

## FINANCIAL INFORMATION

*The following discussion and our analysis should be read in conjunction with our consolidated financial statements included in “Appendix I — Accountants’ Report,” together with the accompanying notes. Our consolidated financial statements have been prepared in accordance with HKFRS.*

*The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis that we make in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed in “Risk Factors” and “Forward-Looking Statements” and elsewhere in this document.*

### 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.

We achieved sustained growth in our revenue and profit during the Track Record Period, primarily driven by the increasing demand of our air conditioners. 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 for the three months ended March 31, 2024 to RMB9,352.4 million for the three months ended March 31, 2025. Our gross profit experienced steady growth throughout the Track Record Period, which amounted to RMB4,149.9 million, RMB5,422.2 million, RMB6,240.3 million, RMB1,577.5 million and RMB1,975.7 million in 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, respectively.

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 for the three months ended March 31, 2024 to RMB924.5 million for the three months ended March 31, 2025. To supplement our consolidated statements of profit or loss which 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 non-HKFRS measures, which are not required by, or presented in accordance with, HKFRS. Our EBITDA (non-HKFRS measure) amounted to RMB2,364.1 million, RMB3,498.4 million, RMB3,937.5 million, RMB1,059.3 million and RMB1,353.6 million in 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, respectively. For details, please see “— Non-HKFRS Measures.”

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### BASIS OF PRESENTATION AND PREPARATION

As disclosed in “History, Reorganization and Corporate Structure — Our Major Subsidiaries — Pre-[REDACTED] Reorganization” in this document, our Company became the holding company of the companies now comprising our Group on November 22, 2024 pursuant to a series of transactions which were part of our Pre-[REDACTED] Reorganization. Our companies now comprising our Group were under the common control of Mr. ZHENG Jianjiang before and after the Pre-[REDACTED] Reorganization. Accordingly, our historical financial information has been prepared on a consolidated basis by applying the principles of merger accounting as if the Pre-[REDACTED] Reorganization had been completed at the beginning of the Track Record Period.

Our historical financial information has been prepared in accordance with HKFRS Accounting standards, (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) as issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). All HKFRS Accounting standards effective for the accounting period commencing from January 1, 2024, together with the relevant transitional provisions, have been adopted by us in the preparation of the historical financial information throughout the Track Record Period. Our historical financial information has been prepared under the historical cost convention, except for certain financial assets at fair value through other comprehensive income, financial assets at FVTPL and derivative financial instruments, which are carried at fair value.

For more information on the basis of presentation and preparation of our historical financial information, see Notes 2.1 and 2.2 to the Accountants’ Report in Appendix I to this document.

### KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We believe that the most significant factors affecting our results of operations and financial condition include the following.

#### **Economic Conditions, Consumer Spending and Competitive Landscape in Key Markets**

We operate a business that reaches more than 150 countries and regions worldwide. China represents our largest individual market, contributing 57.1%, 58.1%, 50.7%, 49.7% and 42.9% of our total revenue in 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, respectively. Our business and operational performance are influenced by global economic trends and the spending habits of consumers in these regions.

According to the F&S Report, the global sales value of air conditioners increased from RMB1,018.6 billion in 2018 to RMB1,312.8 billion in 2024, representing a CAGR of 4.3%. Driven by various factors including the increasing disposable income level, improved living standard and urbanization rate, the market size is expected to reach RMB1,533.2 billion in 2028, representing a significant global market opportunity. Within the global air conditioners

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market, China has the largest market, generating a sales value of RMB464.3 billion in 2024, accounting for 35.3% of the global market. The prospects of consumer demand in global and regional air conditioner markets are subject to the influence of a number of macroeconomic factors, such as global or regional economic conditions, purchasing power and disposable income of consumers, unemployment rates, fluctuation in energy prices, currency and interest rate and government policies, as well as global and regional political uncertainties and other force majeure events.

We operate in highly competitive global markets marked by intense price competition and the frequent launch of new products. The industry is characterized by the rapid adoption of technological advancements and product innovations, ongoing enhancements in features, design, and performance, and a focus on energy efficiency. We adapt quickly to changing customer preferences and evolving industry standards by frequently launching innovative products through various sales and distribution channels. Furthermore, we have captured and will continue to capture the rapid growth in the mass market for air conditioners.

Given our leading market position, rapid product iteration, broad customer base and improved operational efficiency, we believe we are resilient against changes in macroeconomic conditions and are well-positioned to capture the most attractive growth opportunities in the air conditioner markets in China and continue to expand globally.

### **Demand for and Sales of Our Air Conditioners**

Our business growth and financial performance depend on consumer demand for our air conditioners. Substantially all of our revenue during the Track Record Period were derived from the sales of air conditioners.

In line with improved urbanization and rising living standards, there is an increasing demand for household air conditioners. In particular, as consumers prioritize cost-effectiveness, the demand for household air conditioners within the mass market is expected to grow significantly. In addition, the growing demand from both industrial and residential customers is fueling the needs of the central air conditioners. Central air conditioners are becoming more widely adopted not only in residential homes, but also across various industrial sectors. We collect and analyze consumer feedback to enhance our products and improve the user experience more effectively.

The expansion of diverse sales and distribution channels and the increased penetration rates have substantially enhanced the sales of air conditioners. We have not only established a strong online presence through our collaboration with multiple prominent e-commerce platforms such as JD.com, Tmall and Douyin but also launched a new online retail model that integrates advantages of online and offline channels. This has enabled us to flat our distribution system and improve overall operating efficiency. For details, please see “Business — Sales and Marketing — Our Sales Networks — Online Retail Model and “Hello AUX (小奥直賣)” —

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Mixed Model Integrates Online and Offline Advantages.” We believe our business growth will continue to align with the increasing air conditioner market, driven by our continuing product innovation and sales channel integration.

In addition, our sales are affected by the government policies and incentive schemes in China and other regions. For details, see “Industry Overview — Market Drivers and Future Trends — Market Drivers of Global and China Air Conditioner Industry.” For example, 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》) (the “**Trade-in Regulation**”) was issued by relevant authorities in July 2024 and requires manufacturers to annually apply for the adoption of such regulation. We have completed the application for the adoption of the Trade-in Regulation on our products for 2024 adoption and 2025 adoption. In the fourth quarter of 2024 and the first quarter of 2025, approximately 90% and 72% of household air conditioners manufactured by us for sales in China comply with Level 2 or higher energy standards, respectively. The decrease in the portion of household air conditioners we manufactured for sale in China that complied with Level 2 or higher energy efficiency standards in the first quarter of 2025 was primarily because we produced more products with Level 3 energy standard to fulfill large-scale purchases from enterprise customers per their specific product requirements.

### Expansion and Penetration in Overseas Markets

Our results of operation are affected by our ability to continue our expansion and penetration in international markets. We have established our presence in multiple geographic markets and achieved significant growth in our overseas sales. Our revenue from overseas sales amounted to RMB8,386.0 million, RMB10,412.4 million, RMB14,680.7 million, RMB3,700.0 million and RMB5,335.8 million in 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, respectively, accounting for 42.9%, 41.9%, 49.3%, 50.3% and 57.1% of our total revenue for the same period, respectively.

As we expand our business globally, we have invested and will continue to invest in augmenting our manufacturing capabilities, strengthening our R&D efforts, broadening our sales channels and attracting top talent. In 2019, we established our R&D center in Japan, which integrates worldwide consumer demands and cutting-edge technology trends to form a cutting-edge product innovation and talent development hub. In the same year, we established a production facility in Thailand to further penetrate into global markets. Similar investments in the future will affect our business and the results of operations.

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We plan to continue expanding our global footprint through a multifaceted strategy. We plan to utilize our strong network capabilities to enhance the sales of our own-branded products and establish our own sales companies and local teams, enabling us to reach a wider customer base and better address local needs. For example, we will actively promote the proven online retail model and “Hello AUX” ecosystem, with the goal of replicating its success and expanding our sales both online and offline across global markets. We have also built long-term and stable ODM partnerships with renowned global brands, representing the trust placed in our quality standards and manufacturing capabilities by these industry leaders. Further, we intend to establish and improve our service and after-sales network in overseas markets. We expect such investments will significantly affect our business and the results of operations.

Our ability to continue expanding our existing market share in overseas markets and establishing a presence in new overseas markets may significantly affect our business and the results of operations. For more details, please see “Risk Factors — Risks Relating to Our Business and Industry — We conduct operations worldwide and are exposed to legal, regulatory, political, economic, commercial and other risks in each country in which we operate.”

### **Ability to Manage Costs and Improve Operational Efficiency**

Our ability to effectively manage the cost of sales related to raw materials and operating expenses is crucial for driving our growth and success.

The majority of our cost of sales during the Track Record Period consisted of raw materials and components that we used in product manufacturing. Several factors beyond our control will have a substantial impact on the prices of these materials, including fluctuations in market supply and demand, international trade policies and tariffs, transportation costs, and variations in currency exchange rates. We managed our raw material costs through hedging measures and centralized procurement during the Track Record Period. To mitigate the impact of raw material price fluctuations, we have implemented hedging strategies and utilized derivative financial instruments to reduce potential losses resulting from price fluctuations. Our large-scale production enables us to centralize the procurement of many raw materials and components with lower costs. In addition, we maintain stable collaborations with suppliers within our supplier pool to ensure stable procurement of raw materials or components. We have made and will continue to make significant investments in expanding our manufacturing capabilities, especially our in-house manufacturing for certain key components of air conditioners to ensure consistent quality and supply of key components. For example, we collaborate with Panasonic regarding the research and production of compressor, which is a core component for our products. The phase I of our Wuhu factory has commenced the operation and mass production of compressors in June 2025.

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Our operating expenses during the Track Record Period primarily consisted of expenses in relation to selling and distribution, research and development, and administrative activities. Our total operating expenses amounted to RMB1,924.0 million, RMB2,535.0 million, RMB3,012.1 million, RMB609.3 million and RMB761.3 million in 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, respectively, accounting for 9.9%, 10.2%, 10.1%, 8.3% and 8.1% of our total revenue during the same period, respectively. Our ability to effectively manage our operating expenses may significantly affect our profitability.

### Currency Fluctuation

Due to the global presence of our business, our results of operations are affected by foreign exchange rate movements, both on a conversional and transactional basis. Our overseas sales are primarily conducted in the local currencies of the countries and regions where we operate. We prepare our consolidated financial statements in RMB for reporting purposes. Foreign currencies, such as the U.S. dollar, Euro, and Japanese yen and Thai Baht, are converted into RMB at the exchange rates effective on the date of the transaction. Additionally, assets and liabilities denominated in foreign currencies are translated into RMB amounts at the exchange rates effective at the end of each period during the Track Record Period. Consequently, we are exposed to risks arising from fluctuations in the exchange rates of RMB against foreign currencies and may record gains or losses from these currency conversion transactions and translations.

Gains and losses resulting from currency conversion and translation are recognized in our profit or loss. As a result, fluctuations in the exchange rates between Renminbi and foreign currencies could significantly affect our results of operations. In 2022, 2023 and 2024, we recorded net foreign exchange income of RMB114.0 million, RMB97.9 million and RMB86.0 million, respectively. For the three months ended March 31, 2024 and 2025, we recorded net foreign exchange losses of RMB2.5 million and RMB28.7 million, respectively. The value of the Renminbi against foreign currencies may fluctuate due to a number of factors, all of which are beyond our control. We use hedging arrangements to mitigate the impact of foreign exchange rate fluctuations. However, we may not be able to fully mitigate the risk of foreign exchange loss through these arrangements. See “Risk Factors — Risks Relating to Financial, Accounting and Tax Matters — Fluctuations in exchange rates may result in foreign currency exchange losses and may have a material adverse effect on your [REDACTED].”

### MATERIAL ACCOUNTING POLICY INFORMATION AND MATERIAL JUDGEMENTS AND ESTIMATES

The preparation of our historical financial information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future. We continually evaluate these estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding



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the future based on available information and our best assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates and expectations.

Set out below are a summary of the material accounting policy information, judgements and estimates which we believe are most important for understanding our results of operations and financial condition. See Notes 2 and 3 to the Accountants’ Report in Appendix I to this document for a detailed description of our material accounting policy information, judgments and estimates.

### **Material Accounting Policy Information**

#### ***Revenue Recognition***

The following is a description of the accounting policy for our principal revenue streams:

#### ***Revenue from contracts with customers***

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which we will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

##### ***(a) Sales of goods***

We principally engage in manufacturing and sales of household air conditioners and central air conditioners in China and other countries/jurisdictions.

Revenue from domestic sales of goods is recognized when we have delivered products to the location specified in the sales contract and the customer has confirmed the acceptance of the products, and the delivery note is signed by both parties. Upon confirming the acceptance, the customer has the right to sell the products at its discretion and takes the risks of any price fluctuations and obsolescence and loss of the products.

Revenue from overseas sales of goods is recognized when the products have been loaded on board and shipped out of the port in accordance with the sales contract.

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The credit period granted to customers by us is determined based on their credit risk characteristics, which is consistent with industry practice, and there is no significant financing component.

(i) Rights of return

For contracts that provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which we will be entitled. The requirements in HKFRS 15 on constraining estimates of variable consideration are applied to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognized. A right-of-return asset (and the corresponding adjustment to the cost of sales) is also recognized as the right to recover products from a customer.

We base our estimates of sales return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(ii) Sales rebates

We provide distributors with sales rebate and discount, and the relevant revenue is recognized based on contract consideration net of the rebate and discount amount estimated.

(iii) Warranty

The periods and terms of product quality warranty are provided in accordance with the laws and regulations related to the products. We have not provided any additional services or product quality warranty, so the product quality warranty does not constitute a separate performance obligation.

(b) *Rendering of services*

We provide certain customers with installation services which are bundled together with the sale of air conditioners to certain customers. The installation services can be obtained from other providers and do not significantly customize or modify the products.

Contracts for bundled sales of air conditioners and installation services are comprised of two performance obligations because the promises to transfer the air conditioner and provide installation services are capable of being distinct and separately identifiable. Accordingly, the transaction price is allocated based on the relative stand-alone selling prices of the sale of air conditioner and installation services.



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Revenue from installation services is recognized at a point in time upon completion of installation services. If the contractual consideration received or receivable exceeds the services performed, the excess is recognized as contract liabilities.

*(c) Royalties*

Royalties are brand royalties paid by franchisees to us for the purpose of obtaining franchise rights. We appropriate and recognize revenue over the term of the franchise contracts.

***Revenue from other sources***

Rental income is recognized on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognized as income in the accounting period in which they are incurred.

***Inventories***

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a moving weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor, and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred for completion and disposal.

***Share-based Payments***

We operate an employee share incentive plan for the purpose of providing incentives and rewards to eligible participants who contribute to the success of our operations. Our employees (including the Directors) receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments (“**equity-settled transactions**”).

