



31 March 2025

*To: the Independent Board Committee*

Dear Sirs,

**(1) PROPOSAL FOR THE PRIVATISATION OF VESYNC CO., LTD  
BY THE OFFEROR BY WAY OF A SCHEME OF ARRANGEMENT  
UNDER SECTION 86 OF THE COMPANIES ACT  
(2) PROPOSED WITHDRAWAL OF LISTING  
AND  
(3) SPECIAL DEAL RELATING TO THE INVESTOR ARRANGEMENT**

**INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee in connection with the Proposal, the Scheme and the Investor Arrangement, details of which are set out in the Scheme Document dated 31 March 2025, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Scheme Document unless the context otherwise requires.

The Offeror and the Company jointly announced on 27 December 2024 that, on 23 December 2024, the Offeror requested the Board to put forward the Proposal to Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Act. Following the Effective Date, the Company will become a wholly-owned subsidiary of the Offeror and the listing of the Shares will be withdrawn from the Stock Exchange. The Investor Arrangement constitutes a special deal under Rule 25 of the Takeovers Code and requires the consent of the Executive. The Offeror has made an application for consent from the Executive conditional on: (i) the Independent Financial Adviser confirming that the Investor Arrangement is fair and reasonable so far as the Disinterested Shareholders are concerned; and (ii) the passing of an ordinary resolution by the Disinterested Shareholders at the EGM to approve the Investor Arrangement.



Pursuant to Rule 2.8 of the Takeovers Code, the Independent Board Committee comprises all non-executive Directors who have no direct or indirect interest in the Proposal. Mr. Yang Yuzheng (a non-executive Director) is acting in concert with the Offeror as he is part of the Founder Group. Accordingly, Mr. Yang Yuzheng is excluded from the Independent Board Committee. An Independent Board Committee, which comprises all of the independent non-executive Directors, Mr. Fong Wo, Felix, Mr. Gu Jiong and Mr. Tan Wen who have no interest in the Proposal, has been established by the Board to make a recommendation to the Disinterested Shareholders (i) as to whether the Proposal, the Scheme and the Investor Arrangement are, or are not, fair and reasonable; (ii) as to voting at the Court Meeting and the EGM; and (iii) as to election of the Cash Alternative or Share Alternative. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise the Independent Board Committee on these matters.

We are not associated with the Company, the Offeror or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Proposal, the Scheme and the Investor Arrangement. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have reviewed, among other things, (i) the Scheme Document; (ii) published information of the Company, including its annual reports for the two years ended 31 December 2022 and 2023, and its annual results announcement for the year ended 31 December 2024; and (iii) the letter from DBSAC regarding the estimate of value of the TopCo Shares as set out in Appendix V to the Scheme Document.

We have relied on the information and facts supplied by the Company and the opinions expressed by the Directors, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the Latest Practicable Date. Shareholders will be informed as soon as possible if we become aware of any material change to such representations or our opinion before the time of the Court Meeting and the EGM. We have sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us which would render any statement in this letter misleading. We consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group, the Offeror or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them; nor have we carried out any independent verification of the information supplied.

We have not considered the tax and regulatory implications on the Disinterested Shareholders of voting for or against the Proposal, the Scheme and the Investor Arrangement, as the case may be, since these are particular to their individual circumstances. In particular, Disinterested





Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on security dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

## PRINCIPAL TERMS OF THE PROPOSAL

### The Proposal and the Scheme

The main terms set out below are summarised from the “Letter from the Board” and the Explanatory Memorandum of the Scheme Document. Disinterested Shareholders are encouraged to read the Scheme Document and the appendices in full.

The Proposal will be implemented by way of the Scheme, the terms of which are set out in the “Letter from the Board” and Explanatory Memorandum of the Scheme Document. The Scheme provides that, if it becomes effective, the Scheme Shares will be cancelled in exchange for either:

(a) the **Cash Alternative**: cash of HK\$5.60 for every Scheme Share;

or

(b) the **Share Alternative**: one TopCo Share for every Scheme Share.

