2,509	216	945	4,477
Additions	1,067	918	102	554	2,641
Depreciation provided during the year (note 6)	(446)	(1,078)	(114)	(534)	(2,172)
Disposals	—	(37)	—	(1)	(38)
Exchange realignment	(88)	(174)	(17)	(72)	(351)
At 31 December 2022, net of accumulated depreciation	1,340	2,138	187	892	4,557
At 31 December 2022:					
Cost	2,492	4,772	705	2,210	10,179
Accumulated depreciation	(1,080)	(2,507)	(504)	(1,282)	(5,373)
Exchange realignment	(72)	(127)	(14)	(36)	(249)
Net carrying amount	1,340	2,138	187	892	4,557

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 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

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 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 and 1 January 2022	**12,078**	**320**	**12,398**
Additions	**2,910**	**113**	**3,023**
Disposal or early termination	**(155)**	**—**	**(155)**
Depreciation charge (note 6)	**(4,486)**	**(103)**	**(4,589)**
Exchange realignment	**(461)**	**—**	**(461)**
As at 31 December 2022	**9,886**	**330**	**10,216**

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:

	2022 US$'000	2021 US$'000
Carrying amount at 1 January	**13,636**	11,817
New leases	**3,023**	5,341
Accretion of interest recognised during the year	**653**	675
Covid-19-related rent concessions from lessors	**(154)**	—
Payments	**(4,980)**	(4,260)
Disposal or early termination	**(180)**	(25)
Exchange realignment	**(562)**	88
Carrying amount at 31 December	**11,436**	13,636
Analysed into:		
Current portion	**4,128**	4,098
Non-current portion	**7,308**	9,538

The maturity analysis of lease liabilities is disclosed in note 36 to the financial statements.

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

	2022 US$'000	2021 US$'000
Interest on lease liabilities	**653**	675
Depreciation charge of right-of-use assets	**4,589**	4,048
Expense relating to short-term leases (included in selling and distribution expenses and administrative expenses)	**382**	2,323
Total amount recognised in profit or loss	**5,624**	7,046

(d) The total cash outflow for leases is disclosed in note 32 (c) to the financial statements.

15. OTHER INTANGIBLE ASSETS

	Software US$'000	Trademarks US$'000	Total US$'000
31 December 2022			
Cost at 1 January 2022, net of accumulated amortisation	**288**	**—**	**288**
Additions	**213**	**—**	**213**
Amortisation provided during the year (note 6)	**(271)**	**—**	**(271)**
Exchange realignment	**(23)**	**—**	**(23)**
At 31 December 2022	**207**	**—**	**207**
At 31 December 2022:			
Cost	**1,368**	**835**	**2,203**
Accumulated amortisation and impairment loss	**(1,164)**	**(849)**	**(2,013)**
Exchange realignment	**3**	**14**	**17**
Net carrying amount	**207**	**—**	**207**
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

16. INVESTMENT IN A JOINT VENTURE

	2022 US$'000	2021 US$'000
Share of net assets	**11,215**	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	65.24%	Investment in industries of smart household appliances and smart home devices.

The above investment is directly held by a 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:

	2022 US$'000	2021 US$'000
Cash and cash equivalent	**17,190**	16,924
Net asset	**17,190**	16,924
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	**65.24%**	72.10%
Group's share of net assets of the associate	**11,215**	12,202
Carrying amount of the investment	**11,215**	12,202
Other income	**271**	—
Profit for the year	**271**	—

17. INVESTMENT IN AN ASSOCIATE

	2022 US$'000	2021 US$'000
Share of net assets	**1,000**	—

Particulars of the material associate are as follows:

Name	Place and date of registration	Nominal value of registered share capital	Percentage of ownership interest, and profit sharing	Principal activities
Japa Health, Inc. ("Japa Health")	USA/Delaware 2 October, 2020	US$1,929	10%	Research and development of products

The above investment is directly held by a wholly-owned subsidiary of the Company, which has a long term interest of approximately 33% of the equity voting rights in a position to exercise significant influence in the financial and operating policy decisions of Japa Health.

18. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022 US$'000	2021 US$'000
Equity investments designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value		
Zhejiang Zhirou Technology Co., Ltd.	**1,554**	—

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

19. INVENTORIES

	2022 US$'000	2021 US$'000
Raw materials	**539**	596
Work in progress	**203**	450
Finished goods	**121,950**	133,518
	122,692	134,564
Less: Provision for inventories	**(8,045)**	(6,017)
	114,647	128,547

20. TRADE AND NOTES RECEIVABLES

	2022 US$'000	2021 US$'000
Notes receivables	**137**	—
Trade receivables	**149,255**	106,398
Impairment of trade receivables	**(175)**	(379)
	149,217	106,019

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 and notes receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2022 US$'000	2021 US$'000
Less than 3 months	**143,250**	104,089
Between 3 and 6 months	**1,019**	1,633
Between 6 and 12 months	**3,322**	210
Between 1 and 2 years	**1,626**	87
	149,217	106,019

20. TRADE AND NOTES RECEIVABLES (Continued)

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

	2022 US$'000	2021 US$'000
At beginning of year	**379**	536
Impairment losses, net	**(204)**	172
Written-off	**—**	(329)
At end of year	**175**	379

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 2022

	Gross carrying amount US$'000	Expected credit loss rate	Expected credit loss US$'000
The largest customer	**130,949**	**0.04%**	**52**
Others	**18,306**	**0.67%**	**123**
	149,255		**175**

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

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2022 US$'000	2021 US$'000
Deposits and other receivables	**9,277**	5,680
Prepayments	**9,457**	10,088
Other current assets	**7,491**	5,953
	26,225	21,721

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 2021 and 2022, the loss allowance was assessed to be minimal.

22. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2022	
	Assets US$'000	**Liabilities** US$'000
Forward currency contracts	—	1,127
Options for foreign currency	—	102
	—	1,229

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$1,261,000 were charged to profit or loss during the year.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2022 US$'000	2021 US$'000
Cash and bank balances	**82,971**	97,383
Time deposits	**23,770**	61,471
	106,741	158,854
Less: Pledged deposits	**6,277**	31,471
Restricted for lawsuits	**—**	164
Pledged time deposit for bank notes	**5,744**	—
Restricted for the share award scheme*	**1,119**	560
Cash and cash equivalents	**93,601**	126,659
Denominated in RMB	**8,522**	32,956
Denominated in US$	**77,960**	74,021
Denominated in HK$	**5**	287
Denominated in EUR	**4,944**	18,898
Denominated in CA$	**692**	21
Denominated in GBP	**21**	2
Denominated in MOP$	**44**	—
Denominated in S$	**12**	—
Denominated in JPY	**1,401**	474
Cash and cash equivalents	**93,601**	126,659

* Cash held by SWCS Trust Limited ("SWCS") under the Share Award Scheme (note 30) which can only be used exclusively for employees notified by the board of directors under the rules of the 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. Time deposits earn interest at the respective deposit rates. Pledged short term time deposits are made for periods with a maturity of the bank notes 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. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

24. TRADE AND NOTES PAYABLES

	2022 US$'000	2021 US$'000
Notes payables	**12,231**	—
Trade payables	**48,520**	37,739
	60,751	37,739

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

	2022 US$'000	2021 US$'000
Within 3 months	**59,794**	36,566
3 to 12 months	**512**	795
Over 1 year	**445**	378
	60,751	37,739

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

25. OTHER PAYABLES AND ACCRUALS

	Notes	2022 US$'000	2021 US$'000
Contract liabilities	(a)	**2,864**	1,044
Other payables	(b)	**11,496**	7,550
Refund liabilities		**11,585**	8,496
Payroll payable		**6,192**	7,273
Interest payables		**82**	—
Dividend payable		**128**	—
Taxes payable other than corporate income tax		**6,731**	12,582
		39,078	36,945

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.