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value of services received in return for shares granted was measured by reference to the fair value of shares granted and the subscription price paid by the grantees. The fair value of the shares granted is determined using discounted cash flow method. For details, see Note 35 to the Accountants’ Report in Appendix I of this document.

The cost of equity-settled transactions is recognized in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each year during the Track Record Period until the vesting date

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reflects the extent to which the lock-up restricted period has expired and our best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognized as of the beginning and end of that period.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either our Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

### *Derivative Financial Instruments and Hedge Accounting*

We use derivative financial instruments, such as forward currency contracts, future contracts for the purchase of copper and foreign currency swaps, to hedge our foreign currency risk and commodity price risk, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognized firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, we formally designate and document the hedge relationship to which we wish to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

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### *Property, Plant and Equipment and Depreciation*

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, we recognize such parts as individual assets with specific useful lives and depreciate them accordingly.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property, plant, and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings . . . . .	3% to 4.75%
Motor vehicles . . . . .	9% to 31.67%
Machinery and equipment . . . . .	9% to 31.67%
Office equipment and fixtures . . . . .	9% to 31.67%
Freehold overseas land . . . . .	0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of each year during the Track Record Period.

An item of property, plant, and equipment, including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. It is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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### Critical Judgments and Estimates

#### *Deferred Tax Assets*

Deferred tax assets are recognized for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the number of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amounts of unrecognized tax losses and deductible temporary differences as of December 31, 2022, 2023, 2024 and March 31, 2025 were RMB61.8 million, RMB132.2 million, RMB169.0 million, RMB198.4 million, respectively. Further details are included in Note 26 to the Accountants’ Report set out in Appendix I to this document.

#### *Revenue From Contracts With Customers*

We applied the following judgement that significantly affects the determination of the amount and timing of revenue from contracts with customers:

##### *Determining the method to estimate variable consideration and assessing the constraint for the sale of air conditioners*

Certain contracts for the sale of air conditioners include volume rebates that give rise to variable consideration. In estimating the variable consideration, we are required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

In estimating the variable consideration for the sale of air conditioners with volume rebates, we determined that using a combination of the most likely amount method and the expected value method is appropriate. The selected method that better predicts the amount of variable consideration related to volume rebates is primarily driven by the number of volume thresholds contained in the contract. The most likely amount method is used for those contracts with a single volume threshold, while the expected value method is used for contracts with more than one volume threshold.

Before including any amount of variable consideration in the transaction price, we consider whether the amount of variable consideration is constrained. We determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

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### *Variable Consideration for Sales Rebates*

We estimate variable consideration to be included in the transaction price for the sale of air conditioners with sales rebates.

Our expected sales rebates are analyzed on a per customer basis for contracts that are subject to a single volume threshold. Determining whether a customer is likely to be entitled to a rebate depends on the customer’s historical rebate entitlement and accumulated purchases to date.

We have applied a statistical model for estimating expected sales rebates for contracts with more than one volume threshold. The model uses the historical purchasing patterns and rebate entitlement of customers to determine the expected rebate percentages and the expected value of the variable consideration. Any significant changes in experience as compared to historical purchasing patterns and rebate entitlements of customers will impact the expected rebate percentages estimated by us.

We update our assessment of expected sales rebates monthly and the sales rebate accruals and payables are adjusted accordingly. Estimates of expected sales rebates are sensitive to changes in circumstances and our previous experience regarding rebate entitlements may not be representative of customers’ actual rebate entitlements in the future. The refund liabilities at the end of each year during the Track Record Period are recorded as “sales rebate accruals and payables” in Note 28 to the Accountants’ Report in Appendix I to this document.

### *Provision for Expected Credit Losses on Trade Receivables at Amortized Cost*

We use a provision matrix to calculate expected credit losses (ECLs) for trade receivables. The provision rates are based on an aging analysis of customers that have similar loss patterns.

The provision matrix is initially based on our historical observed default rates. We will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historically observed default rates are updated, and changes in the forward-looking estimates are analyzed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. Our historical credit loss experience and forecast of economic conditions may also not be representative of a customer’s actual default in the future. The information about the ECLs on our trade receivables is disclosed in Note 20 in the Accountants’ Report to this document.

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### *Net Realizable Value of Inventories*

The net realizable value of inventories is based on estimated selling prices less any estimated costs to be incurred for completion and disposal. These estimates, based on the current market condition and the historical experience in selling goods of a similar nature, include but not limited to economic outlook, sales forecasts and the forecast market value for the inventory items. They could change significantly as a result of changes in market conditions. We reassess the estimation at the end of each year during the Track Record Period.

### *Fair Value of Equity-Settled Share-Based Payments*

The fair value of the restricted shares granted is determined by using the discounted cash flow method at the grant dates. Valuation techniques are certified by an independent valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. Some inputs, such as revenue growth rate and discount rate, require management estimates. Should any of the estimates and assumptions change, it may lead to a change in the fair value to be recognized in profit or loss. Further details are included in Note 35 to the Accountants’ Report set out in Appendix I to this document.

### *Warranty Provision*

We provide a warranty in accordance with the laws and regulations related to the air conditioners. Under the terms of warranty, we undertake to repair the air conditioners free of charge in the event of any malfunctioning within the warranty period.

Estimated costs related to warranty are accrued at the time of sales of air conditioners based on contractual terms, historical experience on the cost incurred on the past warranty claims and volumes of products sold. In cases where the actual cost incurred on the warranty claims are less or more than expected, or change in facts and circumstances which result in revision of estimated costs related to product warranty, a material reversal or further provision of provision may arise, which would be recognized in profit or loss for the period in which such a reversal or further provision takes place. Further details are included in Note 32 to the Accountants’ Report set out 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.

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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 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.



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### DESCRIPTION OF CERTAIN CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME ITEMS

The following table sets forth a summary of our consolidated statements of profit or loss and other comprehensive income for the years/periods indicated. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	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/period . . . . .	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

## FINANCIAL INFORMATION

### 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 year to year 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.

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
Add:					
[REDACTED] expenses in connection with					
[REDACTED] . . . . .	–	–	20,471	–	8,257

## FINANCIAL INFORMATION

	For the year ended December 31,			For the three months ended March 31,	
	2022	2023	2024	2024	2025
			RMB'000		
				(Unaudited)	
Share-based payment expenses . . . . .	7,455	24,298	4,245	4,770	5,090
<b>Adjusted net profit (non-HKFRS measure) . .</b>	<b>1,449,193</b>	<b>2,511,092</b>	<b>2,934,887</b>	<b>756,365</b>	<b>937,895</b>
<b>Profit for the year/period . .</b>	<b>1,441,738</b>	<b>2,486,794</b>	<b>2,910,171</b>	<b>751,595</b>	<b>924,548</b>
<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)
<b>EBITDA (non-HKFRS measure) . . . . .</b>	<b>2,364,077</b>	<b>3,498,354</b>	<b>3,937,537</b>	<b>1,059,345</b>	<b>1,353,647</b>
<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
<b>Adjusted EBITDA (non-HKFRS measure) . .</b>	<b>2,371,532</b>	<b>3,522,652</b>	<b>3,962,253</b>	<b>1,064,115</b>	<b>1,366,994</b>

### 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.

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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	%
	<i>(Unaudited)</i>									
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
<b>Total . . . . .</b>	<b>19,527,585</b>	<b>100.0</b>	<b>24,831,833</b>	<b>100.0</b>	<b>29,759,319</b>	<b>100.0</b>	<b>7,362,572</b>	<b>100.00</b>	<b>9,352,397</b>	<b>100.00</b>

Our overall growth in revenue during the Track Record Period was primarily driven by the increase sales of household air conditioners and central air conditioners. Revenue from sales of household air conditioners and central air conditioners accounted for 98.2%, 98.4%, 97.9%, 98.9% and 98.8% of our total revenue in 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, respectively. We sold 10.2 million units, 14.0 million units, 17.1 million units, 4.5 million units and 5.5 million units of household air conditioners in 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, respectively; and sold 0.9 million units, 1.3 million units, 1.6 million units, 0.4 million units and 0.4 million units of central air conditioners during the same period, respectively.

The following table sets forth the breakdown of our revenue by brand, 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	%
	<i>(Unaudited)</i>									
Aux. . . . .	11,937,605	61.1	14,460,808	58.2	15,522,916	52.2	3,699,215	50.2	4,470,388	47.8
Hutssom . . . . .	150,022	0.8	1,230,613	5.0	1,358,375	4.6	242,632	3.3	204,725	2.2
AUFIT . . . . .	–	–	–	–	–	–	–	–	30,660	0.3
ODM . . . . .	7,081,489	36.3	8,741,808	35.2	12,246,672	41.1	3,335,454	45.3	4,535,612	48.5
Other businesses . . . . .	358,469	1.8	398,604	1.6	631,356	2.1	85,271	1.2	111,012	1.2
<b>Total . . . . .</b>	<b>19,527,585</b>	<b>100.0</b>	<b>24,831,833</b>	<b>100.0</b>	<b>29,759,319</b>	<b>100.0</b>	<b>7,362,572</b>	<b>100.00</b>	<b>9,352,397</b>	<b>100.00</b>

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As our flagship brand, we launched the brand “AUX” in 1994. During the Track Record Period, we primarily derived our revenue from product sales of AUX products, which contributed 61.1%, 58.2%, 52.2%, 50.2% and 47.8% of our total revenue in 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, respectively. We have developed the brands “Hutssom” (華赫) and “AUFIT.” Our revenue from product sales of Hutssom products increased significantly from RMB150.0 million in 2022 to RMB1,230.6 million in 2023, and further increased by 10.4% to RMB1,358.4 million in 2024. Our revenue from product sales of Hutssom products decreased slightly from RMB242.6 million in the three months ended March 31, 2024 to RMB204.7 million in the three months ended March 31, 2025. We started to generate revenue from sales of AUFIT products in 2025 and recorded revenue of RMB30.7 million from sales of AUFIT products in the three months ended March 31, 2025.

The following table sets forth a breakdown of our revenue by geographical locations, 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	%
	<i>(Unaudited)</i>									
China . . . . .	11,141,582	57.1	14,419,477	58.1	15,078,580	50.7	3,662,583	49.7	4,016,628	42.9
Asia (except China) . . .	4,800,131	24.6	5,734,525	23.1	7,339,872	24.7	1,956,838	26.6	2,944,806	31.5
Europe . . . . .	1,789,547	9.2	2,282,070	9.2	3,024,817	10.2	810,999	11.0	1,091,794	11.7
North America <sup>(1)</sup> . . . . .	1,041,432	5.3	1,132,694	4.6	2,095,134	7.0	579,639	7.9	392,876	4.2
South America . . . . .	460,827	2.4	719,836	2.9	1,507,028	5.0	184,027	2.5	518,585	5.6
Other countries/regions <sup>(2)</sup> .	294,066	1.4	543,231	2.1	713,888	2.4	168,486	2.3	387,708	4.1
<b>Total . . . . .</b>	<b>19,527,585</b>	<b>100.0</b>	<b>24,831,833</b>	<b>100.0</b>	<b>29,759,319</b>	<b>100.0</b>	<b>7,362,572</b>	<b>100.00</b>	<b>9,352,397</b>	<b>100.00</b>

*Notes:*

- (1) During the Track Record Period, our revenue generated from North America was primarily represented revenue generated from Mexico.
- (2) Primarily include Africa and Oceania.

### Cost of Sales

Our cost of sales mainly consists of (i) raw materials and components, primarily including copper, aluminum, steel, plastic, compressors and motors; (ii) employee salaries and benefits, primarily include wages and salaries for our production employees; (iii) installation and transportation costs, primarily in relation to the transportation and installation services in relation to the sales of our air conditioners to our customers; (iv) manufacturing-related costs, primarily include the cost of production of air conditioners; (v) depreciation and amortization, mainly represent depreciation of our property, plant and equipment; and (vi) others, mainly include warranty fees, taxes and surcharges and accessory materials.

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The following table sets forth the breakdown of our cost of sales by nature, both in absolute amounts and as percentages of total cost of sales, 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	%
	<i>(Unaudited)</i>									
Raw materials and components . . . . .	12,957,524	84.3	16,242,540	83.7	19,638,504	83.5	5,044,192	87.2	6,550,075	88.8
Employee salaries and benefits . . . . .	491,895	3.2	704,054	3.6	878,434	3.7	231,662	4.0	243,819	3.3
Installation and transportation costs . . . . .	1,059,591	6.9	1,455,244	7.5	1,736,057	7.4	203,962	3.5	223,716	3.0
Manufacturing-related costs . . . . .	318,747	2.1	388,654	2.0	474,982	2.0	157,562	2.7	206,247	2.8
Depreciation and amortization . . . . .	284,865	1.9	288,051	1.5	298,079	1.3	70,503	1.2	66,905	0.9
Others . . . . .	265,067	1.6	331,111	1.7	492,938	2.1	77,169	1.4	85,935	1.2
<b>Total . . . . .</b>	<b>15,377,689</b>	<b>100.0</b>	<b>19,409,654</b>	<b>100.0</b>	<b>23,518,994</b>	<b>100.0</b>	<b>5,785,050</b>	<b>100.00</b>	<b>7,376,697</b>	<b>100.00</b>

The following table sets forth the breakdown of our cost of sales by types of goods, both in absolute amounts and as percentages of total cost of sales, 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	%
	<i>(Unaudited)</i>									
Household air conditioners . . . . .	13,833,829	90.0	17,243,254	88.8	20,924,633	89.0	5,236,988	90.5	6,716,281	91.1
Central air conditioners . . . . .	1,366,240	8.9	1,954,356	10.1	2,244,233	9.5	506,087	8.8	605,358	8.2
Others . . . . .	177,620	1.2	212,044	1.1	350,128	1.5	41,975	0.7	55,058	0.7
<b>Total . . . . .</b>	<b>15,377,689</b>	<b>100.0</b>	<b>19,409,654</b>	<b>100.0</b>	<b>23,518,994</b>	<b>100.0</b>	<b>5,785,050</b>	<b>100.00</b>	<b>7,376,697</b>	<b>100.00</b>

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### 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	%
	<i>(Unaudited)</i>									
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
<b>Total . . . . .</b>	<b>4,149,896</b>	<b>21.3</b>	<b>5,422,179</b>	<b>21.8</b>	<b>6,240,325</b>	<b>21.0</b>	<b>1,577,522</b>	<b>21.4</b>	<b>1,975,700</b>	<b>21.1</b>

The gross profit margin for central air conditioners is generally higher than that of household air conditioners, primarily because more complex manufacturing processes and more advanced technical requirements required for central air conditioning systems. The gross profit margin for other business is higher than that of sales of air conditioners as our leasing of properties generally had lower cost of sales. In addition, there is no cost of sales associated with providing brand authorization.

