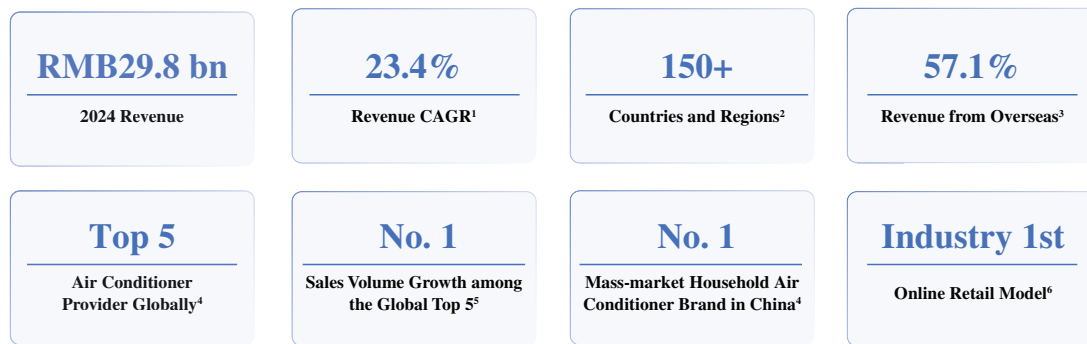


BUSINESS

OVERVIEW

Our Business

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



Notes:

1. From 2022 to 2024.
2. As of the Latest Practicable Date.
3. For the three months ended March 31, 2025.
4. In terms of sales volume in 2024, according to Frost & Sullivan. Mass-market household air conditioners refers to air conditioners with selling prices to end consumers under RMB2,500. According to Frost & Sullivan, the market share of mass-market household air conditioners, in terms of sales volume among all household air conditioners, in China is expected to increase from 28.0% in 2024 to 29.0% in 2029.
5. In terms of the sales volume CAGR from 2022 to 2024, among the five largest global air conditioner companies, according to Frost & Sullivan.
6. Our “online retail model (網批新零售模式)” refers to an integrated online and offline distribution model firstly introduced by us in the industry in 2017, which creates a flatter distribution structure empowered by our self-developed online management systems. Our online retail model streamlines distribution layers, enhancing our closer communication and collaboration with offline SME retailers. We use the self-developed efficient online management systems (such as “Hello AUX (小奧直賣)” and “AUX Manager (小奧管家)” apps) manage our distributors through digital means. Our Directors are of the view that we adopted the online retail model and were subsequently followed by other companies in the industry which then adopted similar sales model. According to Frost & Sullivan, online retail model has become a widely recognized model in air conditioner market.

We have earned market recognition and consumer loyalty, making us one of the fastest-growing air conditioner brands globally. During the Track Record Period, we have maintained rapid growth, achieving a sales volume CAGR of 30.0% from 2022 to 2024. This growth ranked us No. 1 among the five largest global air conditioner companies in each year in terms of sales volume growth during 2022 to 2024, according to Frost & Sullivan. Our sales volume growth during this period significantly outpaced the sales volume CAGR of global air conditioner market of 4.6%.

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We are the largest mass-market household air conditioner brand in China, in terms of sales volume in 2024 with a market share of 25.7%, according to Frost & Sullivan. The mass market has become the primary growth engine for China’s air conditioner sector, fueled by rural revitalization policies, urbanization-driven demand in lower-tier markets, and consumers’ growing focus on cost-effectiveness. By seizing these industry opportunities with our sales coverage and affordable products, we have consistently increased our market share and brand influence. Furthermore, our multi-brand strategy allows us to cater to diverse consumer needs.

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

Our Development History

Since our establishment, we have been deeply anchored in the air conditioner industry for over three decades, continuously striving to provide global consumers with high-quality and affordable products. Our key development stages can be divided into the following phases:

- **Startup (1994-2001):** Founded in 1994, we established the AUX brand and began our comprehensive exploration of the air conditioner industry. As China’s air conditioner industry experienced rapid growth, we swiftly established a strong presence in the domestic market with our high-quality and affordable products. We steadily expanded our business and built a strong reputation among consumers.
- **Rapid Growth (2001-2013):** Starting in 2001, we began to establish our presence in overseas markets, and enlist renowned celebrities to endorse our brand and products which further strengthened our brand recognition. During this period, we also published “Air Conditioner Cost White Paper (空調成本白皮書),” enhancing the transparency of cost structure within the air conditioners industry. Since 2003, we have implemented a nationwide production expansion strategy. We established our production bases in Ningbo and Nanchang, and expanded into the central air conditioner segment. Despite fierce competition, we achieved rapid growth and strong brand recognition through continuous product improvement, affordable products and precise brand marketing.
- **Transformation and Upgrade (2013-2018):** Since 2013, we have been transforming and upgrading our sales channels, production capacity and product quality. We were one of the early adopters of e-commerce, establishing long-term partnerships with leading e-commerce platforms such as JD.com and Tmall. During the rapid growth of e-commerce and building upon these partnerships, we became a top-selling air conditioner brand online in China. Building upon our successful e-commerce experience, in 2017, we adopted the online retail model, which streamlined the distribution layers by reducing the number of intermediates, and benefited our consumers. We launched our “Hello AUX” app to better manage and empower our distributors, and then derived and built a unique “Hello AUX” ecosystem. Such online retail model and “Hello AUX” ecosystem helped us gain

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more market share and enhance our channel management. During this period, we also built our intelligent production bases in Ningbo and Ma’anshan to expand capacity and strengthen quality control, enhancing our intelligent manufacturing efforts.

- **Globalization, Intelligentization and Vertical Integration (2018-Present):** We have steadily advanced our international strategy. In 2019, we established our R&D center in Japan and started production at our Thailand production base, which connected us with overseas consumers and allowed us to better integrate global needs and market trends. Starting from 2023, we established our overseas sales companies and local teams in areas such as Malaysia, Thailand, the U.S., the UAE, Vietnam and Saudi Arabia to expand our sales in such areas. We extended our online retail model and the coverage of our “Hello AUX” ecosystem from the domestic market to the international arena, efficiently expanding our global footprint.

We have also placed a strong emphasis on intelligentization. In 2021, we built an integrated R&D platform to consolidate key technologies, production practices, consumer needs and market feedback, which allowed us to achieve better integration, material commonality and modular design. In 2023, we launched the innovative AUX Industrial Internet Platform, covering all aspects of our business, rapidly advancing our intelligent manufacturing capabilities and improving our efficiency.

We have strategically focused on strengthening our supply chain since 2023, which has driven synergies and coverage of our vertically integrated industrial chain, and enhancing our capability of research and production of core components to further strengthen our competitive advantages. For example, we collaborate with Panasonic regarding the research and production of compressor, which is a core component for our products.

Our Brand and Product Matrix

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

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

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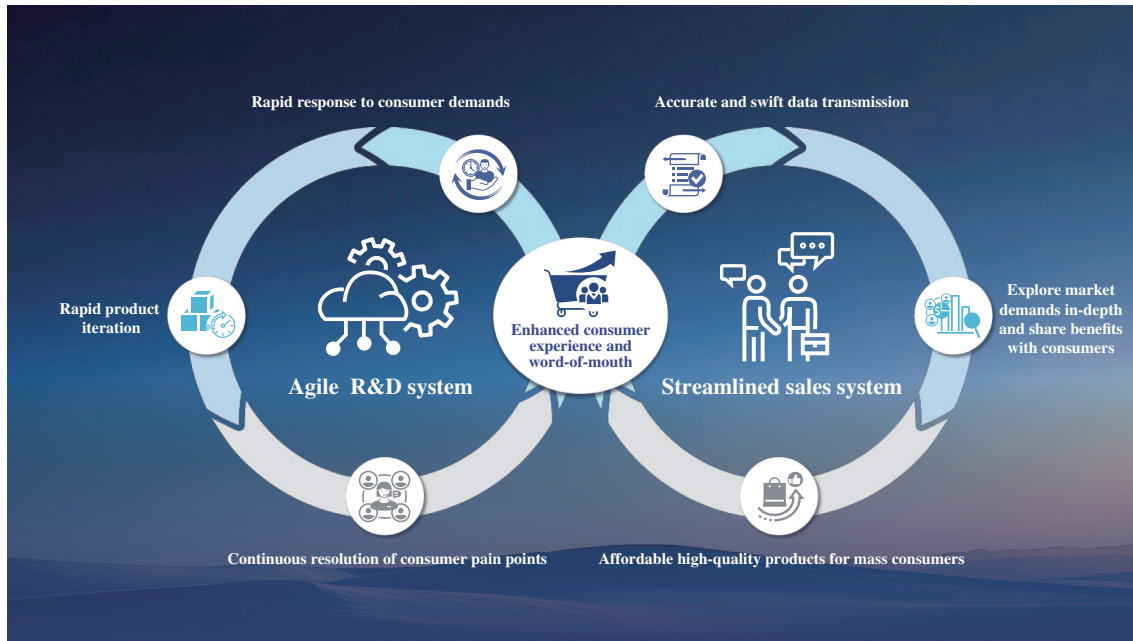


Efficiency Flywheel through Our AUX Industrial Internet Platform

We have comprehensively advanced our digitalization and intelligence initiatives. Leveraging our rich industry experience, we have innovatively built our AUX Industrial Internet Platform. This platform comprehensively covers all of our key business departments, including R&D, intelligent manufacturing, supply chain management, sales and marketing, warehousing and logistics, and quality tracking. This integrated digital platform enables us to achieve refined management across our entire value chain, and has significantly improved our efficiency and optimization in each business segment.

Based on our customer-centric approach, we have established an efficient flywheel through the integration of our R&D and sales. On the R&D side, we are able to promptly incorporate consumer feedback, continuously address consumer pain points and enhance the customer experience through rapid iteration and upgrades. We have formed a high-efficiency and high-quality R&D rhythm, with product upgrades taking place annually and major innovations occurring every two years. On the sales side, our streamlined and efficient sales network enables the rapid transmission of consumer data back to our R&D efforts and the wider reach of our affordable products. As of March 31, 2025, approximately 98.4% of our distributors in China placed orders with us directly through our “Hello AUX” app during the past 12 months, significantly reducing distribution layers compared to peer companies and enhancing our efficiency of sales management. The flywheel with mutually reinforcing R&D and sales has continued to gain momentum, further enhancing our consumer experience and brand reputation. This customer-centric approach has been a key driver of our success and competitive positioning in the industry.

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Our Financial Highlights

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

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

OUR COMPETITIVE STRENGTHS

One of the global top five air conditioner providers

We are one of the global top five air conditioner providers in the expansive air conditioner market, capturing opportunities in the global industry with market size of RMB1,312.8 billion in 2024. Our operations extend to over 150 countries and regions worldwide. Through continuous R&D investment and technological breakthroughs, our self-owned branded products are thoughtfully curated by responding to diversifying consumer needs and preferences while balancing core values such as efficiency, comfort, health and intelligence. We ranked the fifth in the global market in terms of sales volume of air conditioners in 2024, with a market share of 7.1%, according to Frost & Sullivan.

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We have a deep understanding of lower-tier markets and have effectively tapped into the growth opportunities in these regions. To capture the demand driven by rural revitalization policies and urbanization in lower-tier markets, we have developed a diverse product portfolio with affordable products to address the demands of consumers. We have also introduced an innovative online retail model which reduces excessive distribution layers and enhances distribution efficiency. To better manage our extended sales and distribution network, we launched our “Hello AUX” app, and then gradually established and expanded our “Hello AUX” ecosystem. We closely collaborate with market participants, such as logistics service providers, installation service providers and after-sales service providers. This ecosystem allows our distributors to easily access our products, sales activities and comprehensive guidance. By equipping our distributors with these resources and tools, they are more empowered to deliver customized services and effectively reach end consumers, which in turn enhances our brand penetration across various channels. We are the largest mass-market household air conditioner brand in China in terms of sales volume in 2024 with a market share of 25.7%, according to Frost & Sullivan.

Through ceaseless technological innovation and R&D investment, we have developed a series of intelligent products. Beyond just functional upgrades, we have further optimized user experience and enhanced product connectivity in our intelligent voice-controlled air conditioners.

We maintain substantial revenue growth and expanded profitability. In 2024, our revenue reached RMB29,759.3 million, and net profit reached RMB2,910.2 million, representing a CAGR of 23.4% and 42.1% from 2022 to 2024, respectively. Our sales volume increase at a CAGR of 30.0% from 2022 to 2024. We ranked No. 1 among the five largest global air conditioner companies in each year in terms of sales volume growth from 2022 to 2024, far exceeding the sales volume CAGR of global air conditioner market of 4.6% during the same period.

Renowned brand cultivated by over three decades of development focused on air conditioners

We have focused solely on the air conditioner business for over three decades and have deeply explored product R&D, manufacturing, sales and marketing. This in-depth specialization has enabled us to better understand evolving consumer needs and industry trends. As a result, we are able to meet consumer demand for diverse air conditioner products.

We have built our brand image as a premier air conditioner specialist. In the domestic market, we have leveraged our core brand AUX and implemented a multi-brand strategy to cater to diverse consumer needs through differentiated pricing, performance and aesthetics. In overseas markets, we have optimized our offerings in terms of adaptability, service responsiveness and logistics efficiency. Through operational improvements in after-sales service and streamlined distribution networks, we have strengthened our position in competitive global markets. Our unwavering focus on the air conditioners has allowed us to establish strong brand awareness among consumers, reinforcing the association of AUX with innovative air conditioning solutions and further enhancing consumer brand loyalty.

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In contrast to other major players in the air conditioner industry who operate across multiple product categories, our deep specialization and brand focus have allowed us to concentrate all our resources on air conditioners. This has created collaborative efforts in R&D, manufacturing, sales and marketing, enabling us to respond quickly to consumer needs and achieve higher efficiency and lower costs, which in turn improves our competitive advantages.

Technological innovation and rapid product iteration driven by quality-focused R&D

We have established a comprehensive global R&D network with three major centers in Ningbo, Zhuhai and Japan. The Ningbo center serves as our core R&D hub, focused on product development and technology transformation. The Japan center concentrates on exploring frontier fields, particularly central air conditioner systems, including control systems, airflow channels and industrial design. The Zhuhai center specializes in home appliances, inverter technology, simulation and modular technology. Our R&D process strictly follows a full lifecycle management approach, encompassing every stage from product planning to product phase-out. Our R&D team is vast in scale and well-structured. As of March 31, 2025, we had over 1,600 dedicated R&D personnel, ensuring the maturity and professionalism of our team.

We have focused our product development on four key factors: efficiency, comfort, health and intelligence. By building an integrated R&D platform and analyzing consumer feedback, we constantly improve our products. Therefore, we have been able to significantly reduce procurement and production costs through structural integration and modular design, while also improve overall production efficiency and product iteration speed. We have formed a high-efficiency and high-quality R&D rhythm, with product upgrades taking place annually and major innovations occurring every two years.

Our air conditioners are underpinned by technologies developed through our extensive and comprehensive R&D efforts, such as variable-frequency drive control technology, power control technology and fan and airflow design, which are recognized as “internationally advanced” by governmental authorities. As of March 31, 2025, supported by our extensive R&D efforts, we had obtained over 12,000 registered patents in China and overseas, including over 2,800 invention patents. We also operate two CNAS-accredited national laboratories and have participated in the formulation of over 160 national standards and industry standards. Additionally, we have undertaken multiple major special research projects.

In addition, upholding our core development philosophy of prioritizing quality and innovation, we have established a comprehensive and efficient quality management system that spans our entire operations. Throughout the product lifecycle, from development and supplier management to production, warehousing and sales, we have put robust quality control measures in place which enable quality tracing. By controlling the production of these key components, we can ensure consistently high quality standards throughout our operations. To further enhance our quality inspection processes, we have replaced traditional manual checks with an advanced “5G+Visual Inspection” system, leading to a 5-fold efficiency improvement

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compared to the previous manual approach. Alongside our strong internal quality focus, 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.

Efficient consumer reach covered by multi-channel, innovative and streamlined sales

We have a strong focus on developing a comprehensive channel layout and innovative channel strategy. Leveraging accumulated e-commerce capabilities, we have established efficient partnerships with leading e-commerce platforms in China, such as JD.com, Tmall and Douyin. Building on our extensive experience in e-commerce, we have launched the innovative online retail model. This model creates a flatter distribution structure empowered by our self-developed online management systems, with products flowing directly from the factory to SME retailers, and generally then to the end consumers, which in turn improves our overall operational efficiency.

We have then derived and built a unique mutually beneficial “Hello AUX” ecosystem that empowers our internal operations while also connecting external partners:

- *Sales.* We have streamlined our distribution channels and improved logistics efficiency. This benefits both distributors, who are attracted by our incentive marketing initiatives and delivery options without minimum purchase thresholds, and consumers, who can access our products at a more competitive value.
- *Marketing and promotion.* Distributors can easily access our products without facing the challenges in traditional approach such as complex distribution channels and low product circulation efficiency, and thus can offer customized services based on the diverse needs of local consumers. Distributors using “Hello AUX” can also instantly access the latest sales policies and product information. Our marketing personnel, in turn, can track and control distributor orders and inventory in real-time, and guide their order frequency according to sales schedule and performance, enabling efficient communication and precise management.
- *External collaborations.* Our “Hello AUX” ecosystem connects distributors, logistics providers, installation service providers and after-sales service providers, enabling them to access real-time service requests and optimize the operational efficiency of the services they provide.

As of March 31, 2025, 7,283 distributors in China placed orders with us through “Hello AUX” app during the past 12 months, accounting for approximately 98.4% of our total distributors in China as of the same date. We have also gradually extended our online retail model and the coverage of our “Hello AUX” ecosystem to overseas sales, further deepening our engagement with international customers.

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We have established a strong global sales presence, with our products currently being sold in over 150 countries and regions, and our international sales experiencing rapid growth. Based on our deepening understanding of overseas markets and accumulated resources, we have developed a dual-pronged approach including OBM and ODM. We have achieved success in our ODM business leveraging our strong production capabilities and global supply. Meanwhile, we have been continuously developing our OBM business in overseas markets. This includes expanding our successful online retail model and the coverage of our “Hello AUX” ecosystem, as well as establishing in-house international sales teams through the establishment of overseas sales companies and local teams in key countries and regions, such as Malaysia, Thailand, the U.S., the UAE, Vietnam and Saudi Arabia. The establishment of our sales companies and local teams in Thailand and Malaysia has been particularly successful, with revenue generated from these markets experiencing multiple-fold growth from 2023 to 2024.

In addition, our marketing efforts span both our domestic and overseas operations, and integrated both online and offline advantages. In domestic market, we have a strong focus on brand cultivation, emphasizing product innovation and quality enhancement through a coordinated online and offline approach. We utilize precise big data analysis to identify user profiles and purchase needs, allowing us to formulate more targeted marketing strategies. We concentrate on building brand awareness and generate positive word-of-mouth online, leveraging content seeding and live streaming. We also optimize the customer purchase experience through offline branded stores operated by our distributors and our distribution networks. Furthermore, we partner with platforms to obtain even more exposure through advertising, live commerce and personalized data-driven marketing. In our overseas markets, we implement a comprehensive brand marketing strategy, which includes participating in trade fairs, conducting customer visits and establishing localized sales teams. We also empower our distributors by sharing our market experiences and strategies, helping them enhance their marketing efficiency.

Improved operational efficiency and quality through digitalization and intelligentization

We are firmly committed to enhancing our decision-making efficiency, business execution, and market responsiveness through a digitalized and intelligent management approach. We have established the innovative AUX Industrial Internet Platform to improve the end-to-end transmission of information and the implementation of decisions. We have integrated data across our R&D, manufacturing, supply chain, warehousing, quality control and sales functions. This has enabled digital upgrades in the key areas of industrial management software, network infrastructure, production equipment, and industrial information systems, effectively bolstering our organizational management capabilities and decision-making efficiency.

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Our digitalized and intelligent management philosophy, combined with the AUX Industrial Internet Platform, has driven comprehensive operational efficiency improvements across our core functions:

- *R&D.* The close integration between our product and market teams facilitates the rapid incorporation of customer feedback and accelerates new product iterations. Our integrated R&D platform enables swift new product design and production.
- *Supply management.* We have implemented a comprehensive supplier management system to support our raw material providers, and help these suppliers enhance their management practices, optimize costs, strengthen quality control, and improve production processes. By leveraging our advanced Supplier Relationship Management (SRM), we are able to conduct extensive supplier sourcing and rapid evaluation of suppliers, which enables us to achieve and enhance our efficient procurement cycle. As a result, our suppliers have significantly enhanced their supply capabilities, efficiency and product quality, fostering a new paradigm of mutually beneficial cooperation.
- *Production.* We have implemented intelligent upgrades to scheduling, manufacturing, quality inspection and logistics, leveraging emerging technologies such as cloud computing and the IoT. This allows our frontline managers to access real-time data on task launch times, production progress, and material consumption, further enhancing production efficiency through the application of automated equipment.
- *Sales.* We aggregate sales order and inventory data, as well as end-consumer behavior data, on our information platforms. We then apply advanced analytics to gain valuable market insights. Simultaneously, our online retail model streamlines the distribution channel, thus improving turnover efficiency.

As a result, we have achieved efficiency improvements across our entire operational process. In 2022, 2023 and 2024, our average trade and bills receivables turnover days were 26.8 days, lower than the industry average of approximately 31 days, and our average inventory turnover days were 60.3 days, lower than the industry average of approximately 66 days. The percentage of our selling and distribution expenses as total revenue amounted to 4.3% in 2024, lower than the industry average level, which was approximately 8.8%.

We are committed to sharing the results of our digitalization and intelligence upgrades with consumers, enabling them to enjoy high-quality products and services at reasonable costs. Our intelligent factories and efficient R&D system continuously provide customers with products that meet the latest demands. Regarding service delivery, we have built a rapid installation and after-sales feedback system. Over 90% of our customers’ installation and repair requests are responded to within 24 hours. Our efficient management system has helped reduce comprehensive expenses, allowing us to pass on the benefits to consumers.

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Visionary, dynamic and stable management team with collaborative corporate culture

Our core management team, which possesses strong market expertise and in-depth industry insights, is instrumental to our continued success and growth. We are led by a core management team comprising Mr. ZHENG Jianjiang, Mr. XIN Ning and Mr. ZHANG Bo, who on average boast over 20 years of cumulative experience in the air conditioner industry and a deep understanding of the entire industry chain. Under their stewardship, our workforce remains united and progressive. Our founder, Mr. ZHENG Jianjiang, exemplifies exceptional entrepreneurial spirit and keen market insight. He has successfully established industry-leading companies across various sectors, including home appliances, power equipment, medical, and new energy.

Under the leadership of this core management team, we have accomplished revolutionary innovations in production and operations, such as the innovative online retail model and the Lights-Out Factory (黑燈工廠) production mode. These advancements have significantly improved our sales and production efficiency, providing crucial drivers for our strong business performance.