The 786,760,200 Scheme Shares held by the Founder Group will be cancelled and extinguished on the Effective Date in exchange for the Founder Cancellation Consideration, being the crediting of the 786,760,200 presently unpaid TopCo Shares held by the Founder Group as being fully paid in the amount of the Cash Alternative of HK\$5.60 per TopCo Share. The effect of this is that the Founder Group will exchange their Shares for TopCo Shares on a 1-for-1 basis. **Scheme Shareholders may elect either one of the above alternatives, but not a combination of the two.** Scheme Shareholders who do not make any election or whose elections are invalid will be deemed to have elected to receive their entitlement under the Cash Alternative.

As at the Latest Practicable Date, 1,139,492,800 Shares were in issue. All these Shares will form part of the Scheme. While the Offeror itself does not presently hold any Shares, the Offeror Concert Parties hold a total of 952,621,050 Shares (approximately 83.60% of the issued share capital of the Company as at the Latest Practicable Date). Although these Shares will form part of the Scheme Shares, the Offeror Concert Parties will abstain from voting on the Scheme at the Court Meeting. On this basis, as at the Latest Practicable Date, the Disinterested Shareholders who are eligible to vote at the Court Meeting and the EGM held 186,871,750 Shares.

Following the Effective Date, the Company will be wholly-owned directly by the Offeror and indirectly by HoldCo and TopCo. The listing of the Shares will be withdrawn from the Stock Exchange. If the Scheme becomes effective, it will be binding on the Company and all Scheme Shareholders, regardless of how they voted (or whether they voted) at the Court Meeting and the EGM.



**The Cancellation Consideration will not be increased, and the Offeror does not reserve the right to do so. Shareholders and potential investors should be aware that, following the making of this statement, the Offeror will not be allowed to increase the Cancellation Consideration.**

As set out in the "Letter from the Board" of the Scheme Document, the Cancellation Consideration has been determined on a commercial basis after taking into account, among other things, the prices of the Shares traded on the Stock Exchange and with reference to other privatisation transactions in Hong Kong in recent years. Comments on recent Share prices and relevant privatisation precedents are set out in the sub-sections headed "6. Analysis of price performance and trading liquidity of the Shares" and "8. Privatisation precedents" respectively in this letter below.

As disclosed in the sub-section headed "The Share Alternative" in the "Letter from the Board" of the Scheme Document, the value of the TopCo Shares will primarily be determined by the value of the Company. Details of the valuation of the TopCo Shares is set out in the sub-section headed "4. Information on the TopCo Shares" below of this letter and the letter from DBSAC regarding the estimate of value of TopCo Shares contained in Appendix V to the Scheme Document. TopCo Shares are not listed on any stock exchange and will not benefit from the protections afforded by the Listing Rules (for example, protections against dilution and related party transactions) or the Takeovers Code (assuming TopCo is not determined by the Executive to be a "public company" in Hong Kong as defined in the Takeovers Code). In making such a determination, the Executive would consider primarily the number of Hong Kong shareholders TopCo might have and the extent of share trading in Hong Kong.

TopCo Shareholders would have their rights and obligations in relation to TopCo governed by the TopCo Articles, the provisions of the Companies Act and other applicable laws in the Cayman Islands. Details of the risks associated with holding the TopCo Shares are summarised in the sub-section headed "5. Risks which Disinterested Shareholders should bear in mind in evaluating the Share Alternative" of this letter below. **Based on our analysis below, we consider the Share Alternative has been tailored principally for large and sophisticated Shareholders, and we do not recommend other Scheme Shareholders to elect the Share Alternative.** In this regard, we note that the Offeror has received the Irrevocable Undertakings to elect the Share Alternative from the IU Shareholders. Details are summarised in the sub-section headed "The Irrevocable Undertakings" of this letter below.





