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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, 2024**

FINANCIAL HIGHLIGHTS

	Six months ended June 30,		Changes % or US\$'000
	2024 US\$'000	2023 US\$'000	
Revenue	815,745	738,545	+10.5%
Gross profit	268,676	237,296	+13.2%
Profit before taxation	71,814	57,851	+24.1%
Profit for the period	61,619	49,051	+25.6%
Non-HKFRSs measure:			
Adjusted Net Profit	61,619	49,547	+24.4%
Net cash generated from/ (used in) operating activities	119,138	(86,581)	+205,719
Earnings per share			
Basic (US\$)	0.12	0.10	+20.0%
Diluted (US\$)	0.12	0.10	+20.0%

- Revenue increased by 10.5% to US\$815.7 million.
- Gross profit margin improved from 32.1% to 32.9%.
- Net profit margin improved from 6.6% to 7.6%.
- Adjust Net Profit increased by 24.4% to US\$61.6 million.
- Net cash generated from operating activities amounted to US\$119.1 million, up from net cash used in operating activities of -US\$86.6 million.

The board (the “**Board**”) of directors (the “**Directors**”) of Chervon Holdings Limited (the “**Company**”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”, “**we**”, “**us**” or “**our**”) for the six months ended June 30, 2024 (the “**Reporting Period**”) together with the comparative figures for the six months ended June 30, 2023. The unaudited condensed consolidated financial information for the Reporting Period has been reviewed by the audit committee of the Board (the “**Audit Committee**”).

BUSINESS REVIEW AND OUTLOOK

Business Overview

During the Reporting Period, the Group has demonstrated great performance and enhanced profitability. Our revenue increased by 10.5% from US\$738.5 million to US\$815.7 million during the Reporting Period, benefiting from our strong points-of-sales performance and higher volume of customer orders. Our strong brand appeal and effective promotional activities helped stimulate end consumer demand and accelerate the channel destocking cycle. We achieved a 25.6% growth of net profit during the Reporting Period as compared to the same period in 2023 with improved efficiency.

Revenue from our outdoor power equipment (“**OPE**”) segment increased by 10.2% from US\$445.2 million for the six months ended June 30, 2023 to US\$490.4 million for the six months ended June 30, 2024, while revenue from our power tools segment increased by 9.5% from US\$286.3 million for the six months ended June 30, 2023 to US\$313.5 million for the six months ended June 30, 2024.

Our overall gross profit margin improved from 32.1% to 32.9%, primarily driven by scale restoration and operational efficiency enhancement, as well as favorable raw material costs and currency exchange rates. Benefiting from a disciplined approach for optimizing the operating expenses in a balanced and efficient manner, we recorded net profit of approximately US\$61.6 million for the six months ended June 30, 2024, as compared to a net profit of US\$49.1 million for the six months ended June 30, 2023.

We continue to focus on our customers, bringing to market new power tool and OPE products to meet their diverse needs. Leveraging our research and development capability, we continued to innovate by introducing over 100 new products during the Reporting Period. Lithium-ion battery powered products accounted for over 90% of the new products.

EGO

During the Reporting Period, we have strategically expanded and diversified our *EGO* product portfolio. Notably, we successfully launched two lithium-ion battery tractor products in Europe and North America, thereby expanding the product range for riding lawn mowers and reinforcing our leading position in the global market for lithium-ion riding lawn mowers. Additionally, capitalizing on the high-voltage performance advantages and our extensive user base for battery pack platforms, we introduced highly acclaimed new products in the lifestyle category. This marks a significant advancement in extending our battery platform and brand influence beyond the OPE sector. We remain committed to the strategy of Power by *EGO* and are steadily acquiring new customers.

Meanwhile, we have made commendable progress in global channel expansion. In the traditional retailer channels, we have secured an increasing number of shelf placements for our *EGO* products. In the online sales channels, our point-of-sales growth continues to accelerate rapidly, positioning us as the leading brand in these channels and further enhancing our competitive advantages. In the distributor channels, we are actively advancing high-end distributor partnerships in key North American markets. Simultaneously, we have achieved significant progress in European and other regions by acquiring more landscaping business customers and new dealer channels, which we believe will bolster the sales in both residential and commercial series tools.

At present, we believe *EGO* has positioned us as a global leader in lithium-ion OPE segment. For example, our walk-behind equipment, including mower and snow blowers, is the top brand in terms of market share in lithium-ion OPE in North America. The strategic expansion of product ranges and channels has been pivotal in gaining rapid market share growth and enhancing our overall market presence. We expect *EGO*, the top-rated brand in the cordless OPE category, to carry the momentum into the full year and beyond.