In addition, we place great emphasis on aligning the interests of our employees with our long-term development. The implementation of equity incentive plans for core managers and key personnel has effectively enhanced team cohesion and stability, ensuring the continued pursuit of our strategic objectives.

Furthermore, a cohesive corporate culture serves as the foundation of our long-term value creation, shaped by our operational principles. We are guided by the principles of customer-centricity, problem-solving orientation, benchmarking and product enhancement in our business operations. In our daily activities, we adhere to the efficiency principles encapsulated in the ideas of “everything based on economic value, everything based on reasonable norms, and everything based on efficient rhythm.” This commitment to lowering operating costs through efficiency improvements allows us to pass on the benefits to our customers. After over 30 years of development, our well-established and highly efficient corporate culture system continuously creates greater value for our customers, employees, shareholders and society, which encourages employee self-improvement and the pursuit of excellence, ensures efficient decision-making and thorough execution.

OUR STRATEGIES

Accelerate our globalization layout

Expanding overseas markets is the strategic core of our future development. We are committed to further investing in our sales, production and R&D capabilities within international markets to continuously expand our overseas business and operations.

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We plan to expand our worldwide sales network and actively pursue diverse partnerships with renowned multinational companies. To enhance our localized operational capabilities, we intend to establish additional production facilities and R&D centers in key regions globally. This will support the localized development, sales and delivery of our products.

We may also consider acquiring influential local targets overseas that have advantages in branding, technology and channels, to accelerate the growth of our overseas business.

Enhance the sales of our own branded products and enhance our brand recognition

We will enlarge our investment in our own branded operations, with a particular focus on enhancing the sales proportion of our branded products in overseas markets, and promoting greater brand recognition for our offerings globally.

We plan to establish additional overseas sales companies and local teams, focusing on promoting our online retail model, which has been proven to be efficient in driving our sales performance in China as well as certain Southeast Asian markets. We intend to replicate and expand this successful sales strategy worldwide.

Leveraging our “AUX” brand, we are gradually developing a diversified and differentiated brand matrix to cater to a wider range of global consumers. We also plan to consider venturing into other home appliance categories leveraging on our strengthened brand recognition.

Continue to expand our central air conditioner business

We will continuously invest in and expand our central air conditioner business, increase the proportion of sales of central air conditioners, and position our central air conditioner business as a critical engine for our future growth.

We plan to deepen our understanding of customized needs across various application scenarios, and continuously expand our product portfolio to cater to these diverse needs. We plan to further develop our customer base in traditional industries such as residential housing and office buildings, while also proactively exploring opportunities in emerging areas such as energy storage and data centers. This will enable us to capture customer recognition among a wide range of industries.

We plan to invest in the R&D of our central air conditioner technologies and products, staying ahead of the curve in terms of the latest industry advancements. We will focus on improving the performance of our central air conditioners in terms of energy efficiency, intelligence, reliability and environmental sustainability.

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Further invest in R&D and promote digital and intelligent transformation

We will further invest in our R&D efforts, adhering to the rapid product iteration of “product upgrades taking place annually and major innovations occurring every two years,” and also consistently incorporating the cutting-edge technologies into our products. Thus, we plan to improve the overall integration of functionalities and enhancing the intelligence of our products.

In addition, we will continuously research the foundational technologies that underpin our air conditioner products, such as thermodynamics, fluid and solid mechanics, polymer materials, noise and vibration control, energy-saving technologies and human-machine interaction, which serve as a solid foundation to support our ongoing product upgrades and iterations.

We will also actively promote digital and intelligent transformation across our entire operations with a focus of upgrading our AUX Industrial Internet Platform. By leveraging this advanced platform, we will enhance our data analysis and decision-making capabilities, drive greater collaborative synergies across our operations, to optimize our corporate management and business model efficiency.

Combining smart manufacturing and production equipment upgrades, we will further invest in our facilities, and advance the industrialization, intelligence, and digitalization of our manufacturing infrastructures.

Promote industrial empowerment and ecological cooperation

Adhering to the principle of “win-win collaboration,” we aim to empower our stakeholders and build a unique, mutually beneficial ecosystem.

We will provide our customers with comprehensive marketing and resource support solutions, improving their sales performance and profitability, while also continuously expanding our sales network. We will actively share our insights on the latest advancements in new technology, new materials, and new production processes with our supplier partners. This will empower them to optimize their costs and enhance their manufacturing efficiency, which in turn will drive improvements in our own procurement costs and operational agility. We are also committed to cultivating a team of exceptional talents, providing them with abundant growth opportunities and competitive incentives to ensure the stability and unity of our workforce.

By empowering our customers, suppliers and employees, we strive to create greater value for global users and consumers, and ultimately realize a desirable vision of mutual benefits for all.

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OUR PRODUCTS AND SERVICES

During the Track Record Period, our products primarily include household air conditioners and central air conditioners. We also engage in certain other businesses primarily consisting of sales of raw materials and brand authorization. The following table sets forth a breakdown of our revenue by product and service types for the years/periods indicated.

	For the year ended December 31,						For the three months ended March 31,					
	2022		2023		2024		2024		2025			
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>	<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		
Total	19,527,585	100.0	24,831,833	100.0	29,759,319	100.0	7,362,572	100.0	9,352,397	100.0		

Over the years, we have successfully expanded our presence in the global market. In addition to China market, as of the Latest Practicable Date, we provide our products to users in over 150 countries and regions. Our capabilities are widely recognized in both China and the international market within the industry. We ranked fifth in the global market in terms of sales volume of air conditioners in 2024, with a market share of 7.1%, according to Frost & Sullivan. In 2024, we were one of the top three exporters of air conditioners in several countries, including Brazil, Mexico, Poland, Thailand and Uzbekistan, in terms of import volume of these countries in 2024, according to the same source.

During the Track Record Period, our business growth, which substantially outpaced industry growth, was driven by a combination of our rapid expansion in overseas markets, product innovation and channel expansion. For details, please see “— Our Global Footprint” and “Financial Information — Year/Period to Year/Period Comparison of Results of Operations.”

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Product Categories

We primarily sell household air conditioners and central air conditioners, which are designed to fit a wide range of applications, such as residential homes, office buildings, shopping malls, hotels, hospitals, and industrial parks. We have focused our product development on four key factors: efficiency, comfort, health, and intelligence. This dedication has enabled our rapid innovation and allows for the continuous expansion of our product portfolio.

- ***Efficiency***: Efficiency is a primary focus in the design of our air conditioning solutions, reflecting the growing consumer demand for effective cooling and heating. Our advanced products deliver rapid heating and cooling while maintaining precise temperature control, thereby reducing energy costs for consumers. Complementing our commitment to energy efficiency for consumers, we have also prioritized environmental responsibility by systematically developing, promoting and applying eco-friendly refrigerants almost across all of our products to further reduce the environmental impact of our operations and products. See “Business — Environment, Social and Governance (ESG) — Green Transformation Initiatives” for details.
- ***Comfort***: Ensuring a comfortable indoor environment is paramount. Our air conditioner systems are engineered for quiet operation and optimal air distribution. Enhanced airflow management contributes to a pleasant atmosphere without discomfort from direct air exposure, while noise reduction technologies facilitate a serene setting. Additionally, our air conditioners offer precise heating and cooling capabilities, as well as excellent stability in performance. This enables our air conditioners to provide a comfortable temperature experience even under challenging and extreme environmental conditions.
- ***Health***: Prioritizing health and hygiene, we have developed technologies that facilitate the easy disassembly and cleaning of air conditioner components. This focus on cleanliness addresses critical health concerns associated with air conditioner systems and ensures a hygienic indoor environment. Our products also incorporate air purification and sterilization features, promoting a safe and healthy atmosphere.
- ***Intelligence***: Our air conditioners are designed with advanced interactivity to enhance user convenience. Since the introduction of smart solutions in 2018, we have focused on improving product intelligence. Voice-controlled systems allow for convenient operation, accommodating local dialects effectively. Features such as adaptive airflow and centralized control for multiple devices ensure a seamless management experience of indoor environment.

For details, please see “— Research and Development.”

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Household Air Conditioners



We provide household air conditioners, primarily including wall-mounted, cabinet-style and mobile units. We design and provide various product categories considering factors like income levels, consumption habits, and climate conditions. Our wall-mounted and cabinet-style air conditioners are equipped with advanced features such as voice control, optimized airflow distribution and energy-efficient functions, and are available in different capacities and energy efficiency ratings. Our cabinet products are also designed for larger spaces and include features such as enhanced air circulation and wide-angle air distribution. Our mobile air conditioners feature quiet operation, and remote control and eliminate the requirement for installation, which mainly targets the overseas market.

In 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, the sales volume for our household air conditioners were 10.2 million units, 14.0 million units, 17.1 million units, 4.5 million units and 5.5 million units, respectively. The average selling price of our household air conditioners amounted to RMB1,698, RMB1,550, RMB1,517, RMB1,445 and RMB1,531 in 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, respectively. Such decrease from 2022 to 2024 were primarily as a result of the ramp-up of sales of our “Hutssom” (華蒜) products which led to a change in our product mix, and the increased proportion of overseas business within our overall operations. The average selling price of our household air conditioners increased from RMB1,445 for the three months ended March 31, 2024 to RMB1,531 for the three months ended March 31, 2025, primarily attributable to our robust expansion of our overseas operations. Concurrently, through the strategic optimization of order structure while sustaining overall scale, we recorded an increase in the average selling price during the period.

Our latest product innovations primarily include the second generation of the AUX Zhiyin (奧知音) series, which represents our intelligent voice-controlled air conditioners. The “Zhiyin” name means “to deeply understand the message.” We launched the second generation of the AUX Zhiyin series in 2024, which includes both wall-mounted and cabinet air conditioners. The AUX Zhiyin II wall-mounted air conditioner features an upgraded system

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that enables voice control without the need for an internet connection, with fast response even at a 5-meter distance. It also supports generalized voice control, where it can understand contextual commands without specific instructions, and can even comprehend regional dialects. The AUX Zhiyin II cabinet air conditioner comes with an upgraded smart voice control system that supports both online and offline voice commands. Users can simply give voice orders to control the air conditioner, which has a sound source localization function with an 80-degree wide-angle coverage to ensure precise air delivery and avoid blind spots. Additionally, it has a built-in “air conditioner butler” that allows for scheduling, remote control, and integrated online entertainment and interactive features.

Both the wall-mounted and cabinet models in AUX Zhiyin II series have panel upgrades using eco-friendly materials, such as the most innovated lamination technology, to cater to young consumers’ demands for aesthetics and health. The five-in-one smart control system offers users various convenient control options, including NFC touch control, app control, Bluetooth one-touch pairing, voice control and traditional infrared remote control, which addresses the pain points of users who have difficulty finding the remote or struggle with the complex controls of traditional air conditioners, providing a convenient and trendy smart home experience. The AUX Zhiyin II series also features a fifth-generation self-cleaning function, addressing the health concerns of consumers. In 2024, AUX Zhiyin series won the “Red Top Award” at the “China High-end Home Appliance Trend Release and Red Top Award Ceremony.”

Central Air Conditioners



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We provide central air conditioners, primarily including VRF systems, packaged units, heat pumps, chillers and terminal devices. Our sales of central air conditioners grew rapidly during the Track Record Period, benefiting from the increase in consumer demand for central air conditioners and our accurate judgment of the market.

- ***VRF systems:*** VRF systems are known for their energy efficiency and flexibility, the high energy efficiency of which help users save energy. Unlike traditional heating, ventilation, and air conditioning (HVAC) systems that use a constant amount of energy to heat or cool an entire building, VRF systems provide zonal control, allowing for individual temperature settings in different areas or zones of a building. This zoning capability helps optimize energy consumption and reduce waste. One of the key components of a VRF system is the outdoor unit, which is connected to multiple indoor units. The outdoor unit circulates refrigerant to the indoor units, providing cooling or heating as required. Our VRF systems feature precise temperature control, rapid cooling and heating, low-noise operation, high energy efficiency and remote-control capabilities, with 12 levels of protection to safeguard stable operation. Equipped with multi-level silent modes, our VRF systems can realize noise reduction of up to 10dB. Moreover, our VRF systems boast an ultra-wide voltage adaptation capability, superior to the national standard by 5% (national standard $\pm 10\%$), ensuring reliable and uninterrupted performance even in challenging power supply conditions.
- ***Packaged units:*** Packaged units include ducted units, cassette units, and suspended units, etc. Ducted units feature a slim body, with functions such as self-cleaning, high-temperature sterilization, constant airflow, free switching of return air methods, and quiet operation functions. The cassette unit is equipped with a combined display and control board, with temperature control accuracy of $\pm 0.1^{\circ}\text{C}$, centrifugal fans, and high-efficiency heat exchangers, achieving the avoidance of direct delivery of cold air and rapid cooling and heating functions.
- ***Heat pumps:*** Heat pumps offer diverse functions including heating, cooling and humidity management by transferring heat out of a space during summer and drawing heat into the space during winter. Our heat pumps can supply hot water at 80°C in an environment of -10°C , which is very suitable for boiler-converted houses and meets various end-point water temperature requirements. With unique noise reduction designs, our heat pumps can achieve noise levels as low as 35dB at 3 meters. In addition, our heat pumps feature full DC inverter technology, combined with flexible intelligent control, which enables real-time control of the opening or closing of the floor heating mixing valve and water temperature changes within $\pm 0.5^{\circ}\text{C}$, ensuring comfort and energy savings. In response to the evolving energy scenarios in North America and Europe, we have launched a range of air source heat pump products in 2022. Our heat pumps reach the highest seasonal coefficient of performance of A+++, which is the highest energy efficiency class in European countries.

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- **Chillers:** Chillers are central air conditioner systems made up of units with specific cooling or heating abilities that can be combined as needed. Our main chiller products are air-cooled modular units, using air for cooling or heating, which have a new space-saving design and can handle ultra-low-temperature heating at -25°C, run multiple units together, and rotate between different modules.
- **Terminal devices:** Terminal devices are equipment combinations that help cool, heat, humidify, dehumidify and filter air, primarily including products such as surface heat exchangers, spray systems and filters. Our terminal products mainly include fan coil units and air handling units. In 2017, we launched our hidden fan coil units and air handling units with low air leakage and compact designs to expand our product portfolio.

In 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, the sales volume for our central air conditioners were 0.9 million units, 1.3 million units, 1.6 million units, 0.4 million units and 0.4 million units, respectively. The average selling price of our central air conditioners remained relatively stable during the Track Record Period, amounted to RMB2,216, RMB2,137, RMB2,061, RMB2,073 and RMB1,962 in 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, respectively.

We provide end customers with installation services which are bundled together with the domestic sale of household air conditioners, and limited installation services which are bundled together with the domestic sale of central air conditioners, in mainland China. For our overseas sales, we do not provide bundled installation services. We collaborate with independent third parties to provide installation services, and conduct training for these service providers to enable the delivery of standardized and comprehensive installation services for our air conditioners. The fee arrangement between the third-party installation service providers and us is based on standardized installation charges specific to each air conditioner model. Most of these settlements are finalized on a monthly basis.

Other Products and Services

We engage in certain other businesses primarily consisting of sales of raw materials and brand authorization. We sell certain raw materials, primarily including steel and plastic. Our large-scale production enables us to centralize the procurement of many raw materials and components with lower costs.

Further, we generate royalty fees through our brand authorization, which includes a range of kitchen appliances and other small home appliances. Typically, the authorization scope is limited to mainland China, and authorized parties are prohibited from exporting authorized products to ensure brand consistency and control across different markets. Leveraging the established reputation of our trade name “Aux”, our authorized partners develop and market kitchen appliance and other small home appliance products, thereby enhancing our market presence and strengthening brand recognition in mainland China. This arrangement also allows us to identify and capitalize on high-demand product categories with significant growth

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potential, while maintaining the option to pursue strategic acquisitions or partnerships for market expansion. To safeguard our brand image and ensure product quality of these authorized partners, we have established a multi-layered control mechanism under our brand authorization arrangements. Authorized parties are required to strictly comply with national and industry standards to ensure that the authorized products meets the required quality standards. We retain the right to oversee their production processes, raw material procurement, and product quality, and we may conduct on-site inspections to ensure compliance. Any failure to meet these standards may result in penalties. The brand authorization agreements also include specific sales performance metrics and distribution channel requirements to maintain market discipline and optimize brand presence.

OUR GLOBAL FOOTPRINT

In China, we primarily provide household air conditioners and central air conditioners to our distributors or individual customers. In 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, revenue from our business in China amounted to RMB11,141.6 million, RMB14,419.5 million, RMB15,078.6 million, RMB3,662.6 million and RMB4,016.6 million, respectively, representing 57.1%, 58.1%, 50.7%, 49.7% and 42.9%, respectively, of our total revenue in the corresponding periods. We started from China with a global vision. In 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, revenue from our business in overseas market amounted to RMB8,386.0 million, RMB10,412.4 million, RMB14,680.7 million, RMB3,670.0 million and RMB5,335.8 million, respectively, representing 42.9%, 41.9%, 49.3%, 50.3% and 57.1%, respectively, of our total revenue in the corresponding periods.

Based on our deepening understanding of overseas markets and accumulated resources, we have structured an overseas business structure that synchronizes the development of OBM and ODM. We have achieved success in our ODM business leveraging our strong production capabilities and global supply. In 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, our revenue from our ODM business in overseas markets amounted to RMB6,881.0 million, RMB8,503.3 million, RMB11,936.7 million, RMB3,238.5 million and RMB4,374.1 million, respectively.

Not being limited to mere ODM model, we consistently enhanced our capabilities to promote our own brands. We have partnered with country-wide agencies and local distributors to sell our air conditioners while actively enhancing our brand recognition in local markets. Through advanced networks of national agents and distributors, we are able to effectively enter new markets with our own-brand products. In recent years, we have established sales companies and local teams in overseas markets such as Malaysia, Thailand, the U.S., the UAE, Vietnam and Saudi Arabia, strategically laying the groundwork for our global sales network. At the same time, we have effectively expanded our successful online retail model and the coverage of our “Hello AUX” ecosystem from the domestic market to the international market, enabling overseas distributors to seamlessly place orders with us. For further information, please refer to “— Sales and Marketing” below. We believe that the proliferation of the online retail model and the coverage of our “Hello AUX” ecosystem within our international sales

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strategy will drive substantial growth in our global sales performance. The establishment of our sales companies and local teams in Thailand and Malaysia has been particularly successful, with revenue generated from these markets experiencing multiple-fold growth from 2023 to 2024. While our overseas sales operations are still developing, we anticipate robust revenue growth from these markets. In addition, we also empower our overseas customers by providing customized component and semi-finished product solutions tailored to their customized needs. In 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, our revenue from our OBM business in overseas markets amounted to RMB1,505.0 million, RMB1,909.1 million, RMB2,744.0 million, RMB461.5 million and RMB961.6 million, respectively.

In 2019, we established our R&D center in Japan and a production facility in Thailand to further penetrate into global markets. Our R&D center in Japan plays a strategic role in advancing our technological capabilities, leveraging Japan’s leading position in home appliance and commercial technologies. With approximately 20 Japanese researchers, the center concentrates on exploring frontier fields, particularly central air conditioner systems, including control systems, airflow channels and industrial design. In addition, our Thailand production base marks the commencement of our overseas capacity layout, which is designed to optimize localized manufacturing, reducing lead times and increasing operational efficiency. This facility not only strengthens our presence in the Southeast Asian market but also serves as a springboard for further international expansion. As of the Latest Practicable Date, our Thailand production base primarily fulfills orders from Southeast Asian and North American markets. Moreover, we have been closely monitoring and will continue to evaluate changes in tariffs applicable to products exported from both China and Thailand, and will determine the most suitable manufacturing location for overseas orders on this basis. To further enhance our supply chain flexibility and better respond to potential geopolitical risks, we also plan to establish additional production bases in the Middle East, the Americas, and other appropriate locations over the next five years. For details of the production capacity of our Thailand production base, see “— Manufacturing and Production — Production Facilities.”

During the Track Record Period and up to the Latest Practicable Date, we are not aware of any material breaches or non-compliance with applicable laws and regulations in the jurisdictions where we operate.

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The following table sets forth a breakdown of our revenue by geographic locations for the years/periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2022		2023		2024		2024		2025	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
							(Unaudited)			
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 ⁽¹⁾	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 ⁽²⁾	294,066	1.4	543,231	2.1	713,888	2.4	168,486	2.3	387,708	4.1
Total	19,527,585	100.0	24,831,833	100.0	29,759,319	100.0	7,362,572	100.0	9,352,397	100.0

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.

During the Track Record Period, our rapid expansion in overseas markets largely contributed to our business growth, which substantially outpaced industry growth. In 2024, our total revenue increased by 20% year-on-year, with export sales growing by 41%, substantially higher than the industry average, while domestic sales growth remained generally in line with the market. Our strong performance in overseas markets was attributable to our high product quality, competitive pricing, and efficient delivery, which have earned broad recognition from international customers. In North America, we achieved an 85% increase in revenue, with the Mexican market up by 92%, mainly due to our ability to respond quickly to market demand and leverage our cost-effective product strategy and fast delivery capabilities. In South America, our revenue grew by 109% as we deepened technical cooperation with key ODM customers in Brazil, providing professional technical support to enhance customer production efficiency and drive order growth. In Southeast Asia, we achieved an 39% increase in revenue, primarily due to our ongoing efforts in localized operations and the successful replication of our domestic online retail model. In particular, we achieved multiple-fold growth of business scale in core markets such as Thailand and Malaysia. In the Middle East, we responded to rising demand for high-temperature air conditioning solutions by launching innovative inverter products, resulting in increased market share and substantial revenue growth in the UAE and Saudi Arabia. Through these comprehensive measures, we effectively captured market opportunities in multiple regions, which enabled our overall business performance to significantly outperform the industry during the Track Record Period.

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Transfer Pricing Arrangement

During the Track Record Period, we conducted our operations primarily through our subsidiaries in China and established subsidiaries in overseas jurisdictions to expand the operation in the international markets. During the same period, our international intra-group transactions primarily included (i) exporting products from AUX Import & Export to affiliated overseas companies in selected overseas jurisdictions for sales to our overseas distributors and customers; (ii) exporting semi-finished products from AUX Import & Export to the production base in Thailand and manufacturing into finished products for subsequent sales; and (iii) receiving R&D services from the R&D center in Japan (together, the “**Covered Transactions**”).

The Organization for Economic Co-Operation and Development (the “**OECD**”), an international organization of international cooperation, promulgated the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (the “**OECD Transfer Pricing Guidelines**”), which are generally followed by the relevant tax jurisdictions involved in international intra-group transactions. According to the OECD Transfer Pricing Guidelines, the intra-group transactions should be on an arm’s length basis to avoid distorted taxable income in different jurisdictions.

