

# CONNECTED TRANSACTIONS

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Upon the listing of the Shares on the Stock Exchange, the transactions set forth below will constitute continuing connected transactions (as such term is defined under the Listing Rules) for the Company:

Categories	Type of transaction	Term	Applicable Listing Rule	Waiver Sought
A	Lease of office premises	From 1 July, 2006 to 30 June, 2011	Rule 14A.33(3)	None (De minimis transactions)
B	License of trademarks and patents	From 1 May, 2006 to the date of the completion of transfer of the trademark and patents to the Group	Rule 14A.33(3)	None (De minimis transactions)
C	Cooperation in research and development of technologies	From 1 May, 2006 to 30 December, 2007	Rule 14A.33(3)	None (De minimis transactions)
D	Sales of plastic injection moulding machines	From 1 May, 2006 to 30 June, 2007	Rule 14A.34	Announcement and independent shareholders' approval requirements

## Connected Persons

The relevant Connected Persons with whom certain members of the Group have entered into agreements are as follows:

- (a) In relation to transactions in categories A, B and D, Ningbo Haitian is a connected person by virtue of Rule 14A.11(4) of the Listing Rules in view of the fact that three executive Directors, namely Zhang Jingzhang, Zhang Jianming and Zhang Jianfeng, each of whom is an associate of each other due to their family relationship, are entitled to exercise 62.17% of the voting rights of the entire issued share capital of Ningbo Haitian in a general meeting of Ningbo Haitian. Ningbo Haitian is the holding company of the Non-transferred Companies and its principal business is investment holding; and
- (b) BUCT, is a connected person by virtue of Rule 14A.11(1) of the Listing Rules in view of the fact that it owns a 20% equity interest in Haitian Beihua and accordingly is a substantial shareholder of Haitian Beihua. BUCT is a university in China.

## Exempted Continuing Connected Transactions

The following connected transactions will constitute exempted connected transactions for the Group under Rule 14A.33(3) of the Listing Rules and accordingly, will be exempted from the reporting, announcement and independent shareholders' approval requirements stipulated under the Listing Rules. Each of the following transactions is undertaken on an arms-length basis and on normal commercial terms or terms more favourable to the Group and the percentage ratios (other than the profit ratio) of each of the following transactions on an annual basis is less than 0.1% or if more than 0.1% but less than 2.5% and the annual consideration is less than HK\$1.0 million (equivalent to RMB1.01 million).

### 1. Lease of office premises by Ningbo Haitian to Haitian Machinery and Haitian Ningshing

Haitian Machinery leases office premises of 3,186.86 square metres situated at the third, sixth, seventh and eighth floors of the main building and the second and third floors of the auxiliary building at No. 32, Jiangnan Zhong Road, Xiaogang, Ningbo, Zhejiang, China from Ningbo Haitian. They entered into a lease agreement on 4 September, 2006 for a term of five years which commenced on 1 July, 2006 and renewable by mutual agreement between the parties. The annual rent is RMB573,635 and payable annually. DTZ Debenham Tie Leung Limited, an independent valuer, has confirmed that the rent payable for these premises under the lease agreement is fair and reasonable and reflects prevailing market rates.

Haitian Ningshing leases office premises of 90.57 square metres situated at the first floor, Block 3, No. 20, Jiangnan Zhong Road, Xiaogang, Ningbo, Zhejiang, China from Ningbo Haitian. They entered into a lease agreement on 4 September, 2006 for a term of five years which commenced on 1 July, 2006 and renewable by mutual agreement between the parties. The annual rent is RMB16,303 and payable annually. DTZ Debenham Tie Leung Limited, an independent valuer, has confirmed that the rent payable for these premises under the lease agreement is fair and reasonable and reflects prevailing market rates.

Since the two leases both commenced on 1 July, 2006, no rent had been paid by Haitian Machinery or Haitian Ningshing to Ningbo Haitian during the Track Record Period.