We recorded total gross profit of RMB4,149.9 million, RMB5,422.2 million, RMB6,240.3 million, RMB1,577.5 million and RMB1,975.7 million, and gross profit margins of 21.3%, 21.8%, 21.0%, 21.4% and 21.1%, for the years ended December 31, 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, respectively.

### Other Income and Gains

Our other income and gains primarily consist of (i) government grants, primarily related to subsidies received from the local governments in relation to, among others, certain of our investment schemes, the purchase of specific equipment, and certain R&D projects. During the Track Record Period, the increase in our government grants was primarily due to the enhanced incentives provided by local government authorities in China. These incentives included various forms of financial support and preferential tax treatments aimed at rewarding our contributions to the development of local economies. In particular, we received tax refunds for embedded software in 2023. In 2024, we received additional government grants primarily in relation to the construction of the intelligent production line of our production bases, along with further tax refunds for embedded software, (ii) bank interest income, primarily resulting from our bank deposits, (iii) fair value gains on derivative financial instruments, (iv) compensations from suppliers, primarily related to suppliers that fail to meet our rigorous



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internal quality standards, (v) net foreign exchange differences, (vi) fair value gains on financial assets at FVTPL, primarily related to structured deposits, (vii) realized gains on derivative financial instruments, primarily related to gains on our forward foreign exchange contracts, (viii) gains on disposal of leasehold land, and (ix) others.

The following table sets forth a breakdown of our other income and gains, in absolute amounts and as percentages of total other income and gains, 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)	
Government grants . . . . .	83,069	136,791	235,767	47,101	57,373
Bank interest income . . . . .	46,612	186,525	217,790	45,280	24,531
<b>Other Income . . . . .</b>	<b>129,681</b>	<b>323,316</b>	<b>453,557</b>	<b>92,381</b>	<b>81,904</b>
Fair value gains on derivative financial instruments . . . . .	2,780	—	—	—	—
Compensations from suppliers . . . . .	16,438	27,475	22,723	4,764	3,282
Fair value gains on financial assets at fair value through profit or loss . . . . .	34,835	14,582	28,389	—	1,191
Foreign exchange differences, net . . . . .	114,000	97,875	86,042	—	—
Realized gains on derivative financial instruments . . . . .	—	—	19,099	3,667	37,501
Gains on disposal of leasehold land . . . . .	17,943	—	—	—	—
Others . . . . .	5,980	2,324	6,453	811	344
<b>Other Gains . . . . .</b>	<b>191,976</b>	<b>142,256</b>	<b>162,706</b>	<b>9,242</b>	<b>42,318</b>
<b>Total . . . . .</b>	<b>321,657</b>	<b>465,572</b>	<b>616,263</b>	<b>101,623</b>	<b>124,222</b>

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### Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of (i) employee salaries and benefits, primarily including salaries, share-based payments and other benefits for our sales and marketing employees, (ii) advertising and marketing expenses, primarily related to our advertising activities, such as promotion fees and online platform commissions, (iii) warehousing and logistics costs, primarily including warehouse rental expenses and freight fees in relation to our products, (iv) business development and travel costs, (v) insurance expenses, representing the insurance premium to a governmental insurance company in connection with our overseas business, and (vi) others, primarily including depreciation and amortization and miscellaneous maintenance fees for equipment and systems used by our sales department.

The following table sets forth the breakdown of our selling and distribution expenses, in absolute amounts and as percentages of total selling and marketing expenses, 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)									
Employee salaries and benefits . . . . .	264,724	33.7	379,923	37.3	434,603	34.0	91,529	34.7	120,458	33.1
Advertising and marketing expenses. . .	292,445	37.2	327,592	32.1	335,363	26.3	65,229	24.7	92,165	25.4
Warehousing and logistics costs . . . . .	112,001	14.3	146,115	14.3	269,703	21.1	52,568	19.9	93,217	25.6
Business development and travel costs . . . . .	45,770	5.8	73,763	7.2	100,023	7.8	21,367	8.1	20,790	5.7
Insurance expenses . . . .	40,951	5.2	54,005	5.3	63,432	5.0	15,893	6.0	23,586	6.5
Others . . . . .	29,397	3.8	37,866	3.8	73,554	5.8	17,350	6.6	13,403	3.7
Total . . . . .	785,288	100.0	1,019,264	100.0	1,276,678	100.0	263,936	100.00	363,619	100.00

Our selling and distribution expenses as a percentage of our revenue remained relatively stable during the Track Record Period, amounting to approximately 4.0%, 4.1%, 4.3%, 3.6% and 3.9% of our revenue in 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, respectively.

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### Administrative Expenses

Our administrative expenses primarily consist of (i) employee salaries and benefits, primarily including salaries, share-based payments and other benefits for our administrative employees, (ii) depreciation and amortization, primarily related to our office equipment, (iii) taxes and surcharges, (iv) service and maintenance fees, primarily including utility expenses, bank service charges and office maintenance fees, (v) professional service fees, primarily including fees for legal, accounting and consulting services, (vi) [REDACTED] expenses, primarily relating to our proposed [REDACTED], and (vii) others, primarily including business development fees and travel expenses, as well as miscellaneous fees related to our properties.

The following table sets forth the breakdown of our administrative expenses, in absolute amounts and as percentages of total administrative expenses, 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	%
	<i>(Unaudited)</i>									
Employee salaries and benefits . . . . .	321,737	43.4	439,516	46.3	452,306	44.1	100,696	45.4	130,733	48.6
Depreciation and amortization . . . . .	167,970	22.7	166,617	17.6	181,655	17.7	39,201	17.7	41,782	15.5
Taxes and surcharges . . .	126,374	17.1	160,447	16.9	119,079	11.6	26,788	12.1	31,830	11.8
Service and maintenance fees . . . . .	70,880	9.6	79,658	8.4	113,528	11.1	19,409	8.7	19,756	7.3
Professional service fees .	13,570	1.8	34,389	3.6	31,597	3.1	3,451	1.5	3,595	1.3
[REDACTED] expenses .	–	–	–	–	20,471	2.0	–	–	8,257	3.1
Others . . . . .	40,651	5.4	68,508	7.2	106,738	10.4	32,299	14.6	33,376	12.4
<b>Total . . . . .</b>	<b>741,182</b>	<b>100.0</b>	<b>949,135</b>	<b>100.0</b>	<b>1,025,375</b>	<b>100.0</b>	<b>221,844</b>	<b>100.00</b>	<b>269,329</b>	<b>100.00</b>

Our administrative expenses as a percentage of our revenue remained relatively stable during the Track Record Period, amounting to approximately 3.8%, 3.8%, 3.4%, 3.0% and 2.9% of our revenue in 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, respectively.

### Research and Development Expenses

Our research and development expenses primarily consist of (i) employee salaries and benefits, primarily including salaries, share-based payments and other benefits for our R&D employees, (ii) external service fees, primarily related to certification and IP related fees, as well as design and technology related expenses, (iii) depreciation and amortization, primarily related to patents and the equipment used during the R&D process, (iv) direct R&D expenses, primarily including raw material and mold costs to develop new products, and (v) others, primarily including utility expenses, consulting and travel expenses, as well as miscellaneous fees related to our R&D.

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The following table sets forth the breakdown of our research and development expenses, in absolute amounts and as percentages of total research and development expenses, for the years 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	%
	<i>(Unaudited)</i>									
Employee salaries and benefits . . . . .	193,743	48.7	289,529	51.1	396,036	55.8	53,625	43.4	75,460	58.8
External service fees . . .	62,939	15.8	82,115	14.5	68,794	9.7	24,585	19.9	15,737	12.3
Depreciation and amortization . . . . .	10,880	2.7	12,456	2.2	61,204	8.6	14,503	11.7	16,601	12.9
Direct R&D expenses. . .	110,525	27.8	160,386	28.3	130,055	18.3	23,312	18.9	13,130	10.2
Others . . . . .	19,476	5.0	22,144	3.9	53,946	7.6	7,484	6.1	7,407	5.8
<b>Total . . . . .</b>	<b>397,563</b>	<b>100.0</b>	<b>566,630</b>	<b>100.0</b>	<b>710,035</b>	<b>100.0</b>	<b>123,509</b>	<b>100.00</b>	<b>128,335</b>	<b>100.00</b>

Our research and development expenses as a percentage of our revenue remained relatively stable during the Track Record Period, amounting to approximately 2.0%, 2.3%, 2.4%, 1.7% and 1.4% of our revenue in 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, respectively.

### Impairment (Loss)/Gain on Financial Assets, Net

Our net impairment (loss)/gain on financial assets primarily consists of impairment (loss)/gain for movement in loss allowance for trade receivables at amortized cost based on the expected credit loss model. Our net impairment loss on financial assets amounted to RMB13.1 million, RMB43.2 million, RMB65.9 million and RMB67.9 million in 2022, 2024 and the three months ended March 31, 2024 and 2025, respectively. We recorded net impairment gain on financial assets of RMB3.0 million in 2023.

### Other Expenses

Our other expenses primarily include (i) realized losses on derivative financial instruments, primarily related to our futures contracts and forward foreign exchange contracts. We use derivative financial instruments, such as forward currency contracts, future contracts for the purchase of copper and foreign currency swaps, to hedge our foreign currency risk and commodity price risk. In particular, in the fourth quarter of each year, we entered into a number of future contracts for the purchase of copper considering the secured overseas sales orders and our domestic production plan, to hedge against copper price fluctuations and ensure the stable costs of copper used in our production for the following year. Although copper price volatility resulted in gains or losses on our future contracts, we have effectively managed our cost of sales while maintaining flexibility for spot purchases. We used to manage and hedge the commodity price risks by way of natural hedge. Since 2024, we formally implemented policies regarding hedge activities related to purchase of copper with an aim of hedging and value preservation so as to lock costs and circumvent risks. As a result, the effective portion of the

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gain or loss on the hedging instrument is recognized directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognized immediately in profit or loss. Our copper hedging strategy is designed to lock the price for purchase of copper, thus fluctuations in copper prices do not materially affect our gross profit. In other words, when our incurred significant losses on copper future contracts, we were able to procure the copper needed for production at relatively low prices in the spot market. The combination of the futures and spot market positions allowed us to ultimately manage and stabilize its overall copper procurement costs, which in turn manage our overall profitability. For details, see “Derivative financial instruments and hedge accounting — Cash flow hedges” in Note 2.4 to the Accountants’ Report set out in Appendix I to this document; (ii) loss on derecognition of receivables at fair value through other comprehensive income; (iii) donations, primarily represent our donations to local foundations for charitable, education and poverty alleviation purposes; (iv) losses on disposal of property, plant and equipment and intangible assets; (v) fair value losses on derivative financial instruments; and (vi) others.

The following table sets forth the breakdown of our other expenses 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)	
Realized losses on derivative financial instruments . . . .	579,663	91,508	—	—	—
Foreign exchange differences, net . . . . .	—	—	—	2,459	28,669
Loss on derecognition of receivables at fair value through other comprehensive income . . .	13,030	25,283	21,537	6,007	3,874
Donations . . . . .	1,230	1,025	1,020	1,000	1,000
Losses on disposal of items of property, plant and equipment and intangible assets . . . . .	4,174	4,395	5,674	2,805	386
Fair value losses on derivative financial instruments . . . .	—	18,204	165,102	17,598	2,870
Others . . . . .	6,009	11,389	13,741	1,543	7,778
<b>Total . . . . .</b>	<b>604,106</b>	<b>151,804</b>	<b>207,074</b>	<b>31,412</b>	<b>44,577</b>

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In response to foreign exchange risks, raw material price fluctuations and investments in derivative financial instruments, we have established stringent treasury policies and measures to eliminate potential risks. For details, see “— Discussion of Certain Key Items of Consolidated Statements of Financial Positions — Derivative Financial Instruments.”

### Finance Costs

Our finance costs primarily represent interests incurred on our bank borrowings and interests on lease liabilities. The following table sets forth the breakdown of our finance costs 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)	
Interests on bank borrowings . . . . .	95,796	61,373	43,832	12,510	16,190
Interests on lease liabilities. .	236	110	1,314	358	1,268
<b>Total . . . . .</b>	<b>96,032</b>	<b>61,483</b>	<b>45,146</b>	<b>12,868</b>	<b>17,458</b>

### Income Tax Expenses

Our income tax expenses primarily consist of current income tax and deferred income tax. During the Track Record Period, certain entities within our Group enjoyed preferential tax treatments. In 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, we recorded income tax expenses of RMB392.6 million, RMB655.6 million, RMB638.9 million, RMB208.1 million and RMB284.2 million, respectively. We are subject to varying tax rates in different jurisdictions. See Note 11 to the Accountants’ Report set out in Appendix I to this document.

### China

In China, pursuant to the EIT Law and Implementation Regulation of the EIT Law, the tax rate of our Company and our subsidiaries in China was 25% during the Track Record Period. Certain of our subsidiaries in China enjoyed preferential tax treatments, mainly including a tax rate of 15% due to preferential tax policies for being approved as a “High and New Technology Enterprise.” In addition, we have made our best estimate for the additional tax deduction in relation to our R&D activities to be claimed for certain of our subsidiaries in ascertaining assessable profits during the Track Record Period.

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### *Cayman Islands and British Virgin Islands*

Under the current laws of the Cayman Islands and British Virgin Islands, our Company and our subsidiaries incorporated in the British Virgin Islands are not subject to tax on income or capital gains during the Track Record Period.

### *Hong Kong*

Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits arising in Hong Kong during the Track Record Period, except for a subsidiary incorporated in Hong Kong which is a qualifying entity under the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of assessable profits of the qualifying entity are taxed at 8.25% and the remaining profits are taxed at 16.5%.

### *Thailand*

Under the current laws of Thailand, our subsidiaries incorporated in Thailand are not subject to tax on income or capital gains during the Track Record Period.

### *Other Jurisdictions*

Income tax on profit arising from other jurisdictions, including Singapore, Japan, Malaysia, USA, UAE and KSA is calculated on the estimated assessable profit for each of the year during the Track Record Period at the respective rates prevailing in the relevant jurisdictions.

During the Track Record Period and as of the Latest Practicable Date, we did not have any disputes or unresolved tax issues with the relevant tax authorities.

### **Profit for the Year/Period**

We recorded profit of RMB1,441.7 million, RMB2,486.8 million, RMB2,910.2 million, RMB751.6 million and RMB924.5 million in 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, respectively.

## **YEAR/PERIOD TO YEAR/PERIOD COMPARISON OF RESULTS OF OPERATIONS**

### **Three Months Ended March 31, 2025 Compared to Three Months Ended March 31, 2024**

#### *Revenue*

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, primarily attributable to the rise in sales volume of our products along with our business expansion.



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Specifically, our revenue generated from sales of air conditioners increased by 27.0% from RMB7,277.3 million for the three months ended March 31, 2024 to RMB9,241.4 million for the three months ended March 31, 2025.

