
INDUSTRY OVERVIEW

This and other sections of this prospectus contain information relating to the industry in which we operate. Certain information and statistics set forth in this section and other sections of this prospectus have been extracted from the F&S Report issued by Frost & Sullivan, an independent market research agency, which we commissioned, and from various official government publications and other publicly available publications. The information from official government has not been independently verified by us, the Sole Sponsor, the Sole Sponsor-Overall Coordinator, the Joint Overall Coordinators, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of their respective directors and advisers, or any other persons or parties involved in the Global Offering (excluding Frost & Sullivan), and no representation is given as to its accuracy or completeness of such information and statistics.

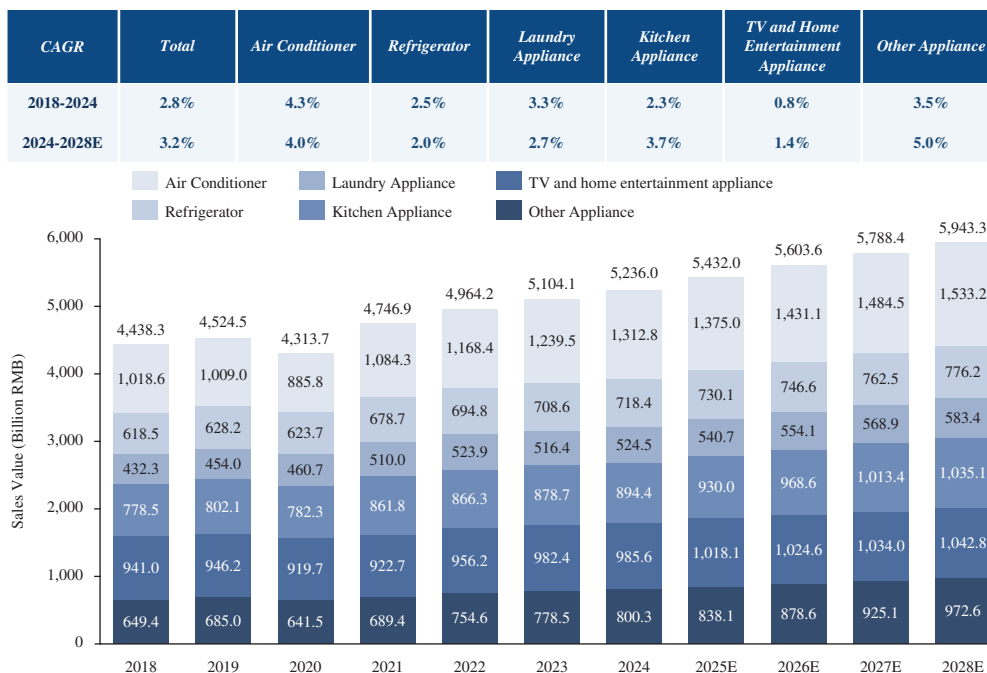
OVERVIEW OF GLOBAL HOME APPLIANCE INDUSTRY

Global Market Size by Category in terms of Sales Value

The home appliance market encompasses several key product categories, such as air conditioners, refrigerators, laundry appliances, kitchen appliances, and TV/home entertainment systems. Amongst these product categories, the sales value growth of air conditioners has demonstrated a particularly notable acceleration, outpacing the average growth rate of the global home appliance market as a whole. Specifically, the global market size of air conditioner, in terms of sales value, grew from RMB1,018.6 billion in 2018 to RMB1,312.8 billion in 2024 with a CAGR of 4.3%, and is expected to reach RMB1,533.2 billion in 2028, representing a CAGR of 4.0% from 2024 to 2028. The growth of air conditioners market could be driven by the increasing penetration rate in less developed countries and the development of innovative products. The chart below illustrates the growth of global sales value of home appliance with a breakdown by category.

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Sales Value of Home Appliance Market by Category (Global), 2018-2028E



Note: Air conditioner includes both household air conditioner and central air conditioner

Source: US Census Bureau, China Household Electrical Appliances Association, F&S Report

Definition and Classification of Air Conditioner

Air conditioner is a system used to control the humidity, ventilation, and temperature in a housing or commercial unit, mainly to cool the atmosphere in warm conditions, and also offer heating for year-round comfort. Air conditioners are generally categorized into two main types, namely household air conditioners and central air conditioners.

Household air conditioner is a type of air conditioner unit designed for residential use, providing both cooling and heating for individual households. There are several popular types of household air conditioners, including wall-mounted, cabinet-style and mobile units. Central air conditioners comprise VRF systems, packaged units, heat pumps, chillers, screw chiller units, centrifugal chiller units and terminal devices. Central air conditioners come in both residential and commercial types.