FLEX

During the Reporting Period, *FLEX* continued to innovate by expanding its offering of next-generation power tool solutions tailored for professionals, with more than 60 new products launched or planned this year, including the cordless benchtop range and nailer range. It is worth noting that *FLEX* has acquired FLEX Scandinavia AB from the Ahlsell Group on May 31, 2024. This strategic acquisition expands our presence primarily in the Swedish and Scandinavian markets and we believe is a significant step forward. Furthermore, for the fifth time, *FLEX* was recognized as one of the most innovative companies by the renowned magazine Capital and Statista.

SKIL

SKIL has achieved its centennial milestone, symbolizing our enduring leadership and excellence in the market. Despite industry challenges in the DIY segment, *SKIL* has continued to grow, outpacing the overall weakened market during the Reporting Period. In particular, revenue growth from *SKIL* products on *Amazon.com* was close to 20%, demonstrating that the ability of *SKIL*, a time-honored brand, to penetrate new distribution channels. Looking ahead, we remain committed to delivering comprehensive and innovative product solutions while continuously expanding our channel partnerships to optimize our market strategy and drive sustained growth for *SKIL* products.

DEVON

During the Reporting Period, our sales performance has remained notably more resilient than the market overall. E-commerce revenues for *DEVON* have sustained a vigorous upward trajectory, with growth during the Reporting Period exceeding 20% as compared to the same period in 2023. We believe the launch of our new 12V product line on the lithium platform has been exceptionally successful during the Reporting Period. Additionally, *DEVON*'s influence on social media, particularly on the Douyin platform, continues to grow. We now lead with the largest and most engaged followers among power tools brands on Douyin, highlighting our significant impact and strong presence in the digital arena.

Management Transformation

During the Reporting Period, we continued to invest in promoting process-based and data-driven management transformation initiatives to strengthen the strategic planning and execution capabilities of our organization. We also have further integrated global manufacturing, sales and IT systems, and continued to develop our global cloud-based big data platform, facilitating analysis of financial, sales, operational and IoT data. We believe that the improvement of such capabilities will help promote our operational efficiency and support our sustainable growth in the long term.

Manufacturing Capability

During the Reporting Period, we have strengthened our global manufacturing capabilities. This included accelerating the expansion of production capacity at our Chervon Vietnam Plant, thereby augmenting our overseas factory footprint. We believe these initiatives will further support our ability to build a more flexible and resilient supply chain.

Prospects

As the industry destocking cycle draws to a close, our Group's business has been improving throughout the Reporting Period, and we are confident that we will deliver strong performance for the full year 2024, reflecting our fundamental competence and operational excellence. In the medium- to long-term, we believe we are poised to capture structural opportunities arising from the expanding lithium battery sector and will deliver sustainable growth and profitability by leveraging our strengths in technology, channels and brands. As we look to the future, we remain confident in our ability to proactively prepare for and navigate evolving challenges and seize emerging opportunities in the years to come.

FINANCIAL REVIEW

Financial Results

Revenue

The Group's revenue increased by 10.5% from US\$738.5 million for the six months ended June 30, 2023 to US\$815.7 million for the six months ended June 30, 2024, primarily driven by strong points-of-sales performance and higher volume of customer orders.

Revenue by product category

Revenue from the sales of OPE products increased by 10.2% from US\$445.2 million for the six months ended June 30, 2023 to US\$490.4 million for the six months ended June 30, 2024, primarily driven by the accelerated destocking process and an increase in customer orders.

Revenue from the sales of power tools increased by 9.5% from US\$286.3 million for the six months ended June 30, 2023 to US\$313.5 million for the six months ended June 30, 2024, mainly driven by the recovery and growth in our ODM business.

Revenue by geographic location

Revenue from North America increased by 13.8% from US\$485.3 million for the six months ended June 30, 2023 to US\$552.4 million for the six months ended June 30, 2024. Revenue from China increased by 18.2% from US\$54.2 million for the six months ended June 30, 2023 to US\$64.1 million for the six months ended June 30, 2024. Revenue from Europe decreased by 1.5% from US\$174.9 million for the six months ended June 30, 2023 to US\$172.3 million for the six months ended June 30, 2024. Revenue from the rest of the world increased by 11.8% from US\$24.1 million for the six months ended June 30, 2023 to US\$27.0 million for the six months ended June 30, 2024.