### *Household Air Conditioners*

The revenue from sales of our household air conditioners increased by 28.0% from RMB6,542.3 million for the three months ended March 31, 2024 to RMB8,376.2 million for the three months ended March 31, 2025, primarily because the sales volume of our household air conditioners increased from 4.5 million units for the three months ended March 31, 2024 to 5.5 million units for the three months ended March 31, 2025. Such increase was primarily attributable to (i) the expansion of our distributor network, with the number of distributors in China and overseas growing from 6,722 as of March 31, 2024 to 8,312 as of March 31, 2025; (ii) our strategic expansion of the overseas customer base and penetration with our key customers for household air conditioners, primarily including the Middle East and Southeast Asia, as well as expanding our regional presence by establishing and growing sales companies and local teams in these key overseas markets; and (iii) the strengthened market presence of our household air conditioners in certain overseas counties and regions as we introduced several new products with enhanced intelligence and energy efficiency. For instance, we launched the “AUFIT” brand in the three months ended March 31, 2025 with an objective to capture a larger market share.

### *Central Air Conditioners*

The revenue from sales of our central air conditioners increased by 17.7% from RMB735.0 million for the three months ended March 31, 2024 to RMB865.2 million for the three months ended March 31, 2025, primarily because the sales volume of our central air conditioners increased from 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. Such increase was primarily attributable to (i) the strategic expansion and enhanced penetration of our customer base for central air conditioners, particularly in Southeast Asia, Middle East and South America; (ii) the successful launch of several new central air conditioners during the three months ended March 31, 2025, which were specifically tailored to meet the needs of regional overseas markets, such as multi-split air conditioners; and (iii) the increased market presence of our heat pumps in selected European countries as we enhanced our marketing efforts that leverage favorable local policies.

### *Others*

Our other revenue increased by 30.2% from RMB85.3 million for the three months ended March 31, 2024 to RMB111.0 million for the three months ended March 31, 2025, primarily because of the increased sales of raw materials as a result of expanded customer base.

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### *Cost of Sales*

Our cost of sales increased by 27.5% from RMB5,785.1 million for the three months ended March 31, 2024 to RMB7,376.7 million for the three months ended March 31, 2025, primarily due to (i) an increase of RMB1,505.9 million in raw materials and components used for the same period, which was generally along with our increased production and sales; and (ii) an increase of RMB48.7 million in manufacturing-related costs.

### *Gross Profit and Gross Profit Margin*

As a result of the foregoing, our gross profit increased by 25.2% from RMB1,577.5 million for the three months ended March 31, 2024 to RMB1,975.7 million for the three months ended March 31, 2025.

Our overall gross profit margin decreased from 21.4% for the three months ended March 31, 2024 to 21.1% for the three months ended March 31, 2025. The slight decrease in our gross profit margin was primarily due to a decrease in gross profit margin of the sales of household air conditioners, primarily attributable to the strategically reduction of per unit selling price in response to the intensified competition in the domestic air conditioner market and increased sales portion through ODM which typically have lower gross profit margins, partially offset by an increase in gross profit margin of the sales of central air conditioners, primarily because of the change of product mix as we sold more products with higher gross profit margins.

### *Other Income and Gains*

Our other income and gains increased by 22.2% from RMB101.6 million for the three months ended March 31, 2024 to RMB124.2 million for the three months ended March 31, 2025, primarily due to (i) an increase of RMB33.8 million in realized gains on derivative financial instruments along with the fair value changes of our forward foreign exchange contracts; (ii) an increase of RMB10.3 million in government grants; partially offset by a decrease of RMB15.0 million in bank interest income.

### *Selling and Distribution Expenses*

Our selling and distribution expenses increased by 37.8% from RMB263.9 million for the three months ended March 31, 2024 to RMB363.6 million for the three months ended March 31, 2025, primarily due to (i) an increase of RMB40.6 million in warehouse and logistic costs mainly related to our increased storage and transportation needs along with our increased production and sales; (ii) an increase of RMB28.9 million in employee salaries and benefits, primarily because of the increased number of sales and marketing employees to support our business growth; and (iii) an increase of RMB26.9 million in advertising and marketing expenses primarily to support our overseas sales.

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Our selling and distribution expenses as a percentage of revenue remained relatively stable at 3.6% and 3.9% for the three months ended March 31, 2024 and 2025, respectively.

### *Administrative Expenses*

Our administrative expenses increased by 21.4% from RMB221.8 million for the three months ended March 31, 2024 to RMB269.3 million for the three months ended March 31, 2025, primarily due to (i) an increase of RMB30.0 million in employee salaries and benefits because we hired more administrative staff and increased their salaries to support our business expansion; (ii) an increase of RMB8.4 million in professional service fee related to our proposed [REDACTED]; and (iii) an increase of RMB5.0 million in taxes and surcharges along with our business growth.

Our administrative expenses as a percentage of revenue remained relatively stable at 3.0% and 2.9% for the three months ended March 31, 2024 and 2025, respectively.

### *Research and Development Expenses*

Our research and development expenses increased by 3.9% from RMB123.5 million for the three months ended March 31, 2024 to RMB128.3 million for the three months ended March 31, 2025, primarily due to (i) an increase of RMB21.8 million in employee salaries and benefits driven by the growth in R&D staff numbers and their compensation to support our business; (ii) an increase of RMB2.1 million in depreciation and amortization mainly related to our patents and R&D equipment. This was partially offset by a decrease of RMB10.2 million in direct R&D expenses as we strategically developed molds in late 2024 in line with our business expansion plan.

Our research and development expenses as a percentage of revenue remained relatively stable at 1.7% and 1.4% for the three months ended March 31, 2024 and 2025, respectively.

### *Impairment Losses on Financial Assets, Net*

Our impairment losses on financial assets increased from RMB65.9 million for the three months ended March 31, 2024 to RMB67.9 million for the three months ended March 31, 2025, mainly because we recorded higher balance amount of trade receivables.

### *Other Expenses*

Our other expenses increased from RMB31.4 million for the three months ended March 31, 2024 to RMB44.6 million for the three months ended March 31, 2025, primarily due to an increase of RMB26.2 million in foreign exchange differences due to the continued appreciation of the U.S. dollar in the fourth quarter in 2024, which led to increased expected losses on forward foreign exchange contracts; partially offset by a decrease of RMB14.7 million in fair value losses on derivative financial instruments.

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### *Finance Costs*

Our finance costs increased by 35.7% from RMB12.9 million for the three months ended March 31, 2024 to RMB17.5 million for the three months ended March 31, 2025, primarily due to an increase of RMB3.7 million in interest on bank borrowings in line with our increased bank borrowings.

### *Income Tax Expenses*

Our income tax expense increased from RMB208.1 million for the three months ended March 31, 2024 to RMB284.2 million for the three months ended March 31, 2025, along with our business expansion.

### *Profit for the Period*

For the foregoing reasons, our profit increased by 23.0% from RMB751.6 million for the three months ended March 31, 2024 to RMB924.5 million for the three months ended March 31, 2025.

## **Year Ended December 31, 2024 Compared to Year Ended December 31, 2023**

### *Revenue*

Our revenue increased by 19.8% from RMB24,831.8 million for the year ended December 31, 2023 to RMB29,759.3 million for the year ended December 31, 2024, primarily attributable to the rise in sales volume of our products along with our business expansion.

Specifically, our revenue generated from sales of air conditioners increased by 19.2% from RMB24,433.2 million for the year ended December 31, 2023 to RMB29,128.0 million for the year ended December 31, 2024.

### *Household Air Conditioners*

The revenue from sales of our household air conditioners increased by 19.5% from RMB21,683.1 million for the year ended December 31, 2023 to RMB25,904.5 million for the year ended December 31, 2024, primarily because the sales volume of our household air conditioners increased from 14.0 million units in 2023 to 17.1 million units in 2024. Such increase was primarily attributable to (i) the enhanced penetration of “Hello AUX” and expansion of our distributor network, with the number of distributors in China and overseas growing from 6,643 as of December 31, 2023 to 7,605 as of December 31, 2024; (ii) our strategic expansion of the overseas customer base for household air conditioners, primarily including the Middle East and Southeast Asia, as well as the establishment of sales companies and local teams in certain key markets; and (iii) the strengthened market presence of our

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household air conditioners in certain overseas counties and regions as we introduced a wider variety of product models, enhanced features such as energy efficiency and smart technology, increased marketing efforts to raise brand awareness, offered competitive pricing strategies.

### *Central Air Conditioners*

The revenue from sales of our central air conditioners increased by 17.2% from RMB2,750.1 million for the year ended December 31, 2023 to RMB3,223.5 million for the year ended December 31, 2024, primarily because the sales volume of our central air conditioners increased from 1.3 million units for the year ended December 31, 2023 to 1.6 million units for the year ended December 31, 2024. Such increase was primarily attributable to (i) the strategic expansion and enhanced penetration of our customer base for central air conditioners, particularly in South America, Southeast Asia and Europe; (ii) the successful launch of several new central air conditioners during the year ended December 31, 2024, which were specifically tailored to meet the needs of regional overseas markets, such as variable frequency ducted and multi-split air conditioners; and (iii) the increased market presence of our heat pumps in selected European countries as we enhanced our marketing efforts that leverage favorable local policies.

### *Others*

Our other revenue increased by 58.4% from RMB398.6 million for the year ended December 31, 2023 to RMB631.4 million for the year ended December 31, 2024, primarily because of the increased sales of raw materials as a result of expanded customer base.

### *Cost of Sales*

Our cost of sales increased by 21.2% from RMB19,409.7 million for the year ended December 31, 2023 to RMB23,519.0 million for the year ended December 31, 2024, primarily due to (i) an increase of RMB3,396.0 million in raw materials and components used for the same period, which was generally along with our increased production and sales; (ii) an increase of RMB280.8 million in installation and transportation costs; and (iii) an increase of RMB174.4 million in employee salaries and benefits primarily due to the increase in the number of our production employees and their average salaries in response to the ongoing growth in our product demand.

### *Gross Profit and Gross Profit Margin*

As a result of the foregoing, our gross profit increased by 15.1% from RMB5,422.2 million for the year ended December 31, 2023 to RMB6,240.3 million for the year ended December 31, 2024.

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Our overall gross profit margin decreased slightly from 21.8% for the year ended December 31, 2023 to 21.0% for the year ended December 31, 2024. The slight decrease in our gross profit margin was primarily due to a decrease in gross profit margin of the sales of household air conditioners, primarily attributable to the decline in the average selling price and increased sales through ODM which typically have lower gross profit margins, partially offset by an increase in gross profit margin of the sales of central air conditioners, primarily because of the change of product mix as we sold more products with higher gross profit margins.

### *Other Income and Gains*

Our other income and gains increased by 32.4% from RMB465.6 million for the year ended December 31, 2023 to RMB616.3 million for the year ended December 31, 2024, primarily due to (i) an increase of RMB99.0 million in government grants; (ii) an increase of RMB31.3 million in bank interest income; (iii) the RMB19.1 million in realized gains on derivative financial instruments we recorded in 2024 as we effectively managed foreign exchange risks utilizing forward exchange contracts and other financial derivatives to hedge against potential risks caused by currency fluctuations; and (iv) an increase of RMB13.8 million in fair value gains on financial assets at FVTPL, primarily because we purchased more structured deposits.

### *Selling and Distribution Expenses*

Our selling and distribution expenses increased by 25.3% from RMB1,019.3 million for the year ended December 31, 2023 to RMB1,276.7 million for the year ended December 31, 2024, primarily due to (i) an increase of RMB123.6 million in warehousing and logistics expenses mainly related to our increased storage and transportation needs along with our increased production and sales; (ii) an increase of RMB54.7 million in employee salaries and benefits, primarily because of the increased number of sales and marketing employees to support our business growth; and (iii) an increase of RMB26.3 million in business development and travel costs in line with the rapid growth of our overseas business.

Our selling and distribution expenses as a percentage of revenue remained relatively stable at 4.1% and 4.3% for the years ended December 31, 2023 and 2024, respectively.

### *Administrative Expenses*

Our administrative expenses increased by 7.9% from RMB949.1 million for the year ended December 31, 2023 to RMB1,025.4 million for the year ended December 31, 2024, primarily due to (i) an increase of RMB33.9 million in service and maintenance fees mainly in relation to our office and factories, (ii) the recognition of RMB20.5 million in [REDACTED] expenses related to our proposed [REDACTED], (iii) an increase of RMB15.0 million in depreciation and amortization mainly associated with our office building, and (iv) an increase of RMB38.2 million in others, primarily attributable to an increase in travel and business development costs along with our business expansion. This was partially offset by a decrease of RMB41.3 million in taxes and surcharges. Our taxes and surcharges decreased by

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25.8% from RMB160.4 million for the year ended December 31, 2023 to RMB119.1 million in 2024, while our revenue continued to grow. This reduction is mainly due to the discontinuation of collecting funds for discarded electrical and electronic products starting in 2024, as mandated by government policies. For details, see “Regulatory Overview — Laws and Regulations Related to Our Business in the PRC — Laws and Regulations Relating to Environment Protection and Product Disposal — Announcement on Matters Related to the Suspension of the Collection of Waste Electrical and Electronic Products Processing Fund (《關於停徵廢棄電器電子產品處理基金有關事項的公告》).”

Our administrative expenses as a percentage of revenue decreased from 3.8% for the year ended December 31, 2023 to 3.4% for the year ended December 31, 2024 because our revenue increased at a higher pace than our administrative expenses as a result of our enhanced operation efficiency.

### ***Research and Development Expenses***

Our research and development expenses increased by 25.3% from RMB566.6 million for the year ended December 31, 2023 to RMB710.0 million for the year ended December 31, 2024, primarily due to (i) an increase of RMB106.5 million in employee salaries and benefits, driven by the growth in R&D staff numbers and their compensation to support our business expansion; and (ii) an increase of RMB47.8 million in depreciation and amortization mainly related to our patents and R&D equipment.

Our research and development expenses as a percentage of revenue remained relatively stable at 2.3% and 2.4% for the years ended December 31, 2023 and 2024, respectively.

### ***Impairment Losses on Financial Assets, Net***

We recorded net impairment gains on financial assets of RMB3.0 million in 2023 and net impairment losses on financial assets of RMB43.2 million in 2024. This is mainly because we recorded higher balance amount of trade receivables.

### ***Other Expenses***

Our other expenses increased by 36.4% from RMB151.8 million for the year ended December 31, 2023 to RMB207.1 million for the year ended December 31, 2024, primarily due to an increase of RMB146.9 million in fair value losses on derivative financial instruments due to the continued appreciation of the U.S. dollar in the fourth quarter in 2024, which led to increased expected losses on forward foreign exchange contracts, partially offset by a decrease of RMB91.5 million in realized losses on derivative financial instruments leveraging our effective risk management through hedging with forward contracts.



