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Chervon Holdings Limited

泉峰控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 2285)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022**

FINANCIAL HIGHLIGHTS

	Six months ended June 30,		Changes
	2022	2021	
	US\$'000	US\$'000	
Revenue	1,002,021	868,797	15.3%
Gross profit	290,046	251,109	15.5%
Profit before tax	76,456	110,851	(31.0)%
Profit for the period	63,473	91,239	(30.4)%
Non-HKFRSs measure:			
Adjusted Net Profit	73,581	72,069	2.1%
Earnings per share			
Basic (US\$)	0.13	0.21	(38.1)%
Diluted (US\$)	0.13	0.21	(38.1)%

- Sales over one billion US dollars, a historical milestone for half-year results.
- OPE business represented by our flagship brand *EGO* delivered outstanding results with 43.9% sales growth.
- Net profit decreased by 30.4% to US\$63.5 million.
- Adjusted Net Profit increased by 2.1% to US\$73.6 million.

The board (the “**Board**”) of directors (the “**Directors**”) of Chervon Holdings Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “**Group**,” “**we**,” “**us**” or “**our**”) for six months ended June 30, 2022 (the “**Reporting Period**”) together with the comparative figures for the six months ended June 30, 2021. The unaudited condensed consolidated financial information for the Reporting Period has been reviewed by the audit committee of the Board (the “**Audit Committee**”).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

We are pleased to announce that for the six months ended June 30, 2022 we have achieved solid results and further expanded our overall competitive advantages. Our revenue grew by 15.3% to US\$1,002.0 million for the six months ended June 30, 2022. In local currency, our revenue grew by 17.2%. While we reached one billion US dollars in sales annually for the first time in 2020, it only took six months to achieve this remarkable milestone just one year later in 2022.

Despite of the cold spring season in North America, our largest geographic market, that affected the overall outdoor business, our outdoor power equipment (“**OPE**”) segment delivered outstanding results in the first half of 2022, achieving a 43.9% revenue growth. Revenue from the power tool segment decreased by 11.1% primarily due to slower market demand and customer destocking.

Introducing new products grounded in advanced technology and end-user insights

We continue to develop new products in-house and drive industry transformations. Leveraging our research and development capabilities, we have continuously upgraded our product portfolio. During the Reporting Period, we introduced 127 new products in total, and lithium-ion battery powered products accounted for approximately 80% of the new products. We also set up a new research center in Beijing, China to help attract top talents in electronics and software engineering to support our product development efforts.

We have enriched our OPE range with innovative products under the *EGO* brand. For example, we introduced the *EGO POWER+ 52-inch Z6 Zero Turn Riding Mower* that features Peak Power™+ technology and combines the power of up to six *EGO 56V ARC Lithium™* batteries – the same battery technology powering all *EGO* products – making it the world’s first lithium platform-compatible rider.

We also brought to market an advanced trimmer product featuring the world’s first *LINE IQ™* auto-sensing technology that can monitor and feed the length of the line for a continuous 16-inch cutting swath, delivering non-stop high performance trimming. Furthermore, our patented *POWERLOAD™* technology automatically winds the trimmer line with the press of a button, which significantly improves end-user experience.

We continuously introduced innovative technology to professional users. For example, we launched the 24V revolutionary pouch batteries under the *FLEX* brand, which can unleash extra strong and durable power for professional applications and outperform traditional cylindrical batteries. We also launched the *STACK PACK™* interlock storage system under the *FLEX* brand, which is built with a quick-connect interlock mechanism and is designed to secure a contractor’s tools from garages, workshops to job-sites.

In addition, we introduced the first cordless rear handle circular saws under *SKIL* PWRCORE 20 XP. Inheriting the expertise of the *SKIL* professional circular saws, our cordless rear handle circular saws are powered by industry-leading brushless motor and lithium-ion battery technologies and are equipped with unique innovative functions, which we believe will be one of the best circular saws to serve high-end users.

For do-it-yourself (“**DIY**”) users, *CHERVON* global teams worked together to build a comprehensive next-generation core *SKIL* product line, including PWRCORE 12 and PWRCORE 20, which we expect will be launched in global mainstream channels and become one of the most competitive product lines in DIY market soon.

Increasing end-user recognition for our brand portfolio

Supported by our end-user insights, advanced technologies and global sales and distribution network, we continue to increase end-user recognition for our proprietary brands in their respective markets. Revenue from our original brand manufacturing (“**OBM**”) business grew by 20.1% to US\$714.4 million for the six months ended June 30, 2022, and accounted for 71.3% of our total revenue for the six months ended June 30, 2022, demonstrating the strengths of our proprietary brands. During the first half of 2022, we celebrated the 100th anniversary of *FLEX*, a renowned heritage brand that has been reinvigorated through the continuous efforts of our global teams.

Enhancing our multi-channel sales and distribution network

We continue to enhance our global multi-channel sales and distribution network that offers us effective touchpoints for end users across key markets. During the first half of 2022, we set up additional branded bays across leading retailer and dealer channels, which helped improve brand image for our merchandising and promote product sales. We also saw an acceleration in the expansion of our distribution and dealer channels for *EGO*-branded products across various markets, which we believe can lay a solid foundation for sustainable growth in the future. Furthermore, our online sales channels registered solid growth.

