



1 December 2023

*To the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
ON PURCHASE OF SERVO SYSTEMS,
LINEAR MOTION GUIDES AND HYDRAULIC PARTS**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the renewal of continuing connected transactions (the “**Continuing Connected Transactions**” or the “**Purchases**”) for the purchase of servo systems, linear motion guides and hydraulic parts (the “**CCT Products**”) by the Group from 寧波海天驅動有限公司 (transliterated as Ningbo Haitian Driving Systems Co., Ltd., hereinafter referred as “**HDS**”) and the proposed annual caps (the “**Proposed Annual Caps**”) under the 2024 Framework Agreement for the three years ending 31 December 2026, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to its shareholders dated 1 December 2023 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

According to the Letter from the Board, HDS is owned as to 65% by Ningbo Haitian and 35% by HDS Hong Kong. Mr. Zhang Jianming (the chairman of the Board and an executive Director), Mr. Zhang Jianfeng and Mr. Zhang Bin (both executive Directors and Mr. Zhang Bin being a son of Mr. Zhang Jianming), Mr. Guo Mingguang and Mr. Liu Jianbo (both non-executive Directors and the brothers-in-law of Mr. Zhang Jianming), Ms. Chen Lu (an executive Director, the wife of Mr. Zhang Bin and accordingly, an associate and connected person), and Mr. Zhang Jingzhang (a former executive Director and the former chairman of the Board, who has resigned since 21 August 2023 and remains a connected person of the Company for a period of 12 months after his resignation), are

interested in an aggregate of 61.907% equity interests in Ningbo Haitian and 75.7% shareholding in HDS Hong Kong. Mr. Chen Weiqun, one of the executive Directors, is interested in 1.8% equity interest in Ningbo Haitian. Pursuant to Rule 14A.07 of the Listing Rules, HDS is a connected person of the Company and the Purchases will constitute continuing connected transactions of the Company. As certain applicable percentage ratio(s) (as defined in Rule 14.07 of the Listing Rules) with respect to the Purchases are higher than 5% on an annual basis, the Purchases will be subject to the reporting, announcement, annual review and independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Lou Baijun, Mr. Guo Yonghui, Ms. Yu Junxian and Mr. Lo Chi Chiu, all being the independent non-executive Directors, has been established by the Board to consider the terms of the 2024 Framework Agreement, the transactions contemplated thereunder and the Proposed Annual Caps and to make recommendation to the Independent Shareholders as regards voting. We, Sorrento Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the 2024 Framework Agreement, the transactions contemplated thereunder and the Proposed Annual Caps are normal commercial and fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and its shareholders as a whole.

Each of Mr. Zhang Jianming, Mr. Zhang Bin, Mr. Zhang Jianfeng, Mr. Guo Mingguang, Mr. Liu Jianbo, Mr. Chen Weiqun and Ms. Chen Lu has material interest in the transactions contemplated under the 2024 Framework Agreement by virtue of their interests in HDS and are therefore required to abstain from voting on the Board resolution approving the 2024 Framework Agreement and the Proposed Annual Caps. In particular, Ms. Chen Lu, an executive Director and the wife of Mr. Zhang Bin, is accordingly an associate of Mr. Zhang Bin and a connected person of the Company despite not holding or owning any interest in HDS. Further, Mr. Zhang Jingzhang, a former executive Director and the former chairman of the Board, who has resigned since 21 August 2023 and remains a connected person of the Company for a period of 12 months after his resignation, will also abstain from voting on at the EGM on the relevant resolution to be approved by the Independent Shareholders.

We are independent from and not connected with the Group, HDS, their respective substantial shareholders, directors or chief executive, or any of their respective associates pursuant to Rule 13.84 of the Listing Rules. During the last two years, except for acting as independent financial adviser in relation to the renewal of continuing connected transactions of the Group which is not subject to shareholders' approval, we have not been engaged as any financial adviser to the Company. Accordingly we are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the Purchases.