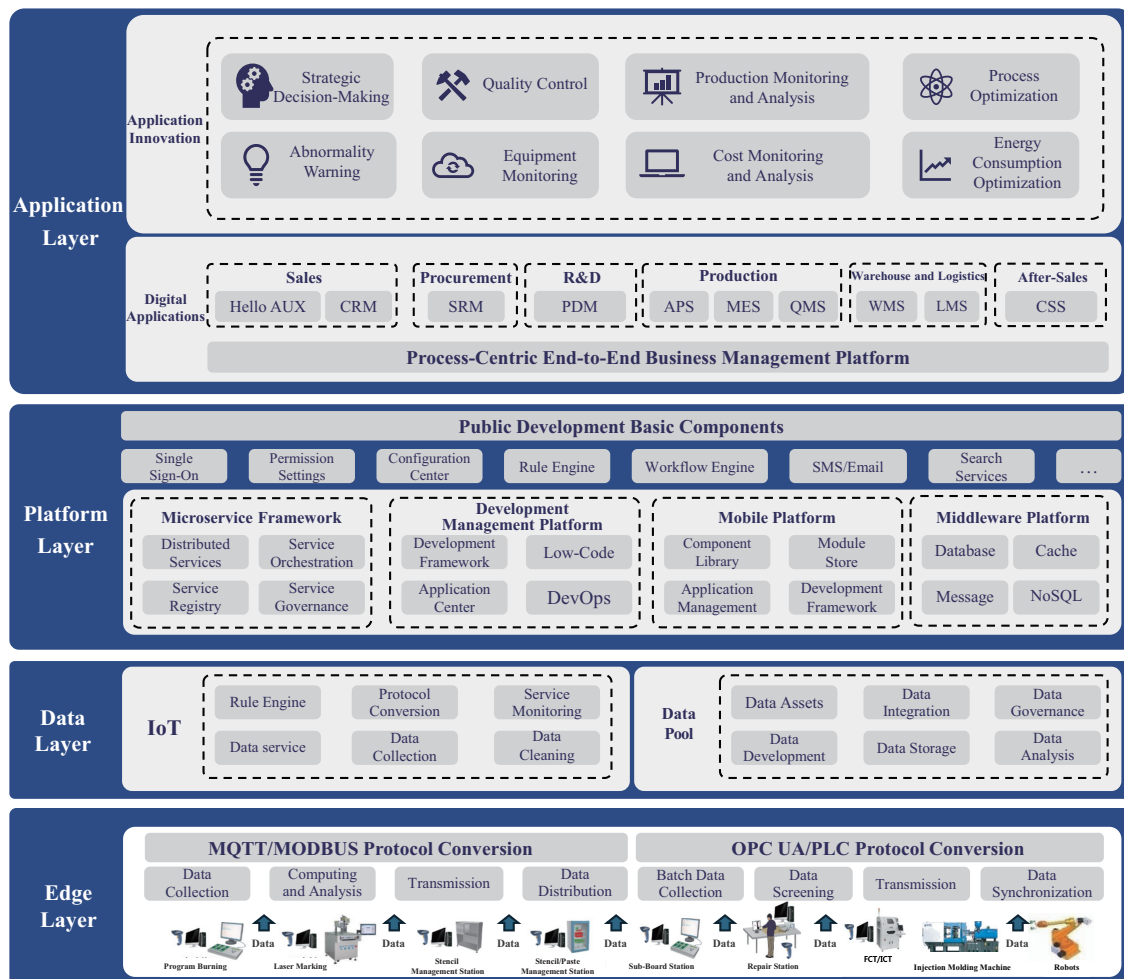
We have engaged the Transfer Pricing Advisor to conduct a transfer pricing review and benchmarking studies on the Covered Transactions during the Track Record Period to assess whether our transfer pricing arrangements are compliant with the arm’s length principle in accordance with the OECD Transfer Pricing Guidelines. The Transfer Pricing Advisor conducted an independent analysis and considers the transfer pricing arrangements of the Covered Transactions to be compliant with the arm’s length principle in accordance with the OECD Transfer Pricing Guidelines during the Track Record Period.

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DIGITAL AND INTELLIGENT OPERATION AND MANAGEMENT PLATFORM

Based on our deep-rooted experience accumulated over decades of development, we have developed a mature and efficient digital operation system that enables precise management throughout the entire product lifecycle. We have successfully established the AUX Industrial Internet Platform, leveraging advanced information technologies such as big data and cloud computing, which play a vital role in managing our operations across all departments. We are recognized as a benchmark enterprise for “Robotics +” applications in Zhejiang Province in 2023. In addition, AUX Industrial Internet Platform not only enhances our operations but also empowers our partners in the industry by digitizing collaborative details throughout our partnership. The following diagram sets forth the main functions of our AUX Industrial Internet Platform:

AUX Industrial Internet Platform



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The AUX Industrial Internet Platform serves as the cornerstone of our digitalization efforts, which seamlessly integrates R&D, production, supply chain operations, and sales to bolster our overall operational efficiency. Leveraging advanced big data analytics, the platform facilitates data-driven decision-making, enabling precise operational strategies and optimized production planning.

The AUX Industrial Internet Platform focuses on enhancing digitalization and intelligence across our operations, covering all key functions from strategic planning to operational optimization. By sharing the requirements across our operational processes, we are able to further reduce costs associated with these activities. The platform’s technological infrastructure provides an efficient and secure development framework that enables modular design and system replicability. The data layer features a robust data management system that covers the full data lifecycle, from collection and governance to advanced analytics. This transforms industrial data into a strategic asset, powering innovative applications and driving data-driven decision making. The edge layer serves as the foundation, connecting physical manufacturing assets to cloud infrastructure. Through real-time data collection, preprocessing, and secure transmission, this edge layer establishes a reliable foundation for the AUX Industrial Internet Platform.

Furthermore, the AUX Industrial Internet Platform enhances customer engagement through digital channels, which elevates service quality and responsiveness.

SALES AND MARKETING

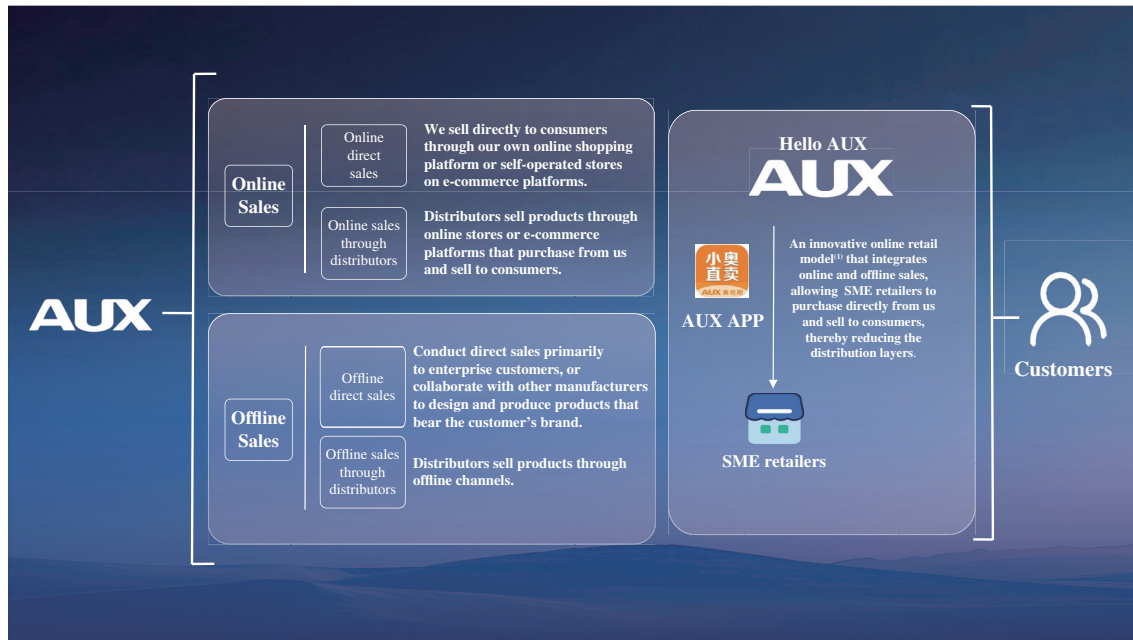
Our Sales Networks

Depending on the breadth and scale of our sales, we have developed effective sales strategies for various sales channels and regions. We have integrated online and offline channels to better serve our customers and expand our penetration to broader markets. Additionally, we have implemented a hybrid distribution model and direct sales. We were the first in the industry to develop an online retail model, which enables a large number of SME retailers to directly order and purchase products from us, so that we can connect with SME retailers and react promptly to changes in consumer preferences and market demand.

As of March 31, 2025, we had 2,375 sales personnel. Our sales and marketing team are responsible for overseeing and managing our relationships with our global sales network.

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The chart below sets forth our major sales channels.



Note:

- (1) Our “online retail model (網批新零售模式)” refers to an integrated online and offline distribution model firstly introduced by us in the industry in 2017, which creates a flatter distribution structure empowered by our self-developed online management systems. Our online retail model streamlines distribution layers, enhancing our closer communication and collaboration with offline SME retailers. We use the self-developed efficient online management systems (such as “Hello AUX (小奧直賣)” and “AUX Manager (小奧管家)” apps) manage our distributors through digital means.

The table below sets forth revenue contribution from our major sales channels 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)									
China										
Online sales	4,588,921	23.5	6,001,854	24.2	6,669,514	22.4	1,425,530	19.4	1,496,829	16.0
Distribution	3,490,768	17.9	5,021,902	20.2	5,632,022	18.9	1,338,287	18.2	1,290,869	13.8
– Online distribution buyout .	1,024,316	5.2	2,685,912	10.8	2,747,908	9.2	759,861	10.3	590,250	6.3
– Online distribution through the e-commerce platform's warehouse	1,820,556	9.3	1,948,378	7.8	2,252,184	7.6	488,828	6.6	595,803	6.4
– Online distribution with direct shipment	645,896	3.3	387,611	1.6	631,930	2.1	89,598	1.2	104,817	1.1

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	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)									
Direct sales	1,098,153	5.6	979,952	3.9	1,037,492	3.5	87,242	1.2	205,960	2.2
– Direct sales to consumers through the flagship stores we operate on third-party online platforms	781,758	4.0	634,686	2.6	929,770	3.1	57,678	0.8	195,905	2.1
– Direct sales to consumers through our own shopping platform AUX E-Store.	316,395	1.6	345,266	1.4	107,722	0.4	29,564	0.4	10,055 ⁽¹⁾	0.1
Offline sales	6,552,661	33.6	8,417,623	33.9	8,409,066	28.3	2,237,054	30.3	2,519,799	26.9
Distribution	6,508,791	33.3	8,323,207	33.5	8,274,498	27.8	2,203,046	29.9	2,499,718	26.7
Direct sales	43,871	0.2	94,416	0.4	134,567	0.5	34,008	0.4	20,081 ⁽²⁾	0.2
Subtotal	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
Overseas										
OBM	1,505,014	7.7	1,909,052	7.7	2,744,015	9.2	461,460	6.3	961,629	10.3
ODM	6,880,989	35.2	8,503,304	34.2	11,936,724	40.1	3,238,529	44.0	4,374,139	46.8
Subtotal	8,386,003	42.9	10,412,356	41.9	14,680,739	49.3	3,699,989	50.3	5,335,768	57.1
Total	19,527,585	100.0	24,831,833	100.0	29,759,319	100.0	7,362,572	100.0	9,352,397	100.0

Notes:

- (1) Despite the significant growth of online direct sales in China during the Track Record Period, our revenue generated from online direct sales to consumers through our own shopping platform AUX E-Store in China decreased from RMB29.6 million for the three months ended March 31, 2024 to RMB10.0 million for the same period in 2025. This decrease was primarily due to our strategic decision to focus more on third-party e-commerce platforms, which demonstrated strong performance and high traffic during this period.
- (2) Our revenue generated from offline direct sales in China decreased from RMB34.0 million for the three months ended March 31, 2024 to RMB20.1 million for the same period in 2025, primarily due to a major bidding project in the first quarter of 2024.

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Online Channels

Our online sales primarily include (i) distribution through e-commerce platforms, and (ii) direct sales to consumers through flagship stores we operate on third-party online platforms or through our own shopping platform AUX E-Store.

As a key player to establish a strong presence through online sales of air conditioners, we began to deeply collaborate with mainstream e-commerce platforms as early as 2011, capitalizing on the burgeoning e-commerce market in China and amassing significant expertise in online sales operations. Our online distributors are primarily distributors of B2B2C channels. Under the B2B2C model, we sell our products to intermediary platforms and/or independent online stores that subsequently re-sell these items to end customers. Our online distributors are responsible for the sales and marketing, while we are responsible for the after-sales services. Depending on the distribution agreements, we either deliver products directly to end customers based on their orders through our online distributors, or we deliver products to locations specified by our online distributors, who then handle the product delivery to end customers. Set out below are details of our various online distribution models based on the type of distributor and the method of delivery.

- ***Online distribution buyout.*** In this model, distributors operate stores on e-commerce platforms and we sell products to these distributors and deliver the products to the warehouses designated by the distributors. The distributors then sell the products through their online stores and arrange delivery to end consumers.
- ***Online distribution through e-commerce platform’s warehouse.*** In this model, we sell products directly to large e-commerce platforms, and deliver the products to the warehouses operated by these platforms. The e-commerce platforms then sell the products through their self-operated online stores and handle delivery to end consumers.
- ***Online distribution with direct shipment.*** In this model, end consumers place orders through stores operated by distributors on e-commerce platforms. We sell products to the distributors and, based on the order information provided by the distributors, deliver the products directly to the end consumers.

Different sales channels are strategically positioned to meet distinct market demands. Self-operated flagship stores cater to consumers seeking premium products and professional services, authorized stores provide a broader product selection, and platform-operated supermarkets offer one-stop shopping convenience. Our Directors are of the view that it is an industry norm for air conditioner companies to operate multiple stores on the same e-commerce platform to enhance market coverage and consumer reach. To ensure synergy between our distribution and direct sales models while mitigating potential channel conflicts, we have implemented a unified pricing policy for online sales to maintain consistency across sales channels and a differentiated operational strategy tailored to the characteristics of each channel. We also coordinate promotional activities to preserve brand value and prevent internal

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competition. Leveraging brand product analysis, consumer behavior insights, and platform-specific dynamics, we continuously optimize channel coordination to expand our consumer base, enhance brand recognition, and strengthen overall market positioning.

Offline Channels

Our offline sales primarily include (i) distribution through distributors, and (ii) direct sales, including selling our OBM products to enterprise customers, and directly selling to ODM customers, who then resell the products we manufacture under their own brands. During the Track Record Period, we only provided air conditioner products to overseas customers, mainly in Mexico, Brazil, Thailand, Malaysia, the UAE and Saudi Arabia, among others, through offline channels, including sales of OBM products through distributors and sales of ODM products to ODM customers. For overseas offline channels, our distributors are generally not exclusive distributors. Overseas offline distributors may appoint sub-distributors in designated regions and channels to enhance local market coverage, and we generally do not enter into agreements with sub-distributors.

Our offline distributors include regional distributors and SME retailers evolved over time to fit in, among other things, our business strategies, development stages and market conditions. For instance, we have authorized regional distributors located in the northern parts of Henan Province as well as in Northeast China to sell our products in such areas. We typically assess whether to engage regional distributors or adopt the online retail model in each region, and clearly delineate their geographic coverage, based on local conditions and our understanding of the local markets. These regional distributors are typically well-established air conditioner distributors with local sales networks and resources, who are able to make large purchases from us and have maintained long-term collaborations with us. In specific areas, we either engage regional distributors, who are responsible for overall management within specific areas, or adopt an online retail model and directly engage SME retailers. By implementing measures to prevent cross-region sales, we believe there is no direct competition between our regional distributors and SME retailers. For details of our measures to prevent cross-region sales, see “— Distribution Management — Management of Our Distribution Network.” During the Track Record Period, we authorized certain distributors to use our tradename, namely Aux (奥克斯), in the name of their business entities, primarily intended to enhance our brand recognition and visibility. As of the Latest Practicable Date, we were not aware of any potential abuses or improper use of our name by our distributors which could adversely affect our reputation, business operation or financial condition.

Our competitive advantages in securing contracts with ODM customers are rooted in our extensive industry experience, robust manufacturing capabilities, commitment to quality, and ability to ensure timely delivery. We have established strong brand recognition and trust among ODM customers through our consistent track record of delivering high-quality products. By strictly adhering to international quality management standards, such as ISO certifications, we ensure that our product development, design, and manufacturing processes meet the highest standards. We leverage advanced smart manufacturing systems and flexible production lines, which allow us to adjust production plans efficiently to cater to the diverse needs of ODM

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customers, ensuring timely and reliable delivery. In addition, our refined supply chain management, supported by long-term partnerships with suppliers and dynamic inventory management, ensures the stable supply of raw materials while reducing production cycles and improving delivery efficiency. Furthermore, our competitive pricing advantage is driven by economies of scale in raw material procurement and cost efficiencies achieved through automated production lines and continuous process optimization, enabling us to provide ODM customers with attractive pricing without compromising quality.

During the Track Record Period, our increased sales under the ODM model contributed to the growth of our total revenue. However, this also temporarily pressure on overall gross margins. Historically, not being limited to mere ODM model, we consistently enhanced our capabilities to promote our own brands. We have partnered with agencies around the world and local distributors to sell our air conditioners while actively enhancing our brand recognition in local markets. Through advanced networks of national agents and distributors, we are able to effectively enter new markets with our own-brand products. In particular, we plan to establish additional overseas sales companies and local teams, focusing on promoting our online retail model. Notably, our collaborations with ODM customers have provided valuable insights into consumer preferences and market environments, which support the establishment of our sales companies and local teams in overseas markets. In 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, our revenue from our OBM business in overseas markets amounted to RMB1,505.0 million, RMB1,909.1 million, RMB2,744.0 million, RMB461.5 million and RMB961.6 million, respectively. Going forward, we plan to enhance the sales of our own branded products and enhance our brand recognition. Leveraging our “AUX” brand, we are gradually developing a diversified and differentiated brand matrix to cater to a wider range of global consumers. See also “— Our Strategies — Enhance the sales of our own branded products and enhance our brand recognition” and “— Our Global Footprint.” Given the continuously increasing sales of our own brands, we anticipate maintaining our overall gross profit margin in the long term.

Set out below are the key terms of standard agreements we enter into with our ODM customers:

- ***Product specifications:*** The contracts with our ODM customers outline the specific details of the products to be supplied, including specifications, packaging, quantities, and unit prices.
- ***Payment:*** The payment terms usually involve an upfront payment as a deposit, with the remaining balance paid according to the respective credit terms.
- ***Delivery:*** Our ODM customers are primarily overseas customers. For overseas sales, 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.

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- **Warranty period:** Any claims for quality discrepancies must be submitted with Survey Reports issued by Public Surveyors recognized by us, within 30 days of the goods’ arrival at the port of destination. Depending on case-by-case negotiations, we may offer a limited warranty on products sold to ODM customers. For those customers to whom a warranty is offered, the warranty period typically ranges from one to three years.
- **Intellectual Property:** All intellectual properties of ODM products which we produce belong to our Group unless the agreement specifies. Without our prior written consent, our ODM customers are prohibited from using our trademark (registered or unregistered), brand name, trade name, or domain name for any purposes other than those specified in the ODM agreement. In addition, the other intellectual properties associated with our ODM products are not transferred to our ODM customers as part of the sales. All of our intellectual property is safeguarded in compliance with the applicable laws and regulations of the relevant jurisdictions. We shall not be liable for any intellectual property infringements resulting from the resale or use of goods within the territory of our ODM customers. It is the sole responsibility of our ODM customers to ensure that the goods do not infringe upon any intellectual property rights. Furthermore, they shall indemnify and hold us harmless from any claims, damages, or expenses arising from such infringements.

Online Retail Model and “Hello AUX (小奥直賣)” — Mixed Model Integrates Online and Offline Advantages

Our online retail model integrates the advantages of online management and offline coverage. We were a key player in selling air conditioners online. Since 2011, we collaborated with leading e-commerce platforms in China and gained valuable expertise in online sales. While numerous competitors adhered to conventional distribution practices involving multiple layers of distributors and sub-distributors with markups at each level, we diverged from this approach. Instead, we substantially reduced the layers of distribution and therefore eliminated markups. As a result, we introduced our online retail model in 2017, and steadily refined its efficiency during the past years. Our Directors are of the view that we adopted the online retail model and were subsequently followed by other companies in the industry which then adopted similar sales model.

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Our online retail model streamlines distribution layers, enhancing our closer communication and collaboration with offline SME retailers. Through robust partnerships with these SME retailers, who possess a more timely and in-depth understanding of local market dynamics and consumer behaviors, we swiftly access sales data and extend our footprint in lower-tier markets. We implement a series of policies aimed at benefiting and motivating our distributors through innovative distribution models and favorable management measures. Our streamlined distribution model significantly reduces the number of intermediary layers, allowing us to avoid substantial costs across multiple layers of distributors. This enables us to offer more competitive pricing and sales policies to our distributors, making our business model particularly attractive to small and medium-sized distributors. Furthermore, the flexible ordering policy empowers these SME retailers to place orders with us as required, mitigating product accumulation within distribution channels and making us react promptly to changes in consumer preferences and market demand. In terms of logistics, we do not impose minimum purchase quantity requirements, allowing distributors to place orders flexibly based on market demand. This flexibility helps distributors better align their orders with end-market needs and minimizes inventory risks within the distribution channel. Additionally, we have introduced rebate policies customized according to distributor type, sales channel, client category, and product type. Distributors that meet specified procurement goals and other relevant criteria are qualified for monthly, quarterly, or annual rebates.

We use the self-developed efficient online management systems (such as “Hello AUX (小奥直賣)” and “AUX Manager (小奥管家)” apps) manage our distributors through digital means. The following images set forth the main function of our “Hello AUX” app.



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“Hello AUX” app offers features that streamline procurement processes, enhance order management, and improve operational efficiency, enabling distributors to manage their business needs more effectively. Distributors can utilize “Hello AUX” app for one-stop purchasing, promptly accessing the latest sales policies, product information, and other crucial marketing details. With this method, our distributors can place orders through our app “Hello AUX” even for small quantities of products, while we ship products directly to such distributors. “AUX Manager” app is an intelligent management tool we developed to optimize employee management and enhance internal operational efficiency. With features such as customer outreach, store visit planning, and data analysis, it strengthens our headquarters’ management capabilities and ultimately drives overall operational efficiency. Our marketing managers can utilize our “Hello AUX” and “AUX Manager” apps to track and manage distributor orders and inventory in real-time, enabling precise management. The “Hello AUX” app was first developed and used to effectively manage our wide range of distributors under the online retail model. As the functionality of the “Hello AUX” app improved, we gradually expanded its use to effectively manage most of our distributors, regardless of their distribution channels. Furthermore, we have derived and built a unique, mutually beneficial “Hello AUX” ecosystem that connects distributors, logistics providers, installation service providers and after-sales service providers, enabling them to access real-time service requests and optimize the operational efficiency of the services they provide.