Improving our manufacturing technologies and production management capabilities, and expanding our production capacity

We continue to build competitive advantages by advancing our manufacturing technologies and production management capabilities. We continue to execute against our plan to promote automation and digitalization in our manufacturing system, which we believe will improve efficiency, promote product quality and reduce labor costs.

Implementing management transformation efforts

We continued to invest in promoting process-based and data-driven management transformation, including adopting advanced management tools and hiring top-level consulting services, to strengthen the strategic planning and execution capabilities of the organization. Our management team is convinced that the improvement of such capabilities will help promote our operational efficiency and support our sustainable growth in the long term.

Impact of the COVID-19 Pandemic

During the Reporting Period, the coronavirus disease 2019 (“**COVID-19**”) pandemic has affected our operations and supply chain as a result of the government-imposed suspensions, and led to increases in the costs and time for transportation of our products in certain regions of the world. The prolonged lockdown of cities in the Yangtze River Delta in China, such as Shanghai, also affected part of our China dealer network and resulted in reduced sales during the second quarter of 2022. However, we believe that the COVID-19 pandemic has not had a material adverse impact on our results of operations during the Reporting Period.

At this point, we cannot accurately predict what effects the COVID-19 pandemic will have on our business going forward. Such effects will depend on, among other factors, the ultimate geographic spread of the virus, the duration of the pandemic and the corresponding travel restrictions and business closures imposed by government authorities. The continued impacts of COVID-19 or any future outbreak of a contagious disease may have a material adverse effect on our business, financial condition or results of operations.

Prospects

We will continue to invest in developing innovative products and building premier brands globally. We believe our founder-led Company is well positioned to succeed, as we are fortunate to have an executive leadership team who brings entrepreneurial spirit, innovative mindset and deep experience to chart the course for our organization, as well as resilient global operations and world-class talents that we built through decades of hard work in order to provide superior products for our customers and end-users worldwide.

We are confident that we will continue to increase our market share and seize business opportunities, despite of the challenges and uncertainties ahead. We will endeavor to consistently outperform the market and deliver superior results for our shareholders, employees and communities in a socially and environmentally responsible manner.

Financial Review

Revenue

The Group’s revenue increased by 15.3% from US\$868.8 million for the six months ended June 30, 2021 to US\$1,002.0 million for the six months ended June 30, 2022, primarily driven by our strong OPE business.

Revenue by product category

Revenue from the sales of OPE products increased by 43.9% from US\$414.0 million for the six months ended June 30, 2021 to US\$595.9 million for the six months ended June 30, 2022, primarily driven by the increased sales of our *EGO*-branded OPE products.

Revenue from the sales of power tools decreased by 11.1% from US\$451.1 million for the six months ended June 30, 2021 to US\$401.2 million for the six months ended June 30, 2022, primarily due to slower market demand and customer destocking.

Revenue by geographic location

We achieved revenue growth across most geographic regions for the six months ended June 30, 2022. Revenue from North America, our largest geographic market, delivered 21.6% growth to US\$696.2 million. Revenue from China grew by 6.4% to US\$65.3 million, and grew by 7.9% in local currency. Revenue from Europe decreased by 4.3% to US\$198.9 million, and decreased by 3.4% in local currency. In Europe, the OBM business in local currency increased by 31.3%. Revenue from the rest of the world also grew by 54.0% to US\$41.6 million.

Gross Profit and Gross Profit Margin

Our gross profit increased by 15.5% from US\$251.1 million for the six months ended June 30, 2021 to US\$290.0 million for the six months ended June 30, 2022. During the same periods, our overall gross profit margin remained stable at 28.9%, despite of increasing pressures associated with raw material costs, Renminbi (“RMB”) fluctuations and international shipping costs.

Other Net Loss or Gain

We had other net loss of US\$32.3 million for the six months ended June 30, 2022, as compared to other net gain of US\$19.8 million for the same period in 2021. Our other net loss for the six months ended June 30, 2022 was primarily attributable to (i) net foreign exchange loss of US\$9.9 million mainly due to the depreciation of euro against US dollar, (ii) net unrealized loss on convertible bonds of US\$12.8 million, which was related to the convertible bonds issued by Nanjing Chervon Auto Precision Technology Co., Ltd. (南京泉峰汽車精密技術股份有限公司) (“Chervon Auto Precision Technology”) that we hold and (iii) net realized and unrealized loss on derivative financial instruments of US\$9.7 million, which was mainly related to our foreign currency forward contracts.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 5.1% from US\$96.4 million for the six months ended June 30, 2021 to US\$101.4 million for the six months ended June 30, 2022, primarily due to the increase in our sales as well as higher business travelling expenses.

Administrative and Other Operating Expenses

Our administrative and other operating expenses increased by 22.8% from US\$32.6 million for the six months ended June 30, 2021 to US\$40.0 million for the six months ended June 30, 2022, primarily due to our strategic investments in our infrastructure such as IT systems and professional consultation services to support our management transformation projects.

Research and Development Costs

Our research and development costs increased by 12.3% from US\$28.0 million for the six months ended June 30, 2021 to US\$31.4 million for the six months ended June 30, 2022, primarily due to our continued investments in research and development and new product initiatives.

Net Finance Costs

Our net finance costs increased by 20.3% from US\$7.9 million for the six months ended June 30, 2021 to US\$9.5 million for the six months ended June 30, 2022.