Gross Profit and Gross Profit Margin

Our gross profit increased by 13.2% from US\$237.3 million for the six months ended June 30, 2023 to US\$268.7 million for the six months ended June 30, 2024. During the same periods, our overall gross profit margin increased from 32.1% to 32.9%, primarily driven by scale restoration and operational efficiency enhancement, as well as favourable raw material costs and currency exchange rates.

Other Revenue

Our other revenue, which primarily consisted of government grants, sale of scrap materials and rental income, remained flat at US\$2.7 million in the six months ended June 30, 2024 and the same period in 2023.

Other Net Gain/Loss

We had other net gain of US\$2.3 million for the six months ended June 30, 2024, as compared to other net loss of US\$4.7 million for the same period in 2023. Our other net gain for the six months ended June 30, 2024 was primarily attributable to net realized and unrealized gain on financial assets at fair value through profit or loss (“**FVPL**”) other than convertible bonds and net realized and unrealized gain on derivative financial instruments, partially offset by a net foreign exchange loss.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 13.5% from US\$94.0 million for the six months ended June 30, 2023 to US\$106.7 million for the six months ended June 30, 2024, primarily attributable to increases in our marketing expenses and investments in expanding dealer channels, as well as warranty provisions.

Administrative and Other Operating Expenses

Our administrative and other operating expenses increased by 4.8% from US\$40.3 million for the six months ended June 30, 2023 to US\$42.3 million for the six months ended June 30, 2024, primarily attributable to an increase in employees’ remuneration.

Research and Development Costs

Our research and development costs increased by 11.8% from US\$33.5 million for the six months ended June 30, 2023 to US\$37.4 million for the six months ended June 30, 2024, primarily attributable to the Company’s continued investments in research and product development, particularly in products with commercial applications.

Net Finance Costs

Our net finance costs amounted to US\$1.5 million for the six months ended June 30, 2023, as compared to US\$2.0 million for the six months ended June 30, 2024.

Share of Loss of an Associate

We had a share of loss of an associate of US\$13.6 million for the six months ended June 30, 2024, as compared to a share of loss of an associate of US\$8.2 million for the six months ended June 30, 2023, which were primarily attributable to our 24.74% equity interest in 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**”).

Profit Before Taxation

As a result of the foregoing, our profit before taxation for the six months ended June 30, 2024 amounted to US\$71.8 million, representing an increase of 24.1% as compared to US\$57.9 million for the same period in 2023.

Income Tax Expense

Our income tax expense was US\$10.2 million for the six months ended June 30, 2024, as compared to a tax expense of US\$8.8 million for the same period in 2023. Our effective tax rate was 14.2% for the six months ended June 30, 2024, as compared to 15.2% for the same period in 2023, primarily due to (i) the status of Nanjing Chervon Industry Co., Ltd (南京泉峰科技有限公司) (“**Nanjing Chervon Industry**”) as a High and New Technology Enterprise (國家高新技術企業), which is entitled to an enterprise income tax rate of 15% and (ii) additional tax benefits afforded under favorable government policies that encourage research and development activities.

Profit for the Period

As a result of the foregoing, our profit for the period amounted to US\$61.6 million for the six months ended June 30, 2024, as compared to a profit for the period of US\$49.1 million for the six months ended June 30, 2023. Our net profit margin improved to 7.6%, up from 6.6%, 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 Loss/Profit from profit for the period by excluding (i) net realized and unrealized loss on convertible bonds and (ii) income tax effects of non-HKFRSs adjustments.

Adjusted Net Loss/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 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,	
	2024	2023
	US\$'000	US\$'000
Profit for the period	61,619	49,051
Add:		
Net realized and unrealized loss on convertible bonds ⁽¹⁾	–	630
Income tax effects of non-HKFRSs adjustments ⁽²⁾	–	(134)
	<hr/>	<hr/>
Adjusted Net Profit	<u>61,619</u>	<u>49,547</u>

Notes:

- (1) Represents the net realized and unrealized loss on our investment, net of income tax effects, in the convertible bond issued by Chervon Auto Precision Technology.
- (2) Represents income tax effects of non-HKFRSs adjustments.

Liquidity and Financial Resources

Financial Position

The Group continued to maintain a strong financial position. As of June 30, 2024, the Group had US\$387.1 million in cash and cash equivalents (December 31, 2023: US\$296.3 million). 34.1%, 58.5%, 3.5% and 3.9% of our cash and cash equivalents as of June 30, 2024 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, 2024, the Group had bank loans of US\$329.0 million (December 31, 2023: US\$323.6 million), which were primarily denominated in RMB, and lease liabilities of US\$13.5 million (December 31, 2023: US\$12.4 million). As of the same date, fixed-rate and floating-rate loans account for 60.3% and 39.7%, respectively, of the Group's total bank loans.