### **Share Option(s)**

As at the Latest Practicable Date, there were 5,100,000 outstanding Share Options with an exercise price per Share of HK\$12.88, substantially above the Cash Alternative of HK\$5.60 per Share and the closing price of HK\$5.44 per Share on the Latest Practicable Date. Under the Takeovers Code, if the exercise price of an option exceeds the offer price for shares, the cancellation consideration in respect of the option would be nominal. All the Share Options are held by Directors who have agreed and undertaken in the Option IUs that:

- (i) the Offeror does not need to extend an option offer for the Share Options pursuant to Rule 13 of the Takeovers Code;
- (ii) the option holders will not exercise the Share Options during the offer period; and
- (iii) the option holders consent to the automatic cancellation of the Share Options upon the Scheme becoming effective.

Accordingly, no offer will be made to the option holders of the Share Options pursuant to Rule 13 of the Takeovers Code.

### **Share Awards**

As at the Latest Practicable Date, the Trustee, who holds Shares for the benefit of Share Award Holders, held an aggregate of 67,493,183 Shares, comprising (a) 5,426,183 Unvested Shares which were granted but not vested; and (b) 62,067,000 Pool Shares held to satisfy any future grant of share awards under the Share Award Scheme. All the Shares which are held by the Trustee as at the Scheme Record Date shall form part of the Scheme Shares and be cancelled upon the Scheme becoming effective.

In respect of the 5,426,183 Unvested Shares, pursuant to the terms of the Share Award Scheme, the Board Resolutions and the Board Instructions, the Trustee (a) shall not transfer any of these Unvested Shares prior to Effective Date; and (b) shall elect the Share Alternative as the only form of Cancellation Consideration.

In respect of the 62,067,000 Pool Shares, pursuant to the Irrevocable Undertaking, the Trustee has irrevocably undertaken to elect the Share Alternative. Conditional upon the Scheme becoming effective, the Trustee will receive 62,067,000 TopCo Shares which shall remain to be held by the Trustee to satisfy any future grant of share awards pursuant to the terms and conditions of the Share Award Scheme (or any replacement scheme thereof).



## **Conditions to the Proposal and the Scheme**

The implementation of the Proposal is, and the Scheme will become effective and binding on the Company and all Shareholders, subject to the fulfilment or waiver (as applicable) of the Conditions on or before the Long Stop Date, failing which the Proposal and the Scheme will lapse. Full details of the Conditions are set out in the section headed “Conditions to the Proposal and the Scheme” in the Explanatory Memorandum of the Scheme Document.

One of the principal Conditions is that the Scheme should be approved by Disinterested Shareholders holding at least 75% of the Scheme Shares held by the Disinterested Shareholders that are voted either in person or by proxy at the Court Meeting, provided that the number of votes cast (by way of poll) by the Disinterested Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all Disinterested Shareholders. A further Condition is approval of the Investor Arrangement by the passing of an ordinary resolution by the Disinterested Shareholders at the EGM. As at the Latest Practicable Date, there are approximately 186.9 million Shares held by Disinterested Shareholders, representing approximately 16.4% of the total issued share capital of the Company.

As at the Latest Practicable Date, save for Condition (e) (i.e. with respect to any applicable antitrust review in the US under the United States Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the regulations thereunder, the expiration or termination of any applicable waiting periods (including any extensions thereof) in connection with the Scheme) as set out in the Scheme Document which has been fulfilled, none of the Conditions have been fulfilled or waived.

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses announce an offer or a possible offer for the Company, except with the consent of the Executive.

## **The Irrevocable Undertakings**

The Offeror has received an Irrevocable Undertaking from each of the IU Shareholders (comprising the Investor, the Trustee, Mr. Chen, Gongjin and Chen Wangcai Holdings), pursuant to which each of the IU Shareholders has undertaken, among other things:

- (i) for each of the Investor and Mr. Chen (each of them an Offeror Concert Party), (a) to provide a separate undertaking not to vote at the Court Meeting; and (b) exercise (or procure the exercise of) all voting rights attached to the IU Shares (in aggregate representing approximately 8.63% of the total issued shares of the Company and approximately 10.33% of the total Shares held by the Offeror Concert Parties) held or owned by it/him at the EGM in favour of all the resolutions to approve the Proposal and any matters in connection with the Proposal (where applicable);