BASIS AND ASSUMPTIONS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions and representations expressed to us by the Directors and management of the Company. We have assumed that (i) all such statements, information, opinions and representations expressed to us by the Directors and management of the Company, for which they are solely responsible, are true, accurate and complete in all material aspects at the time they were made and up to the date of the Circular; and (ii) all the opinions and representations have been reasonably made by the Directors and the management of the Company after due and careful enquiry. We have also assumed that the information referred to in the Circular will continue to be true, accurate and complete as at the date of the Circular and if there is any material change of information in the Circular up to the date of the EGM, we will inform the shareholders of the Company as soon as practicable. We have also sought and obtained confirmation from the Directors and/or management of the Company that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Company or any of its subsidiaries, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONCERNED

In considering whether the terms of the 2024 Framework Agreement and the Proposed Annual Caps are fair and reasonable and are in the interest of the Company and its shareholders as a whole, we have taken into account the principal factors and reasons set out below:

1. Background of and reasons for entering into the 2024 Framework Agreement

As set out in the Letter from the Board, the Group is principally engaged in the design, development, manufacture and the sales of plastic injection moulding machines (“PIMMs”) and related parts. According to the annual report of the Company for the year ended 31 December 2022 (the “**Annual Report**”) and the interim report of the Company for the six months ended 30 June 2023 (the “**Interim Report**”), (i) the Company recorded an audited revenue of approximately RMB12.31 billion for the year ended 31 December 2022 representing a decrease of approximately 23.16% as compared to that of approximately RMB16.02 billion for the previous year; and (ii) the Company recorded an unaudited revenue of approximately RMB6.38 billion for the six months ended 30 June 2023 which is comparable to that of approximately RMB6.51 billion for the corresponding period in the previous year. Notwithstanding the changes above, the PRC remained as the largest geographic market of the Company, and revenue from the sales in the PRC represented approximately 69.22%, 64.32% and 60.76% of the total revenue for the year ended 31 December 2021 and 31 December 2022 and the six months ended 30 June 2023 respectively.

As set out in the Letter from the Board, Haitian Plastics Machinery is a major operating subsidiary of the Company primarily engaged in the manufacture and sales of PIMMs whereas HDS is primarily engaged in research and development, manufacture and sales of servo systems, linear motion guides, machinery robots, fork lifts and other industrial machinery tools. As advised by the Company, the CCT Products are essential components to be used in the Group's production of most PIMMs such as Mars series energy-saving PIMMs (the "**Mars Series**"), Zhafir electric PIMMs (the "**Zhafir Series**") and Jupiter series two-platen PIMMs (the "**Jupiter Series**"). In light of the importance of such components in the Group's production of PIMMs and the expected demand in PIMMs, the Directors consider that it is vital that the Group is able to secure stable supply of such core components from a reliable supplier.

We have reviewed the Group's historical sales breakdown by product series for the two years ended 31 December 2022 and the eight months ended 31 August 2023 and noted that sales of Mars Series, Zhafir Series and Jupiter Series (collectively the "**Applicable Product Series**") represented over 90% of the Group's total sales in each year/period. As advised by the Company, these products are expected to continue to contribute substantially to the sales of the Group, it is vital that the Group is able to secure supply of such core components from a reliable supplier such as HDS. HDS has agreed that the prices of the CCT Products supplied to the Group will not be higher than the prices of comparable types of similar products manufactured by independent third parties which can meet the technical specifications required by the Group's PIMMs and of satisfactory quality accepted by the Group.

Furthermore, the Group has been purchasing servo systems from HDS since 2009 and linear motion guides and hydraulic parts from HDS since 2012. HDS has been able to provide the products required in a timely and satisfactory manner and the quality of such products has consistently met the Group's requirements. Having taken into consideration the abovementioned, in particular that (i) the CCT Products are mainly used in the production of the Group's Applicable Product Series; and (ii) the Group's Applicable Product Series contributed substantially to the Group's revenue, we consider that there is commercial rationale for the Group to conduct the Purchases by entering into the 2024 Framework Agreement and the Purchases are in the ordinary and usual course of business of the Group and in the interests of the Company and its shareholders as a whole.

2. Principal terms of the 2024 Framework Agreement

Pursuant to the 2024 Framework Agreement, HDS will sell and it will procure its subsidiaries and associates to sell the CCT Products to Haitian Plastics Machinery or other members of the Group subject to entering into separate sale and purchase agreements or orders as agreed between (i) Haitian Plastics Machinery or other member of the Group; and (ii) HDS or its subsidiary or associate for a term commencing from 1 January 2024 to 31 December 2026. The terms of such sale and purchase contracts or orders should be fair and reasonable to both parties and the terms at which HDS offers the CCT Products to Haitian Plastics Machinery shall be no less favourable than the terms at which HDS offers to its independent third parties for the same or similar products.