As of June 30, 2024, short-term bank loans and current portion of long-term bank loans collectively accounted for 73.0% of the total bank loans (December 31, 2023: 61.2%).

The Group's gearing ratio (which equals total debt (including bank loans and lease liabilities) divided by total equity) remained flat at 0.3 as of December 31, 2023 and June 30, 2024, respectively.

Working Capital

The Group's inventories amounted to US\$550.1 million as of June 30, 2024 as compared to US\$531.0 million as of December 31, 2023. Our inventory turnover days were at 178 days for the six months ended June 30, 2024, as compared to 209 days for the six months ended June 30, 2023, primarily due to the improvement in our operational efficiency.

The Group's trade and bills receivables turnover days were 89 days for the six months ended June 30, 2024, as compared to 63 days for the same period in 2023, which is in line with the credit terms we granted to our customers. The increase primarily resulted from strong sales performance in the second quarter of 2024 that led to an increase in the balances of our trade and bills receivables.

The Group's trade and bills payables turnover days were 86 days for the six months ended June 30, 2024, as compared to 92 days for the same period in 2023, which are in line with the credit terms that we obtained from suppliers.

Capital Expenditures

Our capital expenditures for the six months ended June 30, 2024 amounted to US\$22.1 million (six months ended June 30, 2023: US\$46.4 million), primarily due to our investments in upgrading smart manufacturing systems and advancing digital transformation.

Capital Commitments

As of June 30, 2024, 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\$87.8 million (December 31, 2023: US\$67.5 million) primarily for the expansion of our production capacity in Vietnam.

Pledge of Assets

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

	As of June 30, 2024 US\$'000	As of December 31, 2023 US\$'000
Plant and buildings	31,109	31,740
Leasehold land	21,445	21,852
Inventories	16,173	16,565
Trade and bills receivables	4,063	1,538
Pledged deposits	14,527	14,511
Total	<u>87,317</u>	<u>86,206</u>

As of June 30, 2024, the Group had pledged deposits of US\$18.7 million (December 31, 2023: US\$18.2 million), which will be released upon the settlement of letters of credit and bills payable 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, 2024, the maximum guarantee amount was US\$21.7 million (December 31, 2023: US\$21.9 million) and the guarantee issued was US\$9.2 million (December 31, 2023: US\$8.5 million).

Significant Investments Held

During the Reporting Period, the Group did not hold any significant investments (including any investment in an investee company with a carrying amount of 5% or more of the Company's total assets as of June 30, 2023).

Material Acquisitions, Disposals of Subsidiaries and Associates

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

Future Plans for Major Investments and Capital Assets

In the coming years, the Group intends to continue investing in expanding its manufacturing plant in Vietnam, including by building production facilities on a land lot owned by it with a total area exceeding 130,000 square meters.

Save as disclosed above, during the Reporting Period, the Group has no specific plans for major investment or acquisition for major capital assets or other businesses.

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, 2024 amounted to US\$0.7 million, compared to a net foreign exchange gain of US\$7.2 million for the same period in 2023. Our net realized and unrealized gain on derivative financial instruments (which primarily include foreign exchange forward contracts) for the six months ended June 30, 2024 was US\$0.8 million, compared to a realized and unrealized loss of US\$12.3 million for the same period in 2023.

Investment Risk Management

Our investment strategy is grounded in the principles of compliance, prudence, safety and effectiveness. Each investment decision is made based on internal vetting and discussions, considering factors such as market dynamics, expected returns and risks involved. We believe that our internal strategy and policies regarding investments and the related risk management mechanisms are adequate, and that our investment decisions have been in full compliance with our investment strategy and policies.

MAJOR CUSTOMERS AND SUPPLIERS

For the six months ended June 30, 2024, the Group's largest customer and five largest customers accounted for approximately 30.1% and 57.7% (six months ended June 30, 2023: 32.0% and 59.0%) respectively of the Group's total revenue; and the Group's largest supplier and five largest suppliers accounted for approximately 14.9% and 28.6% respectively for the Group's total purchases (six months ended June 30, 2023: 20.0% and 34.9%).

As far as the Directors are aware, none of the Directors, their associates or any shareholders of the Company (the "**Shareholders**") who owned more than 5% of the Company's share capital had any interest in the five largest customers or suppliers of the Group.