- (ii) for the Trustee (as an Offeror Concert Party), to provide a separate undertaking not to vote at the Court Meeting;
- (iii) for each of Gongjin and Chen Wangcai Holdings (each of them a Disinterested Shareholder), to exercise (or procure the exercise of) all voting rights attached to the IU Shares (in aggregate representing approximately 1.71% of the total issued shares of the Company and approximately 10.41% of the total Shares held by the Disinterested Shareholders) held or owned by it in favour of all the resolutions to approve the Proposal and any matters in connection with the Proposal at the Court Meeting and the EGM (where applicable); and
- (iv) for each of the IU Shareholders, to elect the Share Alternative only as the form of Cancellation Consideration for the cancellation of the IU Shares held or owned by it/him.

The 179,881,615 IU Shares held by the IU Shareholders which are the subject of the Irrevocable Undertakings represent approximately 15.79% of the issued share capital of the Company as at the Latest Practicable Date.

#### **Special deal relating to the Investor Arrangement**

The Investor, an IU Shareholder who is interested in approximately 8.31% of the issued share capital of the Company, and its affiliates shall be entitled to certain rights under the TopCo Articles, details of which are set out in the section headed “Special Deal relating to the Investor Arrangement” in the “Letter from the Board” and the Explanatory Memorandum of the Scheme Document. As the Investor Arrangement is not available to all Shareholders, the Investor Arrangement constitutes a special deal and requires the consent of the Executive under Rule 25 of the Takeovers Code. Such consent is conditional on, among others, passing of an ordinary resolution by the Disinterested Shareholders at the EGM to approve the Investor Arrangement. Further discussion with respect to the Investor Arrangement is set out in the section headed “Special Deal relating to the Investor Arrangement” of this letter below.

#### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

##### **1. Information and prospects of the Group**

###### **(i) *Background and information of the Company***

The Company is incorporated in the Cayman Islands with limited liability and its Shares have been listed on the Main Board of the Stock Exchange since 18 December 2020. The Group is principally engaged in the design, development and sales of small home appliances under its own brand names Levoit, Cosori, Etekcity and Pawsync. As at the Latest Practicable Date, the Company had 1,139,492,800 Shares in issue. The Founder Group directly and indirectly held approximately 69.04% of the issued share capital of the Company as at the Latest Practicable Date. The Offeror does not presently hold any Shares.



**(ii) Financial information of the Group**

Summaries of the accounts of the Group are set out in Appendix I to the Scheme Document.

**(a) Financial performance**

The following table sets out a summary of the consolidated statements of profit or loss of the Group for the three years ended 31 December 2022, 2023 and 2024, as extracted and summarised from the annual reports and annual results announcement of the Company.

	<b>For the year ended 31 December</b>		
	<b>2024</b>	<b>2023</b>	<b>2022</b>
	(audited) (US\$'000)	(audited) (US\$'000)	(audited) (US\$'000)
Revenue	652,640	585,484	490,378
Gross profit	306,578	274,372	142,289
Gross profit margin	47.0%	46.9%	29.0%
Profit/(loss) for the year	93,048	77,430	(16,317)
Profit/(loss) attributable to owners of the parent	93,048	77,481	(16,276)

**(i) Revenue**

Revenue of the Group is derived from sales of small home appliances. The Group's revenue showed a year-on-year increase of approximately 8.0% in 2022 and approximately 19.4% in 2023, respectively. Revenue for 2024 increased further by approximately 11.5% compared to 2023. This was mainly driven by the growth in sales of various home products in terms of quantities sold, including air purifiers, air purifier filters, tower fans, vacuum cleaners, etc.





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

	For the year ended 31 December		
	2024	2023	2022
	(US\$'000)	(US\$'000)	(US\$'000)
Amazon channel	486,396	456,603	410,443
Non-Amazon channels	<u>166,244</u>	<u>128,881</u>	<u>79,935</u>
<b>Total</b>	<u><u>652,640</u></u>	<u><u>585,484</u></u>	<u><u>490,378</u></u>

The Amazon channel accounted for approximately 78% of revenue in 2023. Under the Amazon channel, Amazon makes bulk purchase from the Group and then sells to Amazon's customers through the Amazon e-commerce marketplace. Non-Amazon channels mainly include chain retailers, other e-commerce marketplaces and the Group's own online shopping websites.