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### *Finance Costs*

Our finance costs decreased by 26.6% from RMB61.5 million for the year ended December 31, 2023 to RMB45.1 million for the year ended December 31, 2024, primarily due to a decrease of RMB17.5 million in interest on bank borrowings as most of our borrowings in 2024 were obtained in August and the fourth quarter, which had relatively short period for interest expenses in 2024.

### *Income Tax Expenses*

Our income tax expense decreased from RMB655.5 million for the year ended December 31, 2023 to RMB638.9 million for the year ended December 31, 2024. This was mainly due to the lower tax rates applicable to certain subsidiaries and favorable government policies.

### *Profit for the Year*

For the foregoing reasons, our profit increased by 17.0% from RMB2,486.8 million for the year ended December 31, 2023 to RMB2,910.2 million for the year ended December 31, 2024.

## **Year Ended December 31, 2023 Compared to Year Ended December 31, 2022**

### *Revenue*

Our revenue increased by 27.2% from RMB19,527.6 million for the year ended December 31, 2022 to RMB24,831.8 million for the year ended December 31, 2023, attributable to the rise in sales volume of our products along with our business expansion.

Specifically, our revenue generated from sales of air conditioners increased by 27.5% from RMB19,169.1 million for the year ended December 31, 2022 to RMB24,433.2 million for the year ended December 31, 2023.

### *Household Air Conditioners*

The revenue from the sales of our household air conditioners increased by 25.5% from RMB17,284.0 million for the year ended December 31, 2022 to RMB21,683.1 million for the year ended December 31, 2023, primarily because the sales volume of our household air conditioners increased from 10.2 million units in 2022 to 14.0 million units in 2023. This growth was primarily attributable to (i) our strengthened market presence, as demonstrated by the increase in the number of distributors in China and overseas from 5,024 as of December 31, 2022 to 6,643 as of December 31, 2023, particularly in tier-two cities and below in China; (ii) the strengthened collaborations with e-commerce platforms, including JD and Tmall, which significantly expanded our market presence and brand awareness; and (iii) the increased sales

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volume of our “Hutssom” (華赫) products from 2022 to 2023 with revenue growth from RMB150.0 million in 2022 to RMB1,230.6 million in 2023, as a result of the market acceptance and customer preference for the more competitive pricing of our Hutssom products.

### *Central Air Conditioners*

The revenue from the sales of our central air conditioners increased by 45.9% from RMB1,885.2 million for the year ended December 31, 2022 to RMB2,750.1 million for the year ended December 31, 2023, primarily because the sales volume of our central air conditioners increased from 0.9 million units in 2022 to 1.3 million units in 2023. Such increase was primarily attributable to (i) the enhanced global presence and market diversification, primarily in Europe and North America; (ii) the strengthened collaborations with major existing overseas customers in Southeast Asia, South America and the Middle East as we launched regionally customized product lines and penetrated the medium market, resulting in an increase in their purchases of our central air conditioners; and (iii) the launch of several new central air conditioners, such as heat pump air conditioners.

### *Others*

Our other revenue increased from RMB358.5 million for the year ended December 31, 2022 to RMB398.6 million for the year ended December 31, 2023.

### *Cost of Sales*

Our cost of sales increased by 26.2% from RMB15,377.7 million for the year ended December 31, 2022 to RMB19,409.7 million for the year ended December 31, 2023, primarily due to (i) an increase of RMB3,285.0 million in raw materials and components for the same period, along with our increased production and sales; and (ii) an increase of RMB395.7 million in installation and transportation costs, along with the increased sales volume of our products.

### *Gross Profit and Gross Profit Margin*

As a result of the foregoing, our gross profit increased by 30.7% from RMB4,149.9 million for the year ended December 31, 2022 to RMB5,422.2 million for the year ended December 31, 2023.

Our overall gross profit margin increased from 21.3% in 2022 to 21.8% in 2023. This is primarily attributable to an increase in gross profit margin in the sale of central air conditioners from 27.5% in 2022 to 28.9% in 2023, and an increase in gross profit margin in the sale of household air conditioners from 20.0% in 2022 to 20.5% in 2023, because of the continued improvement in our product mix to include more items with higher gross profit margins, cost reduction and efficiency enhancement.

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### *Other Income and Gains*

Our other income and gains increased by 44.7% from RMB321.7 million for the year ended December 31, 2022 to RMB465.6 million for the year ended December 31, 2023, primarily due to (i) an increase of RMB139.9 million in interest income, primarily attributable to the increase in bank balance and pledged deposits; and (ii) an increase of RMB53.7 million in government grants.

### *Selling and Distribution Expenses*

Our selling and distribution expenses increased by 29.8% from RMB785.3 million for the year ended December 31, 2022 to RMB1,019.3 million for the year ended December 31, 2023, primarily due to (i) an increase of RMB115.2 million in employee salaries and benefits, which was primarily driven by the increase of our sales and marketing team and their respective average salaries to support our business growth; and (ii) an increase of RMB35.1 million in advertising and marketing expenses as we increased our marketing efforts to promote our brands.

Our selling and distribution expenses as a percentage of revenue remained relatively stable at 4.0% and 4.1% for the years ended December 31, 2022 and 2023, respectively.

### *Administrative Expenses*

Our administrative expenses increased by 28.1% from RMB741.2 million for the year ended December 31, 2022 to RMB949.1 million for the year ended December 31, 2023, primarily due to (i) an increase of RMB117.8 million in employee salaries and benefits mainly because we hired more administrative staff and increased their salaries to support our business expansion; and (ii) an increase of RMB34.1 million in taxes and surcharges along with our business growth.

Our administrative expenses as a percentage of revenue remained stable at 3.8% and 3.8% for the years ended December 31, 2022 and 2023, respectively.

### *Research and Development Expenses*

Our research and development expenses increased by 42.5% from RMB397.6 million for the year ended December 31, 2022 to RMB566.6 million for the year ended December 31, 2023, primarily due to (i) an increase of RMB95.8 million in employee salaries and benefits due to increased R&D employee headcounts and their respective average salaries to support our business expansion; and (ii) an increase of RMB49.9 million in direct R&D expenses because of our increased investments and purchases of molds to support our R&D of new products.

Our research and development expenses as a percentage of revenue increased from 2.0% for the year ended December 31, 2022 to 2.3% for the year ended December 31, 2023 mainly due to our greater investment in research and development.

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### *Impairment (Loss)/Gain on Financial Assets, Net*

We recorded net impairment losses on financial assets of RMB13.1 million and net impairment gains on financial assets of RMB3.0 million for the years ended December 31, 2022 and 2023, respectively. This is mainly due to a decreased amount of long-aged receivables.

### *Other Expenses*

Our other expenses decreased by 74.9% from RMB604.1 million for the year ended December 31, 2022 to RMB151.8 million for the year ended December 31, 2023, primarily because we recorded significant realized losses on derivative financial instruments of RMB579.7 million in 2022 as a result of the fluctuation of copper price and the foreign exchange market during 2022, while our realized losses on derivative financial instruments decreased to RMB91.5 million in 2023. According to Frost & Sullivan, global copper price demonstrated significant volatility in 2022. The copper price reached its peak in March 2022 at approximately RMB75,000 per ton, followed by a substantial decline to approximately RMB55,000 per ton in July 2022, being the lowest price level in nearly two years. As a result, we recorded significant realized losses on derivative financial instruments in 2022. Although copper price volatility resulted in significant losses on our future contracts, we have effectively managed our cost of sales while maintaining flexibility for spot purchases.

In response to the losses on derivative financial instruments in 2022 due to copper price and foreign exchange fluctuations, we have strengthened our risk management. Our head of procurement risk and financial team now evaluate risks based on annual hedging plans approved by the Board. Additionally, we have enhanced training for our risk management team to better handle complex market risks.

### *Finance Costs*

Our finance costs decreased by 36.0% from RMB96.0 million for the year ended December 31, 2022 to RMB61.5 million for the year ended December 31, 2023, primarily due to a decrease of RMB34.4 million in interest on bank borrowings as we took on fewer borrowings in 2023.

### *Income Tax Expense*

Our income tax expense increased by 67.0% from RMB392.6 million for the year ended December 31, 2022 to RMB655.6 million for the year ended December 31, 2023, primarily along with our business growth.

### *Profit for the Year*

For the foregoing reasons, our profit increased by 72.5% from RMB1,441.7 million in 2022 to RMB2,486.8 million in 2023.

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### DISCUSSION OF CERTAIN KEY ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets forth a breakdown 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			
<b>Non-current assets</b>				
Property, plant and equipment . . . . .	4,407,115	4,316,945	5,006,191	5,101,544
Investment property . . . . .	348,893	353,355	331,489	325,845
Right-of-use assets . . . . .	976,236	1,027,026	1,217,277	1,216,690
Intangible assets . . . . .	61,606	68,717	322,203	312,773
Pledged deposits . . . . .	—	816,398	839,453	—
Deferred tax assets . . . . .	576,651	480,341	498,699	535,078
Prepayments . . . . .	20,392	86,354	172,399	140,746
<b>Total non-current assets . . .</b>	<b>6,390,893</b>	<b>7,149,136</b>	<b>8,387,711</b>	<b>7,632,676</b>
<b>Current assets</b>				
Inventories . . . . .	2,841,937	2,707,905	5,878,841	5,227,435
Trade and bills receivables . .	1,427,542	1,944,902	3,003,430	4,764,574
Receivables at fair value through other comprehensive income . . .	155,907	670,606	964,806	1,905,411
Prepayments, deposits and other receivables . . . . .	719,870	497,408	1,448,033	1,339,964
Tax recoverable . . . . .	—	—	155,413	34,502
Financial assets at fair value through profit or loss (“FVTPL”) . . . . .	—	—	—	300,000
Derivative financial instruments . . . . .	38,728	20,762	—	41,290
Pledged deposits . . . . .	600,834	1,231,371	1,424,909	2,621,775
Cash and bank balances . . . .	2,389,724	5,610,379	2,907,756	3,708,047
Amounts due from related parties . . . . .	141,514	137,001	73	366
<b>Total current assets . . . . .</b>	<b>8,316,056</b>	<b>12,820,334</b>	<b>15,783,261</b>	<b>19,943,364</b>
<b>Current liabilities</b>				
Trade and bills payables . . . .	5,436,034	6,436,447	10,395,125	11,948,435
Other payables and accruals . .	1,964,235	3,098,603	3,660,304	3,819,287
Contract liabilities . . . . .	1,330,375	2,209,731	2,850,473	2,805,624
Derivative financial instruments . . . . .	—	238	173,370	69,981
Interest-bearing bank borrowings . . . . .	1,062,303	1,200,444	657,841	1,507,832
Lease liabilities . . . . .	4,625	6,190	29,902	31,979
Income tax payable . . . . .	169,125	85,077	126,736	255,395
Deferred income . . . . .	47,416	49,700	57,317	50,745
Provision . . . . .	175,734	185,346	159,864	164,828
Amounts due to related parties . . . . .	1,316,189	1,578,002	141,890	120,441
<b>Total current liabilities . . . .</b>	<b>11,506,036</b>	<b>14,849,778</b>	<b>18,252,822</b>	<b>20,774,547</b>

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	As of December 31,			As of
	2022	2023	2024	March 31,
				2025
	RMB'000			
<b>Net current liabilities . . . . .</b>	<b>(3,189,980)</b>	<b>(2,029,444)</b>	<b>(2,469,561)</b>	<b>(831,183)</b>
<b>Total assets less current liabilities . . . . .</b>	<b>3,200,913</b>	<b>5,119,692</b>	<b>5,918,150</b>	<b>6,801,493</b>
<b>Non-current liabilities</b>				
Interest-bearing bank borrowings . . . . .	602,101	880	895,493	800,389
Lease liabilities . . . . .	433	4,538	88,000	95,062
Deferred tax liabilities . . . . .	—	—	54,045	20,879
Other payables . . . . .	—	—	109,040	109,040
Deferred income . . . . .	549,488	547,112	573,637	579,069
Provision . . . . .	321,189	324,883	362,229	372,844
<b>Total non-current liabilities .</b>	<b>1,473,211</b>	<b>877,413</b>	<b>2,082,444</b>	<b>1,977,283</b>
<b>Net assets . . . . .</b>	<b>1,727,702</b>	<b>4,242,279</b>	<b>3,835,706</b>	<b>4,824,210</b>

### Inventories

Our inventories primarily consist of finished goods, finished goods in transit, raw materials, and work in progress. The following table sets forth details of our inventories as of the date indicated.

	As of December 31,			As of
	2022	2023	2024	March 31,
				2025
	RMB'000			
Finished goods . . . . .	1,773,654	1,745,886	3,890,577	3,152,705
Finished goods in transit . . . .	405,177	185,527	405,671	639,399
Raw materials . . . . .	399,323	434,942	936,380	912,093
Work in progress . . . . .	263,783	341,550	646,213	523,238
<b>Total . . . . .</b>	<b>2,841,937</b>	<b>2,707,905</b>	<b>5,878,841</b>	<b>5,227,435</b>

Our inventories decreased from RMB2,841.9 million as of December 31, 2022 to RMB2,707.9 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 COVID-19 pandemic. The logistics gradually recovered from the epidemic in 2023, which subsequently reduced the finished goods in transit. Our inventories increased from RMB2,707.9 million as of December 31, 2023 to RMB5,878.8 million as of December 31, 2024, mainly because we stock up inventory primarily for overseas sales at the end of 2024 in response to the accelerating demand for our products abroad. In addition, we proactively adjusted our production schedules to increase production by the end of 2024, aiming at optimizing and balancing our production capacity utilization while

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preparing for orders in 2025. Our inventories decreased from RMB5,878.8 million as of December 31, 2024 to RMB5,227.4 million as of March 31, 2025, mainly attributable to the reduction in finished goods, as the first quarter of each year represents the peak shipping season.

The following is an aging analysis of our inventories as of the dates indicated.

	As of December 31,			As of March 31,
	2022	2023	2024	2025
	<i>RMB'000</i>			
Within 3 months . . . . .	2,758,001	2,552,982	5,442,699	4,725,871
3 to 6 months . . . . .	75,687	152,845	340,803	427,964
6 to 12 months . . . . .	25,053	14,824	121,618	96,658
1 to 2 years . . . . .	11,563	16,066	5,981	9,049
2 to 3 years . . . . .	2,163	3,114	1,751	1,556
Less: impairment of inventories . . . . .	30,530	31,926	34,011	33,663
<b>Total . . . . .</b>	<b><u>2,841,937</u></b>	<b><u>2,707,905</u></b>	<b><u>5,878,841</u></b>	<b><u>5,227,435</u></b>

The following table sets forth our inventory turnover days for the years/periods indicated.

	For the year ended December 31,			For the three months ended March 31,
	2022	2023	2024	2025
Inventory turnover days <sup>(1)</sup> . . .	62.1	52.2	66.6	67.8

*Note:*

- (1) Calculated as the average of the beginning and ending balance of inventories for the year/period divided by the cost of sales for that year/period and multiplied by 365 days (for a year) or 90 days (for the three-month period).