HUMAN RESOURCES

The number of employees of the Group was 6,133 as of June 30, 2024 (6,522 as of June 30, 2023). The total staff costs for the Reporting Period remained relatively stable at US\$110.0 million, as compared to US\$107.5 million for the six months ended June 30, 2023. 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 provides regular and specialized training tailored to the needs of its employees in different departments. The Group also has a share scheme in place to reward and motivate employees. Details of the share scheme of the Company are set out in the section headed "Other Information – Adoption of 2024 Share Scheme" in this announcement.

As of June 30, 2024, the male-to-female ratio of the Groups' employees is approximately 1.57 to 1 (December 31, 2023: 1.56:1). The ratio is primarily driven by the nature of our business as we employ a higher portion of male engineers and front-line workers. While we consider such ratio to be in line with industry norms, we are firmly committed to offering equal employment opportunities to all qualified candidates based on merits and will seek to achieve relative balance between male and female employees going forward.

OTHER INFORMATION

USE OF NET PROCEEDS FROM OUR GLOBAL OFFERING

The Company received net proceeds (after deduction of underwriting commissions and related costs and expenses) from its global offering completed in December 2021, including the full exercise of the over-allotment option, of approximately HK\$3,470.1 million (the “**2021 Net Proceeds**”).

As of June 30, 2023, the balance of 2021 Net Proceeds amounted to approximately HK\$1,930.5 million. As set out in the Prospectus of the Company dated December 17, 2021, it was the Company’s plan that 66.5% of the 2021 Net Proceeds would be used for expanding and upgrading production facilities. After due and careful consideration of Group’s business strategy and evolving market environment and customer needs, the Board has resolved on August 28, 2023 to approve the reallocation of the 2021 Net Proceeds that remained unutilized as of June 30, 2023 and the updated timeframe. For details of the reallocation, please refer to the announcement of the Company dated August 28, 2023.

As of December 31, 2023, the balance of 2021 Net Proceeds amounted to approximately HK\$339.7 million. During the Reporting Period, we have fully utilized the balance of the 2021 Net Proceeds as set out below:

Intended use of Net Proceeds	Updated Allocation of 2021 Net Proceeds as of June 30, 2023	Percentage of Updated Allocation of 2021 Net Proceeds	Balance of 2021 Net Proceeds as of December 31, 2023	Amount of Net Proceeds utilized during the Reporting Period	Balance of 2021 Net Proceeds Unutilized as of June 30, 2024	Updated Timeframe for use of the Unutilized 2021 Net Proceeds
Expanding and upgrading production facilities	HK\$430.5 million	22.3%	HK\$192.8 million	HK\$192.8 million	Nil	Fully utilized during the Reporting Period
Researching and developing products	HK\$469.1 million	24.3%	HK\$146.9 million	HK\$146.9 million	Nil	Fully utilized during the Reporting Period
Enhancing sales and distribution channels	HK\$469.1 million	24.3%	Nil	Nil	Nil	Fully utilized in 2023
Paying interest-bearing bank borrowings	HK\$391.9 million	20.3%	Nil	Nil	Nil	Fully utilized in 2023
Working capital and other general corporate purposes	HK\$169.9 million	8.8%	Nil	Nil	Nil	Fully utilized in 2023
Total	HK\$1,930.5 million	100.0%	HK\$339.7 million	HK\$339.7 million	Nil	

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend in respect of the six months ended June 30, 2024.

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 C1 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) as its own code of corporate governance.

During the Reporting Period, 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 officer 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 C3 to the Listing Rules as its own code of conduct regarding Directors’ securities transactions. Having made specific enquiry with the Directors, all of the Directors confirmed that he/she has complied with the required standards as set out in the Model Code during the Reporting Period and up to the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SHARES

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company’s listed securities.

ADOPTION OF 2024 SHARE SCHEME

On January 29, 2024, the Board proposed to adopt a share scheme under Chapter 17 of the Listing Rules (the “**2024 Share Scheme**”). The purposes of the 2024 Share Scheme are (1) to bind the interests of shareholders, the Company and employees to focus on the realization of the Company’s strategic development objectives and to drive the performance growth; and (2) to improve our long-term incentive mechanism to attract and retain outstanding talents and to fully mobilize the senior management team and core employees. On February 20, 2024, the resolution for adopting the 2024 Share Scheme was passed in an extraordinary general meeting. As of the date of this announcement, no share was granted, exercised, cancelled or lapsed under the 2024 Share Scheme. For further details regarding the 2024 Share Scheme, please refer to the Company’s circular dated February 2, 2024.

Between June 27, 2024 and July 3, 2024, the trustee for the 2024 Share Scheme purchased a total of 1,106,100 shares on the market, accounting for approximately 0.22% of the total number of the Company’s shares. For details regarding the purchase on-market by the Company’s trustee for the 2024 Share Scheme (as defined below), please refer to the Company’s announcements dated June 27, June 28, July 2 and July 3, 2024, respectively.