Profit Before Tax

As a result of the foregoing, our profit before income tax for the six months ended June 30, 2022 amounted to US\$76.5 million, representing a decrease of 31.0% as compared to US\$110.9 million for the same period in 2021.

Income Tax Expense

Our income tax expense was US\$13.0 million for the six months ended June 30, 2022, representing a decrease of 33.8% from US\$19.6 million for the same period in 2021. Our effective tax rate was 17.0% for the six months ended June 30, 2022, as compared to 17.7% for the same period in 2021.

Profit For The Period

As a result of the foregoing, our profit for the period decreased by 30.4% from US\$91.2 million for the six months ended June 30, 2021 to US\$63.5 million for the six months ended June 30, 2022. Our net profit margin decreased from 10.5% to 6.3% during the respective periods.

Non-HKFRSs Measure: Adjusted Net Profit

To supplement our consolidated results which are prepared and presented in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”), we utilize non-HKFRSs adjusted net profit (“**Adjusted Net Profit**”) as an additional financial measure. We derive Adjusted Net Profit from profit for the period by excluding (i) listing expenses, (ii) gain on disposal of an associate, (iii) gain on disposal of a subsidiary and (iv) net unrealized losses on convertible bonds, net of income tax effects.

Adjusted Net Profit is not required by, or presented in accordance with, HKFRSs. We believe that the presentation of non-HKFRSs measures when shown in conjunction with the corresponding HKFRSs measures provides useful information to investors and management regarding financial and business trends in relation to our financial condition and results of operations, by eliminating any potential impact of items that our management does not consider to be indicative of our operating performance such as certain non-cash items and the impact of certain investment transactions. We also believe that the non-HKFRSs measures are appropriate for evaluating the Group’s operating performance. However, the use of this particular non-HKFRSs measure has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for the analysis of, our results of operations or financial conditions as reported under HKFRSs. In addition, this non-HKFRSs financial measure may be defined differently from similar terms used by other companies and therefore may not be comparable to similar measures used by other companies.

The following table reconciles our Adjusted Net Profit for the period presented to the most directly comparable financial measure calculated and presented in accordance with HKFRSs, which is profit for the period:

	Six months ended June 30,	
	2022	2021
	US\$'000	US\$'000
Profit for the period	63,473	91,239
Add:		
Listing expenses	–	2,122
Loss on disposal of an associate ⁽¹⁾	–	677
(Gain) on disposal of a subsidiary ⁽²⁾	–	(21,969)
Net unrealized losses on convertible bonds, net of income tax effects ⁽³⁾	10,108	–
Adjusted Net Profit	73,581	72,069

Notes:

- (1) Represents the loss on disposal of our interests in Nanjing Suquan Investment Co., Ltd. (南京蘇泉投資管理有限公司) in 2021.
- (2) Represents the gain on disposal of our interests in Jiuhao Electromechanical Industry Co., Ltd.* (南京玖浩機電實業有限公司) in 2021.
- (3) Represents the net unrealized losses on our investment, net of income tax effects, in the convertible bonds issued by Chervon Auto Precision Technology.

* *For identification purposes only*

Liquidity and Financial Resources

Financial Position

The Group continued to maintain a strong financial position. As of June 30, 2022, the Group had US\$498.9 million in cash and cash equivalents (US\$665.0 million at December 31, 2021). 64.4%, 28.1%, 4.0% and 3.5% of our cash and cash equivalents as of June 30, 2022 were denominated in RMB, US dollar, euro and other currencies, respectively.

Funding and Treasury Policy

The Group's funding and finance policy aims to maintain stable financial position and mitigate financial risks. The Group regularly reviews its funding requirements to maintain adequate financial resources in order to support its current business operations as well as its future investments and expansion plans.

Borrowings and Gearing Ratio

As of June 30, 2022, the Group had bank loans of US\$351.3 million (US\$433.6 million at December 31, 2021), which were primarily denominated in RMB, and lease liabilities of US\$21.9 million (US\$23.2 million at December 31, 2021). As of the same date, fixed-rate and floating-rate loans accounted for 58.2% and 41.8%, respectively, of the Group's total bank loans.

As of June 30, 2022, short-term bank loans and current portion of long-term bank loans collectively accounted for 60.8% of the total bank loans (98.0% at December 31, 2021).

The Group's gearing ratio (which equals total debt (including bank loans and lease liabilities) divided by total equity) decreased from 0.6 as of December 31, 2021 to 0.4 as of June 30, 2022.

Working Capital

The Group's inventories amounted to US\$607.5 million as of June 30, 2022 as compared to US\$592.0 million as of December 31, 2021. Our inventory turnover days were at 152 days for the six months ended June 30, 2022, as compared to 97 days for the six months ended June 30, 2021, primarily due to our efforts to maintain higher levels of inventory to prepare for sales in the second half year of 2022, which we believe will help mitigate potential impact of the COVID-19 pandemic on global supply chain.

The Group's trade and bills receivables turnover days remained relatively stable at 52 days for the six months ended June 30, 2022, as compared to 59 days for the same period in 2021.

The Group's trade and bills payables turnover days were 109 days for the six months ended June 30, 2022, as compared to 87 days for the same period in 2021, primarily due to our ability to extend the supply chain financing program.