26. INTEREST-BEARING BANK BORROWINGS

	As at 31 December 2022			As at 31 December 2021		
	Effective interest rate (%)	Maturity	US$'000	Effective interest rate (%)	Maturity	US$'000
Current						
Bank overdraft						
— unsecured (note (a))	—	2023	322	—	2022	229
US$144,000 Bank loans						
— unsecured	LPR+62bps*	2023	144	—	—	—
US$3,937,000 Bank loans						
— unsecured	SOFR+230bps*	2023	3,937	—	—	—
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$3,575,000 Bank loans						
— secured (note (b))	—	2023	3,575	—	—	—
US$1,511,000 Bank loans						
— unsecured	—	—	—	2.4	2022	1,511
US$2,572,000 Bank loans						
— secured	—	—	—	1	2022	2,572
Current portion of long-term bank loans						
— secured (note (c))	1	2023	517	—	—	—
			8,495			34,900
Non-current						
1% US$741,000 Bank loans						
— secured (note (c))	1	2025	741	—	—	—

	2022 US$'000	2021 US$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	8,495	34,900
In the second year	522	—
In the third year	219	—
	9,236	34,900

* LPR rate refers to Loan Prime Rate

* SOFR rate refers to Secured Overnight Financing Rate

26. INTEREST-BEARING BANK BORROWINGS (Continued)

Notes:

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

(b) The bank loan of total US$3,575,000 is guaranteed by pledged deposits.

(c) The bank loan of total US$1,258,000 is the Paycheck Protection Program ("PPP") Loan guaranteed by the Small Business Administration ("SBA").

27. PROVISION

	Recall US$'000	Warranties US$'000	Lawsuits US$'000	Surcharges US$'000	Total US$'000
At 1 January 2021	—	670	370	3,974	5,014
Additional provision	—	958	—	800	1,758
Amounts utilised during the year	—	(739)	(70)	(217)	(1,026)
At 31 December 2021 and 1 January 2022	**—**	**889**	**300**	**4,557**	**5,746**
Additional provision	**48,610**	**1,407**	**—**	**177**	**50,194**
Reversal of unutilised amounts	**—**	**—**	**—**	**(403)**	**(403)**
Amounts utilised during the year	**(1,333)**	**(1,289)**	**(300)**	**(69)**	**(2,991)**
At 31 December 2022	**47,277**	**1,007**	**—**	**4,262**	**52,546**

	2022 US$'000	2021 US$'000
Analysed into:		
Portion classified as current liabilities	**49,010**	1,931
Non-current portion	**3,536**	3,815
	52,546	5,746

Recall

The provision is related to a voluntary recall which constitutes onerous contracts by providing free replacement of certain models of air fryers. The amount of the provision is estimated based on the overall customer response rate, future expenditures to fulfilling customers' response and necessary management and supervision costs.

27. 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.

28. DEFERRED TAX

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

Deferred tax assets

	Refund Liabilities US$'000	equity-settled share award and option arrangement US$'000	Unrealised profit from inter-company transactions US$'000	Inventory provision US$'000	Lease liabilities US$'000	Provision for warranties US$'000	Provision for product recall US$'000	Inventory cost deduction difference US$'000	Losses available for offsetting against future taxable profits US$'000	Others US$'000	Total US$'000
At 1 January 2021	—	26	14,872	1,196	2,547	202	—	394	—	119	19,356
Deferred tax credited/ (charged) to profit or loss during the year (note 10)	—	186	(3,028)	459	460	18	—	25	—	(14)	(1,894)
Exchange realignment	—	—	—	1	—	(2)	—	—	—	—	(1)
At 31 December 2021 and 1 January 2022	—	212	11,844	1,656	3,007	218	—	419	—	105	17,461
Deferred tax credited/ (charged) to profit or loss during the year (note 10)	3,250	331	2,659	580	(678)	14	5,106	1,880	324	118	13,584
Exchange realignment	(8)	—	—	—	(42)	—	—	—	—	—	(50)
At 31 December 2022	3,242	543	14,503	2,236	2,287	232	5,106	2,299	324	223	30,995

28. DEFERRED TAX (Continued)

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

Deferred tax liabilities

	Right-of-return assets US$'000	Right-of-use assets US$'000	Total US$'000
At 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 and 1 January 2022	—	2,726	2,726
Deferred tax charged to profit or loss during the year (note 10)	900	(725)	175
At 31 December 2022	900	2,001	2,901

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:

	2022 US$'000	2021 US$'000
Net deferred tax assets recognised in the consolidated statement of financial position	**28,094**	14,735

28. DEFERRED TAX (Continued)

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

	2022 US$'000	2021 US$'000
Tax losses arising in:		
Mainland China	**13**	13
United States	**3,943**	2,151
Japan	**523**	278
Others	**419**	419
	4,898	2,861

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 2022, 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$20,928,000 as at 31 December 2022 (2021: US$15,606,000).