OVERVIEW OF GLOBAL AIR CONDITIONER INDUSTRY

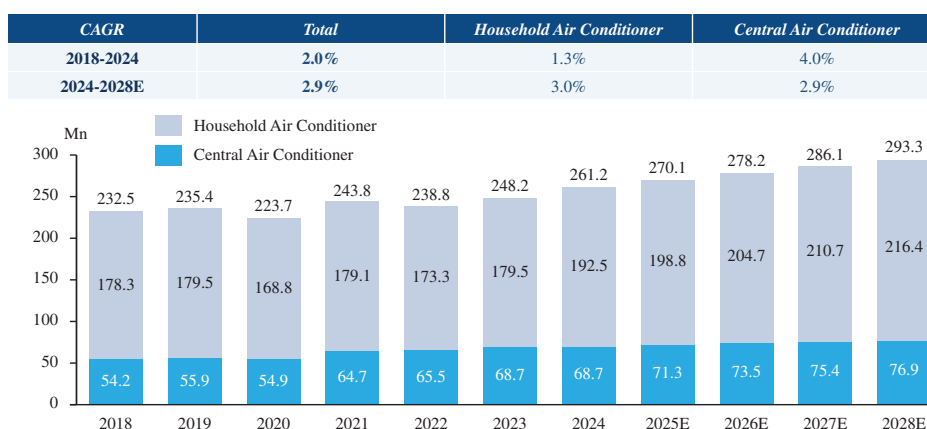
Global Market Size in Terms of Sales Volume

The global air conditioner market has experienced steady growth in recent years, with sales volume increased from 232.5 million units in 2018 to 261.2 million units in 2024, representing a CAGR of 2.0%. Household air conditioners accounted for a significant 73.7%

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of the total market in 2024 and have shown stable performance. In addition, the sales volume of central air conditioners increased more rapidly, particularly in emerging markets, achieving a 4.0% CAGR from 2018 to 2024. The global air conditioner market is expected to maintain steady growth, driven by replacement demand in developed countries and regions and China, as well as new demands from emerging markets. The global sales volume of air conditioners is expected to reach 293.3 million units in 2028, representing a CAGR of 2.9% from 2024 to 2028, with central air conditioners anticipated to continue growing at a faster pace compared to household models. The chart below illustrates the growth of global sales volume of air conditioners with a breakdown by category.

Sales Volume Breakdown of Air Conditioner by Category (Global), 2018-2028E



Source: Japan Refrigeration and Air Conditioning Industry Association, F&S Report

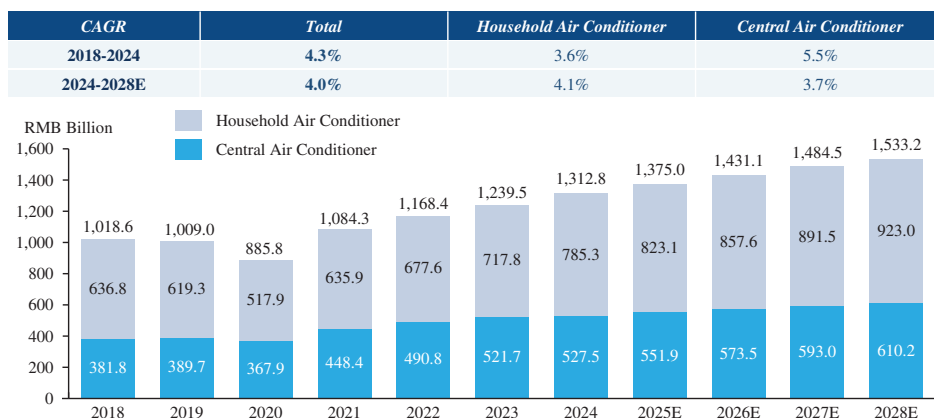
Global Market Size in Terms of Sales Value

The global air conditioner market, in terms of sales value, has shown consistent growth during the past years, driven by various factors such as the expansion of central air conditioners in emerging markets and increasing demand across different regions. The global market size of air conditioners, in terms of sales value, increased from RMB1,018.6 billion in 2018 to RMB1,312.8 billion in 2024, representing a CAGR of 4.3%, and is expected to reach RMB1,533.2 billion in 2028, representing a CAGR of 4.0% from 2024 to 2028. Among which, the global market size of household air conditioners, in terms of sales value, grew from RMB636.8 billion in 2018 to RMB785.3 billion in 2024, representing a CAGR of 3.6%, while the global market size of central air conditioners, in terms of sales value, experienced stronger growth, rising from RMB381.8 billion in 2018 to RMB527.5 billion in 2024, representing a CAGR of 5.5%.

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Going forward, the global market size of household air conditioners, in terms of sales value, is expected to reach RMB923.0 billion in 2028, representing a CAGR of 4.1% from 2024 to 2028. Meanwhile, the global market size of central air conditioners, in terms of sales value, is expected to reach RMB610.2 billion in 2028, representing a CAGR of 3.7% from 2024 to 2028. The chart below illustrates the growth of global sales value of air conditioners with a breakdown by category.