EVENT AFTER THE REPORTING PERIOD

Save as disclosed in the section headed “—Adoption of 2024 Share Scheme”, the Group has no important events which occurred after the end of the Reporting Period and up to the date of this announcement 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, 2024.

INDEPENDENT REVIEW OF AUDITOR

The unaudited interim financial report of the Group for the six months ended June 30, 2024 has been reviewed by KPMG, in accordance with the Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF INTERIM RESULTS AND 2024 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, 2024 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 27, 2024

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, 2024 – unaudited

		Six months ended June 30,	
	Note	2024	2023
		US\$'000	US\$'000
Revenue	2	815,745	738,545
Cost of revenue		<u>(547,069)</u>	<u>(501,249)</u>
Gross profit		268,676	237,296
Other revenue	3	2,722	2,745
Other net gain/(loss)	4	2,336	(4,666)
Selling and distribution expenses		(106,667)	(93,989)
Administrative and other operating expenses		(42,264)	(40,312)
Research and development costs		<u>(37,433)</u>	<u>(33,485)</u>
Profit from operations		87,370	67,589
Net finance costs	5	(1,975)	(1,514)
Share of loss of an associate		<u>(13,581)</u>	<u>(8,224)</u>
Profit before taxation	6	71,814	57,851
Income tax expense	7	<u>(10,195)</u>	<u>(8,800)</u>
Profit for the period		<u>61,619</u>	<u>49,051</u>
Attributable to:			
Equity shareholders of the Company		61,525	49,119
Non-controlling interests		<u>94</u>	<u>(68)</u>
Profit for the period		<u>61,619</u>	<u>49,051</u>
Earnings per share	9		
Basic (US\$)		<u>0.12</u>	<u>0.10</u>
Diluted (US\$)		<u>0.12</u>	<u>0.10</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2024 – unaudited

	<i>Note</i>	Six months ended June 30,	
		2024	2023
		<i>US\$'000</i>	<i>US\$'000</i>
Profit for the period		61,619	49,051
Other comprehensive income for the year (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		10	(220)
<i>Item 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		(20,834)	(28,087)
Total comprehensive income for the period		40,795	20,744
Attributable to:			
Equity shareholders of the Company		40,701	20,812
Non-controlling interests		94	(68)
Total comprehensive income for the period		40,795	20,744

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2024 – unaudited

	<i>Note</i>	As of June 30, 2024 <i>US\$'000</i>	As of December 31, 2023 <i>US\$'000</i>
Non-current assets			
Properties, plant and equipment	10	275,713	276,555
Right-of-use assets		57,977	57,982
Intangible assets		2,580	882
Goodwill		3,078	–
Interest in an associate	11	72,586	86,921
Prepayments, deposits and other receivables		5,235	4,637
Financial assets at fair value through profit or loss	12	7,632	6,393
Deferred tax assets		50,898	47,804
		<u>475,699</u>	<u>481,174</u>
Current assets			
Derivative financial instruments	13	2,760	2,553
Inventories		550,121	530,951
Right to returned goods asset		9,519	26,248
Trade and bills receivables	14	453,993	359,011
Prepayments, deposits and other receivables		38,351	70,895
Taxation recoverable		3,320	10,972
Pledged deposits		18,670	18,244
Cash and cash equivalents		387,090	296,337
		<u>1,463,824</u>	<u>1,315,211</u>
Current liabilities			
Bank loans		240,009	198,185
Derivative financial instruments	13	3,608	2,335
Lease liabilities		3,800	2,690
Trade and bills payables	15	296,547	224,954
Other payables and accruals	16	214,294	142,507
Taxation payable		5,036	7,033
Warranty provision		42,335	49,617
Refund liabilities from right of return		13,787	36,104
		<u>819,416</u>	<u>663,425</u>
Net current assets		<u>644,408</u>	<u>651,786</u>
Total assets less current liabilities		<u>1,120,107</u>	<u>1,132,960</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*As of June 30, 2024 – unaudited*

	<i>Note</i>	As of June 30, 2024 US\$'000	As of December 31, 2023 US\$'000
Non-current liabilities			
Bank loans		88,941	125,455
Lease liabilities		9,724	9,691
Warranty provision		19,892	20,060
Deferred income		4,600	3,558
Defined benefit retirement plans obligation		391	434
Deferred tax liabilities		15,008	13,141
		<u>138,556</u>	<u>172,339</u>
NET ASSETS		<u>981,551</u>	<u>960,621</u>
CAPITAL AND RESERVES			
Share capital	<i>17</i>	601,859	601,859
Reserves		379,702	358,866
Total equity attributable to equity shareholders of the Company		981,561	960,725
Non-controlling interests		<u>(10)</u>	<u>(104)</u>
TOTAL EQUITY		<u>981,551</u>	<u>960,621</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended June 30, 2024 – unaudited