29. SHARE CAPITAL AND SHARE PREMIUM

	2022 US$'000	2021 US$'000
Authorised:		
2,000,000,000 (2021: 2,000,000,000) ordinary shares of HK$0.01 each	**2,580**	2,580
Issued:		
1,162,884,800 (2021: 1,165,049,800) ordinary shares of HK$0.01 each	**1,500**	1,503

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 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 and 1 January 2022	**1,165,049,800**	**1,503**	**199,885**	**(44)**	**201,344**
Equity-settled share award vested	**—**	**—**	**—**	**1**	**1**
Shares repurchased (note (b))	**(2,165,000)**	**(3)**	**(2,047)**	**—**	**(2,050)**
Dividend declared	**—**	**—**	**(10,883)**	**—**	**(10,883)**
At 31 December 2022	**1,162,884,800**	**1,500**	**186,955**	**(43)**	**188,412**

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 2,165,000 (2021: 205,000) of shares on the Stock Exchange at a total consideration of HK$15,963,000 (2021: 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 consideration has been recorded to share capital and share premium of the Company.

30. 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 Bank of Communications Trustee Limited ("BOCT"). The Board may at its full discretion to direct and procure BOCT to transfer, repurchase, reallocate or to make on-market disposal of such remaining Shares within reasonable time and the Company is entitled to receive the net proceeds from such disposal.

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

On 22 June 2020, the Company issued and allotted 52,631 Shares (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.

30. SHARE-BASED PAYMENTS (Continued)

Pre-IPO Share Award Scheme (Continued)

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.

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 number of vested shares that are not fulfilled at 31 December 2022 is 6,400,000 (2021: 7,200,000). The fair value of the Awarded Shares granted was US$2,838,000. The fair value of the Awarded Shares granted during the year ended 31 December 2022 was estimated as at the date of grant using a discounted cash flow model, taking into account the terms and conditions upon which the Awarded Shares were granted.

On 28 April 2022, SWCS was appointed by the Company as the successor trustee to manage the pre-IPO trust. The pre-IPO trust was terminated after its shares and trust assets were transferred to post-IPO trust in October 2022.

30. SHARE-BASED PAYMENTS (Continued)

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.

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.

30. SHARE-BASED PAYMENTS (Continued)

Share Option Scheme (Continued)

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.

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

	2022		2021	
	Weighted average exercise price HK$ per share	**Number of options US$'000**	Weighted average exercise price HK$ per share	Number of options US$'000
At 1 January	**12.88**	**5,100,000**	—	—
Granted during the year	**—**	**—**	12.88	5,100,000
Forfeited during the year	**—**	**—**	—	—
Exercised during the year	**—**	**—**	—	—
Expired during the year	**—**	**—**	—	—
	12.88	**5,100,000**	12.88	5,100,000

30. SHARE-BASED PAYMENTS (Continued)

Share Option Scheme (Continued)

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 was HK$21,146,000 (HK$4.15 each) (equivalent to US$2,722,000 (US$0.53 each)). 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:

	2022
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.

Post-IPO Share Award Scheme

The Company adopted the Post-IPO Share Award Scheme (the "Scheme") to recognise the contributions by certain Eligible Participants and to provide them with incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. The Scheme became effective on 20 July 2021 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The Scheme is subject to the administration of the board of director of the Company 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 Scheme (including the interpretation of any provision) shall be final and binding.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme is limited to 1% of the shares of the Company in issue at any time.

30. SHARE-BASED PAYMENTS (Continued)

Post-IPO Share Award Scheme (Continued)

Pursuant to share award notices issued from 21 July 2021 to 27 December 2022, those selected employees, an aggregate of 5,522,000 shares of the Company were granted to 29 employees at nil consideration with different vested dates and vested rates for each selected employee. The vesting periods range from 21 July 2021 to 5 July 2027.