Sales Value Breakdown of Air Conditioner by Category (Global), 2018-2028E



Source: Japan Refrigeration and Air Conditioning Industry Association, F&S Report

Global Market Size of Air Conditioner by Region in Terms of Sales Value

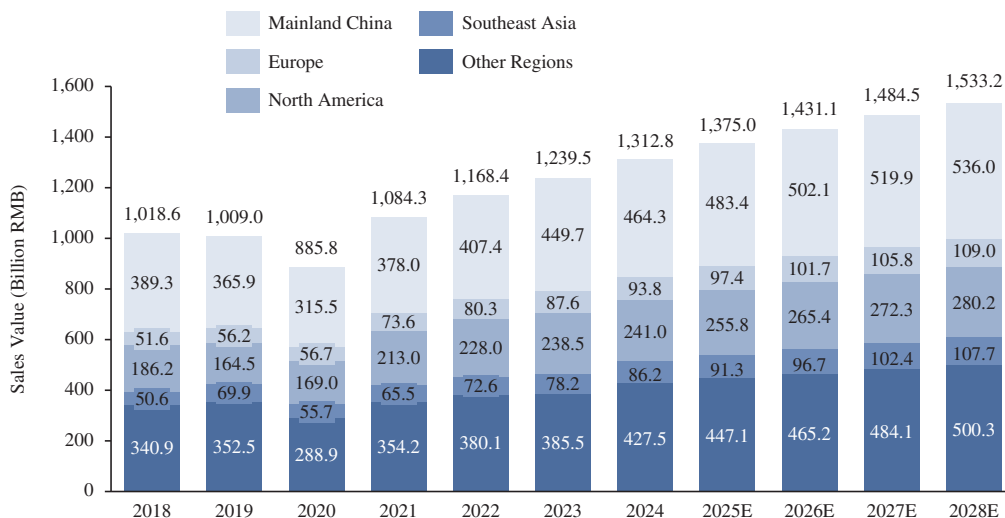
China, North America, Europe and Southeast Asia are the four largest markets for air conditioner in terms of sales value, together accounting for over 67.4% of the total global air conditioner sales value in 2024. These key regional markets are expected to continue growing at a robust pace, with expected CAGRs of 3.7% for China, 3.8% for North America, 3.8% for Europe and 5.7% for Southeast Asia from 2024 to 2028. In particular, China is the largest single air conditioner market, with sales value of RMB464.3 billion in 2024, accounting for 35.3% of the global market during the same period.

The increasing disposable income level and urbanization rate, particularly in emerging markets, are expected to further drive the growth of the global air conditioner market. The chart below illustrates the growth of global sales value of air conditioners with a breakdown by major region.

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Sales Value Breakdown of Air Conditioner by Region (Global), 2018-2028E

CAGR	Global	Mainland China	North America	Europe	Southeast Asia	Other Regions
2018-2024	4.3%	3.0%	4.4%	10.5%	9.3%	3.8%
2024-2028E	4.0%	3.7%	3.8%	3.8%	5.7%	4.0%



Note: Other regions include Middle East, Africa, South America and etc.

Source: Japan Refrigeration and Air Conditioning Industry Association, F&S Report

OVERVIEW OF CHINA AIR CONDITIONER INDUSTRY

China Market Size in Terms of Sales Volume

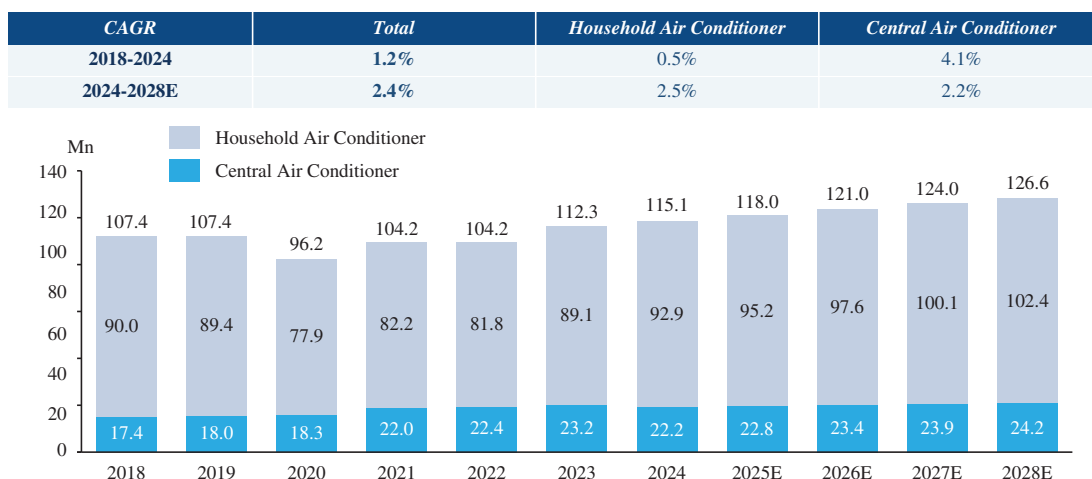
China's air conditioner market has demonstrated steady growth in recent years. The sales volume of air conditioners in China grew from 107.4 million units in 2018 to 115.1 million units in 2024, representing a CAGR of 1.2%, and is expected to reach 126.6 million units in 2028, representing a CAGR of 2.4% from 2024 to 2028. Air conditioner sales in China are expected to continue growing, driven by factors such as steady replacement demand, increased penetration in lower-tier markets, and government stimulus for appliance upgrades.

