

SUMMARY

This summary aims to give you an overview of the information contained in this document. As it is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full document. You should read the whole document before you decide to [REDACTED] in the [REDACTED]. Various expressions used in this section are defined in the sections headed “Definitions” and “Glossary of Technical Terms” in this document.

There are risks associated with any [REDACTED]. Some of the particular risks in [REDACTED] in the [REDACTED] are set forth in the section headed “Risk Factors” of this document. You should read that section carefully before you decide to [REDACTED] in the [REDACTED].

OVERVIEW

We are one of the global top five air conditioner providers, with capabilities covering the design, R&D, production, sales and related services of household and central air conditioners. We capture opportunities in the global air conditioner industry with market size of RMB1,312.8 billion in 2024. Our operations have expanded from China to the world, covering over 150 countries and regions worldwide. In 2024, we are the fifth largest air conditioner provider in the global market in terms of sales volume with a market share of 7.1%, according to Frost & Sullivan. The chart below demonstrates the highlights of our businesses:



Notes:

1. From 2022 to 2024.
2. As of the Latest Practicable Date.
3. For the three months ended March 31, 2025.
4. In terms of sales volume in 2024, according to Frost & Sullivan.

We have earned market recognition and consumer loyalty, making us one of the fastest-growing air conditioner brands globally. During the Track Record Period, we have maintained rapid growth, achieving an industry-leading sales volume CAGR of 30.0% from 2022 to 2024, comparing to the sales volume CAGR of global air conditioner market of 4.6% during the same period.

We provide a wide range of mass-market household air conditioners. The mass market has become the primary growth engine for China’s air conditioner sector, fueled by rural revitalization policies, urbanization-driven demand in lower-tier markets, and consumers’ growing focus on cost-effectiveness. By seizing these industry opportunities with our sales coverage and affordable products, we have consistently increased our market share and brand influence. Furthermore, our multi-brand strategy allows us to cater to diverse consumer needs.

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We are a key player for smart-enabled air conditioners within the industry, maintaining technology capabilities such as voice recognition and semantic understanding.

For over three decades, we have been deeply rooted in the air conditioner industry, continuously striving to provide global consumers with high-quality and affordable products. During the startup phase from 1994 to 2001, we established the AUX brand and quickly gained a strong presence in China’s rapidly growing air conditioner market. We experienced rapid growth from 2001 to 2013, when we penetrated into global markets and built strong brand recognition through continuous product improvement, affordable products and precise brand marketing. We have been transforming and upgrading our sales channels, production capacity and product quality since 2013. We pioneered the sales model of streamlining the distribution layers by reducing the number of intermediates, and benefited our consumers. We launched our “Hello AUX” app to better manage and empower our distributors, and then derived and built a unique “Hello AUX” ecosystem. Since 2018, we have advanced our international strategy by establishing production bases and R&D centers in overseas, and then established our overseas sales companies and local teams in areas such as Malaysia, Thailand, the U.S., the UAE, Vietnam and Saudi Arabia to expand our sales in such areas. In addition, we focus on digitalization and supply chain integration to further strengthen our competitive advantages. For details, see “Business — Overview — Our Development History.”

Our Brand and Product Matrix

We have named our brand “AUX” by transliterating the English word “Ox.” We have leveraged our master brand “AUX” to build our presence in both domestic and overseas markets, and further enhance our market penetration through a multi-brand strategy. We have developed the brands “Hutssom” (華赫) and “AUFIT,” and introduced premium brands such as ShinFlow to achieve broader global consumer coverage. Through this multi-brand strategy, we are able to address the varying needs and preferences of consumers around the world.

Our product portfolio primarily encompasses household and central air conditioners. We concentrate our product development on four key factors: efficiency, comfort, health and intelligence. Our household air conditioners include wall-mounted, cabinet-style and mobile units, while our central air conditioners comprise VRF systems, packaged units, heat pumps, chillers and terminal devices. We rapidly iterate our products and continuously enrich our portfolio, covering a wide range of applications, such as residential homes, office buildings, shopping malls, hotels, hospitals and industrial parks.

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Our Financial Highlights

During the Track Record Period, we have maintained a robust growth in our revenue and net profit. Our revenue increased by 27.2% from RMB19,527.6 million in 2022 to RMB24,831.8 million in 2023, and further increased by 19.8% to RMB29,759.3 million in 2024. Furthermore, our revenue increased by 27.0% from RMB7,362.6 million in the three months ended March 31, 2024 to RMB9,352.4 million in the three months ended March 31, 2025.

Our net profit increased by 72.5% from RMB1,441.7 million in 2022 to RMB2,486.8 million in 2023, and further increased by 17.0% to RMB2,910.2 million in 2024. Furthermore, our net profit increased by 23.0% from RMB751.6 million in the three months ended March 31, 2024 to RMB924.5 million in the three months ended March 31, 2025. In 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, our net profit margins amounted to 7.4%, 10.0%, 9.8%, 10.2% and 9.9%, respectively.