Our online retail model and “Hello AUX” ecosystem experienced significant expansion during the Track Record Period. Leveraging the capabilities of our “Hello AUX” app for streamlined sales data management, the majority of our distributors, including online distributors, offline regional distributors and SME retailers, utilized the app for order placement and tracking. As of December 31, 2022, 2023 and 2024 and March 31, 2025, 4,457, 6,207, 6,709 and 7,283 distributors in China placed orders with us through our “Hello AUX” app during the past 12 months, accounting for 90.3%, 95.7%, 97.9% and 98.4% of our total distributors in China as of the same dates, respectively.

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As advised by our PRC Legal Advisors, the operation of our “Hello AUX” app and “AUX Manager” app does not constitute value-added telecommunications services and therefore does not require ICP licences. According to the Administrative Measures on Internet-based Information Services (《互聯網信息服務管理辦法》) and the Classification of Telecommunications Services (《電信業務分類目錄》), enterprises that engage in operational internet information services are required to apply for an ICP license. Operational internet information services refer to the provision of information, web page production and other services to internet users through the internet for a fee. Our “Hello AUX” app facilitates product transactions and sells air conditioner products to distributors, while our “AUX Manager” app is used exclusively for internal operations, such as distributor management. Since we only charge the distributors for the purchase of air conditioner products through our “Hello AUX” app and do not charge fees for the information related to these two applications, these apps do not constitute the provision of operational internet information services.

Distribution Management

Selection of Distributors

We consider a number of selection and evaluation criteria in selecting distributors while taking regional differences into account, including, among others, their industry experience, market coverage, reputation and credibility, financial conditions, management capabilities, legal compliance status, understanding of our brand concept and business philosophy and warehousing and logistics capabilities. Only candidates that pass our selection and evaluation criteria will be qualified as our contracted distributors.

Relationship with Distributors

During the Track Record Period, sales to our largest distributor in each year/period accounted for approximately 18.7%, 14.7%, 16.1%, 13.7% and 15.6% of our total distribution channel revenue in 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, respectively, and sales to our five largest distributors in each year/period in aggregate accounted for approximately 32.9%, 29.7%, 27.3%, 26.5% and 18.0% of our total distribution channel revenue in 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, respectively.

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Our distribution models are in line with the industry norm. Our relationship with our distributors is a buyer and seller relationship. During the Track Record Period and up to the Latest Practicable Date, we have maintained good business relationships with our distributors. The following table sets forth the total number of our distributors in China and overseas and their movement, as well as further breakdown of our online and offline distributors (before dual-channel eliminations) and their movement, during the Track Record Period.

	As of/For the year ended December 31,			For the three months ended March 31,	
	2022	2023	2024	2024	2025
<i>Total</i>					
As of the beginning					
of the period	5,370	5,024	6,643	6,643	7,605
Addition of new					
distributors	2,129	3,129	3,546	1,041	967
Inactive					
distributors ⁽¹⁾ . . .	<u>(2,475)</u>	<u>(1,510)</u>	<u>(2,584)</u>	<u>(962)</u>	<u>(260)</u>
Net					
increase/(decrease)					
in distributors . . .	<u>(346)</u>	<u>1,619</u>	<u>962</u>	<u>79</u>	<u>707</u>
As of the end of the					
period	<u>5,024</u>	<u>6,643</u>	<u>7,605</u>	<u>6,722</u>	<u>8,312</u>
<i>Online distributors⁽²⁾</i>					
As of the beginning					
of the period	100	130	151	151	153
Addition of new					
distributors	63	53	51	13	10
Inactive					
distributors ⁽¹⁾ . . .	<u>(33)</u>	<u>(32)</u>	<u>(49)</u>	<u>(10)</u>	<u>(12)</u>
Net					
increase/(decrease)					
in distributors . . .	<u>30</u>	<u>21</u>	<u>2</u>	<u>3</u>	<u>(2)</u>
As of the end of the					
period	<u>130</u>	<u>151</u>	<u>153</u>	<u>154</u>	<u>151</u>

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	As of/For the year ended December 31,			For the three months ended March 31,	
	2022	2023	2024	2024	2025
Offline distributors⁽²⁾					
As of the beginning					
of the period	5,297	4,936	6,540	6,540	7,493
Addition of new					
distributors	2,086	3,092	3,510	1,034	964
Inactive					
distributors ⁽¹⁾ . . .	(2,447)	(1,488)	(2,557)	(959)	(251)
Net					
increase/(decrease)					
in distributors . . .	(361)	1,604	953	75	713
As of the end of the					
period	<u>4,936</u>	<u>6,540</u>	<u>7,493</u>	<u>6,615</u>	<u>8,206</u>

Notes:

- (1) Inactive distributors are distributors with whom we did not have sales during the preceding 12-month period. The number of inactive distributors fluctuated during the Track Record Period, primarily because we engaged two and one regional distributors in 2022 and 2023, respectively, in certain areas in China, because such regional distributors have a deeper understanding of the local markets. Therefore, we ceased to directly collaborated with other distributors in such areas which became inactive distributors in the current or following period.
- (2) Certain distributors operate through both online and offline channels under our distribution agreements with them. These dual-channel distributors are counted separately in each category in the table above, resulting in a sum of online and offline distributors that exceeds our total distributor count as of each date.

During the Track Record Period, the new distributors we had in each year/period were primarily due to the growth of our business and expansion of our sales network. In particular, we actively explored an efficient distribution system, our online retail model, to seize the opportunities in lower-tier markets, and therefore the total number of our distributors continuously grew.

There was a distributor during the Track Record period is a company in which a relative of one of our Directors holds a 50% equity interest, and hence a connected person of our Company. Our transactions with this distributor were conducted on an arm’s length basis. During the Track Record Period, revenue from this distributor accounted for approximately 0.01% of our total revenue during the same period. For details, see “Financial Information — Related Party Transactions — Sales of Goods and Rendering of Services” and Note 40 to the Accountants’ Report in Appendix I to this document. To the best of our knowledge, all of our other distributors in China and overseas during the Track Record Period are Independent Third Parties.

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There were a limited number of instances during the Track Record Period of our former employees becoming shareholders or legal representatives of certain distributors. Such distributors amount to nine, ten, nine and nine in 2022, 2023, 2024 and the three months ended March 31, 2025, respectively. Revenue from such distributors amounted to RMB882.0 million, RMB1,292.9 million, RMB719.0 million and RMB259.8 million in 2022, 2023, 2024 and the three months ended March 31, 2025, respectively, accounting for approximately 4.5%, 5.2%, 2.4% and 3.6% of our total revenue during the same period, respectively. We believe the collaboration with such distributors is mutually beneficial due to their comprehensive understanding of our business, standards, and products, which allows them to promote and market our products in a cost-effective manner. Our Directors are of the view that it is common in our industry for companies to collaborate with distributors, some of whom have shareholders or employees that are former employees of the companies themselves. We implement the same management policies across all of our distributors, and the pricing of our transactions with such distributors is based on the same set of factors applicable to our transactions with other distributors.

Some of our distributors may use sub-distributors. They typically further enter into agreements with the sub-distributors, and we generally do not enter into agreements or directly establish relationships with the sub-distributors. Nevertheless, we have access to the installation of most of our products through providing installation services, and therefore have a clearer understanding of the end data related to our products.

During the Track Record Period and up to the Latest Practicable Date, to the best of our knowledge, there was no material non-compliance with the terms and conditions of our agreements with distributors.

Set out below are the key terms of standard distribution agreements we enter into with our distributors:

- ***Duration:*** The duration of the distribution agreements is typically one year.
- ***Sales target:*** We may set annual and monthly sales target for distributors taking into account their size, designated distribution area, their historical sales records and our estimates of local demand. Our sales target do not constitute mandatory purchase obligation for distributors, but mainly serve as reference for us to evaluate the performance of distributors and provide rebates to distributors while offering us the flexibility to adjust our sales arrangement with distributors.
- ***Payment:*** We generally require our domestic distributors to make payment before the delivery of products. We also collaborate with certain domestic distributors operating on mainstream e-commerce platforms. Under such collaborations, we deliver products directly to end consumers after they place orders on our distributors’ online stores and make payments at the e-commerce platform. We then receive payment from the distributors through e-commerce platforms once the end consumers confirm the receipt of our products. Additionally, we may grant a specific

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credit limit to overseas customers taking into consideration factors such as the history of the business relationship, the historical credibility and the expected scale of shipping orders of the distributors. We generally grant a credit period to our overseas distributors ranging from 30 days to 120 days.

- ***Sales rebate:*** Our sales rebate is typically calculated as a percentage of the overall sales value of the applicable products and is typically calculated based on factors such as the distributor’s total purchase volume, the proportion of specific product models purchased, and our product mix optimization goals. These policies are designed to meet market demands and support the promotion of key products. Rebates are generally provided to distributors through a deduction from sales revenue and are settled on a monthly, quarterly, or annual basis, depending on the specific contractual arrangements. Our Directors are of the view that these rebate policies are consistent with industry practices. We recorded sales rebate to our distributors of RMB965.9 million, RMB1,765.5 million, RMB1,818.7 million and RMB564.6 million in 2022, 2023, 2024 and the three months ended March 31, 2025, respectively.
- ***Transportation and logistics:*** We generally bear the costs and risks related to the shipment of ordered products to the domestic distributors or their designated recipients. For overseas sales, 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.
- ***Price control:*** We typically set guidance on price of our products for our distributors. Distributors may adjust the actual selling price based on market conditions and their business status. If a distributor set the actual selling price in a way that disrupts the market order, it is subject to liquidated damages or contract termination.
- ***Return of products:*** We generally do not allow our distributors to return products other than due to product quality issues, product recalls or other specified circumstances, which is in line with customary industry practice. For our collaboration with certain leading e-commerce platforms in mainland China, we may agree to accept returns for unconditional returns initiated by consumers. During the Track Record Period and up to the Latest Practicable Date, we did not receive any material customer complaints or product returns, nor incur any material product recalls. There were only a small amount of sales returns from our distributors during the Track Record Period. During the Track Record Period, the sales returns from our distributors in China amounted to RMB89.8 million, accounting for 0.2% of our total revenue through distribution in China, primarily attributable to unconditional returns initiated by consumers through leading e-commerce platforms. During the Track Record Period, our sales returns from our overseas distributors amounted to merely RMB49 thousand.

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- ***Anti-corruption and anti-bribery obligations:*** Distributors and their employees are prohibited to, for any reason and in any form, directly or indirectly provide any rebate, commission or object etc., to our employees or their relatives. We deem such actions as commercial bribery and, in serious cases, may terminate the distribution agreement.
- ***Termination:*** We are entitled to terminate the distribution agreement if the distributors or their employees materially breach the contract.

Management of Our Distribution Network

We have a dedicated sales team to actively oversee and manage our global sales and distribution network, primarily focusing on expanding potential distributors, conducting regular on-site visits and continuously monitoring compliance with our sales policies. According to our market analysis, our sales team actively reaches out to potential distributors in different regions or channels. For example, our sales personnel visit air conditioner stores in various cities, promote the utilization of our “Hello AUX” app, and collect distributor qualifications and detailed information for internal review. Once the distributor is approved as our authorized distributor, our sales team revisits to provide training on our products, sales policies and promotional activities, and assist distributors with placing orders via the app. Our sales team conducts regular on-site visits with our distributors so that we can obtain first-hand information about the sales performance of our distributors and also collect feedback on our products from the end customers. In addition, we also provide our distributors with the latest product updates, technology information and sales policies, collect their needs and monitor inventory levels during our regular on-site visits.

In addition, we have a series of management policies to manage our domestic and overseas distributors:

- ***Minimize cannibalization and prevent cross-region sales:*** To minimize the risk of cannibalization among distributors and among various sales channels, we adopt the following measures, which primarily apply for our offline distributors: (i) overseeing and tracking orders and product deliveries via our “Hello AUX (小奧直賣)” and “AUX Manager (小奧管家)” apps to guarantee digital and comprehensive management; (ii) monitoring and managing the number of regional distributors for each geographical region; (iii) clearly delineating their geographic coverage and explicitly prohibiting our distributors from selling our products outside the respective designated geographical regions according to our distribution agreements. Our distributors are required to ensure their sub-distributors operate within their designated geographical regions; (iv) analyzing inventory and sales reports provided by our distributors; and (v) managing the pricing policy and provide suggested retail prices for products across different sales channels. The distributors are allowed to sell in designated region and channel only and cross-region sales are forbidden. We monitor and identify cross-region sales through various measures, including regular inspection and verification by our marketing

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team and report by other distributors. If cross-region sales is identified by us, we may impose penalties on the non-compliant distributors including warnings, liquidated damages, and termination of their distribution agreements, based on the severity of such violations. As confirmed by the Internal Control Consultant, it did not discover any material deficiencies during the internal control reviews relating to our distributorship management. Based on the above, our Directors believe that these measures are effective in respect of management of material cannibalisation risks during the Track Record Period. Based on the independent due diligence conducted, nothing material has come to the attention of the Sole Sponsor that would cast its doubt on the Directors’ view in relation to effectiveness of the Group’s internal control measures to manage the cannibalisation risks among its distributors.

- ***Manage regional distributors:*** We only have direct contract with our distributors, which will further distribute our products to their sub-distributors. We generally do not enter into agreements with the sub-distributors. Thus we largely rely on our distributors to manage their sub-distributors’ activities and to monitor the performance of such sub-distributors. According to our distribution agreements with our offline distributors, they must satisfy minimum sub-distributor requirements, and expand their sub-distributor network to enhance our product coverage. If we notice any abnormal performance or non-compliance of a sub-distributor, we will require the corresponding distributors to take necessary action to rectify their sub-distributor’s activities.
- ***Inventory control:*** Generally, our distributors are not allowed to return products to us once they have purchased them, except in exceptional circumstances, such as product defects. We do not impose minimum purchase thresholds on our distributors when they place orders with us, which allows our distributors to order products based on their actual sales capabilities, and prevents them from overstocking their inventory. We have implemented a code tracking system to oversee and monitor the inventory of our distributors and detect unauthorized cross-region sales. In China, each of our products bears a unique code and installation card, which serves to demonstrate product authenticity, indicate the authorized sale jurisdiction, and provide instructions for the installation process. By checking the product code, we are able to detect any instances of unauthorized cross-region sales. Furthermore, by reviewing the installation cards reported by our distributors, we are able to closely monitor the sales of our products to end consumers and the installation status of our products. We conduct regular on-site visits, including reviewing the size of inventory, with our distributors, and discuss with them to have understanding of their sales performance. We also provide huge support to our distributors by taking measures to help them destock slow-moving products, such as conducting promotional campaigns.

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Branding and Marketing

Brand Building

We aim to build our branding strategy on solid foundations, establishing a stable and unified brand image and reputation.

We adopt a customer-centric marketing approach based on our high-quality products. We develop a deep understanding of our customers, conduct consumer behavior studies, and craft precise marketing strategies. For example, we customize our marketing tactics based on specific market characteristics and distribution channels. Factors such as ease of product installation and simplicity of maintenance are meticulously considered in different regions. We also leverage feedback received from our sales channels and information collected through our digital platforms to identify potential customers and use targeted product and brand image marketing activities in our core markets to promote those brands and products.

We strive to maintain an innovative brand positioning with an expanded market presence, delivering products and experiences that embody superiority and exclusivity. Alongside our master brand AUX’s extensive operation over the years, we have also developed additional brands, such as “Hutssom” (華蓀) and “AUFIT,” and introduced premium brands such as ShinFlow to achieve broader global consumer coverage.

We seek to associate our brands with reliable image and positive lifestyle by providing our products to reputable institutions and events. For example, we are the official exclusive supplier of air conditioners for the 19th Asian Games in Hangzhou. Additionally, for over a decade, our products have been selected as the official choice for China’s polar expeditions, supporting scientific research vessels in their successful voyages and ensuring the seamless completion of their missions. These collaborations not only underscore our commitment to excellence in extreme environments but also enhance our brand recognition. Furthermore, our sponsorship of a major tennis open event has emphasized our Company’s youthful brand image, aligning our brand with active and vibrant lifestyles.

We are dedicated to cultivating a consistent and deeply rooted brand image across our markets. For example, we provide our distributors with dedicated assistance in selecting strategic store locations and renovating their showrooms. We also deliver thorough training programs for their sales personnel. This not only fosters a cohesive brand experience in-store, but also elevates the quality of our sales services. In addition, we have designed and consistently deployed our own cartoon character mascot. These deeply ingrained brand visuals enable consumers to form a stable and recognizable association with us, transcending regional boundaries.

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Market Initiatives

We emphasize the integration of online and offline channels, with a focus on enhancing user engagement, driving traffic and enhancing brand awareness and reputation.

We conduct various marketing activities by revitalizing media resources and disseminate through multiple channels such as trade fairs, media intermediaries, recommendations from industry associations, industry forums, and our own website. We have been able to generate significant media coverage of our brand and products benefiting from our effective marketing strategies. We annually organize “AUX Fan Festival” event, where we collaborate with e-commerce platforms and KOLs to introduce and promote our products. We also proactively engage in shopping festivals hosted by leading e-commerce platforms. This participation not only enhances our visibility but also drives substantial growth in our sales volume.

We partner with reputable KOLs who use and endorse our products through short videos, posts, or live-streaming sessions on popular social media platforms. These endorsements resonate with their followers and enhance our brand’s visibility and credibility. Our KOL partners are carefully selected based on their expertise, influence, and alignment with our brand values. By leveraging their marketing perspectives and creative content, we can reach a wider audience and foster a deeper connection with our target consumers.

We are also committed to executing more targeted and effective offline marketing initiatives. In recent years, we have increasingly adopted a community-based marketing approach, which enables us to design tailored marketing content informed by detailed consumer profiling.

Beyond encouraging our distributors to participate in our centralized marketing campaigns and providing them with standardized marketing materials, we also offer sales rebates to incentivize them to further promote our products and independently conduct their own localized marketing activities. Instead of cash payouts, these rebates are generally applied as credits towards subsequent purchases by the respective distributor. The actual rebate amounts can vary significantly over time and across different policies, depending on factors such as market conditions, seasonality, competitive dynamics, and the nature of the underlying products.

In recent years, we have established sales companies and local teams in overseas markets such as Malaysia, Thailand, the U.S., the UAE, Vietnam and Saudi Arabia, strategically laying the groundwork for our global sales network. These sales companies and local teams are responsible for executing local marketing activities and overseeing local partners and distributors to conduct marketing campaigns in accordance with our internal policies and guidance.

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Pricing

Our pricing policy varies among different areas, considering factors such as the market maturity, penetration rate, spending power, competition landscape and cost of sales. We usually provide pricing policy suggestion to our distributors for their reference. Through our digitized and intelligent internal systems, we can accurately calculate product costs, identify target customer preferences and assess sales channel trends, which enable us to offer competitive pricing strategies.

MAJOR CUSTOMERS

During the Track Record Period, our five largest customers were mainly distributors and ODM customers. Our revenue from the largest customer in each year/period during the Track Record Period accounted for 9.6%, 7.9%, 7.5% and 6.3% of the total revenue for the respective periods. Our revenue from the five largest customers in each year/period during the Track Record Period accounted for 18.3%, 17.5%, 18.9% and 18.1% of the total revenue for the respective periods. For a substantial portion of our sales of products in China, we generally require full payment before 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.

The following tables set out certain details of our five largest customers in each year/period of the Track Record Period.

For the three months ended March 31, 2025

Rank	Customer	Approximate transaction amount (RMB'000)	% of our total revenue %	Background	Relationship since
1. . .	Customer A ⁽¹⁾	593,142	6.3%	Affiliates of a China-based leading e-commerce platform	2011
2. . .	Customer B ⁽²⁾	465,192	5.0%	Affiliates of a Brazil-based company dedicated to the production and distribution of consumer and industrial equipment	2013
3. . .	Customer C ⁽³⁾	262,380	2.8%	Affiliates of a UAE-based brand developer and distributor of consumer electronics and home appliances	2012
4. . .	Customer D	196,756	2.1%	An Jordan-based company specializing in the import of household appliances	2018
5. . .	Customer E ⁽⁴⁾	172,383	1.8%	Affiliates of a Vietnam-based air conditioner system supplier	2020
	Total	<u>1,689,853</u>	<u>18.1%</u>		

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For the year ended December 31, 2024

<u>Rank</u>	<u>Customer</u>	<u>Approximate transaction amount</u> <i>(RMB'000)</i>	<u>% of our total revenue</u> %	<u>Background</u>	<u>Relationship since</u>
1. . .	Customer A ⁽¹⁾	2,234,786	7.5%	Affiliates of a China-based leading e-commerce platform	2011
2. . .	Customer B ⁽²⁾	1,126,926	3.8%	Affiliates of a Brazil-based company dedicated to the production and distribution of consumer and industrial equipment	2013
3. . .	Customer F	977,939	3.3%	A Mexico-based company specializing in household appliances	2016
4. . .	Customer C ⁽³⁾	708,054	2.4%	Affiliates of a UAE-based brand developer and distributor of consumer electronics and home appliances	2012
5. . .	Customer E ⁽⁴⁾	590,254	2.0%	Affiliates of a Vietnam-based air conditioner system supplier	2020
	Total	<u>5,637,959</u>	<u>18.9%</u>		

For the year ended December 31, 2023

<u>Rank</u>	<u>Customer</u>	<u>Approximate transaction amount</u> <i>(RMB'000)</i>	<u>% of our total revenue</u> %	<u>Background</u>	<u>Relationship since</u>
1. . .	Customer A ⁽¹⁾	1,962,345	7.9%	Affiliates of a China-based leading e-commerce platform	2011
2. . .	Customer E ⁽⁴⁾	711,006	2.9%	Affiliates of a Vietnam-based air conditioner system supplier	2020
3. . .	Customer G ⁽⁵⁾	578,859	2.3%	Affiliates of a China-based trading and service platform	2015
4. . .	Customer F	559,783	2.3%	A Mexico-based company specializing in household appliances	2016
5. . .	Customer H ⁽⁶⁾	534,843	2.2%	A China-based company engages in sales of air conditioner and other home appliance products	2023
	Total	<u>4,346,836</u>	<u>17.5%</u>		

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For the year ended December 31, 2022

Rank	Customer	Approximate transaction amount (RMB'000)	% of our total revenue %	Background	Relationship since
1. . .	Customer A ⁽¹⁾	1,870,936	9.6%	Affiliates of a China-based leading e-commerce platform	2011
2. . .	Customer C ⁽³⁾	459,387	2.4%	Affiliates of a UAE-based brand developer and distributor of consumer electronics and home appliances	2012
3. . .	Customer G ⁽⁵⁾	458,164	2.3%	Affiliates of a China-based trading and service platform	2015
4. . .	Customer I ⁽⁷⁾	413,279	2.1%	Affiliates of a China-based company engages in the sales of household appliances	2018
5. . .	Customer F	371,383	1.9%	A Mexico-based company specializing in household appliances	2016
	Total	3,573,148	18.3%		

Notes:

- (1) Customer A comprises five companies, all of which are affiliates of the same party established in the PRC. Transactions with Customer A is presented on group basis.
- (2) Customer B comprises three companies, all of which are affiliates of the same party established in Brazil. Transactions with Customer B is presented on group basis.
- (3) Customer C comprises two companies, both of which are affiliates of the same party established in the UAE. Transactions with Customer C is presented on group basis.
- (4) Customer E comprises five companies, all of which are affiliates of the same party established in Vietnam. Transactions with Customer E is presented on group basis.
- (5) Customer G comprises 12 companies, all of which are affiliates of the same party established in the PRC. Transactions with Customer G is presented on group basis. The current legal representative of one of these companies previously served as the general manager of one of our subsidiaries. To the best of our knowledge, the ultimate beneficial owner of such customer had no past or present relationships with our Company or our subsidiaries, our Controlling Shareholders, Directors, or senior management, or any of their respective associates, other than their role as our customers.
- (6) The current legal representative of Customer H previously served as the general manager of one of our subsidiaries. To the best of our knowledge, none of the director and ultimate beneficial owner of such customer had any past or present relationships with our Company or our subsidiaries, our Controlling Shareholders, Directors, or senior management, or any of their respective associates, other than their role as our customers.
- (7) Customer I comprises six companies, all of which are affiliates of the same party established in the PRC. Transactions with Customer I is presented on group basis.