Capital Expenditures

Our capital expenditures for the six months ended June 30, 2022 amounted to US\$73.1 million (US\$36.1 million for the six months ended June 30, 2021), primarily due to the construction of the *CHERVON* Smart Manufacturing Park and continued investments in manufacturing automation.

Capital Commitments

As of June 30, 2022, our capital commitments (including those contracted for and authorized but not contracted for) for the construction of plant and buildings and acquisition of machinery and equipment amounted to US\$444.4 million (US\$467.7 million at December 31, 2021).

Pledge of Assets

During the Reporting Period, certain assets of the Group were pledged as security for bank loans, as further detailed below:

	At June 30, 2022 <i>US\$'000</i>	At December 31, 2021 <i>US\$'000</i>
Plant and buildings	40,023	44,226
Leasehold land	23,927	25,487
Intangible assets	1,386	1,459
Inventories	160,585	124,040
Trade and bills receivables	121,984	81,562
Pledged deposits	26,039	26,524
Other assets	6,439	4,252
	<hr/>	<hr/>
Total	380,383	307,550
	<hr/> <hr/>	<hr/> <hr/>

As of June 30, 2022, the Group had pledged deposits of US\$39.8 million (US\$48.3 million at December 31, 2021), which will be released upon the settlement of letters of credit and bills payable and by the Group or the expiry of relevant banking facilities.

Contingent Liabilities

During the Reporting Period, the Group issued guarantees to financial institutions in the People's Republic of China (“**PRC**”) for certain indebtedness of our independent third-party customers, who are typically qualified distributors of ours in the PRC. As of June 30, 2022, the maximum guarantee amount was US\$8.2 million (US\$10.0 million at December 31, 2021) and the guarantee issued was US\$1.4 million (US\$2.1 million at December 31, 2021).

Significant Investments Held

For the Reporting Period, the Group did not hold any significant investments.

Material Acquisitions, Disposals and Future Plans for Major Investments

During the Reporting Period, Chervon (China) Investment Co., Ltd. (“**Chervon (China) Investment**”), a subsidiary of the Company, entered into a subscription agreement, pursuant to which Chervon (China) Investment agreed to conditionally subscribe for the A shares of Chervon Auto Precision Technology through a non-public offering (the “**Proposed Subscription**”) with a total subscription amount up to RMB500.0 million (US\$78.4 million equivalent), subject to certain restrictions and limitations. For further details, please refer to the section headed “Future Plans for Major Investments and Capital Assets” in our annual report for the year ended December 31, 2021.

Save for (i) the Proposed Subscription for A shares of Chervon Auto Precision Technology as described above and (ii) the expansion plans as disclosed in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated December 17, 2021 (the “**Prospectus**”), the Group has no specific plans for major investments or acquisitions of major capital assets or other businesses.

During the Reporting Period, the Group did not have material acquisitions or disposals of subsidiaries or associates.

Exposure to Fluctuations in Foreign Exchange Rates

The Group manufactures and sells its products in many countries throughout the world. As a result, there is exposure to foreign currency risk as the Group enters into transactions and make investments denominated in multiple currencies. For example, changes in currency exchange rates may affect the relative prices at which the Group and its competitors sell products in the same market and the cost of products and services the Group requires for its operations. The Group’s predominant exposures are in US dollar, euro and RMB. The Group is subject to risks arising from the translation of balance sheets and income statements of its subsidiaries to US dollars as well as the risk arising from the export of products and sales outside the country of manufacturing.

The Group enters into foreign exchange forward contracts with financial institutions to mitigate exposure to fluctuations in foreign exchange rates. Fluctuations in the foreign exchange rates may lead to losses resulting from the Group’s exposure to foreign exchange forward contracts or similar arrangements. Our net foreign exchange loss for the six months ended June 30, 2022 amounted to US\$9.9 million (US\$5.4 million for the six months ended June 30, 2021). Our net realized and unrealized loss on derivative financial instruments (which primarily include foreign exchange forward contracts) for the six months ended June 30, 2022 were US\$9.7 million, compared to realized and unrealized gain of US\$3.7 million for the same period in 2021.

HUMAN RESOURCES

The number of employees of the Group was 7,119 as of June 30, 2022 (5,524 at June 30, 2021). The total staff costs for the Reporting Period was US\$111.6 million as compared to US\$88.1 million for the six months ended June 30, 2021, primarily due to an increase in our headcount. We did not incur equity settled share-based expenses during the Reporting Period.

The Group is committed to hiring, retaining and promoting top talents across its global teams. As part of its retention strategy, the Group offers competitive remuneration packages to its employees, including salary and allowances, performance-based bonuses and long term incentive programs. The Group also provides regular and specialized training tailored to the needs of its employees in different departments.

OTHER INFORMATION

USE OF NET PROCEEDS FROM GLOBAL OFFERING

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on December 30, 2021 (the "Listing Date"). The Company received net proceeds (after deduction of underwriting commissions and related costs and expenses) from the Global Offering of approximately HK\$3,470.1 million (the "Net Proceeds").