The following share award were outstanding under the Scheme:

	2022		2021	
	Weighted average share price HK$ per share	**Number of shares**	Weighted average share price HK$ per share	Number of shares
At 1 January	**11.32**	**255,000**	—	—
Granted during the year	**6.53**	**5,267,000**	11.32	255,000
Forfeited during the year	**—**	**—**	—	—
Vested during the year	**9.27**	**(560,800)**	—	—
At the end of the year	**6.46**	**4,961,200**	11.32	255,000

The fair value of the above share award granted was HK$37,281,000. The fair value per share on the grant date and vesting periods of the share award outstanding as at 31 December 2022 and 2021 are as follows:

Number of shares	**Fair value on grant date (HK$)** per share	**Grant date**
5,522,000	2.18–11.32	2021/7/21–2022/12/27

For the year ended 31 December 2022, the Group recognised share option and award expenses of US$3,916,000 (2021: US$1,508,000).

31. 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 113 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$.

32. 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$3,023,000 (2021: US$5,341,000) and non-cash additions to lease liabilities of US$3,023,000 (2021: US$5,341,000) for the year ended 31 December 2022, respectively, in respect of lease arrangements for offices, warehouses, machinery and equipment.

The Group endorsed certain bills receivable accepted by certain banks in the PRC to certain of its suppliers in order to settle the trade and other payables due to such supplies with carrying amounts in aggregate of USD$1,448,000 (2021: nil).

32. 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 payables US$'000
At 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 and 1 January 2022	**13,636**	**34,900**	**—**
Changes from financing cash flows	**(4,980)**	**(24,024)**	**(63)**
Interest expense	**653**	**893**	**145**
New leases	**3,023**	**—**	**—**
Early termination	**(180)**	**—**	**—**
Loan forgiveness	**—**	**(928)**	**—**
Covid-19-related rent concessions from lessors	**(154)**	**—**	**—**
Exchange realignment	**(562)**	**(1,605)**	**—**
At 31 December 2022	**11,436**	**9,236**	**82**

(c) Total cash outflow for leases

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

	2022 US$'000	2021 US$'000
Within operating activities	**382**	2,323
Within financing Activities	**4,980**	4,260
	5,362	6,583

33. CONTINGENT LIABILITIES

The Group is involved in a legal proceeding relating to a business dispute, accused of causing damages to plaintiffs on unfair competition and other issues. Two plaintiffs claimed damages in excess of US$630,000. We don't have enough information about the claim at this stage, and therefore it would be impossible to make a reliable estimate of the amount of the claim. Accordingly, no provision arising from the claim has been provided for.

34. 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:

Withholding individual income tax on behalf of

	2022 **US$'000**	2021 US$'000
Ms. Jiang Junxiu	**43**	—

(b) Outstanding balances with related parties:

Other receivables

	2022 **US$'000**	2021 US$'000
Ms. Jiang Junxiu	**43**	—

This balance is unsecured, interest-free and has no fixed terms of repayment.

34. RELATED PARTY TRANSACTIONS (Continued)

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

	2022 US$'000	2021 US$'000
Short-term employee benefits	**1,125**	1,630
Pension scheme contributions	**19**	38
Equity-settled share option expense	**865**	558
Total compensation paid to key management personnel	**2,009**	2,226

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

35. 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

	2022 US$'000	2021 US$'000
Derivative financial assets	**—**	120

Financial assets at fair value through other comprehensive income

	2022 US$'000	2021 US$'000
Equity investment designed at fair value through other comprehensive income	**1,554**	—

35. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial assets at amortised cost

	2022 US$'000	2021 US$'000
Trade and notes receivables	**149,217**	106,019
Financial assets included in prepayments, other receivables and other assets	**9,277**	5,680
Pledged deposits	**13,140**	32,195
Cash and cash equivalents	**93,601**	126,659
	265,235	270,553

Financial liabilities at fair value through profit or loss

	2022 US$'000	2021 US$'000
Derivative financial liabilities	**1,229**	119

Financial liabilities at amortised cost

	2022 US$'000	2021 US$'000
Trade and notes payables	**60,751**	37,739
Financial liabilities included in other payables and accruals	**11,795**	8,496
Interest-bearing bank borrowings	**9,236**	34,900
	81,782	81,135

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, trade payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, 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 2022 were assessed to be insignificant.