To the best of our knowledge, none of our Directors, their respective associates or any shareholder who owned more than 5% of our issued share capital of our Company as of the Latest Practicable Date, had any interest in any of our five largest customers in each year/period during the Track Record Period.

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AFTER-SALES SERVICES

We recognize the importance of high-quality after-sales services in driving customer satisfaction and loyalty. We aim to provide high-quality and comprehensive after-sales services to improve customer satisfaction and build strong relationships with our customers, which will in turn enhance customer loyalty and drive business growth.

To support the sale of our air conditioners, we maintain a comprehensive service network. As of March 31, 2025, our after-sales service network comprises over 5,100 points worldwide. We have established an after-sales service team for most of our overseas sales companies that have commenced operations. Our service personnel are required to meet strict service standards, and their performance is regularly monitored and evaluated. We also provide components to our overseas distributors and ODM customers as part of our after-sales services.

Under our general terms and conditions of sale and in accordance with industry practice, we typically provide a limited warranty on our products providing for the return, repair or replacement of defective items or a credit with respect to amount paid for such items. While the terms of the warranties provided by us differ depending on the type of products, customer and geographic market, they generally range from one to six years. We provide a range of after-sales services, including installation, repair, maintenance and replacement of our air conditioning products. These services are delivered at the point of sale, in person through home visits, in service centers, over the phone and, increasingly, over intelligent platform features. To ensure the quality of our services, we have implemented a robust service quality control system. This includes regular review, customer feedback mechanisms and continuous improvement initiatives. Our customers can reach us through various channels, including our dedicated customer service hotline, email and online platform. We strive to respond to customer inquiries and concerns in a timely and professional manner. Over 90% of our customers’ installation and repair requests are responded to within 24 hours.

MANUFACTURING AND PRODUCTION

Production Facilities

As of the Latest Practicable Date, we had established five production bases and were in the process of preparation for two more facilities.

Our five established production bases comprise four production bases for the manufacturing of air conditioners, and one production base for the manufacturing of compressors. Our four production bases for the manufacturing of air conditioners are in Ningbo, Nanchang, Ma’anshan and Thailand, strategically designed to support our expansive global operations and meet the increasing demands of the overseas market. These facilities collectively encompass an aggregate area of approximately 2,940,000 square meters, ensuring robust capacity for efficient manufacturing of our high-quality air conditioner units. We have completed the construction of the phase I of our Wuhu factory, which has commenced the operation and mass production of compressors, a core component for our products, in June

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2025. We own all land use rights to and factories of these production bases. We are currently establishing a manufacturing factory in Zhengzhou to be primarily used for production of our household air conditioners, and have also commenced construction of a new factory in Ningbo to serve the expanding needs of our overseas markets.

The following images set forth our four production bases for the manufacturing of air conditioners.

Ningbo factory



Ma’anshan factory



Nanchang factory



Thailand factory



At the core of our production network is the Ningbo integrated research and production base. This state-of-the-art facility serves as the central hub for both R&D as well as manufacturing, fostering continuous synergy between innovative design and scalable production processes. The Ningbo base is pivotal in driving our technological advancements and maintaining stringent quality standards.

Complementing our core facility, the Nanchang and Ma’anshan production bases play crucial roles in supporting our global supply. These sites are instrumental in fulfilling worldwide demand, equipped with advanced manufacturing technologies and efficient logistics systems. By leveraging these strategically located bases, we ensure timely delivery and maintain the highest levels of quality across all our international markets. The Nanchang and Ma’anshan production bases enhance our ability to respond swiftly to market fluctuations and customer needs, reinforcing our position as a reliable global air conditioner provider.

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The Thailand production base is located near Pattaya, and marks the commencement of our overseas capacity layout, which is designed to optimize localized manufacturing, reducing lead times and increasing operational efficiency. This facility not only strengthens our presence in the Southeast Asian market but also serves as a springboard for further international expansion. As of the Latest Practicable Date, our Thailand production base primarily fulfilled orders from Southeast Asian and North American markets. During the Track Record Period and up to the Latest Practicable Date, our Thailand production base experienced no material disruptions and was not materially affected by any trade or political tensions.

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.

We are currently establishing a manufacturing factory in Zhengzhou. The construction of our Zhengzhou factory is anticipated to be completed in 2026, and this factory is expected to be primarily used for production of our household air conditioners. We have also commenced construction of a new factory in Ningbo to serve the expanding needs of our overseas markets. As of the Latest Practicable Date, we had obtained the relevant government approvals for the commencement of construction of this new facility and had commenced its construction.

As of the Latest Practicable Date, we owned all of the machinery and equipment used in our production processes, mainly including stamping machines, plastic injection machines, insertion machines, assembly lines and ancillary equipment. To our Directors’ best knowledge, the life span of our manufacturing machinery and equipment is approximately three to ten years, and as of the Latest Practicable Date, our major machinery and equipment had been in operation for approximately one to ten years. We perform routine and preventative maintenance on our manufacturing machinery and equipment to ensure their proper functioning. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material interruption to our production process due to machine or equipment failure.

Production Capacity

The following table sets forth the designed capacity, production volume and capacity utilization for each major product segment during our Track Record Period:

	For the year ended December 31,									For the three months ended March 31,		
	2022			2023			2024			2025		
	Designed Capacity	Production Volume	Utilization Rate ⁽¹⁾	Designed Capacity	Production Volume	Utilization Rate ⁽¹⁾	Designed Capacity	Production Volume	Utilization Rate ⁽¹⁾	Designed Capacity	Production Volume	Utilization Rate ⁽¹⁾
	(’000)		%	(’000)		%	(’000)		%	(’000)		%
Household air conditioners .	17,000	10,823	63.7	17,000	14,297	84.1	21,000	19,177	91.3	5,750	5,392	93.8
Central air conditioners . .	1,800	929	51.6	1,800	1,363	75.7	2,133	1,933	90.6	533	442	83.0
Total	<u>18,800</u>	<u>11,752</u>	<u>62.5</u>	<u>18,800</u>	<u>15,661</u>	<u>83.3</u>	<u>23,133</u>	<u>21,110</u>	<u>91.3</u>	<u>6,283</u>	<u>5,834</u>	<u>92.9</u>

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The following table sets forth the designed capacity, production volume and capacity utilization for each manufacturing facility during the Track Record Period:

	For the year ended December 31,									For the three months ended March 31,		
	2022			2023			2024			2025		
	Designed Capacity	Production Volume	Utilization Rate ⁽¹⁾	Designed Capacity	Production Volume	Utilization Rate ⁽¹⁾	Designed Capacity	Production Volume	Utilization Rate ⁽¹⁾	Designed Capacity	Production Volume	Utilization Rate ⁽¹⁾
	(‘000)		%	(‘000)		%	(‘000)		%	(‘000)		%
Ningbo . . .	10,300	5,960	57.9	10,300	7,991	77.6	10,633	9,352	87.9	2,783	2,632	94.6
Ma’anshan . .	3,000	2,897	96.6	3,000	2,914	97.1	6,000	5,831	97.2	1,875	1,702	90.8
Nanchang . .	5,000	2,744	54.9	5,000	4,598	92.0	6,000	5,445	90.7	1,500	1,376	91.7
Thailand . .	500	151	30.2	500	158	31.6	500	482	96.4	125	123	98.7
Total . . .	18,800	11,752	62.5	18,800	15,661	83.3	23,133	21,110	91.3	6,283	5,834	92.9

Notes:

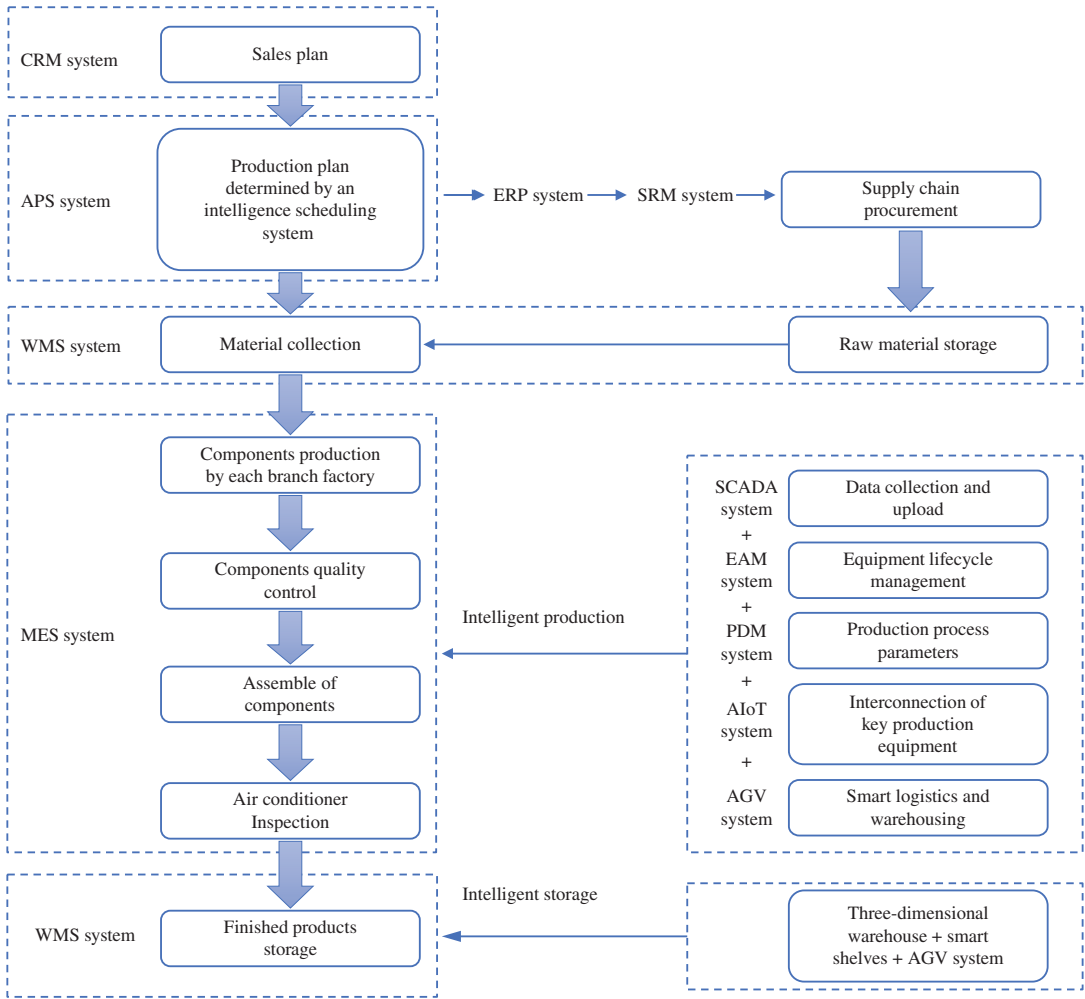
(1) The utilization rate equals to the production volume divided by the designed capacity during the same period.

The utilization rate of our manufacturing facilities, especially our manufacturing facilities in Ningbo, Nanchang and Thailand, increased in 2023, 2024 and the three months ended March 31, 2025, mainly due to increased consumer demand for our products, driven by enhanced product competitiveness from our continued innovation and upgrades, as a result of which the production volume increased.

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Production Process

The following diagram illustrates the production process for our air conditioners:



Intelligent Production

In response to the rapidly evolving market dynamics and the increasingly stringent demands of our consumer, we have proactively implemented a comprehensive strategy focused on the digitization of the entire production manufacturing chain. This strategic initiative underscores our commitment to transforming traditional production lines through intelligent upgrades and innovative practices, thereby enhancing operational efficiency and product quality.

Leveraging cutting-edge Supervisory Control and Data Acquisition (SCADA) systems, we have achieved over 90% automatic data acquisition across critical production stages, including production progress, workshop operations, quality inspections, equipment status, and material handling. This sophisticated data integration enables real-time monitoring and automated traceability of essential production metrics such as product quality control,

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equipment performance, and process execution. Furthermore, our key equipment boasts a 100% CNC rate, ensuring precise and reliable manufacturing processes that adhere to the highest standards of quality and consistency.

Our commitment to digital transformation is further exemplified by the establishment of a robust production information system, centered around the integration of Systems Applications and Products (SAP), Manufacturing Execution Systems (MES), Advanced Planning and Scheduling (APS) and Warehouse Management Systems (WMS). This interconnected framework seamlessly bridges multiple information flows across sales, supply chain, research and development, and warehousing departments, facilitating data exchange and coordinated operations throughout all functions. By enabling intelligent scheduling through the APS system, automating material handling via the WMS system, and tracking production progress through the MES system, we ensure a transparent and efficient production workflow. Additionally, real-time monitoring and exception management facilitate prompt responses to anomalies, while comprehensive data visibility from planning to shipment significantly enhances our production management efficiency.

Our “One Flow” lean production layout exemplifies our dedication to optimizing the entire manufacturing process, ensuring that every component — from production and assembly to logistics and warehousing — operates without interruption. This is achieved through the integration of five key categories of intelligent production equipment: CNC machine tools, industrial robots, smart sensors and control systems, intelligent testing and assembly machinery, and advanced logistics and warehousing solutions. These technologies collectively fortify our manufacturing capabilities, enabling us to maintain a competitive edge in the production domain by enhancing precision, reducing waste, and streamlining operations.

Leveraging our intelligent production framework, we adopt Lights-Out Factory in our injection molding process, where the entire lifecycle from raw materials to finished products is seamlessly automated. This comprehensive process, encompassing production, storage, inter-process transfer, and quality inspection, is primarily executed by advanced intelligent robots or highly specialized automated equipment, meticulously following precise system instructions. Our Lights-Out Factory represents our strategic transition from labor-intensive manufacturing to cutting-edge intelligent manufacturing. By leveraging the most cutting-edge technological innovations, we have achieved improvements in production efficiency and product reliability.

High-precision industrial robots are deployed to handle a wide range of tasks, ensuring consistent quality and minimizing the potential for human error. Advanced systems analyze real-time production data to optimize workflows, predict maintenance needs, and enhance overall operational efficiency. The intelligent management not only reduces downtime but also extends the lifespan of our equipment. The integration of IoT connectivity facilitates comprehensive monitoring of machine performance, environmental conditions, and material usage throughout the production process. Smart sensors and connected devices gather and transmit data continuously, enabling real-time adjustments and informed decision-making to maintain optimal production conditions.

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By automating critical manufacturing processes, we achieve higher levels of precision and consistency, resulting in superior product quality and reduced waste. The scalability and flexibility of these unmanned facilities allow us to expand our production capabilities efficiently, accommodating fluctuating demand and specific manufacturing constraints. Additionally, minimizing human intervention reduces labor costs and mitigates risks related to labor shortages and operational disruptions, thereby enhancing our overall cost-efficiency and operational resilience.

We have incorporated advanced energy management systems to optimize energy usage across our facilities, which allows us to reduce consumption, lower operational costs, and contribute to our overarching sustainability goals by minimizing the environmental impact of our manufacturing processes.

Through our intelligent production strategy, advanced automation, comprehensive digital transformation and lean manufacturing practices, we are well-positioned to meet the challenges of a dynamic market environment. These initiatives not only enhance our production efficiency and product quality but also reinforce our commitment to innovation and excellence.

PROCUREMENT AND SUPPLY CHAIN MANAGEMENT

Materials, Parts and Components

We are committed to enhancing production efficiency and advancing intelligent manufacturing through the establishment of a platform-based R&D system and the launch of our proprietary “Smart AUX” series platforms. This strategic initiative allows us to optimize our manufacturing processes by standardizing materials, integrating structural designs, and modularizing product components. Through the implementation of material standardization, structural integration, and design modularity, we have optimized our production workflows and enhanced the efficiency of raw material utilization. These efficiencies enable us to lower production costs, deliver high-quality products at competitive prices, and maintain robust profit margins.

Our products are composed of essential raw materials and components that ensure superior performance and reliability. The raw materials and components we mainly use in our manufacturing process include copper, aluminum, steel, plastic, compressors and motors. We meticulously select and source these raw materials and components from reputable suppliers who adhere to our stringent quality standards. During the Track Record Period, we primarily sourced raw materials and components from China. By fostering strong relationships with our suppliers and implementing rigorous quality control measures, we ensure the integrity and consistency of our components throughout the supply chain. This commitment to high-quality sourcing is pivotal in delivering products that meet and exceed customer expectations while supporting our sustainability and cost-efficiency goals.

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Additionally, we collaborate with Panasonic regarding the research and production of compressor, which is a core component for our products. As the essential components of our air conditioners, this initiative will allow us to establish a robust foundation for delivering high-quality products while effectively mitigating risks associated with material supply uncertainties.

Supplier Management

A stable and reliable supply chain system is paramount to the effective production management and cost control within the air conditioner industry. We are committed to establishing a “high efficiency, low cost and high quality” supply chain management framework. We have developed a supplier accreditation system and material procurement strategy, fostering long-term and robust partnerships with premier suppliers. By supporting our core suppliers and embracing a foundation of mutual growth, we optimize costs while ensuring superior supply efficiency and quality.

We have successfully digitalized the entire supply chain process, encompassing sales demand forecasting, production planning, order issuance, supplier order acceptance, shipment, material warehousing, and financial settlements. This comprehensive integration enables end-to-end information and digital management. Utilizing our SRM system, we achieve seamless data interconnectivity with supplier systems and facilitate shared planning initiatives. On one hand, we automatically share raw material demand plans — monthly, weekly, and daily — with suppliers for preliminary evaluation. On the other hand, real-time visibility into supplier inventories and in-transit materials within our SRM system significantly enhances turnover efficiency and resource integration. This digital synergy allows for strategic planning and effective inventory management, driving overall supply chain excellence.

In our pursuit of cost efficiency, we have developed a multifaceted cost estimation model that incorporates raw material market prices, production utilization data, and disassembly analysis. This model is continually refined through benchmarking within the industry and across different sectors, ensuring our pricing strategies remain competitive and accurate. Additionally, we actively participate in industry exhibitions and technical exchanges to gather insights on emerging technologies, novel materials, and innovative processes. Collaborating closely with our R&D teams and suppliers, we continually enhance product designs, improve manufacturing processes, integrate new materials, and elevate automation levels. These continuous improvements enable us to consistently optimize production costs without compromising on quality.

Ensuring the highest standards of supply quality is a cornerstone of our supplier management strategy. We provide comprehensive support to our suppliers, including specialized assistance and on-site support, to facilitate their holistic improvement in management practices, efficiency enhancements, cost reductions, quality control, and production processes. This collaborative approach not only strengthens our suppliers’ capabilities but also elevates their supply capacity and efficiency, ensuring the delivery of superior products. By fostering an environment of mutual growth and cooperation, we establish a new paradigm of win-win partnerships, thereby guaranteeing the consistent quality and reliability of our supply chain.

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Major Suppliers

During the Track Record Period, our suppliers primarily included raw material and component suppliers. Our purchase amount from the largest supplier in each year/period during the Track Record Period accounted for 16.8%, 14.1%, 13.8% and 12.3% of the total cost of sales for the respective periods. Our purchase amount from the five largest suppliers in each year/period during the Track Record Period accounted for 31.8%, 28.8%, 33.3% and 26.6% of the total cost of sales for the respective periods. We believe that we have good relationship with our major suppliers. For supplier who grant us a credit period, the typical term is ranging from 30 days to 90 days.

To the best of our knowledge, none of our Directors, their respective associates or any shareholder who owned more than 5% of our issued share capital of our Company as of the Latest Practicable Date, had any interest in any of our five largest suppliers in each year/period during the Track Record Period.

The following tables below set out the details of our five largest suppliers in each year/period of the Track Record Period.