As stated in the Prospectus, the intended uses and the balance of the Net Proceeds are set out below:

Intended use of Net Proceeds	Allocation of Net Proceeds	Percentage of total Net Proceeds	Amount of Net Proceeds utilized up to June 30, 2022	Balance of Net Proceeds unutilized as of June 30, 2022	Intended timeframe for use of the unutilized Net Proceeds
Expanding and upgrading production facilities	HK\$2,307.6 million	66.5%	HK\$234.8 million	HK\$2,072.8 million	Before December 31, 2024
Researching and developing products	HK\$312.3 million	9.0%	HK\$156.2 million	HK\$156.1 million	Before December 31, 2024
Enhancing sales and distribution channels	HK\$242.9 million	7.0%	HK\$121.5 million	HK\$121.4 million	Before December 31, 2024
Paying interest-bearing bank borrowings	HK\$260.3 million	7.5%	HK\$260.3 million	–	Before December 31, 2024
Working capital and other general corporate purposes	HK\$347.0 million	10.0%	HK\$347.0 million	–	Before December 31, 2024
Total	HK\$3,470.1 million	100.0%	HK\$1,119.8 million	HK\$2,350.3 million	

The unutilized Net Proceeds are primarily placed in licensed banks in PRC and Hong Kong as of the date of this announcement. The Group intends to utilize the Net Proceeds in accordance with the intended purposes and timelines as set out in the Prospectus.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend in respect of the six months ended June 30, 2022.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) as its own code of corporate governance.

The Company was listed on the Main Board of the Stock Exchange on December 30, 2021. Since January 1, 2022 and up to the date of this announcement, the Company has complied with all applicable code provisions under the CG Code and adopted most of the best practices set out therein except for the following provision.

Code provision C.2.1, Part 2 of the CG Code, recommends, but does not require, that the roles of chairperson and chief executive should be separate and should not be performed by the same person. Our Company deviates from this provision as Mr. Pan Longquan (“**Mr. Pan**”) performs both the roles of the Chairman of our Board and the chief executive officer of our Company. Mr. Pan is the principal founder of our Group and has extensive experience in the business operations and management of our Group. Our Board believes that vesting the roles of both chairman and chief executive officer to Mr. Pan has the benefit of ensuring consistent leadership within our Group and enables more effective and efficient overall strategic planning. This structure will enable our Company to make and implement decisions promptly and effectively.

Our Board considers that the balance of power and authority will not be impaired due to this arrangement. In addition, all major decisions are made in consultation with members of our Board, including the relevant Board committees, and three independent non-executive Directors. Our Board will reassess the division of the roles of chairman and the chief executive officer from time-to-time, and may recommend dividing the two roles between different people in the future, taking into account the circumstances of our Group as a whole.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors’ securities transactions. Having made specific enquiry with the Directors, all Directors confirmed that they have complied with the required standards as set out in the Model Code during the period from January 1, 2022 and up to the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SHARES

From January 1, 2022 and up to the date of this announcement, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company’s listed securities.

EVENT AFTER THE REPORTING PERIOD

As of the date of this announcement, the Group has no important events which occurred after the end of the Reporting Period that are required to be disclosed.

AUDIT COMMITTEE

The Board has established the Audit Committee, which comprises three independent non-executive Directors, namely, Dr. Li Minghui (Chairperson), Mr. Tian Ming and Mr. Jiang Li. The Audit Committee has also adopted written terms of reference which clearly set out its duties and obligations (the terms of reference are available on the websites of the Company and the Stock Exchange).

The Audit Committee has, together with the senior management of the Company, reviewed the accounting principles and practices adopted by the Group, and discussed internal control and financial reporting matters, including a review of the interim financial information for the six months ended June 30, 2022.

INDEPENDENT REVIEW OF AUDITOR

The interim financial report for the six months ended June 30, 2022 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements No. 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to the Shareholders.

PUBLICATION OF INTERIM RESULTS AND 2022 INTERIM REPORT

This interim results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at <https://global.chervongroup.com>. The interim report of the Company for the six months ended June 30, 2022 containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in accordance with the requirements under the Listing Rules.

By Order of the Board
Chervon Holdings Limited
Pan Longquan
Chairman

Hong Kong, August 25, 2022

As of the date of this announcement, the Board comprises Mr. Pan Longquan, Ms. Zhang Tong, Mr. Ke Zuqian and Mr. Michael John Clancy as executive Directors; and Mr. Tian Ming, Dr. Li Minghui and Mr. Jiang Li as independent non-executive Directors.

RESULTS SUMMARY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended June 30, 2022 – unaudited

		Six months ended June 30,	
	Note	2022	2021
		US\$'000	US\$'000
Revenue	2	1,002,021	868,797
Cost of revenue		<u>(711,975)</u>	<u>(617,688)</u>
Gross profit		290,046	251,109
Other revenue	3	1,746	2,081
Other net (loss)/gain	4	(32,295)	19,754
Selling and distribution expenses		(101,362)	(96,418)
Administrative and other operating expenses		(40,035)	(32,614)
Research and development costs		<u>(31,403)</u>	<u>(27,967)</u>
Profit from operations		86,697	115,945
Net finance costs	5	(9,496)	(7,895)
Share of (losses)/profits of associates		<u>(745)</u>	<u>2,801</u>
Profit before taxation	6	76,456	110,851
Income tax expense	7	<u>(12,983)</u>	<u>(19,612)</u>
Profit for the period		<u>63,473</u>	<u>91,239</u>
Attributable to:			
Equity shareholders of the Company		63,473	86,062
Non-controlling interests		<u>–</u>	<u>5,177</u>
Profit for the period		<u>63,473</u>	<u>91,239</u>
Earnings per share	9		
Basic (US\$)		<u>0.13</u>	<u>0.21</u>
Diluted (US\$)		<u>0.13</u>	<u>0.21</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2022 - unaudited