Revenue from the Amazon channel increased by approximately 11.2% in 2023 as compared with 2022, primarily due to the increase in sales volume of categories such as air purifiers, tower fans, air fryers, toaster ovens, body fitness scales and kitchen scales. Revenue from the non-Amazon channels in 2023 increased significantly by approximately 61.2% as compared to 2022. The revenue growth of the Group through chain retailers was primarily due to the significant increase in in-store sales. As the reputation of its brands and products in chain retailers continue to grow, the Group has secured favorable shelf positions in key chain retailers. Compared to the year of 2022, the Company's growth in revenue derived from Walmart, one of the major retailers, increased by more than 150% in 2023. For the year ended 31 December 2024, over 73% of the total revenue was generated in the North America with the remaining revenue generated in Europe and Asia.

For the year ended 31 December 2024, revenue from the Amazon channel increased by approximately 6.5% as compared to 2023. Such change was primarily due to the increase in revenue of certain product categories such as air purifiers, air humidifiers, vacuum cleaners, tower fans, body fitness scales, electric pressure cookers, etc. Revenue from non-Amazon channels in 2024 increased by approximately 29% compared to 2023, primarily due to the increase in in-store sales and vigorous exploration of new TikTok retail channel.



(ii) Gross profit

For the year ended 31 December 2022, the gross profit amounted to approximately US\$142.3 million. The Group experienced challenges in 2022, including increase in international container freight rates. There was also a voluntary programme in the North America (the “**Voluntary Recall**”) to recall certain models of air fryers and replace the sold units with new models to address a potential risk of thermal events which led to an increase in cost of sales. As at 31 December 2022, provisions for obligations arising from the Voluntary Recall amounted to approximately US\$47.3 million. Excluding the impact of the Voluntary Recall on the Group’s financial performance, the gross profit would have been approximately US\$190.1 million in 2022, representing an increase of approximately 7.9% as compared with 2021, for 2022, the gross profit margin of the Group was approximately 38.3% (2021: 38.8%), almost the same as 2021.

For the year ended 31 December 2023, gross profit of the Group amounted to approximately US\$274.4 million, representing an increase of approximately 92.8% as compared to 2022. The gross profit margin of the Group was approximately 46.9% (2022: approximately 29.0%), representing an increase of approximately 17.9 percentage points as compared to 2022. The increase in gross profit and gross profit margin in 2023 was primarily attributable to increase in revenue, and decrease in cost of sales due to a reduction in international freight rates and other costs, including the Voluntary Recall, as compared to 2022.

For the year ended 31 December 2024, gross profit of the Group amounted to approximately US\$306.6 million, representing an increase of approximately 11.7% compared to 2023. The gross profit margin of the Group was approximately 47.0%, almost the same as 2023.

(iii) Profit/(loss) attributable to owners of the parent (“**Attributable Profit/Loss**”)

The Group experienced challenges and an increase in cost of sales in 2022 resulting in an Attributable Loss of approximately US\$16.3 million, compared with an Attributable Profit of approximately US\$41.6 million for the year ended 31 December 2021. Excluding the provisions for obligations arising from the Voluntary Recall amounting to approximately US\$47.3 million, the Attributable Profit would have been approximately US\$30.9 million in 2022, representing a decrease of approximately 25.7% as compared with 2021.

Mostly as a result of the increase in revenue, the Group recorded Attributable Profit of approximately US\$77.5 million for the year ended 31 December 2023. For the year ended 31 December 2024, the Attributable Profit of the Group amounted to approximately US\$93.0 million mainly contributed by increase in sales of Levoit products including air purifiers, air humidifiers and vacuum cleaners.