For the three months ended March 31, 2025

Rank	Supplier	Approximate transaction amount (RMB'000)	% of our total cost of sales %	Background	Relationship since
1. . .	Supplier A ⁽¹⁾	906,542	12.3%	Affiliates of a China-based electrical appliance manufacturer	2012
2. . .	Supplier B ⁽²⁾	367,222	5.0%	Affiliates of a China-based company primarily invests in technology development industrial projects	2012
3. . .	Supplier C ⁽³⁾	287,751	3.9%	Affiliates of a China-based company primarily engages in raw material production	2018
4. . .	Supplier D	217,727	3.0%	A China-based company primarily supplies copper and copper-related products	2012
5. . .	Supplier E	185,900	2.5%	A China-based company primarily sells copper products, new conductor materials and aluminum-based materials	2012
	Total	<u>1,965,142</u>	<u>26.6%</u>		

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For the year ended December 31, 2024

Rank	Supplier	Approximate transaction amount (RMB'000)	% of our total cost of sales %	Background	Relationship since
1. . .	Supplier A ⁽¹⁾	3,251,493	13.8%	Affiliates of a China-based electrical appliance manufacturer	2012
2. . .	Supplier B ⁽²⁾	1,485,508	6.3%	Affiliates of a China-based company primarily invests in technology development industrial projects	2012
3. . .	Supplier C ⁽³⁾	1,206,322	5.1%	Affiliates of a China-based company primarily engages in raw material production	2018
4. . .	Supplier F	951,682	4.0%	A China-based company primarily engages in the sale of compressors and related products	2014
5. . .	Supplier E	934,523	4.0%	A China-based company primarily sells copper products, new conductor materials and aluminum-based materials	2012
	Total	7,829,529	33.3%		

For the year ended December 31, 2023

Rank	Supplier	Approximate transaction amount (RMB'000)	% of our total cost of sales %	Background	Relationship since
1. . .	Supplier A ⁽¹⁾	2,737,231	14.1%	Affiliates of a China-based electrical appliance manufacturer	2012
2. . .	Supplier C ⁽³⁾	844,491	4.4%	Affiliates of a China-based company primarily engages in raw material production	2018
3. . .	Supplier G	697,021	3.6%	A China-based company primarily supplies copper and copper-related products	2012
4. . .	Supplier B ⁽²⁾	667,897	3.4%	Affiliates of a China-based company primarily invests in technology development industrial projects	2012
5. . .	Supplier F	644,276	3.3%	A China-based company primarily engages in the sale of compressors and related products	2014
	Total	5,590,915	28.8%		

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For the year ended December 31, 2022

Rank	Supplier	Approximate transaction amount (RMB'000)	% of our total cost of sales %	Background	Relationship since
1. . .	Supplier A ⁽¹⁾	2,580,946	16.8%	Affiliates of a China-based electrical appliance manufacturer	2012
2. . .	Supplier C ⁽³⁾	638,106	4.1%	Affiliates of a China-based company primarily engages in raw material production	2018
3. . .	Supplier B ⁽²⁾	562,241	3.7%	Affiliates of a China-based company primarily invests in technology development industrial projects	2012
4. . .	Supplier G	562,135	3.7%	A China-based company primarily supplies copper and copper-related products	2012
5. . .	Supplier E	550,316	3.6%	A China-based company primarily sells copper products, new conductor materials and aluminum-based materials	2012
	Total	4,893,746	31.8%		

Notes:

- (1) Supplier A comprises four companies, all of which are affiliates of the same party established in the PRC. Transactions with Supplier A is presented on group basis.
- (2) Supplier B comprises five companies, all of which are affiliates of the same party established in the PRC. Transactions with Supplier B is presented on group basis.
- (3) Supplier C comprises two companies, both of which are ultimately controlled by the same Chinese individual. Transactions with Supplier C is presented on common controlling party group basis.

Quality Control

We believe that our brands are valued by customers for their high quality and that product quality is essential to maintaining our competitive position. Highly reliable, quality products foster consumer satisfaction and confidence in our brand name, which in turn encourages brand loyalty and solidifies our position as a reputable air conditioner provider.

Accordingly, we maintain rigorous quality assurance policies and processes to ensure that our products conform to product specifications and industry standards. All of our products undergo strict internal quality assurance sample tests, from design, manufacture, performance to random sample checks once they are on the market, to ensure compliance with internal requirements and industry standards. We employ advanced testing methodologies, including automated inspection systems and real-time monitoring solutions, to enhance the precision and efficiency of our quality assessments.

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We also seek to minimize any elements that could compromise product safety and cause injury, such as electric shock and fire, by extensively testing product usage in simulated real-life settings at laboratories that are certified by international accreditation institutions such as CQC. Additionally, we conduct stress testing and longevity assessments to ensure our products perform reliably under various environmental conditions and usage scenarios. We have obtained various national safety and quality certifications for our air conditioner products, such as China’s China Compulsory Certification (CCC), EU’s Conformite Europeenne (CE), Brazil’s The National Institute for Metrology, Standardization and Industrial Quality (INMETRO) and Thailand’s Thai Industrial Standards Institute (TISI). All of our operating plants have ISO 9001, ISO 14001 and ISO 45001 certificates.

Continuous improvement is a cornerstone of our quality control strategy. We actively seek feedback from customers and conduct regular internal assessment to identify areas for enhancement. We also continuously invest in employee training programs to ensure that our workforce is knowledgeable about the latest quality control techniques and industry standards. Regular training and certification programs enable our staff to maintain high levels of expertise and awareness regarding quality management.

RESEARCH AND DEVELOPMENT

Comprehensive R&D Framework

We are dedicated to fostering a robust R&D environment that drives innovation, enhances product quality, and ensures long-term competitiveness in the air conditioner industry. Our R&D team is vast in scale and well-structured. As of March 31, 2025, we had over 1,600 dedicated R&D personnel, ensuring the maturity and professionalism of our team.

We have established a comprehensive global R&D network with three major centers in Ningbo, Zhuhai and Japan. The Ningbo center serves as our core R&D hub, focused on product development and technology transformation. The Japan center concentrates on exploring frontier fields, particularly central air conditioner systems, including control systems, airflow channels and industrial design. The Zhuhai center specializes in home appliances, inverter technology, simulation and modular technology. Our R&D process strictly follows a full lifecycle management approach, covering every stage from product planning to product retirement. We have established three specialized research institutes, including the Public Technology Research Institute, User Experience Research Institute, and Smart Research Institute, each targeting a different stage of the product development process. These initiatives are instrumental in continuously building our technical capabilities and driving breakthrough innovations.

Our R&D project management system serves as the foundation for managing all new product development and research initiatives. This system delineates clear objectives, standardizes development processes, and assigns specific responsibilities to ensure that every project aligns with our strategic vision. Projects are categorized into various types — such as new product development, cost reduction, quality improvement, and standardization — to

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address specific business needs and market demands. Each project undergoes a structured approval process, ensuring that only initiatives meeting predefined criteria and strategic importance receive resources and attention. Detailed project classifications and grading systems enable precise workload management, resource allocation, and performance evaluation, thereby optimizing our development capabilities and accelerating time-to-market.

Our strategic R&D objectives focus on creating a pipeline of next-generation products, enhancing operational efficiency, and driving technological breakthroughs. We regularly assess and refine our R&D processes, incorporating feedback from project evaluations and industry best practices. Our R&D efforts not only meet current market demands but also anticipate future trends, solidifying our position as a reputable air conditioner provider.

By integrating these comprehensive R&D practices into our corporate framework, we ensure the continuous evolution of our product offerings, the enhancement of our technological capabilities, and the sustained growth of our business in a dynamic and competitive market. During the Track Record Period, our R&D expenses amounted to RMB397.6 million, RMB566.6 million, RMB710.0 million, RMB123.5 million and RMB128.3 million in 2022, 2023, 2024 and the three months ended March 31, 2024 and 2025, respectively. We continue to invest in hiring and retaining the best R&D talent to strengthen our R&D capabilities.

Research and Development of Our Products

We have focused our product development on four key factors: efficiency, comfort, health, and intelligence.

- ***Efficiency:*** Efficiency is a vital aspect of our R&D goals. Our compressors are designed to operate seamlessly across a wide frequency range of 1 Hz to 150 Hz, allowing for rapid heating and cooling at high frequencies and precise temperature control at low frequencies. This will allow us to improve efficiency by reducing the rate of the compressor switch from high- to low-frequency mode. Additionally, through technologies such as efficient heat exchange systems and optimized air duct fans, we have further enhanced the performance parameters of condensers, evaporators, and indoor fan blades, resulting in improved overall efficiency for our air conditioners.
- ***Comfort:*** We focused on researching and developing of multi-stage air distribution and high-efficiency air duct fans to ensure comforting and healthy features. By utilizing advanced CFD simulation technology for product design and validation, we have optimized blade designs and air outlet configurations to achieve a wide 165° air distribution angle. By increasing the effective air outlet area, our air guide plate design promotes swift and uniform air distribution throughout the space. The overall innovations enabled us to boost comfort levels while reducing noise.

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- **Health:** Our innovations on seamless disassembly and deep cleaning of air conditioner cores solution allow for the rapid disassembly and thorough cleaning of air conditioner cores in just 30 seconds through a streamlined 5-step procedure. Our advanced disassembly and cleaning technologies enable after-sales personnel and users to efficiently clean products, addressing key industry challenges and enhancing user satisfaction. In addition, our products are equipped with air supply purification, sterilization, high-temperature disinfection and other health-related functions. As of March 31, 2025, we had over 330 registered patents in relation to our seamless disassembly technologies, and over 740 registered patents in relation to other technologies to improve health metrics.
- **Intelligence:** We are dedicated to the R&D of intelligence and interactivity products. To meet diverse voice control needs, we developed the HONN storage-driven offline voice control technology, achieving over 97% recognition accuracy and a 30% improvement in response speed. This technology is designed to accommodate and recognize local dialects effectively. Our Alink distributed centralized control technology addresses complexities within multi-device environments, resolving issues such as delayed commands, feedback discrepancies, monitoring precision, and gateway challenges. We will continue to develop a more comprehensive intelligence design strategy to enhance real-time unit operations across various scenarios, enhancing data accuracy and facilitating widespread intelligent centralized control.

LOGISTICS, TRANSPORTATION AND INVENTORY MANAGEMENT

Our inventory management system is designed to ensure efficient and effective management of our finished products, semi-finished goods, components and raw materials. We maintain a digitalized supply chain that enables us to intelligently manage our inventory levels, match demand and achieve fast inventory turnover. 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. According to the F&S Report, our average inventory turnover days during 2022 to 2024 have been below the industry average, demonstrating our ability to manage inventory efficiently.

We categorize our inventory based on product type and characteristics to better control inventory levels. We also monitor inventory levels in real-time to promptly identify and address any inventory anomalies, avoiding overstocking or understocking. Furthermore, we use historical data and market trends to forecast inventory demand, enabling us to better plan inventory levels. We have established long-term relationships with our suppliers to ensure timely delivery of high-quality raw materials and components.

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Apart from managing our inventories based on product type, we have also established a comprehensive inventory management protocol for both our domestic and overseas sales. These protocols aim to optimize inventory structure, accelerate inventory turnover, and reduce inventory impairment, while controlling obsolete and defective inventory across our domestic manufacturing sites. We closely monitor key performance indicators including inventory turnover days, risk reserves, total inventory value, and obsolete stock value. By standardizing processes across regions, we maintain efficient inventory control that meets production and sales demands, minimizes operational risks, and enhances overall supply chain responsiveness.

In particular, for domestic sales, our manufacturing finance team in conjunction with the warehouse management team formulates a prudent budget for inventory capital and turnover days in alignment with the annual production, sales, and inventory plan. All departments are required to rigorously manage inventory receipt, dispatch, and storage in accordance with established production organization protocols and receiving schedules. These domestic production bases are required to establish a monthly inventory risk review meeting system, with each production base finance manager organizing and holding an inventory risk review meeting once a month. Our finance team at group level issues monthly inventory control targets annually or semi-annually based on the production-sales coordination and inventory management status of each production base. Each production base must control their inventory according to these targets, and the responsible personnel of each production base are assessed in the following month based on their performance in meeting these targets.

Our overseas warehouse teams are required to maintain accurate records of inventory movements and perform comprehensive monthly self-check for inventories. Meanwhile, the finance and operational teams at group level collaborate on cross-checking by conducting quarterly and semi-annual re-audits of a designated percentage of our inventories, tailored to the locations of the overseas sales companies. Additionally, we prepare inventory discrepancy reports for each quarter.

In addition, our logistics and transportation system is designed to ensure efficient and timely delivery of our products. We utilize automated three-dimensional warehouses and intelligent shelves, leveraging technologies such as radio frequency identification, infrared sensing and laser scanning to obtain material information, achieving transparent warehouse information. We also employ aerial unmanned transportation lines, automated guided vehicle (AGV) systems, and underground waste collection systems to achieve efficient material distribution.

Overall, our inventory management system is designed to ensure that we maintain an optimal inventory level, minimize waste and maximize efficiency, while also providing our customers with timely and reliable delivery of our products.

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INTELLECTUAL PROPERTY

As of March 31, 2025, we had obtained over 12,000 registered patents in China and overseas, including over 2,800 invention patents. As of March 31, 2025, we were the registered owner of over 860 registered trademarks, over 50 software copyrights and over 220 domain names in China. As of the same date, we had nine registered trademarks and 15 registered patents in Japan, 12 registered trademarks and seven registered patents in Malaysia, and over 410 registered trademarks and over 50 registered patents in other countries and regions. We had over 160 patent applications pending under the Patent Cooperation Treaty as of the same date.

As of the Latest Practicable Date, our Directors believed that there is no legal impediment for the renewal of the above patents, copyrights, trademarks and domain names that would materially and adversely affect our business. For details, please refer to the paragraph headed “Appendix V — Statutory and General Information — C. Further Information about Our Business — 2. Intellectual Property Rights” in this document.

To safeguard and leverage our intellectual property assets, we have established an intellectual property management framework. This framework is meticulously designed to align with national standards and our strategic business objectives, ensuring that all IP-related activities are systematically managed, protected, and utilized to enhance our competitive advantage in the air conditioner industry.

Our IP management operates within the R&D department, reporting directly to the R&D department head. As of March 31, 2025, our dedicated IP management team comprised nine professionals, with six holding patent agent qualifications and two holding lawyer qualifications. The team is led by a seasoned professional with nearly two decades of IP management experience. To ensure effective implementation of our IP management system, we have also positioned more than 10 part-time IP management supervisors across various R&D teams. Our IP management team works closely with our legal department and engages external law firms as needed for rights protection, litigation coordination, and related matters.

Since 2018, we have continuously enhanced our intellectual property management framework through systematic improvements and refinements. For details, see “— Risk Management and Internal Control” below.

Through the diligent implementation of our intellectual property management framework, we effectively protect our innovative advancements, mitigates IP-related risks, and enhances our competitive edge in the air conditioner market. Our structured approach to intellectual property management not only safeguards our proprietary technologies but also drives ongoing development and delivers long-term value to our stakeholders.

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DATA PRIVACY AND PROTECTION

Safeguarding personal information and ensuring the privacy of our employees, customers, and partners is a cornerstone of our business operations. We recognize that our activities involve the collection, processing, and management of personal information, which are critical to our operational success and competitive advantage in the air conditioner industry. To mitigate the inherent risks associated with data handling and to uphold the highest standards of data protection, we have established a comprehensive personal information protection management framework. Before processing personal information, we will show the privacy policy to the subject of the personal information. The Privacy Policy states that we adhere to the principles of legality, legitimacy and necessity in the collection and processing of necessary personal information, ensuring that we have a legitimate reason for such activities. We store personal information only for as long as necessary for the purposes described in the Privacy Policy (unless longer retention is mandated by applicable regulations) and will anonymize or delete personal information the expiration of the retention period.

Our dedicated data protection officer and data protection representatives oversee the implementation and continuous improvement of our data protection policies, ensuring compliance with relevant legal requirements such as the People’s Republic of China’s Cybersecurity Law, the People’s Republic of China’s Data Security Law, and the People’s Republic of China’s Personal Information Protection Law. We employ robust physical, administrative, and technical safeguards to prevent unauthorized access, disclosure, alteration, or destruction of personal information. Access to sensitive information is strictly controlled and limited to authorized personnel based on their roles and responsibilities, thereby minimizing the risk of data leakage.

Employee awareness and adherence to data protection principles are paramount. We conduct regular training sessions and awareness programs to educate our staff on the importance of data privacy, the responsibilities associated with handling personal information, and the procedures for responding to data protection incidents. Additionally, our stringent data processing agreements and confidentiality protocols ensure that third-party partners comply with our high standards of data protection.

In the event of a personal information breach, we have established clear incident response procedures to promptly address and mitigate any potential impact. Our commitment to data protection is unwavering, and we continuously monitor and review our practices to adapt to evolving legal requirements and emerging security challenges.

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Through these comprehensive measures, we not only comply with all applicable data protection laws but also builds trust and confidence among our stakeholders by demonstrating our unwavering commitment to protecting personal information and respecting individual privacy. In the opinion of our PRC Legal Advisors, our data processing as described above falls within the scope of the relevant PRC laws and regulations on cybersecurity, data privacy and personal information protection. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material data leakage or loss of data. As advised by our PRC Legal Advisors, we had applied and complied in all material respects with the applicable laws and regulations in relation to cybersecurity, data privacy and protection of personal information during the Track Record Period and up to the Latest Practicable Date. In view of the fact that the legislation and enforcement of data privacy and security in the PRC is still evolving, we will closely monitor further regulatory developments and take appropriate measures in a timely manner.

COMPETITION

The markets that we engage in are highly competitive. Our current and potential competitors include large Chinese and multinational air conditioner providers, as well as local and specialized air conditioner brands. We anticipate that the air conditioner market will continue to evolve and experience changes in technology, industry standards, and customer preferences. To remain competitive, we must continually innovate and improve our products, services, and operations to meet the changing needs of our customers and stay ahead of our competitors.

We believe that we are well-positioned to effectively compete on the basis of the factors listed above. However, some of our current or future competitors may have longer operating histories, greater brand recognition, better supplier relationships, larger customer bases or greater financial, technical or marketing resources than we do. We build our competitive edges and have been dedicated to the expansion of our global presence and the improvement in operating efficiency.

SEASONALITY

Our business is subject to seasonal fluctuations due to the nature of our air conditioners, which are typically in higher demand during warmer months. Additionally, holiday-driven promotions can also impact our sales. As a result, we expect our revenue and profitability to be higher during the peak summer months and lower during the off-peak winter months. While we have implemented various strategies to mitigate the impact of seasonality, such as optimizing our production and inventory management, we still expect to experience some seasonal fluctuations in our results of operations and financial conditions.

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EMPLOYEES

The strength and talent of our workforce are critical to the success of our businesses, and we continually strive to attract, develop and retain personnel commensurate with the needs of our businesses in operating environments. As of March 31, 2025, we had a total of 22,408 full-time employees, including 21,792 located in China and 616 located overseas. The following table sets forth the numbers of our employees categorized by function as of March 31, 2025:

Function	Number
Manufacturing	16,066
Research and Development	1,654
Sales	2,375
Administrative	2,313
Total	<u>22,408</u>

Sharing our successes with and empowering our employees is a key aspect of our corporate culture. We always strive to provide employees with comprehensive social benefits, a safe work environment and a wide range of career development opportunities. Furthermore, we are committed to strictly complying with applicable laws, regulations and standards in different countries and regions related to workplace safety, providing a safe and healthy workplace for our employees and implementing an effective management system to help ensure employee safety and well-being.

We are committed to establishing a competitive and fair remuneration. In order to effectively motivate our staff, we continually refine our remuneration and incentive policies. We conduct performance evaluation for our employees regularly to provide feedback on their performance. Compensation for our staff typically consists of base salary and a performance-based salary. We decide the base salary of employees based on position value and evaluation performances and decide the performance-based salary based on performance of our Company and the employee. The remuneration distribution shows more consideration for strategic talent and ensures the market competitiveness in the salary of core talent. We make dynamic adjustments to our staff remuneration policy based on various factors, including regional differences, talent supply, staff turnover, changes in the industry and financial conditions of our Company.

We place great emphasis on talent cultivation and promotion. To accelerate employee growth, we have established a comprehensive training system around the different stages of employees’ needs, including new employee orientation, job skill training, and leadership development training. We continuously iterate our training system by benchmarking against excellent external experiences as well. At the same time, adhering to the principles of fairness, transparency, and integrity in hiring, we formulate career development plans for employees, provide dual-track promotions, including professional track and management track, and offer opportunities for internal job rotation.

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We typically enter into employment agreements with our employees. We further enter into confidentiality agreements and non-compete agreements with our senior management and core employees. These employees are prohibited from joining companies that compete with us or our affiliates during their employment and for a certain period of time thereafter. We maintain a good working relationship with our employees, and have not experienced any material labor disputes.

Non-compliance of Social Insurance and Housing Provident Funds

As required by laws and regulations in China, we participate in various employee social security plans, including pension insurance, medical insurance, unemployment insurance, maternity insurance, on-the-job injury insurance and housing fund plans. During the Track Record Period, we did not make full contributions to social insurance and housing provident funds for certain of our employees as required by relevant PRC laws and regulations, primarily due to (i) our large labor force with relatively high mobility, (ii) certain employees’ unwillingness to bear the full costs associated with social insurance and housing provident fund contributions strictly in proportion to their salaries, and we have provided dormitory space as staff welfare for our employees, and (iii) a number of migrant workers who generally do not participate in the social welfare schemes of the cities where they temporarily reside due to lack of transferability among cities.

Our social security contributions shortfall amounted to approximately RMB1.6 million, RMB3.8 million, RMB12.4 million, and RMB3.2 million in 2022, 2023, 2024 and the three months ended March 31, 2025, respectfully, accounting for less than 0.5% of our net profit in each corresponding year, respectively. According to our PRC Legal Advisors, for the shortfall in social security contributions, if the employer fails to pay the contributions in full and on time, and still fails to do so within the period specified by the competent authorities, the relevant authorities may impose a fine of between one to three times the amount of the social security contributions shortfall. Therefore, the maximum potential fine for the social security contributions shortfall during the Track Record Period will be up to RMB63.0 million, accounting for approximately 0.1% of our revenue of during the Track Record Period.

Our housing provident fund contributions shortfall amounted to approximately RMB0.8 million, RMB1.7 million, RMB3.3 million, and RMB0.7 million in 2022, 2023, 2024 and the three months ended March 31, 2025, respectfully, accounting for approximately 0.1% of our net profit in each corresponding year, respectively. According to our PRC Legal Advisors, for the shortfall in housing provident fund contributions, if the employer is overdue in paying or underpays the housing provident fund, the competent authorities may order it to pay within a prescribed period. If the employer still fails to do so, it may be subject to compulsory enforcement by the people’s court. However, there is no additional penalty potential beyond the requirement to pay the outstanding RMB6.5 million, if and when requested by the competent authorities.

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The above-mentioned maximum potential penalties refer to the scenario where we fail to make full payment or settle any shortfall within the specified time limit if and when requested by the relevant authorities. Considering that we will make contribution within the specified time limit if and when requested by the relevant authorities, and we have obtained the written undertaking (see below for details) from Mr. ZHENG Jianjiang, one of our Controlling Shareholders, we are of the view that the likelihood we will be subject to the maximum potential penalties is remote.

Based on confirmations from the relevant social insurance and housing provident fund authorities, the Group had not been subject to any material administrative penalties in relation to these matters during the Track Record Period. Pursuant to the Urgent Notice of the General Office of the Ministry of Human Resources and Social Security on Implementing the Spirit of the Executive Meeting of the State Council in Stabilizing the Collection of Social Insurance Premiums (《人力資源和社會保障部辦公廳關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知》), local authorities are strictly forbidden to conduct self-initiated collection of historical unpaid social insurance contributions from enterprises.

As further advised by our PRC Legal Advisors, considering the above and the current regulatory environment, the likelihood that we would be subject to a centralized recovery of historical contributions or material administrative penalties is remote. Accordingly, the Directors are of the view that the foregoing matters are unlikely to have any material adverse impact on our business operations or financial performance.

We have adopted the following rectification measures to enhance compliance:

- **Training.** Strengthen legal compliance training to our employees responsible for compliance matters, finance and human resources;
- **Policy.** Formulate an internal control policy with respect to social insurance and housing provident fund contribution in compliance with relevant PRC laws and regulations, which we have started to implement;
- **Review and record-keeping.** Designate our human resources staff to review and monitor the payment status on a monthly basis;
- **Increasing awareness of development in laws and regulations.** Regularly keep abreast of latest developments in PRC laws and regulations in relation to social insurance and housing provident funds; and
- **External consultation.** Consult external PRC legal counsel for advice on relevant PRC laws and regulations.

