



27 November 2024

*To the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS UNDER THE 2024 FRAMEWORK AGREEMENT

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 revision of annual caps for 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 revised annual caps (the “**Revised Caps**”) under the 2024 Framework Agreement (as amended and supplemented by the 2024 Supplemental 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 27 November 2024 (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) and Ms. Chen Lu (an executive Director, the wife of Mr. Zhang Bin and accordingly, an associate and connected person), are interested in an aggregate of 49.9% equity interests in Ningbo Haitian and 66.1% 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 Supplemental Agreement, the transactions contemplated thereunder and the Revised 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 (as amended and supplemented by the 2024 Supplemental Agreement), the transactions contemplated thereunder and the Revised 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 Supplemental Agreement and the Revised 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.

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 connected transactions of the Group (details of transactions were disclosed in the circulars of the Company dated 1 December 2023 and an announcement of the Company dated 18 December 2023 respectively), 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 (as amended and supplemented by the 2024 Supplemental Agreement) and the Revised 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 and the 2024 Supplemental 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 2023 (the "**Annual Report**") and the interim report of the Company for the six months ended 30 June 2024 (the "**Interim Report**"), (i) the Company recorded an audited revenue of approximately RMB13.07 billion for the year ended 31 December 2023 representing an increase of approximately 6.17% as compared to that of approximately RMB12.31 billion for the previous year; and (ii) the Company recorded an unaudited revenue of approximately RMB8.02 billion for the six months ended 30 June 2024 representing an increase of approximately 25.71% as compared that of approximately RMB6.38 billion for the corresponding period in the previous year. Notwithstanding the growth above, the PRC remained as the largest geographic market of the Company, and revenue from the sales in the PRC represented approximately 64.32%, 60.58% and 64.64% of the total revenue for the year ended 31 December 2022 and 31 December 2023 and the six months ended 30 June 2024 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 fundamental 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 2023 and the eight months ended 31 August 2024 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. Therefore the Company has sought the approval of the then Independent Shareholders at the relevant extraordinary general meeting on 18 December 2023 for conducting the Purchase under the 2024 Framework Agreement and the existing annual caps (the "**Existing Caps**"). In view of the increase in transaction amounts of the CCT Products, the Company expects that the Existing Caps under 2024 Framework Agreement would be insufficient and thus intends to revise the Existing Caps by seeking approval of the Independent Shareholders at the EGM for the 2024 Supplemental Agreement and the Revised Caps.

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; (ii) the Group's Applicable Product Series contributed substantially to the Group's revenue; and (iii) the historical transaction amounts of the CCT Products, we consider that there is commercial rationale for the Group to further conduct the Purchases by entering into the 2024 Supplemental 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 (as amended and supplemented by the 2024 Supplemental Agreement)

Pursuant to the 2024 Framework Agreement (as amended and supplemented by the 2024 Supplemental 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.

As advised by the Company, in order to save administrative costs, the Group only selects a single supplier for each of the CCT Products which offers the most favourable terms to the Group after comparison between the prices of the CCT Products offered by HDS and quotations obtained from the Independent Third Parties first and if HDS also supplies such CCT Products to its independent third parties, the Group would then review relevant prices to ensure the prices offered by HDS to the Group are no less favourable than those offered by HDS to its independent third parties. For details of the aforesaid internal control measures in respect of the Continuing Connected Transactions, please refer to paragraph headed “4. Internal control measures within the Group” in this letter.

Pursuant to the 2024 Supplemental Agreement, save for the revision of Existing Caps, all terms and conditions of the 2024 Framework Agreement remain unchanged.

We have analysed the key terms (including payment terms) of the 2024 Framework Agreement (as amended and supplemented by the 2024 Supplemental Agreement) in the ensuing sections, in relation to the aspects of the Revised Caps and the measures to safeguard interests of the Independent Shareholders, and formed our view in the paragraph headed “RECOMMENDATION”.

3. Revised Caps and basis of determination

The below table sets out (i) the historical transaction amounts 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 2023 and under the 2024 Framework Agreement for the eight months ended 31 August 2024 (collectively the “**Historical CCT Period**”); (ii) the Existing Caps in respect of the purchase of the CCT Products by the Group from HDS for each of the three years ending 31 December 2026 under the 2024 Framework Agreement; and (iii) the Revised Caps in respect of the purchase of the CCT Products by the Group from HDS under the 2024 Supplemental Agreement for each of the three years ending 31 December 2026 (the “**CCT Period**”):

	Historical transaction amounts/annual caps for the year ended/ending 31 December				
	2022	2023	2024	2025	2026
Existing Caps/ (RMB' million)	1,250.0	1,300.0	960.0	1,050.0	1,160.0
Revised Caps (RMB' million)	N/A	N/A	1,140.0	1,220.0	1,320.0
Historical transaction amounts (RMB' million)	772.4	852.8	747.4 (note)	N/A	N/A

Note: Being the unaudited transaction amount under the 2024 Framework Agreement for the eight months ended 31 August 2024.