OUR COMPETITIVE STRENGTHS

We believe the following strengths position us well to capitalize on future opportunities and deliver continued growth:

- One of the global top five air conditioner providers;
- Renowned brand cultivated by over three decades of development focused on air conditioners;

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- Technological innovation and rapid product iteration driven by quality-focused R&D;
- Efficient consumer reach covered by multi-channel, innovative and streamlined sales;
- Improved operational efficiency and quality through digitalization and intelligentization; and
- Visionary, dynamic and stable management team with collaborative corporate culture.

OUR STRATEGIES

We aim to further grow our business by pursuing the following strategies:

- Accelerate our globalization layout;
- Enhance the sales of our own branded products and enhance our brand recognition;
- Continue to expand our central air conditioner business;
- Further invest in R&D and promote digital and intelligent transformation; and
- Promote industrial empowerment and ecological cooperation.

CUSTOMERS AND SUPPLIERS

During the Track Record Period, our five largest customers were mainly distributors and ODM customers. In 2022, 2023, 2024 and the three months ended March 31, 2025, our revenue from our five largest customers in each year/period in the aggregate accounted for 18.3%, 17.5%, 18.9% and 18.1% of our total revenue during the corresponding years/periods, respectively. Our distributors primarily include e-commerce platforms, regional distributors and SME retailers. For details, please see “Business — Sales and Marketing.”

During the Track Record Period, our suppliers primarily included raw material and component suppliers. In 2022, 2023, 2024 and the three months ended March 31, 2025, our purchase amount from our five largest suppliers in each year/period in the aggregate accounted for 31.8%, 28.8%, 33.3% and 26.6% of our total cost of sales during the corresponding years/periods, respectively.

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SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth a summary of our consolidated financial information for the Track Record Period, extracted from the Accountants’ Report set out in Appendix I. The summary of consolidated financial data set forth below should be read together with, and is qualified in its entirety by reference to, the consolidated financial statements in this document, including the related notes. Our consolidated financial information has been prepared in accordance with HKFRS.

Summary of Consolidated Statements of Profit or Loss

The following table sets forth a summary of our consolidated statements of profit or loss with line items, both in absolute amounts and as percentages of our revenue, for the years/periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2022		2023		2024		2024		2025	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
	<i>(Unaudited)</i>									
Revenue	19,527,585	100.0	24,831,833	100.0	29,759,319	100.0	7,362,572	100.0	9,352,397	100.0
Cost of sales	(15,377,689)	(78.7)	(19,409,654)	(78.2)	(23,518,994)	(79.0)	(5,785,050)	(78.6)	(7,376,697)	(78.9)
Gross profit	4,149,896	21.3	5,422,179	21.8	6,240,325	21.0	1,577,522	21.4	1,975,700	21.1
Other income and gains	321,657	1.6	465,572	1.9	616,263	2.1	101,623	1.4	124,222	1.3
Selling and distribution expenses	(785,288)	(4.0)	(1,019,264)	(4.1)	(1,276,678)	(4.3)	(263,936)	(3.6)	(363,619)	(3.9)
Administrative expenses	(741,182)	(3.8)	(949,135)	(3.8)	(1,025,375)	(3.4)	(221,844)	(3.0)	(269,329)	(2.9)
Research and development expenses	(397,563)	(2.0)	(566,630)	(2.3)	(710,035)	(2.4)	(123,509)	(1.7)	(128,335)	(1.4)
Impairment (loss)/gain on financial assets, net	(13,075)	(0.1)	2,965	0.0	(43,233)	(0.1)	(65,920)	(0.9)	(67,872)	(0.7)
Other expenses	(604,106)	(3.1)	(151,804)	(0.6)	(207,074)	(0.7)	(31,412)	(0.4)	(44,577)	(0.5)
Finance costs	(96,032)	(0.5)	(61,483)	(0.2)	(45,146)	(0.2)	(12,868)	(0.2)	(17,458)	(0.2)
Profit before tax	1,834,307	9.4	3,142,400	12.7	3,549,047	11.9	959,656	13.0	1,208,732	12.9
Income tax expense	(392,569)	(2.0)	(655,606)	(2.6)	(638,876)	(2.1)	(208,061)	(2.8)	(284,184)	(3.0)
Profit for the year	1,441,738	7.4	2,486,794	10.0	2,910,171	9.8	751,595	10.2	924,548	9.9
Profit attributable to:										
Owners of the parent	1,441,738	7.4	2,486,794	10.0	2,910,171	9.8	751,595	10.2	924,548	9.9

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Non-HKFRS Measures

To supplement our consolidated financial statements that are presented in accordance with HKFRS, we also use adjusted net profit (non-HKFRS measure), EBITDA (non-HKFRS measure) and adjusted EBITDA (non-HKFRS measure) as additional financial measures, which are not required by, or presented in accordance with, HKFRS. Adjusted net profit for the year/period (non-HKFRS measure) was calculated by taking profit for the year/period and adding back (i) [REDACTED] expenses, which represented expenses in relation to the [REDACTED]; and (ii) share based compensation paid to our employees, which was non-cash in nature. We define adjusted EBITDA (non-HKFRS measure) as EBITDA (non-HKFRS measure) (which refers to profit for the year/period plus (i) depreciation and amortization, which represents the depreciation of property, plant and equipment, right-of-use assets and investment property and the amortization of intangible assets; (ii) finance costs, which represent interest expense from financing activities; and (iii) income tax expenses, minus interest income) for the year/period adjusted by adding back (i) [REDACTED] expenses, which represented expenses in relation to the [REDACTED]; and (ii) share based compensation paid to our employees, which was non-cash in nature.