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The household air conditioner market in China is relatively mature, with growth primarily driven by replacement demand and increased penetration in lower-tier markets. The sales volume of household air conditioners in China increased from 90.0 million units in 2018 to 92.9 million units in 2024, mostly driven by government subsidies and increasing replacement demand. In the future, driven by factors such as recovered consumption needs and government subsidies for air conditioner trade-in, the sales volume of household air conditioners in China is expected to reach 102.4 million units in 2028, representing a CAGR of 2.5% from 2024 to 2028. In addition, the sales of central air conditioners in China remain in a growth phase in line with the rising adoption of central air conditioners in residential households and various industrial sectors. The sales volume of central air conditioners in China increased from 17.4 million units in 2018 to 22.2 million units in 2024, representing a CAGR of 4.1%, and is expected to reach 24.2 million units in 2028, representing a CAGR of 2.2% from 2024 to 2028.

The chart below illustrates the growth of sales volume of air conditioners in China with a breakdown by category.

Sales Volume Breakdown of Air Conditioner by Category (China), 2018-2028E



Source: China Household Electrical Appliances Association, F&S Report

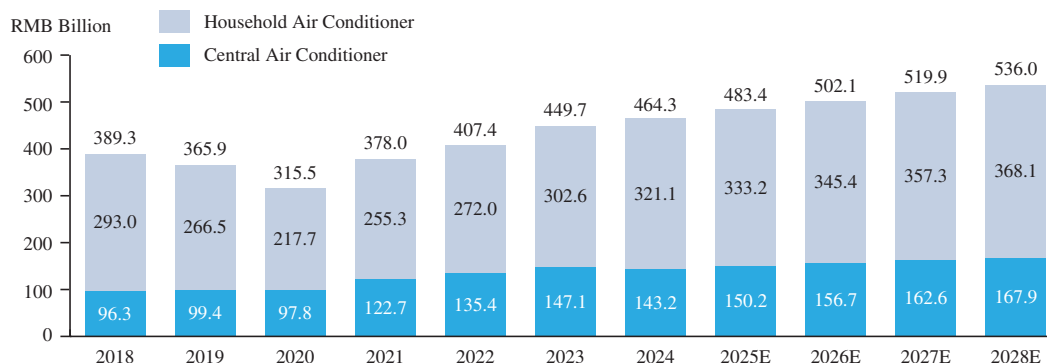
China Market Size in Terms of Sales Value

The market size of air conditioners in China, in terms of sales value, grew from RMB389.3 billion in 2018 to RMB464.3 billion in 2024, representing a CAGR of 3.0%, and is expected to reach RMB536.0 billion in 2028, representing a CAGR of 3.7% from 2024 to 2028. The chart below illustrates the growth of sales value of air conditioners in China with a breakdown by category.

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Sales Value Breakdown of Air Conditioner by Category (China), 2018-2028E

CAGR	Total	Household Air Conditioner	Central Air Conditioner
2018-2024	3.0%	1.5%	6.8%
2024-2028E	3.7%	3.5%	4.1%



Source: China Household Electrical Appliances Association, F&S Report

China Market Size in Terms of Sales Volume by Price

The household air conditioner market in China can be primarily segmented into three price-based sub-markets in terms of selling prices to end consumers, including the mass market (units priced below RMB2,500), the medium market (units priced greater than or equal to RMB2,500 and less than RMB3,500), and the high-end market (units priced at RMB3,500 or above).

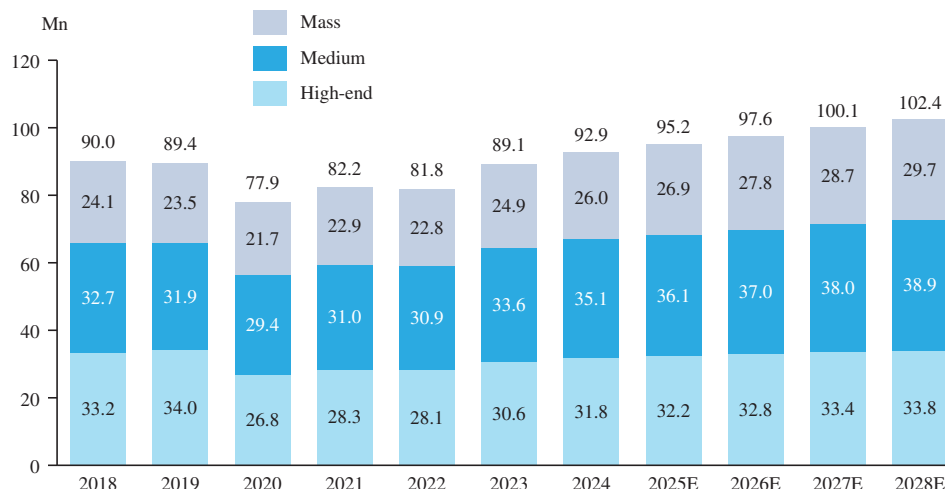
The sales volume performance across these segments has varied, among which the mass market segment experienced the strongest performance from 2018 to 2024. As consumers place greater emphasis on affordable products, the sales volume of household air conditioners in the mass market has outpaced that in the medium and high-end segments. The sales volume of household air conditioners in the mass market increased from 24.1 million units to 26.0 million units, representing a CAGR of 1.3%. As such trend is expected to continue, the mass market segment is expected to see the most robust growth going forward and is expected to continue outpace the overall industry growth. In contrast, the medium and high-end segments are expected to experience more moderate expansion over the same period. The sales volume of household air conditioners in the mass market is expected to reach 29.7 million units in 2028, representing a CAGR of 3.4% from 2024 to 2028.