The consideration shall be settled via bank remittance within 90 days after account entry for goods delivered having been made by the Group or by bank drafts payable in six months. Haitian Plastics Machinery is under no obligation to purchase any specific amount of the CCT Products from HDS and has the right to purchase such products from other Independent Third Parties as it deems fit.

The prices of the CCT Products will be determined with reference to the prices at which same or similar products (i) are sold by HDS to its independent third parties; and (ii) are purchased by Haitian Plastics Machinery from its independent third parties (the “**Reference Prices**”) as explained in the following:

- (i) HDS has agreed that the prices of the CCT Products shall not be higher than (a) the price at which HDS supplies same or similar products to its independent third parties; and (b) the reasonable prices of the same model of the CCT Products Haitian Plastics Machinery purchased from the Independent Third Parties provided that such reference models can meet the technical specifications required by the Group and of satisfactory quality accepted by the Group; and
- (ii) Upon request by Haitian Plastics Machinery, HDS is obliged to provide supporting documents in relation to the Reference Prices, including but not limited to agreements and invoices.

We have analysed the key terms of the 2024 Framework Agreement in the ensuing sections, in relation to the aspects of the Proposed Annual Caps and the measures to safeguard interests of Independent Shareholders, and formed our view in the paragraph headed “RECOMMENDATION”.

3. Proposed Annual Caps and basis of determination

The below table sets out (i) the historical transaction values for the purchase of the CCT Products by the Group from HDS under the 2021 Framework Agreement (as amended and supplemented by the 2021 Supplemental Agreement) for each of the two years ended 31 December 2022 and the eight months ended 31 August 2023 (collectively the “**Historical CCT Period**”); (ii) the existing annual caps for each of the three years ending 31 December 2023; and (iii) the Proposed Annual Caps in respect of the purchase of the CCT Products by the Group from HDS under the 2024 Framework Agreement for the each of the three years ending 31 December 2026 (the “**CCT Period**”):

	Historical transaction amounts /annual caps for the year ended/ending 31 December					
	2021	2022	2023	2024	2025	2026
Existing annual caps/ Proposed Annual Caps (RMB' million)	1,250.0	1,300.0	1,360.0	960.0	1,050.0	1,160.0
Historical transaction amount (RMB' million)	1,087.6	772.4	557.4 (note)	N/A	N/A	N/A

Note: Being the unaudited transaction amount under the 2021 Framework Agreement (as amended and supplemented by the 2021 Supplemental Agreement) for the eight months ended 31 August 2023.

In order to assess the fairness and reasonableness of the Proposed Annual Caps, we have obtained, on quarterly basis, the sample invoices of the Group's purchases of the CCT Products from HDS as well as the price quotation of comparable products from the Company's independent third party suppliers, during the Historical CCT Period (i.e. up to 31 August 2023). For each of the CCT Products, we have reviewed an invoice in the largest transaction amount within each quarter of the year/eight-month period during the Historical CCT Period (i.e. 33 invoices in total). We have obtained the product list relevant to each invoice and reviewed the unit prices of the item with the largest transaction amount and, on the other hand, we have requested two sets of corresponding third party quotations for comparing the unit prices of selected items. Given (i) the transaction amounts of the selected items are the largest in sample invoices we have obtained; and (ii) our sampling frequency (i.e. quarterly review) allow us to assess the pricing of the CCT Products in regular interval during the Historical CCT Period irrespective of any seasonality factor, we consider that our sample size is sufficient and representative. We noted from the abovementioned sample invoices and price quotations that the unit prices of the CCT Products purchased from HDS are comparable to those the Group were quoted by its independent third party suppliers.