Our inventory turnover days were 62.1 days, 52.2 days, 66.6 days and 67.8 days in 2022, 2023, 2024 and the three months ended March 31, 2025, respectively. The decrease in our inventory turnover days from 62.1 days in 2022 to 52.2 days in 2023 was primarily because of the improved efficiency in our logistics and warehousing management as we refined our inventory management. The increase in our inventory turnover days from 52.2 days in 2023 to 66.6 days in 2024 was primarily because we stock up inventory for overseas sales at the end of 2024. Our inventory turnover days remained relatively stable at 67.8 days for the three months ended March 31, 2025.

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As of May 31, 2025, we have utilized approximately RMB4,136.6 million, or 78.6% of our inventories as of March 31, 2025.

### Trade and Bills Receivables

We allow our customers to use cash, letters of credit and bank acceptance bills issued by licensed banks registered in the PRC to settle their purchase with us. Our trade and bills receivables primarily represent outstanding amounts due from our overseas customers. For a substantial portion of our sales of products in China, we generally require full payment before the delivery of goods. Depending on the credit history of our overseas customers and their transaction amount with us, we generally collect a certain amount of deposits from them. We generally allow flexibility by offering a credit period of 30 to 120 days for the remaining amount.

Under HKFRS 9, our trade and bills receivables, which were held by us for collecting contractual cash flows (provided they also meet the contractual cash flow test), were measured at amortized cost. Letters of credit and bills which were held by us for both collecting contractual cash flows and selling (provided they also meet the contractual cash flow test) were classified as receivables at FVTOCI. For details, see “— Receivables at FVTOCI” below.

The following table sets forth details of our trade receivables as of the date indicated.

	As of December 31,			As of March 31,
	2022	2023	2024	2025
	RMB'000			
Trade receivables . . . . .	866,552	1,270,782	2,221,953	4,142,971
Impairment . . . . .	(72,943)	(67,962)	(109,379)	(157,339)
Trade receivables, net . . . . .	793,609	1,202,820	2,112,574	3,985,632
Bills receivable . . . . .	633,933	742,082	890,856	778,942
<b>Trade and bills receivables .</b>	<b><u>1,427,542</u></b>	<b><u>1,944,902</u></b>	<b><u>3,003,430</u></b>	<b><u>4,764,574</u></b>

Our trade and bills receivables increased from RMB1,427.5 million as of December 31, 2022 to RMB1,944.9 million as of December 31, 2023, increased to RMB3,003.4 million as of December 31, 2024, and further increased to RMB4,764.6 million as of March 31, 2025, mainly because of our increased overseas sales, which typically have a longer credit period.



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The following is an aging analysis of our trade receivables based on the revenue recognition date and net of loss allowance as of the dates indicated.

	As of December 31,			As of
	2022	2023	2024	March 31,
				2025
	RMB'000			
Within 3 months . . . . .	732,895	1,037,203	1,987,016	3,680,236
3 to 6 months . . . . .	41,989	121,221	84,672	265,758
6 to 12 months . . . . .	15,550	36,907	39,772	37,866
1 to 2 years . . . . .	3,109	6,784	1,114	1,772
2 to 3 years . . . . .	66	705	—	—
<b>Total . . . . .</b>	<b>793,609</b>	<b>1,202,820</b>	<b>2,112,574</b>	<b>3,985,632</b>

The following table sets forth our trade and bills receivables turnover days for the years/periods indicated.

	For the year ended December 31,			For the
	2022	2023	2024	three months
				ended
				March 31,
				2025
Trade and bills receivables				
turnover days <sup>(1)</sup> . . . . .	25.2	24.8	30.3	37.4

*Note:*

- (1) Calculated as the average of the beginning and ending balance of trade and bills receivables for the year/period divided by the revenue for that year/period and multiplied by 365 days (for a year) or 90 days (for the three-month period).

Our trade and bills receivables turnover days remained relatively stable at 25.2 days in 2022 and 24.8 days in 2023. Our trade and bills receivables turnover days increased from 24.8 days in 2023 to 30.3 days in 2024, and further increased to 37.4 days for the three months ended March 31, 2025, primarily because of the increased overseas sales.

As of May 31, 2025, RMB2,506.7 million, or 52.6% of our trade and bills receivables as of March 31, 2025 had been settled.

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### Receivables at FVTOCI

Our receivables at FVTOCI represent trade receivables from our overseas customers guaranteed by letters of credit made by overseas banks and bank acceptance bills issued by reputable banks registered in the PRC.

Under HKFRS 9, the aforesaid letters of credit and bills which were held by us for both collecting contractual cash flows and selling (provided they also meet the contractual cash flow test) were classified as receivables at FVTOCI. During the Track Record Period, our receivables at FVTOCI represent the trade and bills receivables in relation to our daily operation. Our receivables at FVTOCI were RMB155.9 million, RMB670.6 million, RMB964.8 million and RMB1,905.4 million as of December 31, 2022, 2023, 2024 and March 31, 2025, respectively. The increase in our receivables at FVTOCI during the Track Record Period was largely due to the increase in our overseas sales.

### Prepayments, Deposits and Other Receivables

Our prepayments, deposits and other receivables primarily consist of (i) VAT recoverable, mainly represents our input tax credit that can be refunded by the competent authority. Our VAT input tax credit is resulted from the difference between our VAT input tax (arising from our purchase of services, raw materials, equipment and other consumables) and our VAT output tax (arising from revenue), (ii) prepayments, mainly represent prepayments for raw materials, (iii) deposits and other receivables, mainly represent deposits we paid to our customers for performance and project tendering deposit, (iv) deferred [REDACTED] expenses, and (v) prepayments for equipment.

The following table sets forth the details of our prepayments, deposits and other receivables as of the dates indicated.

	As of December 31,			As of March 31,
	2022	2023	2024	2025
	RMB'000			
<b>Current</b>				
Value-added-tax recoverable .	506,967	198,162	896,828	728,673
Prepayments . . . . .	182,784	176,131	408,117	467,111
Deposits and other receivables . . . . .	23,025	106,524	122,774	115,132
Deferred [REDACTED] expenses . . . . .	—	—	3,472	5,182
Others . . . . .	25,836	31,289	30,178	38,798
	738,612	512,106	1,461,369	1,354,896

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	As of December 31,			As of March 31,
	2022	2023	2024	2025
	<i>RMB'000</i>			
Impairment allowance . . . . .	(18,742)	(14,698)	(13,336)	(14,932)
	<u>719,870</u>	<u>497,408</u>	<u>1,448,033</u>	<u>1,339,964</u>
<b>Non-current</b>				
Prepayments for equipment . .	<u>20,392</u>	<u>86,354</u>	<u>172,399</u>	<u>140,746</u>

Our current portion of prepayments, deposits and other receivables decreased from RMB719.9 million as of December 31, 2022 to RMB497.4 million as of December 31, 2023, primarily attributable to the decrease of RMB308.8 million in VAT recoverable as we had more VAT refund.

Our current portion of prepayments, deposits and other receivables increased from RMB497.4 million as of December 31, 2023 to RMB1,448.0 million as of December 31, 2024 mainly due to (i) an increase of RMB698.7 million in VAT recoverable along with our increased purchase of materials to support our business expansion and increased overseas sales; and (ii) an increase of RMB232.0 million in prepayments, mainly related to our purchase of more raw materials.

Our current portion of prepayments, deposits and other receivables decreased from RMB1,461.4 million as of December 31, 2024 to RMB1,354.9 million as of March 31, 2025 mainly due to a decrease of RMB168.1 million in VAT recoverable as we had more VAT refund, partially offset by an increase of RMB59.0 million in prepayments as of March 31, 2025, mainly related to our purchase of more raw materials.

Our non-current portion of prepayments, deposits and other receivables increased from RMB20.4 million as of December 31, 2022 to RMB86.4 million as of December 31, 2023, and further to RMB172.4 million as of December 31, 2024, primarily because of the increases in prepayments for equipment associated with the construction of our Wuhu factory.

Our non-current portion of prepayments, deposits and other receivables decreased from RMB172.4 million as of December 31, 2024 to RMB140.7 million as of March 31, 2025, primarily attributable to the completion of construction work in light of the commencement of operation and mass production of our phase I of our Wuhu factory.

As of May 31, 2025, RMB419.6 million, or 55.6% of our prepayment, deposits and other receivables as of March 31, 2025 had been settled.

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### Derivative Financial Instruments

Our derivative financial instruments mainly represent forward currency contracts and swaps and future contracts for the purchase of copper. The following table sets forth details of our derivative financial instruments as of the dates indicated:

	As of December 31,			As of
	2022	2023	2024	March 31,
				2025
	RMB'000			
<b>Assets:</b>				
Forward currency contracts . .	38,728	15,584	–	–
Futures contracts for the purchase of copper . . . . .	–	5,178	–	41,290
<b>Total . . . . .</b>	<b>38,728</b>	<b>20,762</b>	<b>–</b>	<b>41,290</b>
<b>Liabilities:</b>				
Forward currency contracts .	–	(238)	(144,578)	(69,981)
Futures contracts for the purchase of copper . . . . .	–	–	(28,792)	–
<b>Total . . . . .</b>	<b>–</b>	<b>(238)</b>	<b>(173,370)</b>	<b>(69,981)</b>

We have issued internal guidelines to address foreign exchange risks, fluctuations in raw material prices, and investments in derivative financial instruments. Under these guidelines, our Board serves as the highest authority overseeing our treasury policies. We have established the financial professional team and the procurement risk team to effectively manage these risks. A dedicated decision-making team provides ongoing oversight and management of day-to-day treasury operations. Our Board reviews and approves the annual foreign exchange and commodity hedging plans, including parameters such as eligible commodities, annual limits and hedging instruments.

Our financial professional team comprises several employees from the financial department, who have extensive experience in financial markets and related industries. In particular, the head of our financial professional team brings over 10 years of extensive experience in managing financial risks and financial derivatives. The proven track record includes successfully navigating complex market environments, optimizing hedging programs, and ensuring compliance with regulatory requirements. They are responsible for managing our exposure to foreign exchange risks and investments in derivative financial instruments. We mitigate foreign exchange risk through a diversified portfolio of forward contracts, options, and swaps. Our financial professional team continuously monitors market conditions and derivative positions, and promptly reports any significant market movements to the decision-making team, which determines an appropriate course of action.

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## FINANCIAL INFORMATION

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We also have a procurement risk team primarily responsible for managing fluctuations in raw material prices. Our procurement risk team is led by a manager who has been with our Group for over 20 years and brings extensive experience in raw material management. Throughout their tenure, they have successfully overseen risk mitigation strategies, supplier relationship management, and cost optimization initiatives, demonstrating a strong ability to navigate complex procurement challenges. Raw material price risk is hedged using a combination of futures and spot purchases. Our procurement risk team provides regular reports to the decision-making team. Our procurement risk team also sets the annual procurement volume for raw materials used in our production process based on our production plan and relevant market conditions.

The financial professional team and procurement risk team report to our decision-making team, which is responsible for frequently evaluating cumulative investment fluctuation and value-at-risk assessments. Our decision-making team oversees the day-to-day implementation of treasury policies and procedures to ensure effective execution. We implement a risk diversification strategy that includes the use of multiple currencies, diversifying our raw material supply base across numerous suppliers, and utilizing a diversified portfolio of financial instruments to mitigate exposure to specific risks.

### **Provision**

Our provision during the Track Record Period primarily represents our warranties in relation to the sale of air conditioners for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by us are initially recognized based on sales volume and past experience of the level of repairs. Our current portion of provision amounted to RMB175.7 million, RMB185.3 million, RMB159.9 million and RMB164.8 million as of December 31, 2022, 2023, 2024 and March 31, 2025, respectively. As of the same dates, our non-current portion of provision amounted to RMB321.2 million, RMB324.9 million, RMB362.2 million and RMB372.8 million, respectively.

### **Pledged Deposits**

Our pledged deposits primarily represent the guarantee deposits for our bills payables. Our pledged deposits increased from RMB600.8 million as of December 31, 2022 to RMB2,047.8 million as of December 31, 2023, increased to RMB2,264.4 million as of December 31, 2024, and further increased to RMB2,621.8 million as of March 31, 2025, primarily along with our business growth and as a result of using more bills during our operations.

### **Trade and Bills Payables**

Our trade and bills payables primarily represent the amounts due to our suppliers for purchasing of raw materials. For supplier who grant us a credit period, the typical term is ranging from 30 days to 90 days. We generally settle the aforementioned payables by cash or bills. The following table sets forth details of our trade and bills payables as of the dates indicated.

## FINANCIAL INFORMATION

	As of December 31,			As of March 31,
	2022	2023	2024	2025
	<i>RMB'000</i>			
Trade payables . . . . .	3,375,084	3,338,697	6,451,406	6,769,518
Bills payable . . . . .	2,060,950	3,097,750	3,943,719	5,178,917
<b>Total . . . . .</b>	<b>5,436,034</b>	<b>6,436,447</b>	<b>10,395,125</b>	<b>11,948,435</b>

Our trade and bills payables increased from RMB5,436.0 million as of December 31, 2022 to RMB6,436.4 million as of December 31, 2023, increased to RMB10,395.1 million as of December 31, 2024, and further increased to RMB11,948.4 million as of March 31, 2025, as we purchased more raw materials to support our production expansion during the Track Record Period.

The following is an aging analysis of our trade payables based on the invoice date as of dates indicated.

	As of December 31,			As of March 31,
	2022	2023	2024	2025
	<i>RMB'000</i>			
Within 3 months . . . . .	3,297,741	3,214,470	6,292,210	6,617,239
3 to 6 months . . . . .	48,013	97,301	125,223	133,068
6 to 12 months . . . . .	12,362	13,834	20,721	12,822
1 to 2 years . . . . .	8,519	5,109	4,600	2,594
2 to 3 years . . . . .	3,898	2,658	2,922	1,344
Over 3 years . . . . .	4,551	5,325	5,730	2,451
<b>Total . . . . .</b>	<b>3,375,084</b>	<b>3,338,697</b>	<b>6,451,406</b>	<b>6,769,518</b>

The following table sets forth our trade and bills payables turnover days for the years/periods indicated.

	For the year ended December 31,			For the three months ended March 31,
	2022	2023	2024	2025
Trade and bills payables turnover days <sup>(1)</sup> . . . . .	116.8	111.6	130.6	136.3

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*Note:*

- (1) Calculated as the average of the beginning and ending balance of trade and bills payables for the year/period divided by the cost of sales for that year/period and multiplied by 365 days (for a year) or 90 days (for the three-month period).