We believe that these non-HKFRS measures facilitate comparisons of operating performance from period to period and company to company. We believe that these measures provide useful information to [REDACTED] and others in understanding and evaluating our results of operations in the same manner as they help our management. However, our presentation of adjusted net profit (non-HKFRS measure), EBITDA (non-HKFRS measure) and adjusted EBITDA (non-HKFRS measure) may not be comparable to similarly titled measures presented by other companies. The use of such non-HKFRS measures has limitations as an analytical tool, and you should not consider them in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under HKFRS.

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The following table sets forth a reconciliation of our adjusted net profit (non-HKFRS measure), EBITDA (non-HKFRS measure) and adjusted EBITDA (non-HKFRS measure) in accordance with HKFRS for the years/periods indicated.

	For the year ended December 31,			For the three months ended March 31,	
	2022	2023	2024	2024	2025
	RMB'000			(Unaudited)	
Profit for the year/period . .	1,441,738	2,486,794	2,910,171	751,595	924,548
<i>Add:</i>					
[REDACTED] expenses in connection with [REDACTED]	–	–	20,471	–	8,257
Share-based payment expenses	7,455	24,298	4,245	4,770	5,090
Adjusted net profit (non-HKFRS measure) . .	1,449,193	2,511,092	2,934,887	756,365	937,895
Profit for the year/period . .	1,441,738	2,486,794	2,910,171	751,595	924,548
<i>Add:</i>					
Depreciation and amortization	480,350	480,996	561,134	132,101	151,988
Finance costs	96,032	61,483	45,146	12,868	17,458
Income tax expenses	392,569	655,606	638,876	208,061	284,184
<i>Less:</i>					
Interest income	(46,612)	(186,525)	(217,790)	(45,280)	(24,531)
EBITDA (non-HKFRS measure)	2,364,077	3,498,354	3,937,537	1,059,345	1,353,647
<i>Add:</i>					
[REDACTED] expenses in connection with [REDACTED]	–	–	20,471	–	8,257
Share-based payment expenses	7,455	24,298	4,245	4,770	5,090
Adjusted EBITDA (non-HKFRS measure) . .	2,371,532	3,522,652	3,962,253	1,064,115	1,366,994

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Revenue

During the Track Record Period, we primarily generated revenue from sales of products, including household air conditioners and central air conditioners. We also generated revenue from other businesses, such as sales of raw materials, royalty fees and leasing of properties. Our royalty fees represent brand authorization fees from a variety of domestic manufacturers for certain kitchen appliances and other small home appliances, for example, floor fan and air fryer.

The following table sets forth the breakdown of our revenue by types of goods, both in absolute amounts and as percentages of total revenue, for the years/periods indicated.

	For the year ended December 31,						For the three months ended March 31,			
	2022		2023		2024		2024		2025	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Household air conditioners	17,283,960	88.5	21,683,095	87.3	25,904,463	87.1	6,542,323	88.9	8,376,177	89.5
– Wall-mounted units	14,457,926	74.0	18,208,560	73.3	22,082,388	74.2	5,610,017	76.2	7,080,880	75.7
– Cabinet-style units	2,309,927	11.8	3,242,497	13.1	3,624,983	12.2	835,747	11.4	1,134,891	12.1
– Mobile units	516,108	2.7	232,038	0.9	197,093	0.7	96,559	1.3	160,406	1.7
Central air conditioners	1,885,156	9.7	2,750,134	11.1	3,223,500	10.8	734,978	10.0	865,208	9.3
Others	358,469	1.8	398,604	1.6	631,356	2.1	85,271	1.1	111,012	1.2
Total	19,527,585	100.0	24,831,833	100.0	29,759,319	100.0	7,362,572	100.0	9,352,397	100.0

Gross Profit and Gross Profit Margin

The following table sets forth the breakdown of our gross profit and gross profit margin by types of goods for the years/periods indicated.

	For the year ended December 31,						For the three months ended March 31,			
	2022		2023		2024		2024		2025	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Household air conditioners	3,450,131	20.0	4,439,841	20.5	4,979,830	19.2	1,305,335	20.0	1,659,896	19.8
Central air conditioners	518,916	27.5	795,778	28.9	979,267	30.4	228,891	31.1	259,850	30.0
Others	180,849	50.5	186,560	46.8	281,228	44.5	43,296	50.8	55,954	50.4
Total	4,149,896	21.3	5,422,179	21.8	6,240,325	21.0	1,577,522	21.4	1,975,700	21.1

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Profit For the Year/Period

Our profit increased from RMB1,441.7 million in 2022 to RMB2,486.8 million in 2023. The increase was primarily due to (i) an increase in our revenue from sales of our household air conditioners with sales volume increasing from 10.2 million units in 2022 to 14.0 million units in 2023. This is primarily due to the enhanced market presence achieved through increased distributor networks, strengthened e-commerce collaborations, and the increased sales volume of our “Hutssom” (華赫) products; and (ii) an increase in our revenue from sales of our central air conditioners, primarily due to the increase in sales volume from 0.9 million units in 2022 to 1.3 million units in 2023, driven by enhanced global presence, strengthened collaborations with major existing overseas customers, and the launch of several new products. Our profit is partially offset by (i) an increase in our cost of sales, primarily due to the increased costs in raw materials and components for the same period, along with our increased production and sales; and (ii) an increase in our expenses, largely driven by our business growth.