As regards the Proposed Annual Caps to be sought for each of the three years ending 31 December 2026, we have obtained and reviewed the expected sales of the CCT Products summing roughly up the Proposed Annual Caps. We understand from the Company that such estimates were prepared with reference to (i) the actual transaction amounts under the 2021 Framework Agreement (as amended and supplemented by the 2021 Supplemental Agreement) for the two financial years ended 31 December 2022 and the eight months ended 31 August 2023; (ii) the expected growth of the total revenue of the Group from 1 January 2024 to 31 December 2026 at an annual growth rate of 10% for the three years ending 31 December 2026; (iii) the stable contribution of the Applicable Product Series, being 96% of the total revenue of the Group for the three years ending 31 December 2026; and (iv) the stable cost-to-sales percentage of 6.8% (being the value of the Purchases over the sales of the Applicable Product Series) for the three years ending 31 December 2026. Based on the abovementioned, the Company expects the transaction values of the CCT Products to be (i) approximately RMB960 million for the year ending 31 December 2024; (ii) approximately RMB1,050 million for the year ending 31 December 2025; and (iii) approximately RMB1,155 million for the year ending 31 December 2026, which are roughly same as the Proposed Annual Caps.

As part of our due diligence review, we have analysed the fairness and reasonableness of the Proposed Annual Caps as follows.

Historical and expected sales of the Group

We have reviewed the historical transaction values of the CCT Products and noted that they decreased from approximately RMB1,087.61 million for the year ended 31 December 2021 to approximately RMB772.36 million for the year ended 31 December 2022. According to the Annual Report, in 2022, multiple unexpected domestic and international factors weakened the

demand and reduced the capital expenditures in most of the downstream industries of the Company, affecting the orders of PIMMs to a certain extent. According to the Interim Report, under the negative impact of insufficient domestic consumer demand and manufacturing investment, the unaudited revenue of the Company decreased from approximately RMB6,509.61 million for the six months ended 30 June 2022 to approximately RMB6,380.23 million for the six months ended 30 June 2023, representing a decrease of approximately 1.99% as compared to the same period in 2022. As advised by the Company, the CCT Products can be applied in the majority of products of the Group, and therefore the drop in overall sales of the Group in 2022 have led to the reduction in purchase of relevant components and parts including the CCT Products. For the eight months ended 31 August 2023, the transaction value of the CCT Products was approximately RMB557.37 million and the annualised transaction value of the CCT Products for the year ending 31 December 2023 is expected to be approximately RMB836.06 million which is approximately 61.47% of the existing annual cap for the year ending 31 December 2023 yet showing an increase of approximately 8.25% as compared with the actual transaction value of the CCT Products for the year ended 31 December 2022.

As part of our due diligence, we have enquired the Company as to the expected increase in total sales of the Group for the three financial years ending 31 December 2026 and obtained the expansion plan of production scale of the Group. Upon review, we noted that the Group plans to expand and/or set up its production bases in the PRC and overseas from 2024 to 2026 such that the total production capacity of the Group is expected to increase, on average, by approximately 6.5% per annum. Having considered the aforesaid improvement in sales of the Group in the first eight months of 2023 and the expansion plan of the Group from 2024 to 2026, we concur with the Company's basis to project its expected total sales with the support of its expansion plan in near future and are of the view that the expected annual growth rate of sales are reasonable.

Sales mix of PIMMs by product series of the Group

We have obtained and reviewed the sales breakdown of the Group and noted that the sales of the Applicable Product Series represented approximately 96% of the total sales of the Group during the Historical CCT Period. Therefore, it is reasonable for the Company to assume the percentage sales of the Applicable Product Series with reference to the stable parameter in the past.

Cost proportion of the Applicable Product Series

We discussed with the management of the Group and reviewed the Group's historical transaction amounts of the CCT Products for each of the two years ended 31 December 2022 and the eight months ended 31 August 2023, and noted that these transaction values, as cost, represented

approximately 6.8% of the sales of the Applicable Product Series during the Historical CCT Period. We have also enquired the management of the Company and were confirmed that the CCT Products will continue to be applicable in almost all of the Applicable Product Series notwithstanding the launch of new generation products and the expansion of production scale and therefore there should be no material change in proportion of CCT Products-related costs of the Applicable Product Series in near future. Therefore, it is reasonable for the Company to assume the cost proportion of the Applicable Product Series with reference to the stable past percentage.

Having considered the factors above, we are of the view that the bases on which the Proposed Annual Caps were determined are fair and reasonable and in the interests of the Company and its shareholders as a whole and the Proposed Annual Caps are fair and reasonable, and we consider that the Purchases are to be carried out on normal commercial terms and in the ordinary and usual course of business.