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We undertake to make full payment or settle any shortfall within a prescribed time period if and when requested by the relevant authorities. One of our Controlling Shareholders, Mr. ZHENG Jianjiang, has provided a written undertaking. In this undertaking, he has committed to voluntarily make any required retrospective payments or additional contributions related to social insurance and housing provident fund discrepancies at our domestic subsidiaries if and when requested by the relevant authorities. He will also bear any administrative penalties or economic losses resulting from such discrepancies if and when requested by the relevant authorities.

INSURANCE

We consider our insurance coverage to be adequate and in accordance with the commercial practices in the industries in which we operate. We have purchased property insurance covering all risks of physical loss, destruction or damage to the inventory of our products and our fixed assets. We have also purchased product liability insurance for some of our products covering certain potential risks and liabilities. We mitigate our credit risks by insuring certain sales to our customers, protecting us from non-payment of commercial debts covering trade receivables.

We provide social security insurance, including pension insurance, unemployment insurance, work-related injury insurance, maternity insurance and medical insurance for our employees in China and statutorily required insurance coverage for overseas employees. In addition, we have defined benefit plans for employees of certain overseas companies, providing supplemental retirement benefits beyond the national regulatory insurance system. Our management will evaluate the adequacy of our insurance coverage from time to time and purchase additional insurance policies as needed.

RISK MANAGEMENT AND INTERNAL CONTROL

We recognize that effective risk management is integral to sustaining business continuity, safeguarding assets, and ensuring long-term value creation for our stakeholders. At the core of our risk management strategy is a strong governance structure. The Board of Directors oversees the entire risk management process, ensuring that risk policies are effectively integrated into our corporate strategy and operational practices. Senior executives and subject matter experts are responsible for the continuous evaluation of emerging risks and the implementation of appropriate mitigation measures. They regularly review risk assessments, monitor key risk indicators, and ensure that risk management practices align with industry best standards and regulatory requirements.

Our internal control system is designed to provide reliable financial reporting, promote operational efficiency, and ensure compliance with applicable laws and regulations. We have instituted a series of internal controls, including segregation of duties, authorization protocols, and regular reconciliations, to prevent and detect errors or irregularities.

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We employ a systematic approach to risk assessment, utilizing quantitative and qualitative methods to evaluate the likelihood and potential impact of identified risks. This process involves regular risk assessments at both the enterprise and departmental levels, enabling us to prioritize risks based on their significance to our business objectives. Mitigation strategies are tailored to address specific risks, encompassing measures such as diversification of supply chains, implementation of cybersecurity protocols, and establishment of contingency plans for critical operations.

Maintaining compliance with all relevant laws, regulations, and industry standards is paramount to our operations. Our compliance department oversees adherence to regulatory requirements, conducts regular audits, and provides training to employees to ensure awareness and understanding of compliance obligations. We proactively engage with regulatory bodies and participate in industry forums to stay abreast of evolving regulatory landscapes, thereby minimizing the risk of non-compliance and associated penalties.

We have established a comprehensive risk management system that encompasses strategic, operational, financial, and compliance-related risks, such as:

- *Sanctions and export controls.* To comply with applicable sanctions and export controls regulations, we maintain a trade compliance program which includes policies, standard operating procedures, automated control systems, compliance governance organization and an inquiry and reporting mechanism. We have been continually investing resources to enhance the program. During the Track Record Period and up to the Latest Practicable Date, the tariff rates for most of the categories of our products subject to foreign tariffs remained stable. In terms of export control, we currently have production bases in China and Thailand. During the Track Record Period and up to the Latest Practicable Date, we consistently complied with the applicable licensing, documentation and other requirements in accordance with export control rules in jurisdictions we operate and did not encounter any material issue related to export control measures including with respect to obtaining and renewing necessary licenses and fulfilling other requirements, as applicable. During the Track Record Period and up to the Latest Practicable Date, although tariffs and export control policies have been implemented in various overseas markets for products from China, such measures have not had a material impact on our business operations or financial performance. This is primarily because our revenue base is well diversified and not significantly dependent on any single overseas country or region. During the Track Record Period, Mexico was the only overseas market that contributed more than 5% of our total revenue, and revenue generated from the U.S. amounted to less than 2% of our total revenue. During the Track Record Period and up to the Latest Practicable Date, we have not directed, and to the best knowledge of our Directors, are not aware of any instances where our customers in non-U.S. countries have subsequently sold our products to the U.S.. Moreover, tariffs and export control policies in most major overseas markets, including Mexico, remained relatively stable, and changes in U.S. tariffs and export controls over recent years did not materially affect our business

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given the limited amount of revenue generated from this region. In addition, we have established production bases in mainland China and Thailand, allowing us to flexibly adjust production and delivery locations in response to evolving trade policies. In light of the above, our Directors are of the view, which is concurred by the Sole Sponsor, that the tariffs and export control measures currently in place have no material impact on our business and financial performance. Future developments in geopolitics could have further impacts on our business and financial performance. For details, 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.”

- *Anti-bribery.* We have established a comprehensive anti-bribery framework to uphold ethical business conduct and mitigate integrity risks. Our “Nine Integrity Articles” serve as the foundation of our ethical guidelines and are disseminated through posters, internal meetings, and employee handbooks. We incorporate integrity clauses in agreements with business partners and conduct regular integrity training, with enhanced programs before sensitive periods such as the Spring Festival. New employees must sign an “Integrity Commitment Letter”, while disciplinary actions for integrity violations are promptly announced to reinforce awareness. Employees in sensitive roles, such as procurement, finance, and HR, are subject to regular job rotations, with a rotation notice and handover audit required to enhance accountability and reduce risks. Through these measures, we are committed to maintaining the highest standards of professional ethics.
- *Intellectual property management.* Since 2018, we have gradually established a dedicated intellectual property management team to oversee our IP management activities, and have put in place a set of internal policies to govern various aspects of IP management, such as our Patent Management Regulations, Confidentiality Control Procedures, Patent Valuation and Maintenance Procedures, Intellectual Property Dispute Resolution Control Procedures, and Patent Risk Management Control Procedures. Our intellectual property management framework incorporates proactive risk management strategies to identify and mitigate potential risks. For instance, upon identifying potential conflicts in the design of a new air conditioner model, we evaluate the infringement risk and examines product appearance, packaging, and structure at multiple working levels to mitigate patent infringement risks. Based on the evaluation report, we will implement necessary design adjustments to ensure compliance and protect our market position.

Since 2018, we established a structured reporting mechanism for patent litigation matters. In the event of disputes, our established protocols facilitate timely and effective resolution through administrative and judicial channels. When intellectual property disputes arise, we implement our structured reporting protocol by promptly notifying the R&D department head. Our legal department subsequently takes the lead in assembling and coordinating the litigation response team. Based on our litigation experience, we have developed a comprehensive litigation analysis

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framework incorporating four assessment matrices since 2020. These include our defense point checklist, infringement assessment matrix, patent stability review chart, and invalidity analysis table. For example, our defense point checklist evaluates five dimensions in patent disputes: standing to sue, non-infringement arguments, infringement exemptions, patent validity status, and compensation defenses. This checklist helps us identify critical issues in patent litigation. This systematic approach has significantly improved our success rate in intellectual property litigations.

To ensure the effective implementation of our intellectual property strategies, we maintain detailed management ledgers and classified archives, updated in accordance with our archival management policies. These records encompass patent management ledgers, copyright management ledgers, and patent value assessment forms. Such documentation ensures that all intellectual property assets are accurately tracked, maintained, and readily accessible for strategic decision-making. In 2024, we took steps to further enhance our risk control processes and tools, including the development of a “Patent Search Control Table” to strengthen our approach. This table provides a structured framework for analyzing relevant factors, such as the number of competitor patents, the range of competitive products and components, as well as the search strategies employed.

We undergo annual certification of our intellectual property management system by qualified third parties to verify our compliance with national standards such as GB/T29490-2023. Additionally, before advancing core projects to production, we engage qualified third parties to conduct comprehensive infringement risk analyses, ensuring proper risk mitigation and freedom to operate.

Our independent internal control consultant has confirmed that our Company’s internal control systems are well designed and operational effective. In particular, it has confirmed that the results of the internal control review related to intellectual property infringement risks indicated no findings, demonstrating that our internal control systems and processes are operating effectively and properly designed while the internal control measures are operational effective to mitigate key risks. Our internal control consultant possesses strong expertise in IP management, including policies, procedures (application, licensing, protection), and relevant laws. Their team includes senior specialists with experience in IP audits and identifying risks like unclear rights or infringement. They have a proven track record of advising clients on improving IP management systems, confidentiality, licensing, and strategic planning. This includes implementing tools and databases to minimize infringement risks and avoid legal/commercial disputes. Based on the independent due diligence steps conducted by the Sole Sponsor, including its review of relevant rules and policies under our Company’s intellectual property management framework, nothing has come to the attention of the Sole Sponsor that would reasonably cause the Sole Sponsor to disagree with the internal control consultant’s view above.

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We are dedicated to fostering a culture of continuous improvement in our risk management and internal control practices. Regular internal and external audits are conducted to evaluate the effectiveness of our control measures and identify areas for enhancement. Feedback mechanisms and performance metrics are in place to monitor the efficacy of risk management initiatives, ensuring that our strategies remain responsive to the dynamic business environment. Furthermore, our commitment to building organizational resilience enables us to swiftly adapt to unforeseen challenges, thereby sustaining our operational integrity and competitive advantage. We recognize that, despite having established and maintained internal control policies and procedures to prevent corruption, bribery and fraudulent activities, no system is completely immune to human error or intentional misconduct, especially as our business operations expand. In response, we have further enhanced our anti-corruption framework by strengthening compliance training, upgrading whistle-blowing channels, improving due diligence on counterparties, and increasing audit coverage in high-risk areas. To our Directors’ best knowledge, apart from otherwise disclosed in “— Legal Proceedings and Compliance — Bribery Case Relating to a Former Employee of Our Subsidiary,” during the Track Record Period and up to the Latest Practicable Date, there have been no bribery cases involving our Group or our Directors.

By integrating these comprehensive risk management and internal control practices into our corporate framework, we ensure the safeguarding of our assets, the integrity of our operations, and the continuous achievement of our strategic objectives.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

We are steadfast in our commitment to ESG principles, recognizing that sustainable practices are integral to our long-term success and the well-being of our stakeholders. Our comprehensive ESG framework is meticulously designed to align with global standards and regulatory requirements, ensuring that our operations not only drive business growth but also contribute positively to society and the environment.

As advised by our PRC Legal Advisors, during the Track Record Period and up to the Latest Practicable Date, we had been in compliance with health, work safety and environmental laws and regulations applicable to our operations in all material respects and had not been subject to any material claims, fines or other penalties due to non-compliance with health, work safety or environmental regulations that would materially and adversely affect our business, financial condition or results of operations. By integrating robust governance, environmental stewardship and social responsibility into our core operations, we create lasting value for our stakeholders and uphold our reputation as a responsible and forward-thinking key player in the air conditioner industry.

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Governance on ESG Matters

We consider ESG essential to our continuous development and have adopted a set of policies on ESG governance (“**ESG Policies**”) to guide our daily operations, which include (i) the appropriate risk governance on ESG matters; (ii) identification of key stakeholders and the communication channels to engage with them; (iii) our ESG governance structure; (iv) our ESG strategy formation procedures; (v) our ESG risk management and monitoring; and (vi) the identification of key performance indicators and mitigating measures. Our Board has the collective and overall responsibility for managing the impact of the material ESG risks and opportunities affecting us, formulating and establishing our ESG-related mechanisms, and reviewing our performance against the ESG objectives on a regular basis and revising the ESG Policies as appropriate if significant deviations from the objectives are identified. Going forward, it is our objective to proactively identify and assess the actual and potential ESG risks that may impact our business, strategy and financial performance, and integrate considerations of ESG issues into our business, strategic and financial planning.

Recognizing the risks and opportunities associated with ESG, we are also dedicated to identifying and addressing these factors through environmental impact assessments and management. We are exploring various measures to mitigate ESG-related risks while striving to balance cost-effectiveness with sustainable development. We are at a preliminary stage of studying the environmental impact of our operations and establishing ESG targets. We intend to implement achievable ESG targets upon the [REDACTED] that align with our expansion while minimizing environmental impact and risks. Furthermore, we are committed to fostering a culture of compliance, with a goal to ensure that all employees are well-informed of and adhere to relevant ESG regulations and requirements through cross-departmental collaboration. Our Board discusses and determines the ESG-related risks and opportunities, supervises the review of ESG policies and targets on a regular basis, and escalates certain key ESG proposals as the ESG strategic projects of the year. Our Board and executive leadership are dedicated to fostering an environment of corporate responsibility for our employees, suppliers and distributors.

Environmental Stewardship

Our dedication to environmental sustainability is evidenced by our robust environmental management systems and proactive initiatives aimed at minimizing our ecological footprint. We have achieved ISO 14001 Environmental Management System certification, underscoring our commitment to continuous improvement in environmental performance.

Energy

We actively explore strategies to reduce energy consumption, primarily electricity consumption. For instance, our manufacturing facilities are equipped with photovoltaic and solar energy systems to harness renewable energy sources. We have also adopted intelligent and digitalized internal systems, which allows for comprehensive control and real-time monitoring of energy consumption across our operations.

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Water Resources

We focus on water resources issue and actively shoulder the social responsibility of protecting water resources. Municipal water supply networks are the main incoming source of our water supply, and we have not encountered any major difficulties seeking suitable water sources during the Track Record Period. Our water resources were mainly used for daily use in offices and production facilities to support our in-house R&D activities, pilot and mass productions during the Track Record Period.

Emissions

Waste

We have procedures in place for waste management to ensure compliant waste disposal and reduce environmental impact. The waste we produce is divided into hazardous waste, such as chemical waste and liquid, and non-hazardous waste, such as domestic waste from general office operations. Through regular monitoring and third-party evaluations, we ensure that the discharge of wastewater, waste gas and solid waste during the manufacturing and operation process meets the requirements under national and local laws and regulations. We have implemented state-of-the-art pollution control technologies across all our manufacturing facilities in Ningbo, Nanchang, Ma'anshan, and Thailand, effectively managing emissions of particulate matter, SO₂, NO_x, VOCs, and other pollutants through advanced filtration, active carbon adsorption, and catalytic oxidation processes. For instance, our Nanchang facility employs a cutting-edge alkaline scrubbing tower capable of processing 270,000 m³/h of exhaust gases, ensuring compliance with stringent national emission standards.

Greenhouse Gas Emission

Our greenhouse gas emissions primarily include the greenhouse gas emissions from our usage of purchased electricity. In response to the national target of carbon neutrality, we actively focus on reducing the greenhouse gas emissions generated during our operations.

We rely on various metrics to measure the impact of environmental risks, in line with industry standards. These metrics include the number of resources consumed, the amount of wastewater generated, and the amount of hazardous waste generated.

With the expansion of our business and the continuous broadening of our product portfolio, we expect an increase in resource consumption and emissions. However, we remain committed to implementing a wide range of measures to mitigate these impacts. These measures include strengthening source control, implementing cleaner production practices, optimizing resource utilization, ensuring responsible treatment of waste and water discharge, and reducing pollution throughout our processes. Additionally, we are dedicated to fostering a corporate culture of environmental protection and collaborating closely with our business partners to create an ecosystem that promotes environmental sustainability.

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Metrics and Indicators

We have also assessed quantitative information that reflects our management of environmental, social and climate-related risks, which includes resource consumption and emissions. Our total greenhouse gas emission in 2024 was 187,811 tonnes of CO₂ equivalent or 0.063 tonne of CO₂ equivalent per RMB10,000 worth of product output. By comparison, the average greenhouse gas emission of selected listed air conditioning companies¹ was 0.051 tonne of CO₂ equivalent per RMB10,000 worth of product output in 2023. Greenhouse gas emissions consists of Scope 1 and Scope 2 emissions. Scope 1 direct emissions include the greenhouse gas emissions from our production facilities. Scope 2 energy indirect emissions include the greenhouse gas emissions from usage of purchased electricity. The following table sets forth the information of our resource consumption and emissions during the Track Record Period:

	For the year ended December 31,			For the three months ended March 31,
	2022	2023	2024	2025
Resource Consumption				
Electricity usage (KWh)				
(in thousands).	156,091	198,230	240,653	60,331
Electricity usage intensity ⁽¹⁾				
(’000 kWh/RMB million)	7.993	7.983	8.087	6.451
Water consumption (tonnes)				
(in thousands).	1,286	1,531	1,820	459
Water consumption intensity ⁽¹⁾				
(’000 tonnes/RMB million) . .	0.066	0.062	0.061	0.049
Emissions				
Hazardous waste (tonnes) ⁽²⁾	401	605	2,326	206
Hazardous waste intensity ⁽¹⁾⁽²⁾				
(tonnes/RMB million)	0.021	0.024	0.078	0.022
Non-hazardous waste (tonnes) . .	45,038	54,460	71,035	16,674
Non-hazardous waste intensity ⁽¹⁾				
(tonnes/RMB million)	2.306	2.193	2.387	1.783
Greenhouse gas emissions				
(tonnes CO ₂ equivalent).	107,704	149,040	187,811	47,914
Greenhouse gas emissions intensity ⁽¹⁾ (tonnes CO ₂ equivalent/RMB million)	5.515	6.002	6.311	4.589
Scope 1 (direct emissions) ⁽³⁾				
(tonnes CO ₂ equivalent) . . .	8,388	13,178	20,207	4,954

¹ Including four listed leading air conditioning companies, namely Midea Group Co., Ltd., Gree Electric Appliances, Inc. of Zhuhai, Haier Smart Home Co., Ltd., and Hisense Home Appliances Group Co., Ltd.

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	For the year ended December 31,			For the three months ended March 31,
	2022	2023	2024	2025
Scope 1 (direct emissions) intensity ⁽¹⁾⁽³⁾ (tonnes CO ₂ equivalent/RMB million) . .	0.430	0.531	0.679	0.530
Scope 2 (indirect emissions) (tonnes CO ₂ equivalent) ⁽⁴⁾ . .	99,316	135,862	167,603	42,961
Scope 2 (indirect emissions) intensity ⁽¹⁾⁽⁴⁾ (tonnes CO ₂ equivalent/RMB million) . .	5.086	5.471	5.632	4.594

Notes:

- (1) The amount used as the denominator for calculating intensity is our total revenue for the year/period indicated, in millions of RMB.
- (2) The increase in hazardous waste we produced and the corresponding hazardous waste intensity in 2024 was primarily due to the reclassification of aluminum foil waste from non-hazardous waste to hazardous waste according to updated classification standards in certain areas.
- (3) The increase in Scope 1 emissions we produced and the corresponding Scope 1 emissions intensity in 2023 and 2024 was primarily due to proactive inventory buildup at our production bases. In anticipation of reaching full production capacity and to safeguard against potential supply shortages, we ramped up manufacturing output, which led to higher on-site fuel consumption and direct emissions.
- (4) The increase in Scope 2 emissions we produced and the corresponding Scope 2 emissions intensity in 2023 and 2024 was primarily due to the installation and operation of new environmental protection equipment at our facilities. While these devices are designed to reduce pollutants and improve overall environmental performance, their operation requires additional electricity consumption.

Our resource consumption and emissions generally increased during the Track Record Period, primarily due to our business expansion. In addition, the emissions are largely affected by our production volume.

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Quantitative Targets and Implementation Measures

We are determined to enhance the environmental performance of our entire value chain, encompassing office operations, supplier selection, raw material inflow, manufacturing processes and waste management. Our goal is to improve energy efficiency and optimize energy usage to support sustainable business growth, while maintaining alignment with industry standards and best practices. To realize these long-term objectives, we are progressively optimizing production processes, improving energy efficiency, and increasing the proportion of green energy used in our operations.

In setting targets for the concerned metrics, we have taken into account the historical levels during the Track Record Period and have thoroughly and prudently considered our future business expansion with a view to balancing business growth and environmental protection to achieve sustainable development. As we anticipate an increase in the number of employees and the production scale resulting from the expansion of our business operations, we have set a target to maintain our total electricity and water usage at a similar level, ensuring that it does not exceed a 20% increase in 2025 compared to 2024. Based on this, and recognizing that electricity consumption is the primary source of our carbon emissions, we also aim to maintain a similar level of GHG emissions, ensuring that the increase does not exceed 20% in 2025 compared to 2024.

We have established clear targets for green energy adoption and carbon reduction. We plan to raise the proportion of green electricity consumption during our operation and production to 18% by 2025 and further to 30% by 2030 through expanded solar power utilization and energy structure optimization. Specifically, we are in the process of constructing solar power generation facilities in Ningbo, Wuhu, Ma’anshan, and Zhengzhou. The projects in Ningbo and Wuhu are scheduled for completion by the end of 2025. The Ma’anshan project will be built in three phases and is expected to be fully completed by 2026, while the Zhengzhou project is also planned for completion by 2026. Our commitment extends to reducing greenhouse gas emission intensity per unit of production value through enhanced energy efficiency and renewable energy adoption. We are aligned with national climate goals, targeting carbon peak by 2030 and carbon neutrality by 2060.

To implement these targets, we have undertaken several key measures:

- *Solar Power Implementation:* Our solar photovoltaic systems generated over 91,000 MWh of electricity during 2023, 2024 and the three months ended March 31, 2025. We plan to further invest in solar stations to expand our renewable energy capacity.
- *Energy Management Systems:* Our proprietary system spans all manufacturing facilities, enabling real-time monitoring and optimization of energy usage through comprehensive data collection and analysis.

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- *Greenhouse Gas Management:* We have established an environmental safety management department that monitors emissions data, conducts industry benchmarking, and refines carbon reduction strategies in alignment with national regulations.
- *Technological Innovation:* Through internal research and external partnerships, we enhance production efficiency and achieve environmental emission targets.
- *Employee Training Programs:* We maintain comprehensive training initiatives focused on energy management and sustainable manufacturing to ensure effective implementation of environmental measures.

Green Transformation Initiatives

We integrate green transformation initiatives across the entire lifecycle of our operations, from design, procurement, and manufacturing to logistics, services and product end-of-life management, aiming to minimize the environmental impact of our business activities. To further strengthen our sustainability efforts, we have implemented rigorous supply chain management and risk assessment mechanisms to identify and address climate-related risks and opportunities. Below are the specific measures and achievements of us in green design, green procurement, green manufacturing, green logistics and services, as well as our approach to green product lifecycle management.