Our profit increased from RMB2,486.8 million in 2023 to RMB2,910.2 million in 2024. The increase was primarily due to (i) an increase in our revenue from sales of our household air conditioners, primarily due to the increase in sales volume of household air conditioners from 14.0 million units in 2023 to 17.1 million units in 2024. This is primarily attributable to the enhanced penetration of “Hello AUX,” expansion of the distributor network, strategic overseas customer base expansion, and strengthened market presence of our air conditioners in certain overseas counties and regions; and (ii) an increase in our revenue from sales of our central air conditioners, primarily due to the increase in sales volume of central air conditioners from 1.3 million units in 2023 to 1.6 million units in 2024. This is primarily due to the successful launch of regionally tailored central air conditioners, strategic expansion and enhanced penetration of the customer base in key overseas regions, and increased market presence of certain products in certain European countries. Our profit is partially offset by (i) an increase in our cost of sales, primarily due to the increased costs in raw materials and components used for the same period, which was generally along with our increased production and sales; and (ii) an increase in our expenses, largely driven by our business growth.

Our profit increased from RMB751.6 million for the three months ended March 31, 2024 to RMB924.5 million for the three months ended March 31, 2025. The increase was primarily due to (i) an increase in our revenue from sales of our household air conditioners, driven by a rise in sales volume from 4.5 million to 5.5 million units. This was mainly due to expanded distributor networks both domestically and overseas, strategic overseas market expansion — particularly in the Middle East and Southeast Asia — and enhanced product offerings with improved features, increased marketing, and competitive pricing; and (ii) an increase in our revenue from sale of central air conditioners, primarily attributable to the sales of central air conditioners grew 354.5 thousand units for the three months ended March 31, 2024 to 440.9 thousand units for the three months ended March 31, 2025. This was mainly because we expanded our customer base in South America, Southeast Asia, and Europe, launched new models suited to local markets, and increased marketing of heat pumps in some European countries. Our profit is partially offset by (i) an increase in our cost of sales, primarily due to the increased costs in raw materials and components used for the same period, which was generally along with our increased production and sales; and (ii) an increase in our expenses, largely driven by our business growth.

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For details, please see “Financial Information — Year/Period to Year/Period Comparison of Results of Operations.”

Summary of Consolidated Statements of Financial Position

The following table sets forth a summary of our consolidated statements of financial position as of the dates indicated:

	As of December 31,			As of March 31
	2022	2023	2024	2025
	RMB'000			
Total non-current assets	6,390,893	7,149,136	8,387,711	7,632,676
Total current assets	8,316,056	12,820,334	15,783,261	19,943,364
Total current liabilities	11,506,036	14,849,778	18,252,822	20,774,547
Net current liabilities	(3,189,980)	(2,029,444)	(2,469,561)	(831,183)
Total assets less current liabilities	3,200,913	5,119,692	5,918,150	6,801,493
Total non-current liabilities	1,473,211	877,413	2,082,444	1,977,283
Net assets	1,727,702	4,242,279	3,835,706	4,824,210

For details of our fluctuation in key items of our consolidated statements of financial position and net current liabilities during the Track Record Period, see “Financial Information — Discussion of Certain Key Items of Consolidated Statements of Financial Position.”

We recorded net current liabilities during the Track Record Period mainly because of our utilization of cash and bank balances, resulting in a substantial decrease in our current assets. Prior to and during the Track Record Period, we strategically invested in a range of fixed assets, intangible assets and long-term capital assets using our cash and bank balances. This led to an increase in our non-current assets and a decrease in our current assets, leading to our net current liabilities position. These investments are primarily aimed at enhancing our production capabilities and improving operational efficiency to support sustained growth, which mainly involving acquiring land, building production bases, as well as acquiring production machinery and equipment with long lifespan. In addition, we declared a one-time dividend of RMB3,793.5 million in 2024 to our Shareholders using our cash and bank balances. As a result, the utilization of our cash and bank balances has led to a decrease in current assets, leading to our net current liabilities position.

Our net current liabilities decreased from RMB3,190.0 million as of December 31, 2022 to RMB2,029.4 million as of December 31, 2023, primarily attributable to an increase in our current assets primarily as a result of an increase of RMB3,220.7 million in cash and bank balances primarily driven by an increase in profit; partially offset by an increase in our current liabilities, which primarily due to (i) an increase of RMB1,000.4 million in trade payables and bills payables primarily because we purchased more raw materials to support our production expansion; and (ii) an increase of RMB1,134.4 million in other payables and accruals due to an increase in sales rebate accruals as a result of the increased sales to our distributors.