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

As at 31 December 2022, the mark-to-market value of the derivative asset position was net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

Fair value hierarchy

The Group have derivative financial instruments measured at fair value using quoted prices in active market (Level 2) as at the end of reporting period.

37. 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.

37. 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$'000
31 December 2022		
If the US$ weakens against the RMB	**5**	**791**
If the US$ strengthens against the RMB	**(5)**	**(791)**
If the US$ weakens against the HK$	**5**	**—**
If the US$ strengthens against the HK$	**(5)**	**—**
If the US$ weakens against the EUR	**5**	**1,791**
If the US$ strengthens against the EUR	**(5)**	**(1,791)**
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)

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.

37. 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.

37. 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 2022, the Group had certain concentrations of credit risk as 87.74% (2021: 91.43%) 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 2022					
	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 and notes payables	5,249	43,271	12,231	—	—	60,751
Interest-bearing bank borrowings	—	322	8,345	764	—	9,431
Financial liabilities included in other payables and accruals	11,706	—	—	—	—	11,706
Lease liabilities	—	1,423	3,465	6,201	1,477	12,566
	16,955	45,016	24,041	6,965	1,477	94,454

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

	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	5,472	—	—	—	7,550
Lease liabilities	—	1,118	3,512	6,978	3,272	14,880
	17,494	29,142	39,364	6,978	3,272	96,250

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 2022 and 2021.

37. 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:

	2022 US$'000	2021 US$'000
Trade and notes payables	**60,751**	37,739
Interest-bearing bank borrowings	**9,236**	34,900
Other payables and accruals	**39,078**	36,945
Lease liabilities	**11,436**	13,636
Less: Cash and cash equivalents	**(93,601)**	(126,659)
Pledged deposits	**(13,140)**	(32,195)
Net debt	**13,760**	(35,634)
Equity attributable to owners of the parent	**277,758**	314,638
Capital and net debt	**291,518**	279,004
Gearing ratio	**4.72%**	N/A

38. 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.

39. 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:

	2022 US$'000	2021 US$'000
NON-CURRENT ASSETS		
Investment in subsidiaries	**8,104**	1,586
Due from a related party (note a)	**1,162**	604
Total non-current assets	**9,266**	2,190
CURRENT ASSETS		
Other receivables	**2**	1
Due from subsidiaries	**183,600**	203,417
Cash and cash equivalents	**105**	889
Total current assets	**183,707**	204,307
CURRENT LIABILITIES		
Other payables and accruals	**146**	11
Due to a related party	**1,152**	5,250
Total current liabilities	**1,298**	5,261
NET CURRENT ASSETS	**182,409**	199,046
Net assets	**191,675**	201,236
EQUITY		
Share capital	**1,500**	1,503
Share premium (note b)	**186,955**	199,885
Reserves (note b)	**3,220**	(152)
Total equity	**191,675**	201,236

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

Note a: The balances represent shares held by SWCS with an amount of US$43,000 (2021: US$44,000) and cash held by SWCS with an amount of US$1,119,000 (2021: US$560,000) deriving from the dividend declared under the Share Award Scheme (note 30) 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 profits/ accumulated losses US$'000	Total US$'000
At 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 and1 January 2022	199,885	1,674	(1,826)	199,733
Profit for the year	—	—	7,085	7,085
Equity-settled share award and option arrangement	—	3,916	—	3,916
Shares repurchased	(2,047)	—	—	(2,047)
Dividends declared	(10,883)	—	(7,629)	(18,512)
At 31 December 2022	186,955	5,590	(2,370)	190,175

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2023.

"2023 AGM"	the forthcoming annual general meeting of the Company to be held on May 30, 2023
"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 19, 2023, 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 the 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, 2022
"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
"Voluntary Recall"	the voluntary recall of certain models of air fryers under the "Cosori" brand in the United States, Canada and Mexico