(iv) Dividends

The total dividends per Share for the financial years ended 31 December 2022, 2023 and 2024 were nil, HK21.08 cents and HK8.88 cents respectively. The Company's implied dividend yield based on the Cash Alternative of HK\$5.60 per Scheme Share and the total dividend per Share for the financial year ended 31 December 2024 of HK8.88 cents is approximately 1.6%.

(b) *Financial position*

The following table sets out a summary of the consolidated statement of financial position of the Group as at 31 December 2022, 2023 and 2024, as extracted and summarised from the annual reports and annual results announcement of the Company.

	As at 31 December		
	2024	2023	2022
	(audited)	(audited)	(audited)
	(US\$'000)	(US\$'000)	(US\$'000)
Total assets	649,800	565,134	457,294
Total liabilities	280,484	237,618	179,837
Equity attributable to owners of the parent (" <b>Attributable Net Assets</b> ")	369,316	327,516	277,498
Per Share — US\$ (HK\$ equivalent at the exchange rate of US\$1 to HK\$7.7742)	0.32 (2.52)	0.28 (2.18)	0.24 (1.87)

(i) Total assets

As at 31 December 2024, the Group's total assets were approximately US\$649.8 million. Assets of the Group mainly include (a) cash and cash equivalents and time deposits of approximately US\$260.4 million in aggregate (40.1% of total assets); (b) pledged deposits of approximately US\$51.1 million (7.9% of total assets); (c) trade and notes receivables of approximately US\$183.4 million (28.2% of total assets); and (d) inventories of approximately US\$72.6 million (11.2% of total assets).



As at 30 June 2024, the Company had utilised over 76% of the net proceeds from its initial public offering for the purposes as stated in its prospectus (such purposes are, in summary, (i) research and development of new products and upgrade and iteration of existing products; (ii) expand sales channels and geographic coverage and enhance brand awareness; (iii) upgrade the technologies of VeSync App into a home IoT (Internet of Things) platform (VeSync App enables users to achieve centralised control of smart home devices and also provides them with professional contents and services, it is a part of the home IoT platform which connects users, home devices, and scenarios through a unified cloud service architecture to achieve cross-brand intelligent hardware connectivity and centralised management, the platform to offer users more efficient and personalised product experience); (iv) develop and launch smart solutions, including smart security solutions, for business customers; and (v) working capital), and the unutilised proceeds amounted to approximately US\$50.5 million.

(ii) Total liabilities

As at 31 December 2024, the Group's total liabilities amounted to approximately US\$280.5 million, which mainly consisted of (a) trade and notes payables of approximately US\$119.5 million (42.6% of total liabilities); and (b) other payables and accruals of approximately US\$107.1 million (38.2% of total liabilities). Other payables and accruals of the Group mainly comprised of payables in respect of payroll, dividend and miscellaneous payables.

(iii) Net asset value

The Attributable Net Asset value amounted to approximately US\$369.3 million as at 31 December 2024, equivalent to approximately US\$0.32 per Share (equivalent to approximately HK\$2.52 per Share based on exchange rate of US\$1 to HK\$7.7742). The Cash Alternative of HK\$5.60 per Scheme Share represents a premium of approximately 122.3% to the Attributable Net Asset value per Share of approximately HK\$2.52 as at 31 December 2024.

(iv) Net cash and gearing ratio

As at 31 December 2024, the Group had interest-bearing bank and other borrowings of approximately US\$20.8 million (7.4% of total liabilities) which are repayable within one year. Of the total bank and other borrowings, approximately US\$18.5 million were at fixed interest rates and approximately US\$2.3 million were at floating interest rates.





The Group has lease contracts for offices, warehouses, machinery and equipment such as forklifts and racks used for its operations. Lease liabilities of the Group amounted to approximately US\$11.7 million (4.2% of total liabilities) as at 31 December 2024, among which approximately US\$4.7 million are classified under current liabilities.

Based on the amount of bank and other borrowings and lease liabilities, and taking into account (a) the cash and cash equivalents; (b) time deposits; and (c) pledged deposits, the Group had a net cash of approximately US\$279.0 million as at 31 December 2024.