### 2. License of trademarks and patents

On 5 December, 2006, Haitian Machinery and Ningbo Haitian entered into the following agreements:

- (a) a Transfer and License of Trademark Agreement; and
- (b) a Transfer and License of Plastic Injection Moulding Technologies Agreement,

pursuant to which Ningbo Haitian agreed to transfer to Haitian Machinery all of its trademarks (whether registered in the PRC or overseas), patents, know-how, trade secrets and any other intellectual property relating to plastic injection moulding machines at nil consideration. Due to administrative procedures in respect of the transfer of trademarks and patents registered in China and overseas (where applicable), Ningbo Haitian agreed to grant a license to Haitian Machinery and other members of the Group to use these trademarks and patents at nil consideration from 1 May, 2006 until the date of completion of the transfer of these

trademarks and patents. The Group has appointed an trademark and patent agent to implement the transfer of the relevant trademarks and patents in accordance with applicable laws and regulations.

3. Cooperation in research and development of technologies for plastic injection moulding machines

On 5 December, 2006, Haitian Beihua entered into a Contract Transfer and R&D Project Master Agreement with Ningbo Haitian and BUCT pursuant to which Ningbo Haitian assigned to Haitian Beihua its rights and obligations under six technology development agreements between Ningbo Haitian and BUCT for the research and development of plastic injection moulding machinery technologies (“BUCT Technology Development Agreements”). Pursuant to the BUCT Technology Development Agreements, Ningbo Haitian was required to pay a total amount of RMB3.18 million to BUCT for the research and development of plastic injection moulding machinery technologies. As at 31 October, 2006, Ningbo Haitian has fulfilled its payment obligation of RMB3.18 million to BUCT. Pursuant to the terms of the Master Transfer Agreement, Ningbo Haitian agreed to transfer all of its rights and obligations under the BUCT Technology Development Agreements to Haitian Beihua at nil consideration. BUCT consented to the transfer, acknowledged receipt of the RMB3.18 million and confirmed that Haitian Beihua will have no further obligation under the BUCT Technology Development Agreements to make any payment to BUCT.

### **Continuing Connected Transactions subject to the Reporting, Announcement and Independent Shareholders’ Approval Requirements in respect of which a Waiver has been Granted by the Stock Exchange**

The following connected transactions for the Company are on normal commercial terms and are subject to the reporting, announcement and independent shareholders’ approval requirements under rules 14A.45 to 14A.56 of the Listing Rules. A waiver application from strict compliance with the relevant announcement and independent shareholders’ approval requirements under the Listing Rules has been submitted to the Stock Exchange, subject to the conditions set forth under “Waivers from compliance with announcement and independent shareholders’ approval requirements” below.

### ***Sales of plastic injection moulding machines by the Group to Haitian Brazil and Haitian Turkey***

#### *Background*

As at the Latest Practicable Date, Ningbo Haitian owned 95% and 100% of the equity interest in Haitian Brazil and Haitian Turkey (the “Overseas Sales Companies”), respectively, and, as a result, each of the Overseas Sales Companies is a connected person (as defined in the Listing Rules) of the Company. The Overseas Sales Companies are sales distributors of the Group in the Brazilian and Turkish markets.

# CONNECTED TRANSACTIONS

## *Historical figures*

For 2003, 2004, 2005 and the six months ended 30 June, 2006, the aggregate sales to the Overseas Sales Companies were as follows:

	Year ended 31 December,			Six months
	2003	2004	2005	ended 30 June, 2006
Haitian Brazil	Nil	Nil	RMB35.0 million	RMB25.2 million
Haitian Turkey	RMB14.7 million	RMB34.2 million	RMB13.7 million	RMB9.5 million

## *Master agreement for sales of plastic injection moulding machines (the "Master Agreement")*

Pursuant to the Master Agreement, for the period from 1 May, 2006 to 30 June, 2007, the Group will continue to sell plastic injection moulding machines to the Overseas Sales Companies.

## *Pricing basis*

Under the Master Agreement, the Group is required to sell its products to the Overseas Sales Companies at prices based on the terms offered to independent third parties in their respective jurisdictions. The Directors confirm that such transactions were conducted between the parties at arm's length and on normal commercial terms.

## *Reasons for such transactions*

The Group's strategy is to focus on product development and production planning and to engage third party distributors and sales agents to sell its products. The Directors consider that this strategy would be more cost-effective and will reduce the burden on the Group's management. Although Haitian Brazil and Haitian Turkey will not form part of the Group following the Reorganisation, the Directors consider that it is necessary to continue such ordinary business transactions with Haitian Brazil and Haitian Turkey as they have entered into, or actively negotiated, certain business contracts with their customers and the implementation of these contracts may exceed one year. Hence, the Group will continue to conduct ordinary business transactions with Haitian Brazil and Haitian Turkey after Listing and such transactions are expected to cease on or before 30 June, 2007.

## **Waivers from compliance with announcement and independent shareholders' approval requirements**

### *Continuing connected transactions after the Global Offering*

The Directors expect that sales to the Overseas Sales Companies as described above (the "Non-Exempt Continuing Connected Transactions") will occur on a recurring basis and will constitute continuing connected transactions of the Company. Such transactions will be conducted on normal commercial terms and on an arm's length basis in accordance with the terms set out in the master sales agreement between the Company and Ningbo Haitian.

In relation to the said continuing connected transactions described above for which a waiver from the announcement and independent shareholders' approval requirements is sought, the total annual sales are expected to be more than 2.5% of the asset ratio (as

## CONNECTED TRANSACTIONS

defined in the Listing Rules). The transactions under such agreements are therefore subject to announcement and independent shareholders' approval requirements applicable to continuing connected transactions under the Listing Rules.

The Directors (including the independent non-executive Directors) have confirmed that, save as disclosed above, there are currently no other non-exempt continuing connected transactions after the completion of the Global Offering. In the opinion of the Directors (including the independent non-executive Directors), all the above continuing connected transactions and the respective agreements governing such transactions are:

- (i) entered into by the relevant members of the Group in their ordinary and usual course of business except category B;
- (ii) either (a) on normal commercial terms, being terms which a party could obtain if the transaction were on an arm's length basis; or (b) on terms that are no less favourable to the Group than terms available to or from independent third parties; or (c) on terms that the Directors believe are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- (iii) in respect of non-exempt continuing connected transactions for which waivers are applied, the annual caps as set out below are fair and reasonable so far as the operations of the Company are concerned.

In addition, the Directors confirm that the Company will comply with Rules 14A.35(1), 14A.35(2), 14A.37 to 14A.40, 14A.45 and 14A.46 in relation to the Non-Exempt Continuing Connected Transactions.

In respect of Rules 14A.35(2) and 14A.36(1) of the Listing Rules, the maximum aggregate annual value, if any, for the Non-Exempt Continuing Connected transactions shall not exceed the annual caps set out below:

	<b>Proposed annual cap</b>	
	<b>2006</b>	<b>2007</b>
	<i>RMB' million</i>	<i>RMB' million</i>
Sales of plastic injection moulding machines to Overseas Sales Companies	60.0	37.5

The cap for 2006 is determined based on (i) the actual sales of the Group to Haitian Brazil and Haitian Turkey amounting to an aggregate of approximately RMB34.7 million as of 30 June, 2006; and (ii) the contractual sum and estimated value of transactions under the subsisting contracts and purchase orders that have been entered into between Haitian Brazil or Haitian Turkey and their respective end-user customers.

The cap for 2007 is determined with reference to (i) the historical sales figures of Haitian Brazil and Haitian Turkey in previous years; (ii) the estimated value of potential contracts currently under negotiation with end-user customers; and (iii) the Directors' anticipation of market development. The decrease of the estimated sales for 2007 is mainly due to the planned cessation of business transactions with Haitian Brazil and Haitian Turkey on or before 30 June, 2007.

## CONNECTED TRANSACTIONS

### *Confirmation from the Sponsor*

The Sponsor has (i) reviewed the relevant documentation, information and historical figures provided by the Company, (ii) participated in due diligence and discussion among the Company and its advisers and (iii) considered the pricing basis and reasons for entering such transactions.

Based on the above, the Sponsor considers that:

- (i) the above connected transactions have been entered in the ordinary and usual course of business of the Group either (a) on normal commercial terms, being terms which a party could obtain if the transaction were on an arm's length basis; or (b) on terms that are no less favourable to the Group than terms available to or from independent third parties; or (c) on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole; and
- (ii) the annual caps set for the above continuing connected transactions are fair and reasonable and in the interest of the shareholders of the Company as a whole.