In order to assess the fairness and reasonableness of the Revised 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 2024). For each major category 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. 36 invoices in total). We have obtained the product list relevant to each invoice and reviewed the unit prices of the items with the largest transaction amounts in each quarter in the

Historical CCT Period and, on the other hand, we have requested two sets of corresponding quotations (i.e. 120 price quotations in total) from suppliers to the Group which are Independent Third Parties 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 adequate and representative. We noted from the abovementioned sample invoices and price quotations that the unit prices of the CCT Products purchased from HDS are fair and reasonable and no less favourable than those the Group were quoted by its independent third party suppliers. In addition, for particular CCT Products which HDS has sold to the Group and its independent third parties in each quarter of 2024, we have reviewed the relevant prices and noted that the prices offered by HDS to the Group are generally more favourable than those offered by HDS to its independent third parties.

As regards the Revised 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 Revised Caps. We understand from the Company that such estimates were prepared with reference to (i) the actual transaction amount for the eight months ended 31 August 2024 under the 2024 Framework Agreement and the relevant annualised annual transaction amount; (ii) the expected growth of the total revenue of the Group from 1 January 2025 to 31 December 2026 at an annual growth rate of 8% for the two 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 two years ending 31 December 2026; and (iv) the stable cost-to-sales percentage of 7.1% (being the amount of the Purchases over the sales of the Applicable Product Series) for the two years ending 31 December 2026. Based on the abovementioned, the Company expects the transaction amounts of the CCT Products to be (i) approximately RMB1,131.46 million for the year ending 31 December 2024; (ii) approximately RMB1,220.06 million for the year ending 31 December 2025; and (iii) approximately RMB1,315.49 million for the year ending 31 December 2026 respectively, which are roughly same as the Revised Caps.

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

Historical and expected sales of the Group

We have reviewed the historical transaction amounts of the CCT Products and noted that they increased from approximately RMB772.36 million for the year ended 31 December 2022 to approximately RMB852.83 million for the year ended 31 December 2023. According to the Annual Report, in 2023, against the backdrop of the weaker-than-expected recovery of domestic downstream demand and the structural change in the global industrial chain, the Company's continuous investment and deployment in domestic and overseas over the years yielded key effects in achieving growth against the odds, resulting in a continued climb in global market share.

According to the Interim Report, benefiting from the restructuring of the global industrial chain and the acceleration of exports of some downstream industries featuring daily consumer products, the unaudited revenue of the Company amounted to approximately RMB8,017.8 million for the six months ended 30 June 2024, representing an increase of approximately 25.7% compared to the same period in 2023. In particular, the Company's sale of PIMMs increased by approximately 26.2% year-on-year to approximately RMB7,702.5 million, the sales of parts and service increased by approximately 14.9% year-on-year to approximately RMB315.3 million for the six months ended 30 June 2024 of the Company. As advised by the Company, the CCT Products can be applied in the majority of products of the Group, and therefore the increase in overall sales of the Group in 2024 has led to the increase in purchase of relevant components and parts including the CCT Products. For the eight months ended 31 August 2024, the unaudited transaction amount of the CCT Products was approximately RMB747.37 million and the annualised transaction amount of the CCT Products for the year ending 31 December 2024 is expected to be approximately RMB1,121.06 million which is significantly more than the Existing Cap for the year ending 31 December 2024.

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 by approximately 4% to 8% per annum. Having considered the aforesaid improvement in sales of the Group in the first eight months of 2024 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 over 95% 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 (i.e. 96%) 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 2023 and the eight months ended 31 August 2024, and noted that these transaction amounts, as cost, represented approximately 6.6%, 6.9% and 7.1% of the sales of the Applicable Product

Series during the year ended 31 December 2022 and 2023 and the eight months ended 31 August 2024 respectively. 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 latest cost-to-sales percentage (i.e. 7.1%).

Having considered the factors above, we are of the view that the bases on which the Revised Caps were determined are fair and reasonable and in the interests of the Company and its shareholders as a whole and the Revised 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;

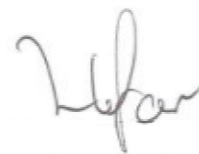
- (iv) if the procurement department of the Group discovers any deviation from the procedures stated above, the Group will request HDS to adjust its product prices and in the event that HDS fails to meet such request(s), the Group will procure the products from Independent Third Party suppliers which 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 Company has developed a real-time data update system to track the transaction amounts with the relevant parties. The Group's finance and internal control departments will monitor and manage these transactions in real-time and regularly report to the independent non-executive Directors and auditors to ensure that the Revised Caps will not be exceeded;
- (vi) the independent non-executive Directors will review the Continuing Connected Transactions under the 2024 Framework Agreement (as amended and supplemented by the 2024 Supplemental 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
- (vii) the Company's external auditors will review the Continuing Connected Transactions under the 2024 Framework Agreement (as amended and supplemented by the 2024 Supplemental Agreement) annually to check and confirm (among others) whether the pricing terms have been adhered to and whether the Revised Caps have been exceeded.

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 (as amended and supplemented by the 2024 Supplemental 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 (as amended and supplemented by the 2024 Supplemental Agreement) (including the Revised 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 Supplemental Agreement, the transactions contemplated under the 2024 Framework Agreement (as amended and supplemented by the 2024 Supplemental Agreement) and the Revised 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).