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The chart below illustrates the growth of sales volume of household air conditioners in China with a breakdown by price-based sub-market.

Sales Volume Breakdown of Household Air Conditioner (China), by Price, 2018-2028E

CAGR	Total	Mass	Medium	High-end
2018-2024	0.5%	1.3%	1.2%	-0.7%
2024-2028E	2.5%	3.4%	2.6%	1.5%



Source: F&S Report

China Market Size in Terms of Sales Volume by City Tier

Tier 3 and below cities represent the largest market for household air conditioners in China. The sales of household air conditioner in these areas accounted for 50.4% of total household air conditioner sales in China in 2024, primarily because these lower tier cities have substantial populations and the relatively low market penetration of air conditioners, leading to strong and growing demand. The sales volume of air conditioners in tier 3 and below cities in China increased from 41.9 million units in 2018 to 46.8 million units in 2024, representing a CAGR of 1.9%, notably higher than the overall industry CAGR of 0.5%. Going forward, the household air conditioner market in tier 3 and below cities in China is expected to experience steady growth, supported by factors, such as increasing disposable income level and urbanization rate, replacement sales and rising demand for trade-ins. The sales volume of air conditioners in tier 3 and below cities in China is expected to reach 54.3 million units in 2028, representing a CAGR of 3.8% from 2024.

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The chart below illustrates the growth of sales volume of household air conditioners in China with a breakdown by city tier.

Sales Volume Breakdown of Household Air Conditioner, by City Tier (China), 2018-2028E



Source: F&S Report

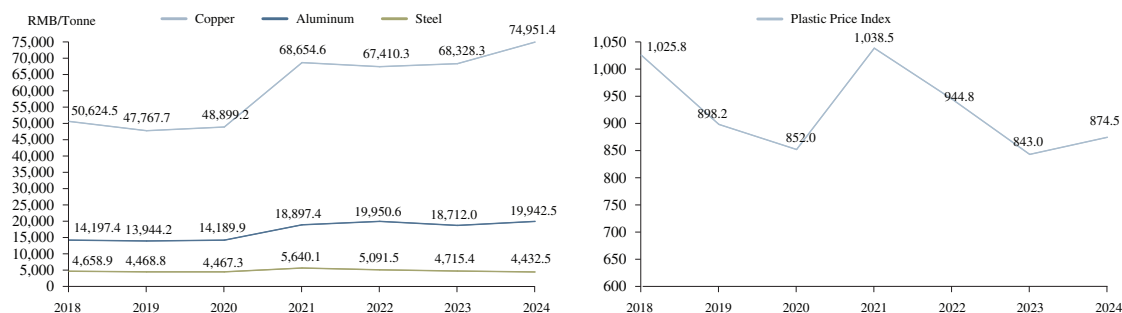
Cost Analysis

The major raw materials used in the production of air conditioners primarily include copper, aluminum, steel and plastic. From 2018 to 2020, the prices of copper, aluminum and steel remained relatively stable. However, in 2021, prices of these materials experienced a sharp increase due to an imbalance between supply and demand, primarily as a result of a rebound largely associated with the recovery of China's manufacturing sectors. From 2021 to 2023, prices of these materials remained relatively stable. The price of copper experienced further increases in 2024, reaching RMB74,951.4 per tonne. Plastic is also a major raw material for air conditioners, with the plastic price index fluctuating around 1,000 over the past seven years.

The increase in raw material costs has posed and will continue to pose challenges for air conditioner companies. However, leading brands can leverage their superior product structure and operational capabilities to mitigate the impact of raw material price pressure. Furthermore, leading brands with stronger bargaining power are better able to offset some of the pressure from rising raw material prices by implementing price adjustments. As a result, leading brands hold a competitive advantage over smaller and medium-sized competitors.

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Prices of Raw Materials for Air Conditioner, 2018-2024



Source: London Metal Exchange, China Plastics, F&S Report

COMPETITIVE LANDSCAPE

In 2024, the number of market players in global air conditioner industry was more than 100. We were the fifth largest air conditioner company in global market in terms of sales volume in 2024, with a market share of 7.1%. In terms of the sales volume CAGR from 2022 to 2024, we have grown with the highest growth rate among the top five air conditioner companies in global market.