4. Internal control measures within the Group

As advised by the Company, the Company has adopted certain measures to ensure that the Continuing Connected Transactions are properly controlled and monitored and in compliance with the Listing Rules:

- (i) regarding each of the three categories of the CCT Products, the Group will select not less than five types of parts within each category for pricing comparison and determination;
- (ii) the procurement department of the Group will request supporting documents from HDS in relation to the Reference Prices for the supply of the CCT Products from HDS to not less than two independent customers, on quarterly basis, and compare against the prices of the CCT Products which HDS offered to the Group, in order to ensure the prices of the CCT Products purchased by the Group from HDS are comparable to the prices offered by HDS to its Independent Third Party customers;
- (iii) the procurement department of the Group will (i) review the prices offered by its existing suppliers which are Independent Third Parties; and (ii) obtain quotations from other suppliers in the market which are Independent Third Parties for the same or similar type of products which can meet the technical specifications of the Group and of satisfactory quality accepted by the Group, and in total not less than two independent suppliers, and compare against the prices of the CCT Products which HDS has offered to the Group on a quarterly basis, in order to ensure the prices of the CCT Products purchased by the Group from HDS are not higher than the prices of comparable types of products manufactured by Independent Third Parties. As the market prices for the CCT Products are generally stable throughout a year, the

Directors are of the view that the Group's quarterly review and request of quotations from Independent Third Parties are sufficient to ensure that the prices of the CCT Products purchased by the Group from HDS are not higher than the prices of comparable types of products manufactured by Independent Third Parties;

- (iv) if the procurement department of the Group discovers any deviation from the procedures stated above, the Group will request HDS to adjust its product prices and in the event that HDS fails to meet such request(s), the Group will procure the products from Independent Third Party suppliers which can offer comparable products that can meet the technical specifications required by the Group and of satisfactory quality accepted by the Group, at more competitive prices;
- (v) the independent non-executive Directors will review the Continuing Connected Transactions under the 2024 Framework Agreement annually to check and confirm whether such Continuing Connected Transactions have been conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole, and whether the internal control procedures put in place by the Company are adequate and effective to ensure that such Continuing Connected Transactions are conducted in accordance with the pricing policies set out in such relevant agreements; and
- (vi) the Company's external auditors will review the Continuing Connected Transactions under the 2024 Framework Agreement annually to check and confirm (among others) whether the pricing terms have been adhered to and whether the Proposed Annual Caps have been exceeded. HDS has agreed to allow the Company and its external auditors to access the information necessary to report on the non-exempt continuing connected transactions contemplated under the 2024 Framework Agreement.

Having reviewed the documents provided by the Company, including but not limited to, (i) sample invoices of HDS and quotation of the Independent Third Parties in relation to the purchase prices of the CCT Products and similar products); (ii) the Group's internal quarterly comparison tables on the purchase prices of and the CCT Products; (iii) the minutes of the audit committee of the Company in relation to the connected transactions of the Group and relevant internal control procedures; and (iv) the reports annually issued by the independent auditors of the Company on the connected transactions of the Group, we considered the Company has complied with the abovementioned internal control measures, and are of the view that the Company has established appropriate and effective internal control procedures to ensure the 2024 Framework Agreement (including the price determination) will be conducted on normal commercial terms, fair and reasonable and in the interest of the Company and its shareholders as a whole.

RECOMMENDATION

Taking into consideration of the above principal factors and reasons, we are of the opinion that the Purchases are in the ordinary and usual course of business of the Company, and terms of the 2024 Framework Agreement (including the Proposed Annual Caps) and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and its shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favor of the resolution proposed at the EGM thereby approving the 2024 Framework Agreement, the transactions contemplated thereunder and the Proposed Annual Caps.

Yours faithfully,
For and on behalf of
Sorrento Capital Limited



Wesker Poon
Managing Director

Note: Mr. Wesker Poon is a responsible officer of type 6 (advising on corporate finance) regulated activity and has more than ten years of experience in corporate finance and investment banking. Mr. Wesker Poon has participated in and completed various advisory transactions (including connected transactions of listed companies in Hong Kong).