Six months ended June 30,
2024 2023
USD'000 USD'000

Operating activities

Cash generated from operations	125,280	(77,261)
Tax paid	(6,142)	(9,320)
Net cash generated from/(used in) operating activities	119,138	(86,581)

Investing activities

Payment for the purchase of properties, plants and equipment	(22,100)	(46,385)
Acquisition of a subsidiary, net of cash acquired	(6,907)	–
Proceeds from disposal of properties, plants and equipment	2,933	1,793
Proceeds from disposal of convertible bonds	–	19,317
Other cash flows arising from investing activities	3,765	5,651
Net cash used in investing activities	(22,309)	(19,624)

Financing activities

Proceeds from issue of ordinary shares, net of issuance costs paid	–	99,205
Payment for purchase of shares for share award scheme	(1,773)	–
Other cash flows arising from financing activities	(2,666)	(62,585)
Net cash (used in)/generated from financing activities	(4,439)	36,620

Net increase/(decrease) in cash and cash equivalents	92,390	(69,585)
Cash and cash equivalents at the beginning of the period	296,337	466,713
Effect of foreign exchange rate changes	(1,637)	(861)
Cash and cash equivalents at the end of the period	387,090	396,267

NOTES

1 GENERAL INFORMATION AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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 Group is principally engaged in researching, developing, manufacturing, testing, sales, and after-sale services for power tools, outdoor power equipment 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, 2024.

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The interim financial report was authorized for issue on August 27, 2024.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2023 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2024 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 2023 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, 2023 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, 2023 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 the interim financial report for the current accounting period:

- Amendments to HKAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current* (“2020 amendments)
- Amendments to HKAS 1, *Presentation of financial statements: Non-current liabilities with covenants* (“2022 amendments)
- Amendments to HKFRS 16, *Leases: Lease liability in a sale and leaseback*
- Amendments to HKAS 7, *Statement of cash flows and HKFRS 7, Financial instruments: Disclosures – Supplier finance arrangements*

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 in the interim financial report. 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 and through our ODM business.
- 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 and through our ODM business.
- 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,	
	2024	2023
	US\$’000	US\$’000
Power tools	313,500	286,299
OPE	490,421	445,179
Others	11,824	7,067
	<u>815,745</u>	<u>738,545</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,	
	2024 US\$'000	2023 US\$'000
North America	552,372	485,285
Europe	172,296	174,902
China	64,091	54,230
Rest of the World	26,986	24,128
	<u>815,745</u>	<u>738,545</u>

3 OTHER REVENUE

Our other revenue in the six months ended June 30, 2024 and June 30, 2023 mainly comprises of government grants, sale of scrap materials and rental income.

4 OTHER NET GAIN/(LOSS)

	Six months ended June 30,	
	2024 US\$'000	2023 US\$'000
Net foreign exchange (loss)/gain	(741)	7,245
Net (loss)/gain on disposal of properties, plants and equipment	(46)	36
Net realized and unrealized loss on convertible bonds	–	(630)
Net realized and unrealized gain on financial assets at FVPL other than convertible bond	1,321	1,031
Net realized and unrealized gain/(loss) on derivative financial instruments	752	(12,338)
Others	1,050	(10)
	<u>2,336</u>	<u>(4,666)</u>

5 NET FINANCE COSTS

	Six months ended June 30,	
	2024 US\$'000	2023 US\$'000
Interest income from bank deposits	<u>(3,683)</u>	<u>(4,784)</u>
Finance income	<u>(3,683)</u>	<u>(4,784)</u>
Interest on bank loans	5,593	5,984
Interest on lease liabilities	<u>65</u>	<u>314</u>
Finance costs	<u>5,658</u>	<u>6,298</u>
Net finance costs	<u>1,975</u>	<u>1,514</u>

6 PROFIT BEFORE TAXATION

	Six months ended June 30,	
	2024	2023
	US\$'000	US\$'000
Profit before taxation is arrived at after charging:		
Net finance costs	1,975	1,514
Depreciation charge	22,305	18,615
Amortization of intangible assets	148	148
Provision for write-down of inventories	320	1,106
Cost of inventories sold (<i>Note</i>)	547,069	501,249