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Our net current liabilities increased from RMB2,029.4 million as of December 31, 2023 to RMB2,469.6 million as of December 31, 2024, primarily attributable to an increase in our current liabilities mainly as a result of an increase of RMB3,958.7 million in trade payables and bills payables along with our increased procurement of raw materials to support our business expansion; partially offset by an increase in our current assets, primarily due to (i) an increase of RMB3,170.9 million in inventories mainly in response to the growing demand for our products; (ii) an increase of RMB1,058.6 million in trade and bills receivables due to our increased overseas sales which typically has a longer credit period; and (iii) an increase of RMB950.6 million in prepayments, deposits and other receivables along with our increased purchase of materials to support our business expansion and increased overseas sales.

Our net current liabilities decreased from RMB2,469.6 million as of December 31, 2024 to RMB831.2 million as of March 31, 2025, primarily attributable to an increase in our current assets, primarily as a result of (i) an increase of RMB1,761.1 million in trade and bills receivables mainly because of the increased overseas sales, which typically have a longer credit period, and (ii) an increase of RMB1,196.9 million in pledged deposits, along with our business growth and as a result of using more bills during our operations; partially offset by an increase in our current liabilities, which primarily due to an increase of RMB1,553.3 million in trade and bills payables, primarily attributable to the increased procurement of raw materials to support our business expansion.

Our net current liabilities decreased from RMB831.2 million as of March 31, 2025 to RMB638.4 million as of May 31, 2025, primarily attributable to an increase in our current assets, primarily as a result of (i) an increase of RMB1,893.8 million in trade and bills receivables mainly because of the increased overseas sales, which typically have a longer credit period, and (ii) an increase of RMB151.9 million in pledged deposits, along with our business growth and as a result of using more bills during our operations; partially offset by an increase in our current liabilities, which primarily due to an increase of RMB340.2 million in trade and bills payables, primarily attributable to the increased procurement of raw materials to support our business expansion.

For risks related to our net current liabilities, see “Risk Factors — Risks Relating to Our Financial, Accounting and Tax Matter — We recorded net current liabilities during the Track Record Period. We cannot assure you that we will not experience net current liabilities in the future, which could expose us to liquidity risks.”

Our net assets were RMB1,727.7 million, RMB4,242.3 million, RMB3,835.7 million and RMB4,824.2 million as of December 31, 2022, 2023 and 2024 and March 31, 2025, respectively. Our net assets increased from RMB1,727.7 million as of December 31, 2022 to RMB4,242.3 million as of December 31, 2023, mainly due to our profit for the year of RMB2,486.8 million in 2023. Our net assets decreased from RMB4,242.3 million as of December 31, 2023 to RMB3,835.7 million as of December 31, 2024, mainly due to the payments of dividends of RMB3,793.5 million in 2024, partially offset by our profit for the year of RMB2,910.2 million in 2024. For details, see “Financial Information — Dividends.” Our net assets increased from RMB3,835.7 million as of December 31, 2024 to RMB4,824.2 million as of March 31, 2025, mainly due to our profit for the period of RMB924.5 million in the three months ended March 31, 2025.

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Summary of Consolidated Statements of Cash Flows

The following table sets forth a summary of our consolidated statements of cash flow for the years/periods indicated.

	For the year ended December 31,			For the three months ended March 31,	
	2022	2023	2024	2024	2025
	RMB'000			(Unaudited)	
Net cash flows generated from operating activities	4,003,995	4,631,421	2,518,079	1,817,944	579,658
Net cash flows used in investing activities . . .	(138,462)	(1,388,776)	(208,316)	(1,185,658)	(1,112,623)
Net cash flows (used in)/generated from financing activities	(2,951,983)	(282,127)	(4,520,832)	133,352	730,389
Net increase/(decrease) in cash and cash equivalents	913,550	2,960,518	(2,211,069)	765,638	197,424
Cash and cash equivalents at beginning of the year/period	1,227,470	2,131,268	5,102,830	5,102,830	2,907,756
Effect of foreign exchange rate changes, net	(9,752)	11,044	15,995	16,501	19,233
Cash and cash equivalents at the end of the year/period	<u>2,131,268</u>	<u>5,102,830</u>	<u>2,907,756</u>	<u>5,884,969</u>	<u>3,124,413</u>

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Key Financial Ratios

The following table set forth our key financial ratios as of the dates or for the years/periods indicated.