Top 5 Air Conditioner Company by Sales Volume (Global), 2024

Rank	Company	Identities or Background	Market Share (%) 2024	CAGR (%) 2022-2024
1	Company A	Company A is a public company that mainly offers smart home solutions, commercial and industrial solutions. Company A is one of the Fortune Global 500 companies in 2024, with over 190,000 employees worldwide.	27.5%	~11.0%
2	Company B	Company B is a public home appliance company that mainly produces air conditioners and also produces electric fans, water dispensers, heaters, rice cookers, air purifiers, water kettles, humidifiers and induction cookers, and other products. Company B has over 72,000 employees worldwide.	17.5%	~4.0%
3	Company C	Company C is a public industrial company primarily engaged in the manufacturing and sales of air conditioning systems, including household air conditioners, commercial HVAC systems, and other related products. Company C employed over 90,000 individuals globally.	12.3%	~9.0%
4	Company D	Company D is a public home appliance company that primarily engages in the manufacturing and sales of refrigerators, washing machines, air conditioners, kitchen appliances and small appliances. Company D is one of the Fortune Global 500 companies in 2024, with over 100,000 employees worldwide.	7.5%	~13.0%
5	Our Group	/	7.1%	30.0%

Note: The numbers above including the sales volume of OEM/ODM products.

Source: F&S Report

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In 2024, the number of market players in China's air conditioner industry was more than 50. We were the fourth largest air conditioner company in China in terms of sales volume in 2024, with a market share of 7.3%.

Top 5 Air Conditioner Company by Sales Volume (China), 2024

Rank	Company	Background	Market Share (%) 2024	CAGR (%) 2022-2024
1	Company B	Company B is a public home appliance company that mainly produces air conditioners and also produces electric fans, water dispensers, heaters, rice cookers, air purifiers, water kettles, humidifiers and induction cookers, and other products. Company B has over 72,000 employees worldwide.	31.5%	~1.0%
2	Company A	Company A is a public company that mainly offers smart home solutions, commercial and industrial solutions. Company A is one of the Fortune Global 500 companies in 2024, with over 190,000 employees worldwide.	29.2%	~6.0%
3	Company D	Company D is a public home appliance company that primarily engages in the manufacturing and sales of refrigerators, washing machines, air conditioners, kitchen appliances and small appliances. Company D is one of the Fortune Global 500 companies in 2024, with over 100,000 employees worldwide.	13.1%	~9.0%
4	Our Group	/	7.3%	22.9%
5	Company E	Company E is a public home appliance company that mainly offers air conditioners, refrigerators, freezers, beverage coolers and other home appliances. Company E has about 49,000 employees worldwide.	7.0%	~4.0%

Note: The numbers above including the sales volume of OEM/ODM products.

Source: F&S Report

We are the fourth largest household air conditioner company in global market in terms of sales volume in 2024.

Top 5 Household Air Conditioner Company by Sales Volume (Global), 2024

Rank	Company	Identities or Background	Market Share (%) 2024	CAGR (%) 2022-2024
1	Company A	Company A is a public company that mainly offers smart home solutions, commercial and industrial solutions. Company A is one of the Fortune Global 500 companies in 2024, with over 190,000 employees worldwide.	32.9%	~11.0%
2	Company B	Company B is a public home appliance company that mainly produces air conditioners and also produces electric fans, water dispensers, heaters, rice cookers, air purifiers, water kettles, humidifiers and induction cookers, and other products. Company B has over 72,000 employees worldwide.	19.1%	~4.0%
3	Company D	Company D is a public home appliance company that primarily engages in the manufacturing and sales of refrigerators, washing machines, air conditioners, kitchen appliances and small appliances. Company D is one of the Fortune Global 500 companies in 2024, with over 100,000 employees worldwide.	9.0%	~15.0%
4	Our Group	/	8.9%	29.5%
5	Company C	Company C is a public industrial company primarily engaged in the manufacturing and sales of air conditioning systems, including household air conditioners, commercial HVAC systems, and other related products. Company C employed over 90,000 individuals globally.	4.8%	~9.0%

Note: The numbers above including the sales volume of OEM/ODM products.

Source: F&S Report

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In China's household air conditioner industry, the mass market experienced the fastest growth. This growth is driven by consumers placing greater emphasis on products with cost effectiveness, as more consumers seek budget-friendly while reliable air conditioning solutions. The mass market is expected to continue its strong upward trajectory, further expanding the overall household air conditioner market in China. We ranked first in household air conditioner mass-market in China in 2024, with a 25.7% market share in terms of sales volume.

MARKET DRIVERS AND FUTURE TRENDS

Market Drivers of Global and China Air Conditioner Industry

Population Growth and Improved Living Standards: The population growth and urbanization has amplified the global demand for air conditioners, as the concentration of people in urban areas drives the need for improved living conditions. As more individuals transition to city life, enhanced living standards and expectations for comfort make air conditioner a vital component of modern living spaces. This trend is especially pronounced in developing regions and lower-tier markets, where rapid urbanization is coupled with rising disposable incomes, creating an expanding market for air conditioners as households prioritize comfort and climate control. According to the National Bureau of Statistics, the number of air conditioners per 100 households in rural areas is 105.7 units, which is significantly lower than the 171.7 units per 100 households in urban areas. This gap presents substantial growth potential for the market.

Expansion of Central Air Conditioner Applications: The growing demand from both industrial and residential customers is fueling the expansion of the central air conditioner market. The application areas for central air conditioners are rapidly expanding, driven by increasing demand across various sectors. These specialized industries require advanced and often customized air conditioning solutions to meet their unique operational needs, which is fostering innovation and exploring the potential of traditional market offerings. In addition, central air conditioners are also becoming more widely adopted in residential homes. Central air conditioning systems are specifically designed to provide a consistent and even cooling experience throughout an entire house. Homeowners are attracted to the benefits, such as filtered air, consistent temperature and reduced humidity, and are increasingly choosing central air conditioners in their homes.