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,	
	2024	2023
	US\$'000	US\$'000
Current tax		
<i>Mainland China Corporate Income Tax</i>		
Provision for the period	6,091	4,976
(Over)/under-provision in respect of prior years	53	(226)
	6,144	4,750
<i>Hong Kong Profits Tax</i>		
Provision for the period	–	5,546
<i>Tax jurisdictions outside Mainland China and Hong Kong</i>		
Provision for the period	5,653	4,311
Deferred tax		
Origination and reversal of temporary differences	(1,602)	(5,807)
Total income tax expense	10,195	8,800

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2023: 16.5%) to the six months ended June 30, 2024. The provision for Chinese Mainland income tax is based on the respective corporate income tax rates applicable to the subsidiaries located in the Chinese Mainland as determined in accordance with the relevant income tax rules and regulations of the Chinese Mainland. Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

8 DIVIDENDS

The Board has resolved not to declare an interim dividend in respect of the six months ended June 30, 2024 (no interim dividend for the six months ended June 30, 2023).

Pursuant to a resolution passed at the annual general meeting held on June 4, 2024, dividends of US\$18.1 million were declared on June 4, 2024 and were paid on July 8, 2024.

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 Company of US\$61,525,000 (for the six months ended June 30, 2023: US\$49,119,000) and the weighted average of 511,041,922 ordinary shares (2023: 508,866,712 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, 2024 and six months ended June 30, 2023. The calculated diluted earnings per share equals the basic earnings per share at June 30, 2024 and June 30, 2023.

10 ADDITIONS OF PROPERTIES, PLANTS AND EQUIPMENT

For the six months ended June 30, 2024, the Group recorded approximately US\$23.2 million (for the six months ended June 30, 2023: US\$46.8 million) on the acquisition of property, plant and equipment.

11 INTEREST IN AN ASSOCIATE

Our interest in an associate as of June 30, 2024 primarily consisted of our 24.74% (December 31, 2023: 24.74%) interest in Chervon Auto Precision Technology.

12 FINANCIAL ASSETS AT FVPL

The Group's non-current balances of financial assets at FVPL primarily consisted of (i) a life insurance product by an independent third-party insurance company, and (ii) units in investment funds incorporated in the PRC which are primarily invested in the manufacturing, healthcare and new energy sectors.

13 DERIVATIVE FINANCIAL INSTRUMENTS

Our derivative financial instruments as of June 30, 2024 and December 31, 2023 primarily consisted of foreign currency forward contracts, foreign currency option contracts and foreign exchange swap contracts.

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:

	As of June 30, 2024 <i>US\$'000</i>	As of December 31, 2023 <i>US\$'000</i>
Trade debtors and bills receivable, net of loss allowance		
– measured at amortized cost		
Trade receivables	450,234	351,628
Bills receivables	1,918	2,424
– measured at fair value through other comprehensive income (“FVOCI”)		
Trade receivables	1,841	4,959
	<u>453,993</u>	<u>359,011</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:

	As of June 30, 2024 <i>US\$'000</i>	As of December 31, 2023 <i>US\$'000</i>
Within 6 months	449,073	347,589
Over 6 months but within 12 months	2,634	6,160
Over 12 months	445	303
	<u>452,152</u>	<u>354,052</u>

15 TRADE AND BILLS PAYABLES

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

	As of June 30, 2024 <i>US\$'000</i>	As of December 31, 2023 <i>US\$'000</i>
Trade payables	276,322	206,781
Bills payable	20,225	18,173
	<u>296,547</u>	<u>224,954</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:

	As of June 30, 2024 <i>US\$'000</i>	As of December 31, 2023 <i>US\$'000</i>
Within 3 months	277,041	156,043
3 to 12 months	19,506	68,911
	<u>296,547</u>	<u>224,954</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

	As of June 30, 2024 <i>US\$'000</i>	As of December 31, 2023 <i>US\$'000</i>
Other payables and accrued charges (<i>Note</i>)	142,968	95,766
Dividends payable	18,091	–
Salaries, wages, bonus and benefits payable	17,833	13,988
Payables for purchase of properties, plants and equipment	17,367	16,543
Interest payables	369	452
Other tax payables	17,666	15,758
	214,294	142,507

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 CAPITAL COMMITMENTS

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

	As of June 30, 2024 <i>US\$'000</i>	As of December 31, 2023 <i>US\$'000</i>
Contracted for	46,140	46,511
Authorised but not contracted for	41,700	20,944
	87,840	67,455
Represented by:		
Construction of plant and buildings	87,119	66,435
Acquisition of machinery and equipment	721	1,020
	87,840	67,455