Our trade and bills payables turnover days decreased from 116.8 days in 2022 to 111.6 days in 2023 mainly due to more efficient payment process and improved cash flow management. Our trade and bills payables turnover days increased from 111.6 days in 2023 to 130.6 days in 2024 and further increased to 136.3 days in the three months ended March 31, 2025, primarily because we purchased more raw materials to stock up for customer orders in 2025.

As of May 31, 2025, RMB5,727.9 million, or 47.9% of our trade and bills payables as of March 31, 2025 had been settled.

### Other Payables and Accruals

Our other payables and accruals mainly represent (i) sales rebate accruals and payables, (ii) deposits, mainly represent deposits paid by our suppliers for performance and project tendering deposits, (iii) equipment and construction payables, (iv) other accrued expenses, which mainly represent accrued maintenance fees, advertising fees and transportation fees, (v) payroll payables, (vi) valued-added tax payables, (vii) other tax payables, (viii) accrual for [REDACTED] expenses, and (ix) others, which mainly consist of installation service fees to independent third party suppliers, maintenance fees, advertising fees payables, and transportation payables. The following table sets forth details of our other payables and accruals as of the dates indicated.

	As of December 31,			As of
	2022	2023	2024	March 31,
				2025
	RMB'000			
<b>Current:</b>				
Sales rebate accruals and				
payables . . . . .	314,091	1,039,272	752,655	984,438
Deposits . . . . .	545,252	608,185	806,964	842,306
Equipment and construction				
payables . . . . .	173,354	238,698	723,247	667,811
Other accrued expenses . . . . .	326,572	379,566	395,337	440,589
Payroll payables . . . . .	389,964	491,445	582,358	498,637
Value-added tax payables . . . . .	68,918	187,343	225,601	240,104
Other tax payables . . . . .	49,524	59,144	63,612	65,578

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	As of December 31,			As of March 31,
	2022	2023	2024	2025
	RMB'000			
Accrual for [REDACTED]				
expenses .....	—	—	17,342	14,006
Others .....	96,560	94,950	93,188	65,818
<b>Non-current:</b>				
Equipment and construction				
payables .....	—	—	109,040	109,040
<b>Total .....</b>	<b>1,964,235</b>	<b>3,098,603</b>	<b>3,769,344</b>	<b>3,928,327</b>

Our other payables and accruals increased from RMB1,964.2 million as of December 31, 2022 to RMB3,098.6 million as of December 31, 2023, primarily due to an increase in sales rebate accruals and payables as a result of the increased sales to our distributors. Our other payables and accruals further increased to RMB3,769.3 million as of December 31, 2024, primarily because the increased equipment and construction payables related to construction of our Wuhu factory. Our other payables and accruals then increased to RMB3,928.3 million as of March 31, 2025, primarily because an increase of RMB231.8 million in sales rebate accruals and payables as a result of the increased sales to our distributors, partially offset by a decrease of RMB83.7 million in payroll payables, primarily due to the payment of 2024 year-end bonuses and performance bonuses by some of our departments in the three months ended March 31, 2025.

As of May 31, 2025, RMB1,196.0 million, or 31.3% of our other payables and accruals as of March 31, 2025 had been settled.

### Contract Liabilities

Our contract liabilities represent the liabilities recognized when the measure of the remaining performance obligations of a contract exceeds the measure of the remaining rights, primarily consisting of advances on sales of air conditioners from customers.

Our contract liabilities increased from RMB1,330.4 million as of December 31, 2022 to RMB2,209.7 million as of December 31, 2023, and further increased to RMB2,850.5 million as of December 31, 2024, primarily driven by the increased sales of air conditioners. The increase was primarily driven by the heightened demand for our air conditioners, resulting from the expansion into both existing and new markets, as well as the successful sales of our new products. Our contract liabilities remained relatively stable at RMB2,850.5 million as of December 31, 2024 and RMB2,805.6 million as of March 31, 2025.

As of May 31, 2025, RMB1,697.3 million, or 60.5%, of our contract liabilities as of March 31, 2025 were subsequently recognized as revenue.



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### LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash during the Track Record Period were to manufacture our products, fund the construction of our manufacturing facilities, R&D, as well as other working capital needs. Historically, we have financed our operations and other capital requirements primarily through cash generated from our business operations, bank borrowings and equity contributions from our shareholders, and we plan to continue to do so.

Our anticipated cash needs primarily include costs associated with the R&D of our products and business operations. We expect to fund our future working capital and other cash requirements with cash generated from our operations, the net [REDACTED] from [REDACTED] and, when necessary, bank and other borrowings.

As of May 31, 2025, the latest practicable date for determining our indebtedness, we had cash and bank balances of RMB3,677.5 million. Considering our internal resources, our cash flow from operations and the estimated net [REDACTED] from the [REDACTED], our Directors confirm that the working capital available to us is sufficient at present and for at least the next 12 months from the date of this document.

### Net Current Liabilities

The following table sets forth a summary of our current assets and liabilities as of the dates indicated.

	As of December 31,			As of March 31,	As of May 31,
	2022	2023	2024	2025	2025
	RMB'000				(Unaudited)
<b>Current assets</b>					
Inventories . . . . .	2,841,937	2,707,905	5,878,841	5,227,435	4,418,184
Trade and bills receivables . .	1,427,542	1,944,902	3,003,430	4,764,574	5,681,374
Receivables at fair value through other comprehensive income . . .	155,907	670,606	964,806	1,905,411	1,641,084
Prepayments, deposits and other receivables . . . . .	719,870	497,408	1,448,033	1,339,964	1,729,802
Tax recoverable . . . . .	–	–	155,413	34,502	183,515
Financial assets at fair value through profit or loss . . .	–	–	–	300,000	600,000
Derivative financial instruments. . . . .	38,728	20,762	–	41,290	26,263

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	As of December 31,			As of March 31,	As of May 31,
	2022	2023	2024	2025	2025
	<i>RMB'000</i>				<i>(Unaudited)</i>
Pledged deposits . . . . .	600,834	1,231,371	1,424,909	2,621,775	2,773,722
Cash and bank balances . . . .	2,389,724	5,610,379	2,907,756	3,708,047	3,677,489
Amounts due from related parties . . . . .	141,514	137,001	73	366	2,331
<b>Total current assets . . . . .</b>	<b>8,316,056</b>	<b>12,820,334</b>	<b>15,783,261</b>	<b>19,943,364</b>	<b>20,733,764</b>
<b>Current liabilities</b>					
Trade and bills payables . . . .	5,436,034	6,436,447	10,395,125	11,948,435	12,288,649
Other payables and accruals . .	1,964,235	3,098,603	3,660,304	3,819,287	4,547,323
Contract liabilities . . . . .	1,330,375	2,209,731	2,850,473	2,805,624	2,183,059
Derivative financial instruments . . . . .	–	238	173,370	69,981	2,327
Interest-bearing bank borrowings . . . . .	1,062,303	1,200,444	657,841	1,507,832	1,854,275
Lease liabilities . . . . .	4,625	6,190	29,902	31,979	31,020
Income tax payable . . . . .	169,125	85,077	126,736	255,395	81,594
Deferred income . . . . .	47,416	49,700	57,317	50,745	47,105
Provision . . . . .	175,734	185,346	159,864	164,828	167,828
Amounts due to related parties . . . . .	1,316,189	1,578,002	141,890	120,441	168,962
<b>Total current liabilities . . . .</b>	<b>11,506,036</b>	<b>14,849,778</b>	<b>18,252,822</b>	<b>20,774,547</b>	<b>21,372,143</b>
<b>Net current liabilities . . . . .</b>	<b>(3,189,980)</b>	<b>(2,029,444)</b>	<b>(2,469,561)</b>	<b>(831,183)</b>	<b>(638,379)</b>

We had net current liabilities of RMB3,190.0 million, RMB2,029.4 million, RMB2,469.6 million, RMB831.2 million and RMB638.4 million as of December 31, 2022, 2023, 2024, March 31, 2025 and May 31, 2025, respectively.

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; (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 RMB1,058.5 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, (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, (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.

Although we recorded net current liabilities during the Track Record Period, our Directors are of the view that we have sufficient working capital to meet our present needs and for the next 12 months from the date of this document, taking into account the financial resources available to us, including our cash and cash equivalents on hand, internally generated funds and the estimated net [REDACTED] from the [REDACTED].

We seek to improve our net current liabilities position by improving our operating cash flow through our expanding sales and business expansion. During the Track Record Period, we generated net cash flows from operating activities of RMB4,004.0 million, RMB4,631.4 million, RMB2,518.1 million, RMB1,817.9 million and RMB579.7 million in 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, respectively. We will continue to closely monitor our cash flow and plan to make continuous efforts to improve our financial positions, including (i) adopting various strategies and measures including expanding market share to continuously maintain and improve our revenue growth and profitability; (ii) adjust

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our financing structure to replace short-term bank loans with long-term bank loans; (iii) maintain our sound relationships with banks and other financial institutions to obtain financial facilities with favorable terms to support our business operations as required; and (iv) strictly follow our receivable collection rules and standards to ensure our cash flow and liquidity.

### Summary of Consolidated Statements of Cash Flow

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>

### Operating Activities

For the three months ended March 31, 2025, we had net cash flows generated from operating activities of RMB579.7 million, primarily attributable to our profit before tax of RMB1,208.7 million, as adjusted for non-cash and non-operating items, which primarily include (i) depreciation of property, plant and equipment of RMB117.4 million; (ii) fair value gains on derivative financial instruments of RMB74.6 million; and (iii) impairment loss on financial assets of RMB67.9 million. The amount was further adjusted by changes in certain working capital accounts, primarily including (i) an increase of RMB1,553.3 million in trade

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and bills payables; (ii) an increase of RMB1,809.1 million in trade and bills receivables; (iii) an increase of RMB953.6 million in receivables at fair value through other comprehensive income; and (iv) an increase of RMB357.4 million in pledged deposits.

For the year ended December 31, 2024, we had net cash flows generated from operating activities of RMB2,518.1 million, primarily attributable to our profit before tax of RMB3,549.0 million, as adjusted for non-cash and non-operating items, which primarily include (i) depreciation of property, plant and equipment of RMB438.9 million; and (ii) interest income of RMB217.8 million. The amount was further adjusted by changes in certain working capital accounts, primarily including (i) an increase of RMB3,958.7 million in trade and bills payables; (ii) an increase of RMB3,170.9 million in inventories; (iii) an increase of RMB1,101.8 million in trade and bills receivables; (iv) an increase of RMB949.3 million in prepayments, deposits and other receivables; and (v) an increase of RMB640.7 million in contract liabilities.

For the year ended December 31, 2023, we had net cash flows generated from operating activities of RMB4,631.4 million, primarily attributable to our profit before tax of RMB3,142.4 million, as adjusted for non-cash and non-operating items, which primarily include (i) depreciation of property, plant and equipment of RMB415.4 million; and (ii) interest income of RMB186.5 million. The amount was further adjusted by changes in certain working capital accounts, primarily including (i) an increase of RMB1,069.0 million in other payables and accruals; (ii) an increase of RMB1,000.4 million in trade and bills payables; and (iii) an increase of RMB879.4 million in contract liabilities.

For the year ended December 31, 2022, we had net cash flows generated from operating activities of RMB4,004.0 million, primarily attributable to our profit before tax of RMB1,834.3 million, as adjusted for non-cash and non-operating items, which primarily include (i) depreciation of property, plant and equipment of RMB417.9 million; and (ii) finance cost of RMB96.0 million. The amount was further adjusted by changes in certain working capital accounts, primarily including (i) an increase of RMB1,030.5 million in trade and bills payables; (ii) a decrease of RMB568.2 million in prepayments, deposits and other receivables; and (iii) an increase of RMB449.8 million in inventories.

### *Investing Activities*

For the three months ended March 31, 2025, we had net cash flows used in investing activities of RMB1,112.6 million, primarily attributable to (i) the purchase of financial assets at FVTPL of RMB2,300.0 million; and (ii) the placement of time deposits of RMB583.6 million; partially offset by the disposal of financial assets at FVTPL of RMB2,001.2 million.

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For the year ended December 31, 2024, we had net cash flows used in investing activities of RMB208.3 million, primarily attributable to (i) the purchase of financial assets at FVTPL, representing structured deposits of RMB8,013.4 million; (ii) the placement of time deposits of RMB2,039.9 million; and (iii) the purchase of items of property, plant and equipment of RMB810.0 million; partially offset by (i) the disposal of financial assets at FVTPL of RMB8,041.8 million; and (ii) the withdrawal of time deposits of RMB2,547.4 million.

For the year ended December 31, 2023, we had net cash flows used in investing activities of RMB1,388.8 million, primarily attributable to (i) the placement of time deposits of RMB5,915.9 million; (ii) the purchase of financial assets at FVTPL of RMB1,900.0 million; and (iii) the purchase of items of property, plant and equipment of RMB328.0 million; partially offset by (i) the disposal of financial assets at FVTPL of RMB4,881.0 million; and (ii) the withdrawal of time deposits of RMB1,914.6 million.

For the year ended December 31, 2022, we had net cash flows used in investing activities of RMB138.5 million, primarily attributable to (i) the purchase of financial assets at FVTPL of RMB3,370.0 million; (ii) the placement of time deposits of RMB1,139.1 million; and (iii) the purchase of items of property, plant and equipment of RMB256.9 million; partially offset by (i) the disposal of financial assets at FVTPL of RMB3,404.8 million; and (ii) the withdrawal of time deposits of RMB885.0 million.

### *Financing Activities*

For the three months ended March 31, 2025, we had net cash flows generated from financing activities of RMB730.4 million, primarily attributable to new bank loans of RMB1,437.5 million, partially offset by the repayment of bank loans of RMB682.6 million.

For the year ended December 31, 2024, we had net cash flows used in financing activities of RMB4,520.8 million, primarily attributable to (i) the repayment of bank loans of RMB6,785.8 million; (ii) dividends paid of RMB3,793.5 million; and (iii) repayments to related parties of RMB1,494.1 million; partially offset by new bank loans of RMB7,137.8 million.

For the year ended December 31, 2023, we had net cash flows used in financing activities of RMB282.1 million, primarily attributable to the repayment of bank loans of RMB6,350.3 million; partially offset by (i) new bank loans of RMB5,888.4 million; and (ii) advances from related parties of RMB254.0 million.

For the year ended December 31, 2022, we had net cash flows used in financing activities of RMB2,952.0 million, primarily attributable to (i) repayment bank loans of RMB7,707.3 million; and (ii) interest paid of RMB102.7 million; partially offset by new bank loans of RMB4,750.9 million.

## FINANCIAL INFORMATION

### INDEBTEDNESS

As of December 31, 2022, 2023 and 2024, and March 31 and May 31, 2025, the most recent practicable date for determining our indebtedness, except as disclosed in the table below, we did not have any material indebtedness.