Growth Potential in Overseas Markets: In many emerging countries, the penetration of air conditioners remains relatively low, signaling significant growth potential. As these markets undergo economic development and face the impacts of changing climate conditions, the demand for air conditioners is expected to rise substantially. Even in some developed countries, such as those in Europe, the penetration rate of air conditioners remains relatively low as a result of historical climate environment and consumer habit. However, as climate change intensifies worldwide, marked by the increasing occurrence of drastic temperature fluctuations, the demand for air conditioning solutions is growing at an unprecedented rate, particularly in regions that previously enjoyed milder climates.

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Technological Upgrades Driven by ESG: The global shift towards carbon neutrality and the growing emphasis on Environmental, Social, and Governance (ESG) standards are catalyzing technological advancements in the air conditioner industry. With a heightened focus on energy efficiency, reducing emissions, and incorporating sustainable materials, manufacturers are innovating to meet both regulatory demands and consumer preferences for eco-friendly products. These technological upgrades are not only driven by compliance with stricter environmental regulations but also by the increasing market demand for greener solutions. As sustainability becomes a core priority, this trend is poised to reshape the future of the industry, with cutting-edge technology playing a pivotal role in achieving long-term environmental goals and reducing the industry's carbon footprint.

Supportive Government Policies: Various government authorities have adopted and are continuing adopt policies to encourage consumer goods trade-in programs. For example, in July 2022, the Ministry of Commerce and other authorities jointly issued “the Several Measures to Promote the Consumption of Green and Smart Home Appliances” (《關於促進綠色智能家電消費的若干措施》), which played an active role in stabilizing the overall consumption of home appliances and releasing the consumption potential of green smart home appliances. In July 2024, the NDRC and the MOF issued the “Several Measures on Strengthening Support for Large-Scale Equipment Renewal and Consumer Goods Trade-in” (《關於加力支持大規模設備更新和消費品以舊換新的若干措施》), which mentioned that a trade-in subsidy is provided to individual consumers for purchasing eight types of household appliances, including air conditioners, that meet Level 2 or higher or Level 1 or higher energy or water efficiency standards. These initiatives promote the adoption of energy-efficient products while making them more affordable for consumers. Internationally, similar initiatives have been introduced from time to time to align economic incentives with sustainability goals.

Future Trends and Opportunities of Global and China Air Conditioner Industry

Increased Demand for Efficiency, Comfort, and Health: Consumers' demand for energy-efficient, comfortable and health-focused air conditioners is rising, driven by environmental awareness and rising energy costs. For example, in China, the penetration rate of air conditioners with Level 2 or higher energy efficiency reached approximately 80% in 2024. Additionally, the desire for enhanced comfort is leading to a growing preference for products with precise temperature control, low noise levels, and improved air quality. Health-related features, such as air purification and humidity control, are also gaining importance as consumers prioritize creating healthier indoor environments. These evolving preferences are shaping the development of the air conditioner market, pushing manufacturers to innovate and offer products that meet both environmental and health-focused demands. In addition, consumers are increasingly prioritizing affordable products.

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Rapid Growth of Smart Products: The rapid growth of smart air conditioners is driven by technological advancements and evolving consumer preferences. Smart features such as voice control and multi-directional airflow are becoming popular, improving energy efficiency and convenience. China's intelligent voice-controlled air conditioner penetration is low, accounting for less than 5% in 2024, indicating significant untapped potential as smart home integration expands.

Increased Concentration and Influence of Leading Enterprises: The air conditioner market is consolidating, with leading enterprises expanding control across the supply chain. Leveraging vertical integration and advanced technologies, these top players are enhancing competitiveness and poised to further dominate the market.

Upstream Integration and Supply Chain Stability: Air conditioner companies are integrating upstream, securing core components such as compressors. This approach allows companies to secure essential technological resources, reduce dependency on external suppliers, control costs, and enhance product performance, which in turn strengthens their overall competitiveness. Given demands for supply chain stability and green policies, in-house component production will be critical.

Challenges of Global and China Air Conditioner Industry

Impact of Slowing Real Estate Growth: The slowdown in the real estate market is having a direct impact on the demand for air conditioner products. With fewer new property projects due to the deceleration of the real estate market, the demand for additional air conditioners has decreased. To mitigate the effects of this slowdown, air conditioner companies need to explore alternative growth opportunities. These include capitalizing on the rising demand for smart air conditioner products and expanding their presence in the after-sales market, offering maintenance, repair, and upgrades to extend the product lifecycle. Diversifying into these areas can help air conditioner companies maintain growth and profitability despite the challenges in the real estate sector.

Global Economic Uncertainty: Global economic uncertainty, including changes in international trade policies and geopolitical risks, presents challenges to the air conditioner market. Variations in trade policies, such as tariff adjustments and trade barriers, can affect the export and import costs of air conditioner products. Geopolitical instability may lead to supply chain disruptions or increased market uncertainty, posing risks for companies reliant on global supply chains and export markets. Air conditioner companies need to closely monitor international economic conditions and adjust their strategies flexibly to address potential economic fluctuations and policy changes.