	<i>Note</i>	Six months ended June 30,	
		2022	2021
		US\$'000	US\$'000
Profit for the period		63,473	91,239
		-----	-----
Other comprehensive income for the period (after tax and reclassification adjustments)			
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Remeasurement of net defined benefit liability, net of tax		(23)	(25)
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translation of financial statements of subsidiaries with functional currencies other than US dollar		(17,684)	818
		-----	-----
Total comprehensive income for the period		45,766	92,032
		=====	=====
Attributable to:			
Equity shareholders of the Company		45,766	86,809
Non-controlling interests		-	5,223
		-----	-----
Total comprehensive income for the period		45,766	92,032
		=====	=====

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2022 – unaudited

	<i>Note</i>	At June 30, 2022 US\$'000	At December 31, 2021 US\$'000
Non-current assets			
Properties, plant and equipment	10	215,212	193,464
Right-of-use assets		45,822	48,919
Intangible assets		1,310	1,459
Interest in associates	11	61,976	66,492
Prepayments, deposits and other receivables		10,915	12,091
Financial assets at fair value through profit or loss ("FVPL")	12	6,129	6,011
Deferred tax assets		24,978	26,878
		<u>366,342</u>	<u>355,314</u>
Current assets			
Financial assets at FVPL	12	23,693	38,031
Derivative financial instruments	13	761	4,744
Inventories		607,527	592,024
Right to returned goods asset		2,754	3,073
Trade and bills receivables	14	277,592	298,379
Prepayments, deposits and other receivables		68,556	43,303
Taxation recoverable		7,317	7,958
Pledged deposits		39,841	48,340
Cash and cash equivalents		498,878	664,990
		<u>1,526,919</u>	<u>1,700,842</u>
Current liabilities			
Bank loans		213,701	424,948
Derivative financial instruments	13	6,555	155
Lease liabilities		7,483	6,114
Trade and bills payables	15	352,713	513,252
Other payables and accruals	16	209,049	205,404
Taxation payable		8,054	8,251
Warranty provision		24,008	19,655
Refund liabilities from right of return		3,905	4,252
		<u>825,468</u>	<u>1,182,031</u>
Net current assets		<u>701,451</u>	<u>518,811</u>
Total assets less current liabilities		<u>1,067,793</u>	<u>874,125</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At June 30, 2022 – unaudited

	<i>Note</i>	At June 30, 2022 US\$'000	At December 31, 2021 US\$'000
Non-current liabilities			
Bank loans		137,574	8,698
Lease liabilities		14,408	17,121
Warranty provision		36,039	32,291
Deferred income		3,896	4,150
Defined benefit retirement plans obligation		711	771
Deferred tax liabilities		9,299	14,077
		<u>201,927</u>	<u>77,108</u>
NET ASSETS		<u>865,866</u>	<u>797,017</u>
CAPITAL AND RESERVES			
Share capital	17	502,654	444,621
Reserves		363,212	352,396
		<u>865,866</u>	<u>797,017</u>
Total equity attributable to equity shareholders of the Company		865,866	797,017
Non-controlling interests		<u>–</u>	<u>–</u>
TOTAL EQUITY		<u>865,866</u>	<u>797,017</u>

NOTES

1 GENERAL INFORMATION AND BASIS OF PREPARATION

General Information

The Company was incorporated in Hong Kong on February 19, 1999 as a limited liability company with its registered office at Unit 04, 22/F, Saxon Tower, 7 Cheung Shun Street, Lai Chi Kok, Kowloon, Hong Kong. The Company was converted from a private company into a public company with effect from December 16, 2021 pursuant to a Special Resolution passed on December 8, 2021. The Company's shares were listed on the Main Board of the Stock Exchange on December 30, 2021.

The Company is an investment holding company. The Company and its subsidiaries are principally engaged in researching, developing, manufacturing, testing, sales, and after-sale services for power tools, OPE and related products.

Basis of Preparation

This unaudited interim financial information was extracted from the interim financial report of the Group for the six months ended June 30, 2022.

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Listing Rules, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements. Details of any changes in accounting policies are set out below.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2021 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the HKICPA.

The financial information relating to the financial year ended December 31, 2021 that is included in these condensed consolidated financial information as comparative information does not constitute the Company's statutory consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance (Cap. 622 of the laws of Hong Kong) (“**Companies Ordinance**”) is as follows:

- The Company has delivered the financial statements for the year ended December 31, 2021 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.
- The Company's auditor has reported on those consolidated financial statements. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

Changes in Accounting Policies

The Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendments to HKAS 16, Property, plant and equipment: Proceeds before intended use
- Amendments to HKAS 37, Provisions, contingent liabilities and contingent assets: Onerous contracts – cost of fulfilling a contract

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2 REVENUE AND SEGMENT REPORTING

Segment Information

The Group's reportable segments are as follows:

- Power tools: sales of power tools and power tool accessories for consumer, professional and industrial users. The products are available under the *FLEX*, *DEVON*, *SKIL* and *X-TRON* brands plus Original Design Manufacturing (“ODM”) customers.
- OPE: sales of outdoor tools and outdoor tool accessories for premium or professional and mass-market users. The products are available under the *EGO* and *SKIL* brands, plus a few key ODM customers.
- Others: sales of parts and components to a home appliances business.

