
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

As of the Latest Practicable Date, Mr. ZHENG Jianjiang, through Ze Hui, China Prosper and AUX Holdings, controlled approximately 96.36% of voting rights in our Company. Immediately following completion of the Global Offering (assuming the Offer Size Adjustment Option and the Over-allotment Option are not exercised), Mr. ZHENG Jianjiang, through Ze Hui, China Prosper and AUX Holdings, will control approximately 83.54% of voting rights in our Company. Therefore, Mr. ZHENG Jianjiang, Ze Hui, China Prosper and AUX Holdings are and will continue to be a group of Controlling Shareholders of our Company upon the Listing.

Each of Ze Hui, China Prosper and AUX Holdings was primarily engaged in investment holding business as of the Latest Practicable Date.

COMPETITION

In addition to their interest in our Group, as of the Latest Practicable Date, the Controlling Shareholders and their close associates were also actively involved in businesses beyond the air conditioner sector. These businesses span industries such as investment management, finance, property management, power equipment, healthcare, and new energies. There is a clear business delineation between these other businesses of our Controlling Shareholders and our Group's operations. Specifically: (i) AUX Group is primarily engaged in investment management, finance, healthcare, power equipment, and new energies; and (ii) Sanxing Medical is primarily engaged in the manufacturing of electrical meters, the provision of healthcare services, and businesses related to new energies.

As of the Latest Practicable Date, none of the Controlling Shareholders and their respective close associates had any interest in any business that competes or is likely to compete, either directly or indirectly with our Group's business, which would require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE OF OUR BUSINESS

We believe that we are capable of carrying on our business independently from the Controlling Shareholders and/or their respective close associates upon the Listing for the following principal reasons:

Management Independence

Our business is managed and conducted by our Board and senior management. Upon the Listing, our Board will consist of eight Directors comprising two executive Directors, three non-executive Directors and three independent non-executive Directors. For more information, please see the section headed "Directors and Senior Management."

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Our Directors believe that our Company is capable of maintaining management independence due to the following reasons:

- (1) Mr. ZHENG Jianjiang serves as a director of Sanxing Medical and its subsidiaries with non-executive nature, primarily representing his controlling equity interest in Sanxing Medical. He does not hold any executive senior management position and does not participate in the daily management or operations of such companies;
- (2) Mr. XIN Ning, the other executive Director, and other senior management members of our Company do not hold any role as an executive director or member of senior management in our Controlling Shareholder or any of their close associates save for the investment holding companies which do not have any substantial business operations;
- (3) our daily management and operations are carried out by a senior management team, all of whom have substantial experience in the industry in which our Company is engaged, and will therefore be able to make business decisions that are in the best interests of our Group;
- (4) we have three independent non-executive Directors and certain matters of our Company must always be referred to the independent non-executive Directors for review;
- (5) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Controlling Shareholders or their respective associates, the interested Director(s) is required to declare the nature of such interest before voting at the relevant Board meetings of our Company in respect of such transactions and will abstain from voting at the relevant meeting in accordance with the Listing Rules; and
- (6) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholders which would support our independent management. Please see “— Corporate Governance Measures” in this section for further information.

Based on the above, our Directors believe that our Board as a whole and together with our senior management team are able to perform the managerial role independently from our Controlling Shareholders.

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Operational Independence

Our Group is not operationally dependent on the Controlling Shareholders. Our Group holds all material licenses and owns all relevant intellectual properties necessary to carry on our business. We have sufficient capital, facilities, equipment and employees to operate our business independently from our Controlling Shareholders. We also have independent access to our customers and an independent management team to operate our business.

Based on the above, our Directors believe that we are able to operate independently of our Controlling Shareholders.

Financial Independence

We have independent internal control and accounting systems. We also have an independent finance department responsible for discharging the treasury function. We are capable of obtaining financing from third parties, if necessary, without reliance on our Controlling Shareholders. As of the Latest Practicable Date, there were no outstanding loans or guarantees provided by, or granted to, our Controlling Shareholders or their respective close associates.

Based on the above, our Directors are of the view that they and our senior management are capable of carrying on our business independently of, and do not place undue reliance on, our Controlling Shareholders and their respective close associates.

CORPORATE GOVERNANCE MEASURES

Our Company and our Directors are committed to upholding and implementing the highest standards of corporate governance and recognize the importance of protecting the rights and interests of all Shareholders, including the rights and interests of our minority Shareholders.

We have adopted the following measures to ensure good corporate governance standards and to avoid potential conflicts of interest between our Group and our Controlling Shareholders:

- (1) under the Articles of Association, where our Company has knowledge that any Shareholder is, under the Listing Rules, required to abstain from voting on any particular resolution of our Company or restricted to vote only for or only against any particular resolution of our Company, any votes cast by or on behalf of such Shareholder in contravention of such requirement or restriction shall not be counted;
- (2) our Company has established internal control mechanisms to identify connected transactions. Upon the Listing, if our Company enters into connected transactions with our Controlling Shareholders or any of their associates, our Company will comply with the applicable Listing Rules;

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- (3) the independent non-executive Directors will review, on an annual basis, whether there are any conflicts of interests between our Group and our Controlling Shareholders and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (4) our Controlling Shareholders will undertake to provide all information necessary, including all relevant financial, operational and market information and any other necessary information as required by the independent non-executive Directors for the purpose of their annual review;
- (5) our Company will disclose decisions on matters reviewed by the independent non-executive Directors either in its interim and/or annual reports or by way of announcements as required by the Listing Rules;
- (6) where our Directors reasonably request the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at our Company's expense;
- (7) we have appointed Somerley Capital Limited as our Compliance Advisor to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance; and
- (8) we have established the Audit Committee, the Remuneration Committee and the Nomination Committee with written terms of reference in compliance with the Listing Rules and the Code on Corporate Governance and Corporate Governance Report in Appendix C1 to the Listing Rules. All of the members of our audit committee, including the chairman, are independent non-executive Directors.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest that may arise between our Group and our Controlling Shareholders, and to protect our minority Shareholders' interests after the Listing.