Green Design

In the product design phase, we prioritize safety, environmental sustainability, and socio-economic considerations, with a strong focus on technological innovation to develop, promote, and apply eco-friendly refrigerants. Since 2014, we have systematically advanced the application of eco-friendly refrigerants by optimizing product system design to accommodate the specific characteristics of these refrigerants, ensuring all products meet or exceed national environmental standards. These efforts aim to minimize environmental impact by addressing critical aspects such as preventing refrigerant leakage, enhancing energy efficiency, and ensuring product safety. Our research is guided by principles of safety, environmental responsibility, and economic feasibility, striving to achieve zero ozone depletion potential, low global warming potential, and a balanced cost-benefit approach. Through persistent R&D efforts, we successfully introduced a product line utilizing eco-friendly refrigerants in 2017. Since then, in response to evolving national energy efficiency regulations, we have upgraded our entire product portfolio to incorporate eco-friendly refrigerants, establishing ourselves as a leader in the industry’s green transformation.

To ensure product safety and performance, we have implemented innovative measures, including sealed electric control box designs and explosion-proof features for products using flammable refrigerants. Additionally, small-diameter, multi-path heat exchangers have been developed to enhance energy efficiency and reduce energy consumption. To further promote eco-friendly refrigerants, we provide training programs for employees and collaborate with external institutions to raise awareness and encourage adoption.

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Green Procurement

We incorporate environmental protection principles into our supply chain management by enforcing stringent controls across supplier selection, evaluation, and management. Suppliers are required to provide certifications, such as ISO 14001 certification, and are prioritized based on their adoption of renewable energy, low-carbon production processes, or circular economy models. Localized procurement is encouraged to reduce carbon emissions from transportation.

In support of our green transformation, we have established dedicated procurement programs to source eco-friendly manufacturing equipment and materials, especially those needed for the application and handling of new refrigerants. Through close collaboration with qualified suppliers and the expertise of specialized teams, we ensure that our procurement activities align with relevant environmental and safety requirements. These practices support the adoption of eco-friendly refrigerants and strengthen the sustainability of our supply chain.

To ensure compliance and innovation, we conduct on-site inspections to evaluate suppliers’ environmental measures, such as wastewater treatment facilities and clean energy usage. Suppliers are also required to provide real-time energy consumption and emissions data.

Green Manufacturing

We are committed to reducing waste, pollution, and energy consumption throughout our manufacturing processes by adopting green manufacturing technologies. We have established comprehensive waste management framework for wastewater, waste gas, and solid waste, with regular monitoring and third-party evaluations to ensure compliance with national and local regulations.

To accelerate the industrial application of eco-friendly refrigerants, we initiated a comprehensive green transformation of our manufacturing lines as early as 2014. This included large-scale hardware upgrades, such as the installation of specialized production equipment by professional engineering teams, ensuring the stable and safe operation of upgraded production lines. These efforts have laid a solid foundation for the large-scale adoption of eco-friendly refrigerants across all product categories.

To reduce carbon emissions, we have installed rooftop solar photovoltaic systems at our manufacturing facilities. Additionally, energy-efficient equipment and optimized production processes have been adopted to lower energy consumption per unit. Annual energy audits conducted by third-party agencies further ensure compliance with regulatory standards.

Green Logistics and Services

We extend our environmental initiatives to logistics and services by leveraging technology and optimizing operational efficiency. In logistics, we apply IoT, big data, and intelligent algorithms to optimize warehouse layouts and transportation routes. In services, we recommend high-efficiency air conditioning products that meet national Grade 1 energy

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efficiency standards and works with customers to optimize installation designs based on room size and user needs. These measures improve energy efficiency and reduce resource consumption. Additionally, professional maintenance services are offered to extend product lifespans, reducing equipment replacement frequency and minimizing waste. To further promote sustainability, biodegradable and non-polluting cleaning agents are used to monitor product performance and reduce the need for on-site services, thereby lowering carbon emissions.

Green Product Lifecycle Management

In addition to our efforts in green design, procurement, manufacturing, logistics and services, we recognize the importance of managing the full lifecycle of our products, including their end-of-life disposal. Although we currently do not directly engage in the recycling or collection of used air conditioners, nor have formal cooperation arrangements with third-party recycling partners, we remain committed to complying with all applicable environmental regulations regarding the disposal of electrical and electronic equipment. We actively monitor policy developments and industry trends related to product lifecycle management and waste reduction, and regularly assess our operations to identify opportunities for further enhancing our environmental practices. Going forward, we will continue to explore feasible models and best practices for recycling and circular economy initiatives that are suitable for our business, with a view to further minimizing the environmental impact of our products and contributing to the sustainable development of the industry.

Social Responsibility

We believe that our employees are our greatest asset, and fostering a supportive and inclusive workplace is paramount to our success. We are committed to providing our employees with continuous professional development opportunities, offering a range of comprehensive welfare benefits designed to enhance their well-being and support their career growth. These benefits include complimentary shuttle services, team-building activities, ongoing training and educational opportunities, and regular health examinations.

Furthermore, we strive to provide a safe and healthy working environment for our employees. To achieve this, we have established stringent safety protocols. These protocols are reinforced by regular safety training initiatives that equip our employees with the necessary awareness and technical expertise to perform their duties safely and efficiently. Our safety measures encompass our operations as well as our primary operational sites. We have specific protocols in place for managing emergency matters. Regular meetings and periodic inspections are conducted to ensure continuous adherence to our safety standards. Through these efforts, we maintain a secure and productive working environment that supports the well-being of our employees and the success of our enterprise. During the Track Record Period and up to the Latest Practicable Date, we did not have any major workplace accidents.

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We are committed to philanthropy and actively contributed to charitable causes, demonstrating our corporate social responsibility and dedication to stable employment and community empowerment. Our commitment to social responsibility has been recognized through numerous awards, reflecting our efforts to make a meaningful impact beyond our business operations.

Workforce Composition and Diversity

Our workforce reflects a strong commitment to diversity and inclusivity. Gender diversity is a key focus, with female employees playing significant roles across various levels and functions, including research and development, production management, and sales operations. We actively promote gender equality, particularly in management and technical positions, by providing female employees with ample career development opportunities to help them achieve their professional aspirations.

We also value age diversity, with a team structure that combines experienced senior staff and dynamic younger employees. As of March 31, 2025, our workforce covered a broad age spectrum, with most employees falling between 30 and 50 years old, alongside a meaningful representation of both younger staff under 30 and seasoned professionals over 50. In terms of workforce diversity, we place a strong emphasis on a broad range of practical skills and technical expertise across our team. Our employees bring together backgrounds in various disciplines such as engineering, production, quality control, and equipment maintenance, with many holding relevant technical certifications and hands-on experience. This diversity of skills and expertise enables us to effectively meet the complex operational requirements of modern manufacturing, while ongoing training and development programs further enhance our team’s adaptability and innovative capacity. This balance ensures the integration of industry expertise with innovative perspectives, fostering a workforce that supports our sustainable development.

Recruitment and Retention

We have implemented a robust recruitment system to attract and retain top talent. Our recruitment policies emphasize transparency, fairness, and meritocracy, fostering an open and competitive hiring environment. By combining internal referrals with external talent acquisition strategies, we have enhanced the efficiency and precision of our recruitment efforts.

To ensure consistency and quality, we have standardized our hiring processes, from identifying recruitment needs to onboarding and probation management. During the probation period, employees undergo evaluations to ensure they are well-suited for their roles.

Compensation and Promotion

We adhere to a fair, transparent, and performance-driven compensation and promotion system that aligns with market standards, job value, and employee contributions. Our compensation structure includes monthly salaries, allowances, and other benefits, with flexibility to offer competitive premiums for exceptional talent.

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Promotions are based on a clear and transparent system that emphasizes merit and performance. Employees in specialized roles, such as research and development, are evaluated across multiple dimensions, including technical expertise and general competencies. This ensures employees who meet the requirements can advance promptly, with immediate adjustments to their roles and compensation.

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Owned Properties

Our corporate headquarters are located in Ningbo, Zhejiang Province, China. As of the Latest Practicable Date, we owned land use rights to 68 parcels of land that are material to our R&D and operations in the PRC, with an aggregate site area of approximately 3,811,200 square meters, and owned 58 properties that are material to our R&D and operations in China with a total GFA of approximately 2,258,990 square meters. We also had seven construction-in-progress projects in China as of the same date for production factories construction and upgrade. In line with the progress of these construction-in-progress projects for production factories construction, we had obtained requisite license and permits for these properties, such as the report form on environmental impact of construction project (建設項目環境影響報告表), construction land planning permit (建設用地規劃許可證), construction work planning permit (建設工程規劃許可證) and construction work commencement permit (建築工程施工許可證). We also own certain properties overseas. As of Latest Practicable Date, we owned one property with an aggregate site area of over 113,200 square meters in Thailand. The properties we owned are primarily used for production, warehouse or office purposes.

The Property Valuation Report from JLL, an independent property valuer, set out in Appendix III of this document, sets out details of our selective property interest as of May 31, 2025. JLL valued the property interest at an amount of RMB477.6 million as of May 31, 2025. Except for the property interest set forth in the Property Valuation Report from JLL, no other property interests are used for property activities as defined under Rule 5.01 of the Listing Rules. No single property interest that forms part of our non-property activities had a carrying amount representing 15% or more of our total assets as of May 31, 2025.

Leased Properties

As of the Latest Practicable Date, we leased 66 properties in China with a total GFA of approximately 165,220 square meters mainly for office, products storage and employee dormitory. As of the same date, we leased certain properties overseas with a total GFA of approximately 25,000 square meters.

Pursuant to the applicable PRC laws and regulations, property lease agreements must be registered with the local branch of the Ministry of Housing and Urban-Rural Development of the PRC. As of the Latest Practicable Date, 33 of our lease agreements in China had not been registered. Our PRC Legal Advisors are of the view that the non-registration of our lease agreements will not affect the validity of such lease agreements, but the relevant local housing

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administrative authorities may require us to complete registrations within a specified timeframe and we may be subject to a fine between RMB1,000 and RMB10,000 per lease for any delay in making these registrations. We may be subject to the risks of fines if lease registration is not completed as required by the relevant local housing administrative authorities. During the Track Record Period and up to the Latest Practicable Date, we were not subject to any penalties arising from the non-registration of the lease agreements. For some of our leased properties in the PRC, the lessors may not be able to provide documents evidencing the authorization or consent from the property owners for subleasing. In such case, our rights in relation to such properties might not be entirely protected. In addition, the actual usages of certain leased properties were used for purposes inconsistent with their respective permitted usage, which may also challenge or interrupt our use and occupation of the relevant properties. See “Risk Factors — Risks Relating to Our Operations — Our leased properties may be subject to non-compliances or challenges that could potentially affect our future use of them” for details.

LICENCES, PERMITS, APPROVALS AND CERTIFICATES

During the Track Record Period and up to the Latest Practicable Date, we have obtained all licenses, approvals, permits and certificates that are material and necessary for our business operations in jurisdictions where we operate, and such licenses, permits, approvals and certificates are valid and subsisting.

LEGAL PROCEEDINGS AND COMPLIANCE

Historical Intellectual Property Infringement Claims

Before the Track Record Period, Ningbo Aosheng (a wholly-owned subsidiary of AUX Group as of the Latest Practicable Date, for details of the business restructuring in relation to Ningbo Aosheng, see “History, Reorganization and Corporate Structure — Major Corporate Developments and Pre-[REDACTED] Reorganization of Our Group — Business Restructuring.” After the business restructuring, Ningbo Aosheng was not part of our Group. To the best knowledge of our Directors, Ningbo Aosheng had no substantial business operation after the business restructuring and up to the Latest Practicable Date) has been involved in several intellectual property litigations as the defendant or a co-defendant. For example, Ningbo Aosheng was the defendant or a co-defendant in many intellectual property litigations raised by a market player (the “**Historical IP Cases**”) before and around 2018 and some of which may be raised as a way of competition. Our Directors are of the view that intellectual property-related disputes are not uncommon in our industry, particularly among market participants with overlapping technological fields. While Ningbo Aosheng has successfully defended some cases through non-infringement findings or successful invalidation of plaintiffs’ patents through its counterclaims, there have been instances where courts determined that Ningbo Aosheng infringed third parties’ intellectual property rights and thus it was subject to compensatory payments. We, after receiving certain patents from Ningbo Aosheng during the business restructuring, have updated certain design of our products to avoid further infringement, and implemented comprehensive improvements to our intellectual

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property protection system. For details, see “— Intellectual Property.” Our Directors are of the view that these claims did not have any material adverse effect on our business, results of operations and financial conditions, considering (i) all of these Historical IP Cases have been concluded and fully executed, with judgments implemented in their entirety, (ii) some of the disputed patents have expired, alleviating concerns about future infringements, (iii) while certain disputed patents remain valid, they are not material to the design and production of our products. We have proactively made strategic product modifications and innovations in relation to products related to above-mentioned disputed patents to steer clear of technologies infringing the disputed patents and we currently do not use these disputed patents in the design and production of our products, (iv) the aggregate compensation amount paid to the plaintiff in these Historical IP Cases, amounting to approximately RMB116.3 million, has been paid by Ningbo Aosheng as we were not listed as the defendant in these Historical IP Cases, and (v) we have continuously refined our intellectual property management system and set up an intellectual property management team within its R&D IP Department. Following these IP cases, the Group has continuously refined our intellectual property management system. For details, see “— Risk Management and Internal Control.” There have been no additional patent infringement claims from third parties related to our air conditioner products raised during the Track Record Period.

Historically, Ningbo Aosheng and/or our Group have also filed certain civil lawsuits or administrative proceedings related to intellectual property as the plaintiff. According to searches conducted on Qichacha (企查查<https://www.qcc.com>) by our PRC Legal Advisors and confirmed by our Company, as of the Latest Practicable Date, there were a total of 30 civil lawsuits or administrative proceedings filed by Ningbo Aosheng or our Group against the Plaintiff, among which two were supported by the courts, six were withdrawn by our Group, and the remaining cases were rejected by the courts. The Company is of the view that cases where Ningbo Aosheng and/or our Group acted as plaintiffs will not have any material adverse effect on our business operations and financial performance, because (i) an unfavorable outcome would not result in financial losses or business disruption, and (ii) even in the worst-case scenario where certain patents of Ningbo Aosheng and/or our Group were invalidated due to the defendants’ counterclaims, Ningbo Aosheng and/or our Group can continue using the technology related to such patents as a patent that is declared invalid is deemed to have never existed.

Considering (i) our Company has conducted thorough inquiries with the Directors and confirmed that the Historical IP Cases do not involve any specific allegations against the Directors personally, nor do they pertain to any dishonesty, fraud, or willful misconduct. Importantly, the Directors were not directly involved in the alleged infringement of intellectual property rights in these cases, (ii) the Historical IP Cases occurred during a relatively concentrated period and involved other market players as counterparties. Our Company is of the view that these claims were, in essence, commercial competition measures, rather than as a reflection of any misconduct or failure by the Directors, (iii) under the leadership and oversight of the Directors, we have proactively implemented a series of robust remedial actions and strengthened our internal controls. For details, see “— Risk Management and Internal Control,” (iv) the Directors have demonstrated their commitment to regulatory compliance,

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professional development, and corporate governance standards by attending training sessions on directors’ general duties under the Listing Rules and the laws of Hong Kong. These training sessions have enhanced their understanding of their fiduciary duties, legal obligations, and the importance of upholding high governance standards. The Directors’ proactive participation in these sessions reflects their dedication to maintaining the integrity and compliance of our Company’s operations, and (v) based on our Company’s thorough review of documents related to the Historical IP Cases, as well as litigation and background searches conducted by Independent Third Parties, the Company has not identified any definitive facts or evidence indicating that the Directors may be personally liable for the alleged intellectual property infringements or that they failed to act appropriately in relation to these matters. Furthermore, as of the Latest Practicable Date, no other disputes, litigations, regulatory disciplinary actions, or investigations involving the Directors have been identified that would materially or adversely affect their suitability to serve as directors of our Company, the Directors are of the view that the Historical IP Cases do not impact on the suitability of the Directors to act as the Company’s directors. Based on the independent due diligence steps conducted by the Sole Sponsor, including but not limited to interviews with the Company and its litigation counsel as well as interviews with the Directors, review of relevant litigation papers and discussion with the Company’s PRC Legal Advisers, nothing has come to the attention of the Sole Sponsor that would reasonably cause the Sole Sponsor to disagree with the Directors’ view above.

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

Trade Secrets and Intellectual Property Infringement Proceeding

On December 8, 2022, a company (the “Plaintiff”) filed a claim against Ningbo Aosheng, us and five individuals, two of whom were our current employees and three of whom were our former employees as of the same date, alleging infringement of the Plaintiff’s business secrets and technical secrets related to eight patents. These five individuals are current or former employees who worked in our R&D or supply chain positions. Three of them were the primary authors of the eight patents involved in this case. Apart from their current or former employment with our Group, these individuals have no other relationships with us. The Plaintiff’s claims include (i) demanding the defendants immediately cease infringing on the Plaintiff’s trade secrets and transfer the eight involved patents to the Plaintiff, (ii) seeking compensation from the defendants for economic losses and reasonable rights protection costs totaling RMB99.0 million.

In April 2025, we received the first-instance decision from the court, which decided, among others, that (i) Ningbo Aosheng and two of the individual defendants shall compensate the Plaintiff for its economic losses and reasonable expenses in the amount of RMB3.5 million, and (ii) we shall transfer the three involved patents to the Plaintiff and the creation rights of five involved patents (which have expired as of the date of the first-instance decision due to the expiration of their ten-year validity period) belonged to the Plaintiff. The court also

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concluded, among others, (i) that the Plaintiff acknowledges that we and Ningbo Aosheng did not use the eight involved patents in the production activities, (ii) we did not infringe the Plaintiff’s trade secrets primarily because (a) we received the patents from Ningbo Aosheng in 2018, (b) we were not involved in the development and registration of relevant patents by Ningbo Aosheng which incurred before the establishment of our Company, (c) the relevant patents were public and therefore did not constitute trade secrets before the transfer from Ningbo Aosheng to our Group, and (iii) there was no ongoing infringement of the Plaintiff’s trade secrets mainly because the technical information had been disclosed when the patent documents were published, with five of the eight patents even expired as of the first-instance decision date. As of the date of this document, Ningbo Aosheng has filed an appeal against the decision, and the appeal has been accepted by the court. As of the same date, the above-mentioned three involved patents remain valid and have not been transferred to the Plaintiff.

Our Directors are of the view that this proceeding did not have a material adverse effect on us, primarily because (i) we were not involved in the monetary damages to the Plaintiff, (ii) as concluded by the court, we did not infringe the Plaintiff’s trade secrets, and (iii) our Group and Ningbo Aosheng did not and never used the aforementioned eight patents, which are developed based on industry wide technology. Nothing has come to the attention of the Sole Sponsor that would reasonably cause the Sole Sponsor to disagree with our Directors’ view above, taking into consideration the independent due diligence steps conducted by the Sole Sponsor, including interviews with our Company and our litigation counsel, discussion with our PRC Legal Advisors and review of the litigation papers and other documentations.

Bribery Case Relating to a Former Employee of Our Subsidiary

In October 2023, a former employee of our subsidiary, AUX Air Conditioner, was arrested for accepting bribes. The incident involved the receipt of an aggregate of over RMB290,000 in bribes or improper benefits through a mix of cash and bank transfers during transactions with suppliers or potential suppliers. These actions were intended to ease contract signing, payment processing, and business collaboration for suppliers. The implicated former employee’s employment contract was terminated following the incident. To the best knowledge of our Directors, no current employees are related to this bribery case or currently operate under this former employee’s instruction. Despite the implementation of our rigorous internal controls and integrity management systems, the bribery incident involved multiple small cash bribes and covert bank transfers, which rendered it difficult to identify irregular behavior in a timely manner.

Our Directors are of the view that the bribery incident has not significantly affected our financial situation or operational performance given the relatively small financial amount involved. To prevent future instances of bribery, we have enhanced internal control policies and refined our integrity management policies. For details, see “— Risk Management and Internal Control.”

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Legal Compliance

We are committed to maintaining the highest standards of compliance with the laws and regulations applicable to our business. During the Track Record Period and as of the Latest Practicable Date, there was no litigation, arbitration or administrative proceedings pending or threatened against our Company or any of our directors which could have a material and adverse effect on our financial condition or results of operations.

We believe that, during the Track Record Period and up to the Latest Practicable Date, we had complied in all material respects with the applicable laws and regulations relating to our business operations. However, we may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of business. For potential impact of legal or administrative proceedings on us, see “Risk Factors — Risks Relating to Our Operations — Our business may suffer as a result of adverse outcomes of current or future litigation and regulatory actions, including with respect to anti-competitive practices.”

AWARDS AND RECOGNITIONS

During the Track Record Period, we received numerous recognitions for our technologies as well as our products. Some of the significant awards and recognition we received are set forth below.

Award Year	Award/Recognition	Awarding Institution/Authority
2022	First Prize of the Zhejiang Science Progress Award (浙江省科學進步獎一等獎)	The People’s Government of Zhejiang Province (浙江省人民政府)
2022	First Prize of Invention and Entrepreneurship Award (發明創業獎一等獎)	China Association of Inventions (中國發明協會)
2022	Gold Award at the International Exhibition of Inventions of Geneva (日內瓦國際發明展金獎)	Swiss Federal Government, Geneva Cantonal Government, the City of Geneva government, World Intellectual Property Organization (瑞士聯邦政府、日內瓦州政府、日內瓦市政府、世界知識產權組織)
2022	Design Excellence Awards (IDEA) 2022 (美國IDEA 2022 Finalist獎項)	Bloomberg Businessweek, Industrial Designers Society of America (美國商業週刊、美國工業設計師協會)

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Award Year	Award/Recognition	Awarding Institution/Authority
2023	Intelligent Manufacturing Demonstration Factory Listed Unit (智慧製造示範工廠揭榜單位)	Ministry of Industry and Information Technology, NDRC, Ministry of Finance, State-owned Assets Supervision and Administration Commission of the State Council, State Administration for Market Regulation (工業和信息化部、國家發改委、財政部、國務院國有資產監督管理委員會、國家市場監督管理總局)
2023	List of Demonstrative Enterprises for Green Industrial Products Design (Fifth Batch) (工業產品綠色設計示範企業名單(第五批))	Ministry of Industry and Information Technology (工業和信息化部)
2023	2023 Zhejiang Province Benchmark Enterprise for “Robot +” Applications (2023年浙江省“機器人+”應用標桿企業)	Economy and Information Technology Department of Zhejiang (浙江省經濟和信息化廳)
2023	Second Prize of the Science and Technology Progress Award by China National Light Industry Council (中國輕工業聯合會科學技術進步獎二等獎)	China National Light Industry Council (中國輕工業聯合會)
2024	Zhejiang Province Key Industrial New Products (浙江省重點工業新產品)	Economy and Information Technology Department of Zhejiang (浙江省經濟和信息化廳)
2024	China High-end Household Appliances & Consumer Electronics Red-Top Award (中國高端家電及消費性電子紅頂獎)	Red-Top Award Organizing Committee (紅頂獎組委會)