Set forth below is a breakdown of the Group's revenue by reportable segment.

	Six months ended June 30,	
	2022	2021
	US\$'000	US\$'000
Power tools	401,215	451,066
OPE	595,890	414,041
Others	4,916	3,690
	<u>1,002,021</u>	<u>868,797</u>

Geographic Information

Set forth below is a breakdown of the Group's revenue by geographic information, which is based on the location of customers.

	Six months ended June 30,	
	2022 US\$'000	2021 US\$'000
North America	696,219	572,683
Europe	198,913	207,752
China	65,331	61,378
Rest of the World	41,558	26,984
	<u>1,002,021</u>	<u>868,797</u>

3 OTHER REVENUE

Our other revenue in the six months ended June 30, 2022 and June 30, 2021 mainly comprises of government grants, sale of scrap materials and rental income.

4 OTHER NET (LOSS)/GAIN

	Six months ended June 30,	
	2022 US\$'000	2021 US\$'000
Net foreign exchange loss	(9,895)	(5,374)
Net loss on disposal of properties, plants and equipment	(63)	(196)
Net unrealized loss on convertible bonds	(12,836)	–
Net realized and unrealized gains on financial assets at FVPL other than convertible bonds	287	454
Net realized and unrealized (loss)/gains on derivative financial instruments	(9,710)	3,686
Loss on disposal of associates and a joint venture	–	(677)
Gain on disposal of a subsidiary (<i>Note</i>)	–	21,969
Others	(78)	(108)
	<u>(32,295)</u>	<u>19,754</u>

Note: The gain on disposal of a subsidiary for the six months ended June 30, 2021 primarily relates to the sale of our interests in Jiu hao Electromechanical, which engaged in property leasing. As of March 8, 2021, we no longer hold any interest in Jiu hao Electromechanical.

5 NET FINANCE COSTS

	Six months ended June 30,	
	2022	2021
	US\$'000	US\$'000
Interest income from bank deposits	<u>(1,182)</u>	<u>(460)</u>
Finance income	<u>(1,182)</u>	<u>(460)</u>
Interest on bank loans	<u>10,196</u>	<u>8,235</u>
Interest on lease liabilities	<u>482</u>	<u>120</u>
Finance costs	<u>10,678</u>	<u>8,355</u>
Net finance costs	<u>9,496</u>	<u>7,895</u>

6 PROFIT BEFORE TAXATION

	Six months ended June 30,	
	2022	2021
	US\$'000	US\$'000
Profit before taxation is arrived at after charging:		
Net finance costs	(9,496)	(7,895)
Depreciation charge	17,026	12,734
Amortization of intangible assets	149	149
Provision for write-down of inventories	5,815	2,996
Listing expenses	–	2,122
Cost of inventories sold (<i>Note</i>)	<u>711,975</u>	<u>617,688</u>

Note:

Cost of inventories recognized as expenses includes amounts relating to staff costs, depreciation and amortization expenses, provision for write-down of inventories, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

7 INCOME TAX EXPENSE

Taxation in the consolidated statements of profit or loss represents:

	Six months ended June 30,	
	2022	2021
	US\$'000	US\$'000
Current tax		
<i>Mainland China Corporate Income Tax</i>		
Provision for the period	5,204	5,025
Over provision in respect of prior years	237	(56)
	<u>5,441</u>	<u>4,969</u>
<i>Hong Kong Profits Tax</i>		
Provision for the period	6,097	7,856
<i>Tax jurisdictions outside Mainland China and Hong Kong</i>		
Provision for the period	4,323	2,387
Deferred tax		
Origination and reversal of temporary differences	(2,878)	4,400
	<u>(2,878)</u>	<u>4,400</u>
Total income tax expense	<u><u>12,983</u></u>	<u><u>19,612</u></u>

Pursuant to the income tax rules and regulations of Hong Kong, the Company and the subsidiary in Hong Kong were liable to the Hong Kong Profits Tax at a rate of 16.5% during the year ended December 31, 2021 and the six-month period ended June 30, 2022. The Mainland China subsidiaries of the Group are subject to Mainland China Corporate Income Tax at a statutory rate of 25%, except for Nanjing Chervon Industry (南京泉峰科技有限公司), which has obtained the qualification as a High and New Technology Enterprise and is entitled to a preferential income tax rate of 15% during the year ended December 31, 2021 and the six-month period ended June 30, 2022. Taxation arising from jurisdictions outside Mainland China and Hong Kong is calculated at the rates prevailing in the relevant jurisdictions.

8 DIVIDENDS

Pursuant to a resolution passed on June 2, 2022, the Shareholders approved a final dividend of US\$0.0715 per ordinary share (equivalent to HK\$0.5577 per ordinary share), amounting to US\$35,051,000 for the year ended December 31, 2021. As of June 30, 2022, the dividends have not yet been paid and were recorded in other payables and accruals.

9 EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share was based on the profit attributable to ordinary equity shareholders of the parent of US\$63,473,000 (six months ended June 30, 2021: US\$86,062,000) and the weighted average of 489,020,211 ordinary shares (2021: 402,005,511 shares) in issue during the Reporting Period.