Intensifying Industry Competition: Competition in the air conditioner market is becoming increasingly fierce, particularly in terms of technological innovation and market share acquisition. Companies are required continuously improve product performance and enhance technological capabilities in order to sustain their competitive advantage. Companies within the industry will compete by leveraging various factors, such as technological

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innovation, marketing strategies, price competitiveness and product differentiation. These competitive dynamics will in turn drive the industry competition to become even more intense. To navigate this competitive landscape, air conditioner companies need to continually optimize their product lines and enhance brand value.

Rising Costs and Raw Material Price Fluctuations: One of the primary challenges facing the air conditioner industry is the rising cost and volatility of raw material prices. Essential materials like copper, aluminum, steel and plastics, which are critical for air conditioner production, are experiencing significant price fluctuations due to shifts in global market supply and demand. These fluctuations directly elevate production costs, creating pressure on companies to implement more robust cost control strategies. In addition to material costs, increasing transportation and labor expenses are further compounding the overall cost pressures. To maintain market competitiveness and protect profit margins, air conditioner companies must adopt effective cost management practices and optimize their supply chains, ensuring more resilient and efficient operations amidst an unpredictable cost environment.

Entry Barrier

Capital and Scale Barriers: In the air conditioner industry, significant upfront investments are required at the initial stage of industry players' business operations on manufacturing capacity and product R&D. On the one hand, players need to invest heavily on establishing and continuously expanding manufacturing capacity to meet customer demands. Such investment may not yield any meaningful return until after the manufacturing facilities are constructed and ramped up, which could take a significant amount of time. On the other hand, players need to invest heavily on the R&D of technologies and products to ensure they can launch competitive products which can stay ahead of the latest development in industry trends and market demands.

Brand Barriers: Consumer awareness and brand loyalty is highly important for air conditioner as it relates to health and everyday use. Successful air conditioner brands typically employ distinctive product design, engage in proactive brand promotion, and prioritize enhancing product quality to bolster brand awareness. While they prioritize product quality, price competitiveness is also highly important. Well-established air conditioner brands have built strong reputations, fostering customer loyalty. New entrants will face a challenge to convince customers of their product's quality compared to well-known brands and may not be competitively positioned in terms of pricing.

Technology R&D Barriers: The air conditioner industry requires cutting-edge technology and expertise in fields like thermodynamics and software. Industry leaders have accumulated core technologies and technical personnel, while new entrants face significant challenges in achieving independent R&D, due to both technological hurdles and a shortage of relevant technical personnel.

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Distribution Barriers: With the development and changes in the air conditioner market, consumers have multiple channels to choose air conditioners, such as offline stores and e-commerce platforms. This necessitates the establishment of large-scale, widely covered, and influential sales and distribution channels by companies. Building a complete sales network is time-consuming and requires a lot of resources and an experienced management team to form and maintain a long-term stable and reliable cooperation at all levels. It is difficult for new entrants to establish a mature network of marketing and distribution channels without significant time and capital investment.

Manufacturing and Supply Chain Barriers: Establishing mass-production capabilities requires substantial investment in advanced machinery and technology. Industry leaders often have vertical integration and benefit from industrial clusters for better efficiency. The Chinese air conditioner industry relies on highly integrated supply chains, with leading companies forming long-term supplier partnerships. Replicating such an extensive system poses significant barriers for new entrants.

SOURCE AND RELIABILITY OF INFORMATION

We have commissioned Frost & Sullivan, a market research and consulting company and an independent third party, to conduct an analysis of, and to report on global and China air conditioner market. The report prepared by Frost & Sullivan for us is referred to in the prospectus as the F&S Report. The F&S Report has been prepared by Frost & Sullivan independent of our influence. The fee payable to Frost & Sullivan for preparing the F&S Report is RMB0.4 million which we believe reflects market rates for similar services. Founded in 1961, Frost & Sullivan has over 45 global offices with more than 3,000 industry consultants, market research analysts, technology analysts and economists. Our Directors confirm, to the best of their knowledge, and after making reasonable enquiries, that there have been no adverse changes in the industry since the date of the F&S report and up to the Latest Practicable Date which may qualify, contradict or have an impact on the information set out in this section.

During the preparation of the F&S Report, Frost & Sullivan collected, analysed, assessed and validated the information and statistics using its in-house analysis models and techniques. Primary research was conducted via discussions and interviews with industry participants and industry experts. Secondary research involved analysis of market statistics obtained from several publicly available data sources, such as releases from the governments of the research countries, company reports, independent research reports and Frost & Sullivan's own internal database. The methodology applied by Frost & Sullivan is based on information and statistics gathered from multiple levels and allows such information and statistics to be cross-referenced for accuracy.

The F&S Report contains a series of market projections which were produced based on the following assumptions, without limitations: (i) China's and global economy is likely to maintain steady growth in the next decade; and (ii) China's and global social, economic, and political environment is likely to remain stable from 2024 to 2028.