	As of December 31,			As of March 31,	As of May 31,
	2022	2023	2024	2025	2025
	RMB'000				(Unaudited)
<b>Current</b>					
Interest-bearing bank					
borrowings . . . . .	1,062,303	1,200,444	657,841	1,507,832	1,854,275
Lease liabilities . . . . .	4,625	6,190	29,902	31,979	31,020
Derivative financial					
instruments . . . . .	—	238	173,370	69,981	2,327
	1,066,928	1,206,872	861,113	1,609,792	1,887,622
<b>Non-current</b>					
Interest-bearing bank					
borrowings . . . . .	602,101	880	895,493	800,389	618,890
Lease liabilities . . . . .	433	4,538	88,000	95,062	96,965
Amounts due to related					
parties (non-trade nature) .	1,243,538	1,494,052	—	—	—
	1,846,072	1,499,470	983,493	895,451	715,855
<b>Total . . . . .</b>	<b>2,913,000</b>	<b>2,706,342</b>	<b>1,844,606</b>	<b>2,505,243</b>	<b>2,603,477</b>

### Interest-bearing Bank Borrowings

As of December 31, 2022, 2023, 2024 and March 31, 2025, we had total interest-bearing bank borrowings of RMB1,664.4 million, RMB1,201.3 million, RMB1,553.3 million and RMB2,308.2 million, respectively. During the Track Record Period, our interest-bearing bank borrowings came from commercial banks and financial institutions bearing effective interest rates in the range of 0.65% to 3.85% per annum. The majority of our bank borrowings were unsecured as of March 31, 2025. Additionally, we maintain facilities with a number of commercial banks in support of our operations.



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## FINANCIAL INFORMATION

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As of May 31, 2025, we had total interest-bearing bank borrowings of RMB2,473.2 million, which bearing effective interest rates in the range of 0.65% to 3.65% per annum. Our interest-bearing bank borrowings as of May 31, 2025 were expected to become mature by May 2030. As of May 31, 2025, we had RMB11,664.5 million of unutilized banking facilities.

Our loan agreements contain standard terms, conditions and covenants that are customary for commercial bank loans. We also undertake financial covenants that require us to meet certain financial ratio requirements in our loan agreements. Our Directors confirm that there has not been any material default on our part in the payment of borrowings, or breaches of covenants during the Track Record Period and up to the date of this document. During the same period, we have not experienced any difficulties in obtaining bank loans and others borrowings, default in payment of bank loans and other borrowings or breach of covenants.

### **Lease Liabilities**

During the Track Record Period, our lease liabilities were primarily in relation to our lease of buildings used in our operations. As of December 31, 2022, 2023 and 2024, as well as March 31, 2025 and May 31, 2025, our total lease liabilities amounted to RMB5.1 million, RMB10.7 million, RMB117.9 million, RMB118.6 million, RMB127.0 million and RMB128.0 million, respectively.

### **Derivative Financial Liabilities**

Our derivative financial instruments mainly represent forward currency contracts and swaps and future contracts for the purchase of copper. During the Track Record Period, we used a combination of these derivative financial instruments to hedge the fluctuations of foreign exchange rate, interest rate and raw material price. As of December 31, 2022, 2023 and 2024, as well as March 31, 2025 and May 31, 2025, our derivative financial liabilities amounted to nil, RMB0.2 million, RMB173.4 million, RMB70.0 million and RMB2.3 million, respectively.

### **Amounts Due to Related Parties (Non-Trade Nature)**

Our amounts due to related parties in non-trade nature were unsecured, payable on demand and interest-free. As of December 31, 2022 and 2023, the amounts due to related parties in non-trade nature amounted to RMB1,243.5 million and RMB1,494.1 million, respectively. This amount has been fully settled in December 2024. For details, see “— Related Party Transactions.”

Our Directors confirm that there has not been any material change in indebtedness of our Group since May 31, 2025, being the most recent practicable date for determining our indebtedness, and up to the Latest Practicable Date.



## FINANCIAL INFORMATION

### CONTINGENT LIABILITIES

During the Track Record Period, we were involved as a co-defendant in litigation related to a trade secrets and intellectual property infringement proceeding, and as of the Latest Practicable Date, an appeal had been filed by the other defendant. For details, see “Business — Legal Proceedings and Compliance.”

Except as disclosed in “— Indebtedness” above, as of May 31, 2025, we did not have any outstanding mortgages, charges, debentures, other issued debt capital, borrowings, indebtedness, guarantees or other material contingent liabilities. Our Directors confirm that there was no material change in our contingent liabilities from May 31, 2025 to the Latest Practicable Date.

### CAPITAL EXPENDITURE

Our capital expenditure during the Track Record Period primarily related to (i) construction in progress, (ii) machinery and equipment, (iii) office equipment and fixtures, (iv) buildings, and (v) motor vehicles. The details of our capital expenditure during the Track Record Period are summarized as follows.

	For the year ended December 31,			For the three months ended March 31,
	2022	2023	2024	2025
	<i>RMB'000</i>			
Construction in progress . . . . .	80,540	172,953	662,543	144,827
Machinery and equipment . . . . .	43,830	100,544	360,905	47,555
Office equipment and fixtures . . . . .	11,409	25,336	45,101	10,293
Buildings . . . . .	13,901	936	45,805	9,315
Motor vehicles . . . . .	980	27,656	12,340	1,239
<b>Total . . . . .</b>	<b>150,660</b>	<b>327,425</b>	<b>1,126,694</b>	<b>213,229</b>

### CAPITAL COMMITMENTS

Our capital commitments at the end of each year during the Track Record Period primarily related to contracted but not provided commitments for property, plant and equipment relating to the construction of our manufacturing facilities. As of December 31, 2022, 2023 and 2024 and March 31, 2025, our capital commitments amounted to RMB546.5 million, RMB752.5 million, RMB1,096.9 million and RMB894.9 million, respectively.

## FINANCIAL INFORMATION

### RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. It is the view of our Directors that each of the related party transactions set out in Note 40 to the Accountants’ Report in Appendix I to this document was conducted in the ordinary course of business on an arm’s length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

The following table sets forth a breakdown of our transactions with related parties for the years/periods indicated.

	For the year ended December 31,			For the three months ended March 31,	
	2022	2023	2024	2025	
	RMB’000			(Unaudited)	
Purchase of goods and services . . . . .	142,995	258,553	339,011	77,231	78,735
Sales of goods and rendering of services . . . . .	27,512	42,121	38,471	6,256	5,908
Lease income . . . . .	333	1,403	2,953	842	344
Lease expenses and rental payments . . . . .	3,252	5,415	4,387	1,257	1,025
Interest income . . . . .	19,301	210	142	51	14
Interest expense . . . . .	6,296	463	284	–	–
Purchase of property, plant and equipment . . . . .	791	–	–	–	16,477

### Purchases of Goods and Services

For the years ended December 31, 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, we procured components, materials and property management services from entities controlled by our Directors and their relatives to produce our air conditioners in an aggregate amount of RMB143.0 million, RMB258.6 million, RMB339.0 million, RMB77.2 million and RMB78.7 million, respectively.

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## FINANCIAL INFORMATION

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### **Sales of Goods and Rendering of Services**

For the years ended December 31, 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, we sold air conditioners to entities controlled by our Director and a company in which a relative of one of our Directors holds a 50% equity interest in an aggregate amount of RMB27.5 million, RMB42.1 million, RMB38.5 million, RMB6.3 million and RMB5.9 million, respectively.

### **Lease Income**

During the Track Record Period, we leased certain properties to entities controlled by our Director for manufacturing and warehousing. The lease income for the years ended December 31, 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025 amounted to RMB0.3 million, RMB1.4 million, RMB3.0 million, RMB0.8 million and RMB0.3 million, respectively.

### **Lease Expense and Rental Payments**

During the Track Record Period, we rent certain warehouses from entities controlled by our Director. The lease expenses for short-term leases and rental payments for the years ended December 31, 2022, 2023 and 2024 and the three months ended March 31, 2024 and 2025, amounted to RMB3.3 million, RMB5.4 million and RMB4.4 million, RMB1.2 million and RMB1.0 million, respectively.

### **Interest Income**

During the Track Record Period, we generated interest income related to amounts due from entities controlled by our Director and deposits at a bank where our Director also held a position as a director. Our interest income amounted to RMB19.3 million, RMB0.2 million, RMB0.1 million, RMB51 thousand and RMB14 thousand in 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, respectively.

### **Interest Expense**

During the Track Record Period, we recorded interest expense representing interests on lease liabilities and interests incurred on our bank borrowings from a bank where our Director also held a position as a director. Our interest expense amounted to RMB6.3 million, RMB0.5 million, RMB0.3 million, nil and nil in 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, respectively.

## FINANCIAL INFORMATION

### Purchase of Property, Plant and Equipment

In 2022, we purchased transformers from entities controlled by our Director to upgrade our production infrastructure, which amounted to RMB0.8 million. In the three months ended March 31, 2025, we purchased transformers from entities controlled by our Directors to upgrade the production infrastructure of our compressor factory in Wuhu, which amounted to RMB16.5 million. We did not purchase any other property, plant and equipment from our related parties other than the aforementioned transaction.

The following table sets forth outstanding balances with related parties as of the dates indicated.

	As of December 31,			As of March 31,
	2022	2023	2024	2025
	RMB'000			
<b>Bank balance<sup>(1)</sup></b>	230,466	13,925	43,031	54,972
<b>Amounts due from related parties:</b>				
Trade nature	–	–	73	366
Non-trade nature	141,514	137,001	–	–
<b>Bank borrowings<sup>(1)</sup></b>	50,000	–	–	–
<b>Amounts due to related parties:</b>				
Trade nature	72,651	83,950	141,890	120,441
Non-trade nature	1,243,538	1,494,052	–	–

*Note:*

(1) Represent bank balance and bank borrowings from a bank, in which our Director serves as a director.

### 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

## FINANCIAL INFORMATION

	As of/for the year ended December 31,			As of/for the three months ended March 31,
	2022	2023	2024	2025
Return of equity (ROE) <sup>(1)</sup> . . . . .	143.9%	83.3%	72.1%	85.4%
Return on assets (ROA) <sup>(2)</sup> . . . . .	9.9%	14.3%	13.2%	14.3%
Gearing ratio <sup>(3)</sup> . . . . .	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.

## OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

## QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to a variety of market risks, including foreign currency risk, credit risk and liquidity risk as set out below. We manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. For further details, including relevant sensitivity analysis, see Note 43 in the Accountants’ Report set out in Appendix I of this document.

### Foreign Currency Risk

Our transactional currency exposures mainly arise from overseas sales of products. Therefore, we are exposed to foreign currency risk. We currently take certain foreign currency hedging measures and we did not experience any material impact on our operations resulting from fluctuation in exchange rates during the Track Record Period. However, our management monitors our foreign currency risk exposure and will review and adjust our hedging measures in accordance with our needs. For further details and an analysis of the sensitivity at the end of each year/period during the Track Record Period to a reasonably possible change in the USD exchange rates, with all other variables held constant, of our loss or profit before tax (due to changes in the fair value of monetary assets and liabilities), see Note 43 of the Accountants’ Report set out in Appendix I to this document.

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## FINANCIAL INFORMATION

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### Credit Risk

We trade only with recognized and creditworthy third parties and there is no requirement for collateral. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts is not significant. As of December 31, 2022, 2023 and 2024 and March 31, 2025, we had certain concentrations of credit risk as 26.94%, 36.46%, 10.21% and 14.03% of our trade receivables were due from our largest customer, respectively, and 53.36%, 56.37%, 30.60% and 31.58% of our trade receivables were due from our five largest customers, respectively. We seek to maintain strict control over our outstanding receivables and have a credit control department to minimize credit risk.

For further details and an analysis of the credit quality based on our credit policy and the maximum exposure to credit risk at the end of each year during the Track Record Period, see Note 43 to the Accountants’ Report set out in Appendix I to this document.

### Liquidity Risk

We monitor our exposure to liquidity risk by monitoring the current ratio, which is calculated by comparing the current assets with the current liabilities. Our liquidity is primarily dependent on our ability to maintain adequate cash inflows from operations to meet our debt obligations as they fall due, and our ability to obtain external financing to meet our committed future capital expenditure.

### 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.

## FINANCIAL INFORMATION

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.

### DISTRIBUTABLE RESERVES

We had retained losses as of January 1, 2022, primarily attributable to certain business restructurings prior to the Track Record Period, whereby all air conditioning business previously directly or indirectly controlled by our Controlling Shareholders were consolidated into our Group upon the completion of such business restructurings. For details, see “History, Reorganization and Corporate Structure — Major Corporate Developments and Pre-[REDACTED] Reorganization of Our Group — Business Restructuring.” The profits generated by these acquired businesses were distributed to the then shareholders of these acquired businesses and the excess of the consideration over net assets value of the acquired business was adjusted against retained earnings, resulting in a negative balance of retained earnings (i.e. retained losses) in our Group’s consolidated financial statements.

As of March 31, 2025, we had approximately RMB3,147.8 million of retained profits available for distribution to our shareholders.

### PROPERTIES AND VALUATION

JLL, an independent property valuer, has valued our selected property interest as of May 31, 2025. Particulars of the property interest are set out in Appendix III to this document.

The table below sets out the reconciliation between the net book value of our selective property as of March 31, 2025 in the Accountants’ Report set out in Appendix I to this document and the market value of our selective property as of May 31, 2025 in the Property Valuation Report set out in Appendix III to this document.

*(RMB in million)*

Net book value of our selective property as of March 31, 2025. . . . .	325.8
Depreciation adjustments. . . . .	<u>(3.6)</u>
Net book value as of May 31, 2025. . . . .	322.2
Valuation surplus as of May 31, 2025 . . . . .	<u>155.4</u>
Valuation as of May 31, 2025 as set out in “Appendix III – Property Valuation Report” to this document . . . . .	<u><u>477.6</u></u>

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## FINANCIAL INFORMATION

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### [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.

### UNAUDITED [REDACTED] STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited [REDACTED] statement of adjusted consolidated net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is to illustrate the effect of the [REDACTED] on the consolidated net tangible assets attributable to owners of the parent as of March 31, 2025 as if the [REDACTED] had taken place on that date.

The unaudited [REDACTED] statement of adjusted consolidated net tangible assets of our Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not provide a true picture of the consolidated net tangible assets attributable to owners of our Company had the [REDACTED] been completed as of March 31, 2025 or at any future date.

The unaudited [REDACTED] statement of adjusted consolidated net tangible assets is prepared based on the consolidated net tangible assets attributable to owners of the parent as of March 31, 2025 as set out in the Accountants’ Report in Appendix I to this document and is adjusted for the effects described below.



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## FINANCIAL INFORMATION

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[REDACTED]

## **FINANCIAL INFORMATION**

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### **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.

### **DISCLOSURE REQUIRED UNDER THE LISTING RULES**

Our Directors have confirmed that, as of the Latest Practicable Date, they were not aware of any circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.