	As of/for the year ended December 31,			As of/for the three months ended March 31,
	2022	2023	2024	2025
Net profit margin	7.4%	10.0%	9.8%	9.9%
Inventory turnover days	62.1	52.2	66.6	67.8
Trade and bills receivables turnover days	25.2	24.8	30.3	37.4
Return of equity (ROE) ⁽¹⁾ . . .	143.9%	83.3%	72.1%	85.4%
Return on assets (ROA) ⁽²⁾ . . .	9.9%	14.3%	13.2%	14.3%
Gearing ratio ⁽³⁾	88.3%	78.8%	84.1%	82.5%

Notes:

- (1) ROE is calculated by dividing profit for the year/period attributable to the owners of our Company by the average balance of equity attributable to the owners of our Company and multiplying by 100%. For the three months ended March 31, 2025, ROE is annualized by multiplying the number by 4.
- (2) ROA is calculated by dividing profit for the year/period by the average balance of total assets and multiplying by 100%. For the three months ended March 31, 2025, ROA is annualized by multiplying the number by 4.
- (3) Gearing ratio is calculated by dividing total liabilities by total assets of the year/period.

LEGAL PROCEEDINGS AND COMPLIANCE

Historical Intellectual Property Infringement Claims

Before the Track Record Period, Ningbo Aosheng (a wholly-owned subsidiary of AUX Group as of the Latest Practicable Date, for details of the business restructuring in relation to Ningbo Aosheng, see “History, Reorganization and Corporate Structure — Major Corporate Developments and Pre-[REDACTED] Reorganization of Our Group — Business Restructuring.” To the best knowledge of our Directors, Ningbo Aosheng had no substantial business operation after the business restructuring and up to the Latest Practicable Date) has been involved in several intellectual property litigations as the defendant or a co-defendant, most of which were raised by other market players before and around 2018 and some of which may be raised as a way of competition. Our Directors are of the view that these claims did not have any material adverse effect on our business, results of operations and financial conditions, considering (i) all of the above-mentioned litigations have been concluded and fully executed, with judgments implemented in their entirety, (ii) some of the disputed patents have expired, alleviating concerns about future infringements, (iii) while certain disputed patents remain

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valid, they are not material to the design and production of our products. We have proactively made strategic product modifications and innovations in relation to products related to above-mentioned disputed patents to steer clear of technologies infringing the disputed patents, (iv) the aggregate compensation amount paid to plaintiffs, amounting to approximately RMB116.3 million, has been paid by Ningbo Aosheng as we were not listed as the defendant in these historical IP litigations, and (v) we have continuously refined our intellectual property management system and set up an intellectual property management team within its R&D IP Department. Following these IP cases, the Group has continuously refined our intellectual property management system. For details, see “Business — Risk Management and Internal Control.” There have been no additional patent infringement claims from third parties related to our air conditioner products raised during the Track Record Period.

During the Track Record Period and up to the Latest Practicable Date, there have been no IP infringement issues, IP-related legal proceedings, lawsuits, or arbitrations involving our Group that have had a material adverse effect on our business operations or financial performance.

Trade Secrets and Intellectual Property Infringement Proceeding

On December 8, 2022, a company (the “Plaintiff”) filed a claim against Ningbo Aosheng, us and five individuals, two of whom were our current employees and three of whom were our former employees as of the same date, alleging infringement of the Plaintiff’s business secrets and technical secrets related to eight patents.

In April 2025, we received the first-instance decision from the court, which decided, among others, that (i) Ningbo Aosheng and two of the individual defendants shall compensate the Plaintiff for its economic losses and reasonable expenses in the amount of RMB3.3 million, and (ii) we shall transfer the three involved patents and the creation rights of five involved patents to the Plaintiff. The court also concluded, among others, (i) that the Plaintiff acknowledges that we and Ningbo Aosheng did not use the eight involved patents in the production activities, (ii) we did not infringe the Plaintiff’s trade secrets only because we received the patents from Ningbo Aosheng and recruited the five individual defendants, and (iii) there was no ongoing infringement of the Plaintiff’s trade secrets mainly because the technical information had been disclosed when the patent documents were published, with five of the eight patents even expired as of the first-instance decision date. As of the date of this document, Ningbo Aosheng has filed an appeal against the decision.

Our Directors are of the view that this proceeding did not have a material adverse effect on us, primarily because (i) we were not involved in the monetary damages to the Plaintiff, (ii) as concluded by the court, we did not infringe the Plaintiff’s trade secrets, and (iii) the aforementioned patents, which are developed based on industry wide technology, are not used in the production and development of products by our Company.

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RISK FACTORS

Our operations and the [REDACTED] involve certain risks and uncertainties, including (i) risks relating to our business and industries; (ii) risks relating to financial, accounting and tax matters; (iii) risks relating to our operations; (iv) risks relating to government regulations; and (v) risks relating to the [REDACTED], which are set out in the section headed “Risk Factors” in this document. You should read that section in its entirety carefully before you decide to [REDACTED] in the [REDACTED]. Some of the major risks we face include, but are not limited to: (i) our growth and profitability depend on economic conditions and the level of consumer spending in our key markets; (ii) we operate in a highly competitive environment, and failure to compete successfully would adversely affect our market position, business and financial results; (iii) our business may be adversely affected if we fail to innovate or if we fail to introduce new products on a timely basis, and our investments in R&D may not yield the expected results; (iv) if we fail to develop, maintain and enhance recognition of our brands, or if we incur excessive expenses in this effort, our business and results of operations may be adversely affected; (v) we have built a robust sales network, both directly and through distributors. Our failure to maintain and expand our sales network directly or through distributors could negatively impact our business, financial condition and results of operations; (vi) we may not be able to effectively manage any overlap or potential competition among our different sales channels; (vii) if we fail to grow or retain our customer base, or if customer satisfaction declines, our business and operating results may be adversely affected; (viii) our products may experience quality problems from time to time that can result in harm to our reputation. Product-related liability, product recall costs, and significant return or exchange could also adversely affect our business and financial performance; and (ix) we conduct operations worldwide and are exposed to legal, regulatory, political, economic, commercial and other risks in each country in which we operate.

OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, Mr. ZHENG Jianjiang, through Ze Hui, China Prosper and AUX Holdings, controlled approximately 96.36% of voting rights in our Company. Immediately following completion of the [REDACTED] (assuming the [REDACTED] is not exercised), Mr. ZHENG Jianjiang, through Ze Hui, China Prosper and AUX Holdings, will control approximately [REDACTED]% of voting rights in our Company. Therefore, Mr. ZHENG Jianjiang, Ze Hui, China Prosper and AUX Holdings are and will continue to be a group of Controlling Shareholders of our Company upon the [REDACTED]. For details, see “Relationship with our Controlling Shareholders.”

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CONNECTED TRANSACTIONS

Prior to the [REDACTED], our Group has entered into certain transactions in our ordinary and usual course with parties who will, upon the [REDACTED], become connected persons of our Company. We will continue to engage in such continuing connected transactions after the [REDACTED]. We have applied for, and the Stock Exchange [has granted] us waivers from strict compliance with the announcement requirements under the Listing Rules pursuant to Rule 14A.105 of the Listing Rules. For details, see “Connected Transactions.”

RECENT DEVELOPMENT

The phase I of our Wuhu factory has commenced the operation and mass production of compressors in June 2025. We collaborate with Panasonic regarding the research and production of compressor, which is a core component for our products.

We also plan to construct a new factory in Ningbo to serve the expanding needs of our overseas markets. As of the Latest Practicable Date, we were in the process of completing the relevant government approvals regarding the land use rights for this new facility.

No Material Adverse Change

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our business, financial condition and results of operations since March 31, 2025, which is the end date of the periods reported on in the Accountants’ Report in Appendix I to this document, and there is no event since March 31, 2025 which would materially affect the information as set out in the Accountants’ Report in Appendix I to this document.

IMPACT OF COVID-19 ON OUR OPERATIONS

The outbreak of COVID-19, which was first reported in December 2019, quickly developed into a worldwide pandemic that materially and adversely affected the global economy and business environment. During 2019 to 2022, the outbreak of COVID-19 shifted consumer behaviors and impacted the market size of air conditioner industry both in China and global.

During the Track Record Period, we were occasionally exposed to certain global logistics congestion and temporary suspension of port terminals in the PRC due to COVID-19 pandemic, which prolonged the port dwell time of our products. For example, our finished goods in transit in inventories decreased from RMB405.2 million as of December 31, 2022 to RMB185.5 million as of December 31, 2023, primarily because we had more finished goods in transit as of December 31, 2022 due to the extended logistic transit period and advanced preparation for delivery during the pandemic. However, since we generally bear the costs and risks related to the shipment of ordered products before the products have been loaded on board and shipped

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out of the port for overseas sales, we are not exposed to risks from international transportation delays. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material delays in product delivery.

On the other hand, the pandemic has spurred consumers’ greater emphasis on cost-effective products, leading to higher growth rate of the sales of household air conditioners in the mass market compared to the medium and high-end segments. The heightened consumer sensitivity to price and value during the pandemic was largely attributable to increased economic uncertainty and a shift in spending priorities. According to Frost & Sullivan, the sales volume of household air conditioners in the mass market in China increased from 24.1 million units in 2018 to 26.0 million units in 2024, representing a CAGR of 1.3%, and is expected to reach 29.7 million units in 2028, representing a CAGR of 3.6% from 2024 to 2028. Therefore, despite the challenges posed by COVID-19 to public at large, our affordable products have seen substantial growth in revenue and profitability during the Track Record Period.

Overall, while COVID-19 introduced operational challenges during its early stages, particularly related to logistics and customer demand fluctuations, we believe that COVID-19 did not have a material adverse effect on the Group’s business, considering that (i) our revenue increased by 27.2% from RMB19,527.6 million in 2022 to RMB24,831.8 million in 2023, and further increased by 19.8% to RMB29,759.3 million in 2024. Our revenue increased by 27.0% from RMB7,362.6 million for the three months ended March 31, 2024 to RMB9,352.4 million for the three months ended March 31, 2025; and (ii) our business operations fully resumed as restrictive measures were gradually eased since December 2022.

DIVIDENDS

During the Track Record Period, dividend of approximately RMB3,793.5 million was declared and paid by Ningbo AUX Electric Co., Ltd. to its then shareholders.