The Group's gearing ratio, which is calculated by dividing total debt (interest-bearing bank and other borrowings, and lease liabilities) by total equity, was approximately 8.8% as at 31 December 2024, decreasing by 2.9 percentage points as compared to 31 December 2023. If the gearing ratio was calculated on the basis of net cash, gearing would be nil.

### **(iii) Prospects of the Group**

As discussed in the paragraph headed "Financial performance" of this letter above, the Group experienced challenges in 2022 with an Attributable Loss of approximately US\$16.3 million, compared with an Attributable Profit of approximately US\$41.6 million for the year ended 31 December 2021. Excluding the provisions for obligations arising from the Voluntary Recall amounting to approximately US\$47.3 million, the Attributable Profit would have been approximately US\$30.9 million in 2022, representing a decrease of approximately 25.7% compared with 2021. Following the increase in revenue and a reduction in the cost to sales ratio, the Group turned around to an Attributable Profit of approximately US\$77.5 million in 2023. For the year ended 31 December 2024, Attributable Profit reached approximately US\$93.0 million.

As stated in the Company's 2024 interim report and 2024 annual results announcement, the Group aims to (a) further enhance the product portfolio by launching new products, such as smart air purifiers, smart pet feeders and smart fitness scales; (b) increase the expansion of non-Amazon channels, such as broadening presence on TikTok and retail channels; (c) gained access to more new stores and chain retailers; (d) expand geographic coverage, especially to deepen the market share of Cosori and Levoit products in the European market; (e) continue to invest in technologies with an aim to develop VeSync App into a home IoT platform; and (f) enhance consumer awareness of the brand.

We understand from the management of the Company that the market for small home appliances is highly saturated and competitive with various established brands such as SharkNinja and Blueair. Customers are highly price sensitive and likely to shift from one brand to another, especially during economic downturn and periods of inflation. Building and maintaining brand loyalty is difficult. Moreover, small home appliances often have short lifecycles due to rapid technology advancement and changing consumer preferences.



Differentiating products in such a crowded market requires heavy investment in technology innovation and branding. During the pandemic, demand for small household appliances surged as people spent more time at home. However, in the post-pandemic period, customers' behavior has changed and demand for some small home appliances may stabilize or even decline.

Products of the Group were mainly manufactured in the PRC and mainly sold to the United States. In 2024, approximately 73.6% of the Group's revenue was generated from North America. According to the Company's 2023 annual report, the Group's business may be materially and adversely affected by the trade dispute between China and the United States. Since 2018, the United States has imposed additional tariffs on certain goods imported from the PRC, which include the Group's major product categories such as air purifiers, vacuum cleaners, air fryers and ovens. Although exemptions from the additional tariffs were granted for certain periods, there are still many uncertainties in the trade policy of the United States including pressure from the recent additional 20% import tariffs imposed by the United States (with effect from 4 March 2025) which increased the cost of sales of the Group. Such trade disputes and trade barriers may tend to increase the cost to consumers of the Group's products manufactured in the PRC, which may adversely affect the Group's operations, financial position and operating results.

On the basis of the above, we consider the prospects of the Company are not without challenge in the short to medium term, bearing in mind the competitive environment of the small household appliances market and the potential pressure from the additional import tariffs imposed by the United States as described above.

## **2. Intentions of the Offeror with regard to the Group**

As set out in the section headed "Intentions of the Offeror with regard to the Group" in the Explanatory Memorandum of the Scheme Document, it is the intention of the Offeror that the Company will continue to carry on its current business, and the Offeror does not have any specific plans to make any major changes to the business of the Company upon the successful privatisation of the Company. The Offeror has stated it will continue to develop the Company in a manner which best drives growth and creates value taking into account factors including, but not limited to, customer demand, market conditions, legal and regulatory requirements and its business needs. No major changes are expected to be introduced in the existing principal business of the Group, including any major redeployment of the fixed assets of the Group.

The Offeror has further stated that it has no intention to discontinue the employment of the employees of the Group after the implementation of the Proposal, except for staff movements which are part of the normal conduct of business or due to personal performance or conduct issues.