Diluted earnings per share

There were no dilutive potential ordinary shares in existence for the six months ended June 30, 2022. The calculated diluted earnings per share equals the basic earnings per share at June 30, 2022.

The calculation of diluted earnings per share was based on the profit attributable to ordinary equity shareholders of the parent of US\$86,062,000 for the six months ended June 30, 2021 and the weighted average number of ordinary shares of 406,057,026.

10 ADDITIONS OF PROPERTIES, PLANTS AND EQUIPMENT

For the six months ended June 30, 2022, the Group spent approximately US\$44.6 million (for the six months ended June 30, 2021: US\$32.7 million) on the acquisition of property, plant and equipment.

11 INTEREST IN ASSOCIATES

Our interest in associates as of June 30, 2022 primarily consisted of our 23.11% (December 31, 2021: 23.12%) interest in Chervon Auto Precision Technology.

12 FINANCIAL ASSETS AT FVPL

Our financial assets at FVPL as of June 30, 2022 and December 31, 2021 primarily consisted of (i) a life insurance product by an independent third-party insurance company, and (ii) convertible bonds issued by Chervon Auto Precision Technology.

13 DERIVATIVE FINANCIAL INSTRUMENTS

Our derivative financial instruments as of June 30, 2022 and December 31, 2021 primarily consisted of foreign currency forward contracts and foreign currency option contracts. We also had an interest rate swap contract as of December 31, 2021.

14 TRADE AND BILLS RECEIVABLES

Trade and bills receivables are typically due within 30 to 180 days from the date of billing. Set forth below is a breakdown of the Group's trade and bills receivables:

	At June 30, 2022 US\$'000	At December 31, 2021 US\$'000
Trade debtors and bills receivable, net of loss allowance		
– measured at amortized cost		
Trade receivables	226,366	168,880
Bills receivables	2,665	10,945
	<u>229,031</u>	<u>179,825</u>
– measured at fair value through other comprehensive income (“FVOCI”)		
Trade receivables	48,561	118,554
	<u>48,561</u>	<u>118,554</u>
	<u>277,592</u>	<u>298,379</u>

As of the end of the Reporting Period, the aging analysis of trade and bills receivables, based on the invoice date and net of loss allowance, is as follows:

	At June 30, 2022 <i>US\$'000</i>	At December 31, 2021 <i>US\$'000</i>
Within 6 months	223,003	175,598
Over 6 months but within 12 months	5,511	3,731
Over 12 months	517	496
	<u>229,031</u>	<u>179,825</u>

15 TRADE AND BILLS PAYABLES

Set forth below is a breakdown of the Group's trade and bills payables:

	At June 30, 2022 <i>US\$'000</i>	At December 31, 2021 <i>US\$'000</i>
Trade payables	306,865	468,073
Bills payable	45,848	45,179
	<u>352,713</u>	<u>513,252</u>

As of the end of the Reporting Period, the aging analysis of trade and bills payables, based on the invoice date, is as follows:

	At June 30, 2022 <i>US\$'000</i>	At December 31, 2021 <i>US\$'000</i>
Within 3 months	317,048	458,426
3 to 12 months	35,665	54,826
	<u>352,713</u>	<u>513,252</u>

All of the trade and bills payables are expected to be settled within one year or repayable on demand.

16 OTHER PAYABLES AND ACCRUALS

	At June 30, 2022 US\$'000	At December 31, 2021 US\$'000
Dividends payable	35,051	–
Other payables and accrued charges (<i>Note</i>)	149,303	165,628
Salaries, wages, bonus and benefits payable	12,148	28,976
Payables for purchase of properties, plants and equipment	5,080	2,912
Interest payables	764	752
Other tax payables	6,703	7,136
	<u>209,049</u>	<u>205,404</u>

Note: Other payables and accrued charges primarily comprise accruals for marketing and advertising fee, utility expenses, service fee and other expenses.

All of the other payables and accruals are expected to be settled within one year or repayable on demand.

17 SHARE CAPITAL

	Number of Shares	HK\$'000	US\$'000
Ordinary shares, issued and fully paid:			
At January 1, 2022	479,431,411	3,465,871	444,621
Issuance of ordinary shares by public offering pursuant to the over-allotment option, net of issuance costs (<i>Note i</i>)	<u>10,787,400</u>	<u>452,656</u>	<u>58,033</u>
At June 30, 2022	<u>490,218,811</u>	<u>3,918,527</u>	<u>502,654</u>

Notes:

- (i) On January 26, 2022, the Company issued and allotted 10,787,400 shares at an offer price of HK\$43.60 per share by way of public offering pursuant to the over-allotment option. Net proceeds from these issues amounted to HK\$452,656,320 (US\$58,032,862 equivalent) (after offsetting costs directly attributable to the issue of shares of HK\$17,674,320 (US\$2,265,938 equivalent), which were recorded in share capital.

18 CAPITAL COMMITMENTS

Capital commitments outstanding at the respective period end not provided for in the consolidated financial statements are as follows:

	At June 30, 2022 US\$'000	At December 31, 2021 US\$'000
Contracted for	2,094	2,203
Authorised but not contracted for	<u>442,309</u>	<u>465,462</u>
	<u>444,403</u>	<u>467,665</u>