Currently, we do not have a formal dividend policy or a fixed dividend payout ratio. Any future declarations and payments of dividends will be at the discretion of our Directors, subject to certain restrictions under Cayman Islands law, and will depend on our actual and expected results of operations, cash flow and financial position, general business conditions and business strategies, expected working capital requirements and future expansion plans, legal, regulatory and other contractual restrictions, and other factors which our Directors consider relevant. As advised by our legal advisor as to Cayman Islands law, notwithstanding that our Company may have accumulated losses, our Company may declare dividend (a) out of profits of our Company if our Company has sufficient profits, realized or unrealized, unless such is contrary to the accounting principles adopted by our Company or (b) out of the share premium of our Company if, in each case, following the date on which the dividend is proposed to be paid, our Company is able to pay its debts as they fall due in the ordinary course of business. In determining whether to declare a dividend, our Board will need to be satisfied that the declaration of dividend is in the best interest of our Company and may make provision for losses.

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We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will also depend on the availability of dividends received from our subsidiaries. The PRC laws also require foreign-invested enterprises to set aside at least 10% of its after-tax profits as the statutory common reserve fund until the cumulative amount of the statutory common reserve fund reaches 50% or more of such enterprises’ registered capital, if any, to fund its statutory common reserves, which are not available for distribution as cash dividends.

[REDACTED] STATISTICS

	Based on an [REDACTED] of HK\$[REDACTED] per [REDACTED]	Based on an [REDACTED] of HK\$[REDACTED] per [REDACTED]
[REDACTED] of our Shares ⁽¹⁾	HK\$[REDACTED] million	HK\$[REDACTED] million
Unaudited [REDACTED] adjusted consolidated net tangible assets per [REDACTED] ⁽²⁾	HK\$[REDACTED]	HK\$[REDACTED]

Notes:

- (1) The calculation of the [REDACTED] is based on [REDACTED] Shares expected to be in issue immediately after completion of the [REDACTED] (assuming the [REDACTED] is not exercised).
- (2) The unaudited [REDACTED] adjusted consolidated net tangible assets per [REDACTED] has been arrived at after adjustments referred to “Appendix II — Unaudited [REDACTED] Financial Information” and on the basis that [REDACTED] Shares were in issue at the respective [REDACTED] of HK\$[REDACTED] and HK\$[REDACTED], assuming that the Shares issued pursuant to the [REDACTED] were issued on March 31, 2025, which does not take into account (i) any Share which may be allotted and issued upon the exercise of the [REDACTED], or (ii) any Share which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to the Directors.

For further details, please refer to “Appendix II — Unaudited [REDACTED] Financial Information — A. Unaudited [REDACTED] Statement of Adjusted Consolidated Net Tangible Assets” to this document.

FUTURE PLANS AND USE OF [REDACTED]

We estimate that we will receive net [REDACTED] from the [REDACTED] of approximately HK\$[REDACTED], after deducting [REDACTED] commissions, fees and estimated expenses payable by us in connection with the [REDACTED], and assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the indicative [REDACTED] range stated in this document and that the [REDACTED] is not exercised. We intend to use our [REDACTED] from the [REDACTED] for the following purposes:

- approximately [REDACTED]% of the net [REDACTED], or approximately HK\$[REDACTED], is expected to be used for our worldwide research and development efforts;

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- approximately [REDACTED]% of the net [REDACTED], or approximately HK\$[REDACTED], is expected to be used for upgrading our intelligent manufacturing system and supply chain management;
- approximately [REDACTED]% of the net [REDACTED], or approximately HK\$[REDACTED], is expected to be used for enhancing our sales and distribution channels; and
- approximately [REDACTED]% of the net [REDACTED], or approximately HK\$[REDACTED], is expected to be used for working capital and general corporate purposes.

See the section headed “Future Plans and Use of [REDACTED]” in this document for further information relating to our future plans and use of [REDACTED] from the [REDACTED].

[REDACTED] EXPENSES

[REDACTED] expenses to be borne by us are estimated to be approximately HK\$[REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED] per Share), representing approximately [REDACTED]% of the estimated net [REDACTED] from the [REDACTED] assuming no Shares are issued pursuant to the [REDACTED]. The [REDACTED] expenses consist of (i) [REDACTED]-related expenses, including [REDACTED] commission, of approximately HK\$[REDACTED], and (ii) non-[REDACTED]-related expenses of approximately HK\$[REDACTED], comprising (a) fees and expenses of our legal advisors and reporting accountants of approximately HK\$[REDACTED], and (b) other fees and expenses of approximately HK\$[REDACTED]. During the Track Record Period, the [REDACTED] expenses charged to our consolidated statements of profit or loss were RMB[REDACTED] (HK\$[REDACTED]) and the [REDACTED], which were recognized as prepayments and are expected to be deducted from equity upon the [REDACTED], were RMB[REDACTED] (HK\$[REDACTED]). After the Track Record Period, approximately HK\$[REDACTED] is expected to be charged to our consolidated statements of profit or loss, and approximately HK\$[REDACTED] is expected to be accounted for as a deduction from equity upon the [REDACTED]. We do not believe any of the above fees or expenses are material or are unusually high for our Group. The [REDACTED] expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate.