



RAINBOW CAPITAL (HK) LIMITED
流 博 資 本 有 限 公 司

17 November 2022

To the Independent Board Committee and the Independent Shareholders

BeijingWest Industries International Limited
Rooms 1005-06, 10th Floor
Harcourt House
39 Gloucester Road
Wanchai, Hong Kong

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the transactions (the “**Transactions**”) contemplated under the Mutual Technical Services Agreement and the Parts and Components Supply Agreement (the “**Agreements**”), including the proposed annual caps for the Transactions (the “**Proposed Caps**”), details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 17 November 2022 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 7 November 2019, the Company and BWI entered into the Existing Mutual Technical Services Agreement and the Existing Parts and Components Supply Agreement for a fixed term of three financial years ending 31 December 2022. On 5 November 2021, the Company and BWI entered into the Existing Parts and Components Supply Supplemental Agreement to revise the annual cap under the Existing Parts and Components Supply Agreement for the financial year ending 31 December 2021 from HK\$86.9 million to HK\$127.7 million. As the Existing Mutual Technical Services Agreement, the Existing Parts and Components Supply Agreement and the Existing Parts and Components Supply Supplemental Agreement are due to expire on 31 December 2022, on 19 October 2022, the Company entered into, among others, the Mutual Technical Services Agreement and the Parts and Components Supply Agreement with BWI. As at the Latest Practicable Date, BWI is interested in approximately 52.55% of the issued share capital of the Company and hence is the controlling shareholder and a connected person of the Company. Accordingly, the transactions contemplated under the Agreements constitute continuing connected transactions for the Company under the Listing Rules.

As the applicable percentage ratios under the Listing Rules regarding the annual caps of each of the Mutual Technical Services Agreement and the Parts and Components Supply Agreement are more than 5%, the Mutual Technical Services Agreement and the Parts and Components Supply Agreement are subject to the reporting, announcement, annual review, circular and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

At the Board meeting held to approve, inter alia, the Mutual Technical Services Agreement and the Parts and Components Supply Agreement, Mr. Dong Xiaojie, Mr. Chen Zhouping and Mr. Li Zhi, by virtue of their connection with BWI and its associates, have abstained from voting in respect of the resolutions proposed to approve such transactions.

The Independent Board Committee (comprising all the independent non-executive Directors, namely Mr. Tam King Ching, Kenny, Mr. Yip Kin Man, Raymond, and Mr. Chan Pat Lam) has been established to advise the Independent Shareholders on the terms of the Agreements and the Proposed Caps. We, Rainbow Capital (HK) Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in these regards.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group and BWI that could reasonably be regarded as relevant to our independence. In the last two years, there was no engagement between the Group and us. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Group or any other party to the Agreements. Accordingly, we are qualified to give independent advice in respect of the Agreements and the Transactions.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the businesses, affairs, operations, financial position or future prospects of the Group, BWI or any of their respective substantial shareholders, subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Agreements (including the Proposed Caps) are fair and reasonable, we have taken into account the principal factors and reasons set out below:

1. Information on the Group and BWI Group

(i) The Group

The Company was incorporated in the Cayman Islands with limited liability on 21 September 2001, the shares of which are listed on the main board of the Stock Exchange. The Group is principally engaged in the manufacture, sale and trading of automotive parts and components, as well as provision of technical services. The core products of the Group were suspension products which were mainly utilized on premium passenger vehicles. Customers of the Group are mainly well-known European automobile manufacturers.

Set out below are certain consolidated financial information of the Group for the year ended 31 December 2020 (“FY2020”) and 2021 (“FY2021”) as extracted from the annual report of the Company for FY2021 (the “2021 Annual Report”) and the six months ended 30 June 2021 (“6M2021”) and 2022 (“6M2022”) as extracted from the interim report of the Company for 6M2022 (the “2022 Interim Report”):

	For the six months ended 30 June 2022 HK\$'000 (unaudited)	For the six months ended 30 June 2021 HK\$'000 (unaudited)	For the year ended 31 December 2021 HK\$'000 (audited)	For the year ended 31 December 2020 HK\$'000 (audited)
Revenue	1,290,252	1,319,769	2,601,955	2,311,984
Sale of industrial products	1,187,013	1,246,534	2,444,180	2,122,232
Technical service income	103,239	73,235	157,775	189,752
Gross profit	219,911	219,838	411,793	382,851
Other income and gains	18,009	14,389	40,948	59,334
Selling and distribution expenses	(15,270)	(5,890)	(16,927)	(49,696)
Administrative expenses	(70,624)	(71,083)	(156,204)	(159,453)
Research and development expenses	(122,573)	(121,864)	(246,139)	(262,237)
Finance costs	(7,974)	(8,101)	(18,364)	(12,469)
Profit/(Loss) attributable to Shareholders	11,633	12,658	(9,305)	(51,544)

FY2021 and FY2020

Revenue of the Group increased by approximately 12.5% from approximately HK\$2,312.0 million for FY2020 to approximately HK\$2,602.0 million for FY2021. Such increase was mainly attributable to the increase in revenue generated from sale of industrial products from approximately HK\$2,122.2 million for FY2020 to approximately HK\$2,444.2 million for FY2021 as a result of the non-recurrence of the COVID-19-related temporary suspension for the plants of the Group in 2021.

Gross profit of the Group increased by approximately 7.6% from approximately HK\$382.9 million for FY2020 to approximately HK\$411.8 million for FY2021, which was primarily attributable to the increase in revenue, yet the gross profit margin decreased due to disruption of the global supply chain which drove the increase in costs of raw materials.

The Group recorded loss attributable to Shareholders of approximately HK\$9.3 million for FY2021, representing a reduction in loss as compared to that for FY2020 which was mainly due to, among others, (a) the increase in revenue as stated in the above; (b) the decrease in selling and distribution expenses from approximately HK\$49.7 million for FY2020 to approximately HK\$16.9 million for FY2021 due to a substantial reversal of warranty provision in FY2020; (c) the decrease in administrative expenses from approximately HK\$159.5 million for FY2020 to approximately HK\$156.2 million for FY2021 due to tighten cost control had put in place in light of the pandemic; and (d) the decrease in research and development expenses from approximately HK\$262.2 million for FY2020 to approximately HK\$246.1 million for FY2021.

6M2022 and 6M2021

Revenue of the Group decreased slightly by approximately 2.2% from approximately HK\$1,319.8 million for 6M2021 to approximately HK\$1,290.3 million for 6M2022. Such decrease was mainly attributable to the decrease in sale of industrial products from approximately HK\$1,246.5 million for 6M2021 to approximately HK\$1,187.0 million for 6M2022 as a result of a decrease in orders received by the Group due to the change in economic environment and a slowdown in production of automobiles in Europe, partially offset by the increase in technical service income from approximately HK\$73.2 million for 6M2021 to approximately HK\$103.2 million for 6M2022.

Gross profit of the Group remained stable, amounting to approximately HK\$219.9 million and HK\$219.8 million for 6M2022 and 6M2021, respectively.

The Group recorded profit attributable to Shareholders of approximately HK\$11.6 million for 6M2022, representing a decrease of approximately 8.1% as compared to approximately HK\$12.7 million for 6M2021, which was mainly due to, among others, (a) the slight decrease in revenue; and (b) the increase in selling and distribution expenses from approximately HK\$5.9 million for 6M2021 to approximately HK\$15.3 million for 6M2022 as there was substantial reversal of warranty provision in the corresponding period of last year, which is absent in the current period.

(ii) *Information of BWI Group*

BWI Group is principally engaged in the production and sale of vehicle parts and components in North America, Mexico and the PRC. BWI was established under the laws of the PRC with limited liability on 23 March 2009. As at the Latest Practicable Date, BWI is held as to 55.45% by BeijingWest Smart Mobility Zhangjiakou Automotive Electronic Co., Ltd.* (京西智行張家口汽車電子有限公司) (“**BSMZ**”) and as to 44.55% by Beijing Fangshan State-owned Assets Management Company Limited (北京房山國有資產經營有限責任公司) (“**Beijing Fangshan**”). BSMZ is an investment joint venture company formed to acquire the 55.45% equity interest of BWI.

The largest shareholder of BSMZ is Zhangjiakou Juxin Equity Investment Fund Partnership (Limited Partnership)* (張家口聚鑫股權投資基金合夥企業(有限合夥)) which owned 40% equity interest in BSMZ, which in turn is approximately 98% held by Zhangjiakou Financial Holding Group Co., Ltd.* (張家口金融控股集團有限公司) (“**Zhangjiakou Holding**”). Zhangjiakou Holding is 48.13% indirectly held by Zhangjiakou Guokong Asset Management Group Co., Ltd.* (張家口國控資產管理集團有限公司) (“**Zhangjiakou Guokong**”). Zhangjiakou Guokong is a state-owned enterprise established in the PRC which is supervised by the State-owned Assets Supervision and Administration Commission of the People’s Government of Zhangjiakou Municipality (張家口市人民政府國有資產監督管理委員會). As set out in the website of Zhangjiakou Holding, its operations are primarily related to equity investment, asset management, financial services and industrial development.

Beijing Fangshan is a state-owned enterprise established in the PRC on 8 January 2008 which is supervised by the State-owned Assets Supervision and Administration Commission of the People’s Government of the Fangshan District of Beijing Municipality (北京市房山區人民政府國有資產監督管理委員會). According to the information as disclosed in the National Enterprise Credit Information Publicity System, Beijing Fangshan is principally engaged in the sale of machinery and equipment as well as building materials, project investment, investment management, and sports project management.

2. Reasons for and benefits of entering into of the Agreements

(i) *The Mutual Technical Services Agreement*

As stated in the section headed “1. Information on the Group and BWI Group”, the Group is principally engaged in the manufacture, sale and trading of automotive parts and components in Europe and the Group’s customers are mainly well-known European automobile manufacturers. Meanwhile, BWI Group is also principally engaged in the production and sale of vehicle parts and components in North America, Mexico and the PRC, indicating that the Group and BWI Group have similar industry background and can therefore integrate each other’s technologies and expertise to generate synergies.

As disclosed in the Letter from the Board, the Group's products are manufactured according to customers' specifications. However, each application has a unique set of specifications to make the products specifically fit the customers' vehicles and hence it is important to centralize core engineering in terms of each product family. With an aim to make sure that the Group's products meet the customers' specifications and to produce in an economical and efficient manner, the product and manufacturing process development for a product family is assigned to only one technical center of the Group or of BWI and/or its associates, depending on which have the best capability for any particular project and are best positioned to coordinate. Thus, the Group and BWI Group have been providing technical services to each other in the past for the reason that each of the Group and BWI Group possesses different technologies and expertise for a variety of product families that can be used by the other for providing a workable product solution to customers. Such arrangement has enhanced both the productivity and efficiency of the Group and the BWI Group.

Although the mutual technical services under the Mutual Technical Services Agreement will limit the Group's ability to develop its own full scope of technical services, the arrangement for the mutual provision of technical services will continue as it would allow both parties to save and pool their resources in providing a total solution to their customers. We consider such arrangement is in the interests of the Company and the Shareholders as a whole, after taking into account that (a) developing the Group's own full scope of technical services could be costly and time-consuming particularly that the each application has a unique set of specifications, and it may worsen the Company's financial performance, especially given that the Company had already recorded losses for FY2020 and FY2021; (b) as a controlling shareholder of the Company, BWI and/or its associates could provide the Group with a stable supply of technical services (i.e. BWI Services); and (c) providing technical services (i.e. Company Services) to BWI Group could generate additional and stable source of revenue.

Based on the above, in particular that (a) through the Mutual Technical Services Agreement, the Group is able to acquire technologies and expertise it required for its ordinary course of business; (b) the Company can generate a stable source of revenue through the Company Services; and (c) the Group and BWI and/or its associates has been collaborating in relation to provision of technical services to each other for years, we are of the view that the entering into of the Mutual Technical Services Agreement is in the ordinary and usual course of business of the Group and is in the interest of the Company and the Shareholders as a whole.

(ii) Parts and Components Supply Agreement

The Company has been supplying auto parts and components to BWI and its associates in the past. The parts and components mainly include automobile controlled and passive suspension products, and prototypes. The supply of auto parts and components by the Company are for the manufacture of end-products and therefore are on the normal course of business of the Company.

As disclosed in the Letter from the Board, although the supply of auto parts and components under the Parts and Components Supply Agreement will engage certain production schedules of the Group which may be allocated to the production of products for independent third-party customers, the arrangement for the supply of auto parts and components will continue as the overall capacity of the Group is sufficient to meet the demand of both BWI Group and the independent third-party customers. In addition, the production schedules for the production of products for independent third-party customers have not been interrupted during the contract period of the Existing Parts and Components Supply Agreement and the Existing Parts and Components Supply Supplemental Agreement. Furthermore, the Group's plant in the Czech Republic was still at its commencement stage in face of the COVID-19 pandemic. It is expected that the production volume and efficiency of this facility will ramp up and therefore allow extra production capacity for the Group.

After taking into account that (a) the sale of parts and components is the principal activities of the Group; (b) the supply of parts and components to BWI and its associates could provide a stable stream of revenue to the Group; and (c) the supply of parts and components to BWI and its associates would not interrupt the production schedules for the production of products for independent third-party customers in particular it is expected that the Group would have additional production capacity in its new production facility in Czech Republic, we are of the view that the entering into of the Parts and Components Supply Agreement is in the ordinary and usual course of business of the Group and is in the interest of the Company and the Shareholders as a whole.

3. Principal Terms of the Agreements

(i) *The Mutual Technical Services Agreement*

Details of the terms of the Mutual Technical Services Agreement are set out in the Letter from the Board, which are summarised as follows:

Date:	19 October 2022
Parties:	The Company BWI, a controlling shareholder of the Company
Term:	A fixed term of three financial years ending on 31 December 2025
Subject:	BWI and/or its associates will provide technical services to the Group (the " BWI Services ") and the Group will provide technical services to BWI and/or its associates (the " Company Services ").

The technical services comprise engineering services and manufacturing services. The engineering services include advanced development engineering services and applications engineering services.

Advanced development engineering services refer to the engineering services that demonstrate the feasibility of technologies to be applied to future products or manufacturing process, prove the ability to reliably design the process and product features needed for potential customer programs, and include technologies that are not embedded in any existing products.

Applications engineering services refer to the services provided to the manufacturing plant to make the automotive parts produced in the manufacturing plant usable and applicable to end customers in local market by calibrating the standard part products according to specific customers' requirements and local market requirements.

Manufacturing services refer primarily to quality control and manufacturing administration services.

Price:

The technical services fee payable under the Mutual Technical Services Agreement will be calculated on the basis of cost plus 5% for engineering services and cost plus 1.5% for manufacturing services which were determined by the parties after arm's length negotiations with reference to a latest study ("**Study**") conducted by an independent third party consultant commissioned by the Company in November 2019 based on the Organisation for Economic Co-operation and Development ("**OECD**") Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (the "**OECD Guidelines**"). The technical service fees are based on cost plus method which is one of the transfer pricing methods specified in the OECD Guidelines and fall within the inter-quartile range of cost plus mark-up of comparable companies and are consistent with the arm's length principle of the OECD Guidelines.

The transactional net margin method is used to examine the profit level indicators that the Company realizes from the transactions with BWI. In applying the transactional net margin method, the consultant identifies comparable companies which have similar functions, bear similar risks and operate similar business. The profit levels of these comparable companies are benchmarked as a reasonable range of profit levels. The consultant compares the net cost plus a mark-up with selected comparable companies. The respective services fee of 5% and 1.5% for engineering services and manufacturing services are considered as being conducted under the arm's length principle should the profit level of the Company falls within the range of profit levels of the comparable companies.

Payment Terms:

Terms of payments for the continuing connected transactions under the Mutual Technical Services Agreement will be on the second day of the second month following the provision of the services, which is based on normal commercial terms that are no less favourable to the Company than those available to/from independent third parties.

Condition: The Mutual Technical Services Agreement is subject to approval by the Independent Shareholders.

If the condition cannot be satisfied on or before 31 March 2023 or such other date the parties may agree in writing, the Mutual Technical Services Agreement shall forthwith terminate and no person shall be entitled to any rights or benefits or be under any obligations under the Mutual Technical Services Agreement.

In order to assess the fairness and reasonableness of the pricing terms under the Mutual Technical Services Agreement, we have obtained and reviewed the Study conducted by the independent consultant which was used to determine the pricing terms of the Mutual Technical Services Agreement. The independent consultant is one of the largest accounting and professional services firms in the world and has certified public accountants experienced in providing advice on matters related to transfer pricing. As such, we consider the consultant is qualified to provide the opinion under the Study.

In the Study, we noted that the independent consultant selected transactional net margin method which is one of the methods approved by OECD for determining arm's length transfer prices for goods or services. In applying the transactional net margin method for the analysis of the engineering services and the manufacturing services under the Mutual Technical Services Agreement, the independent consultant identified a number of comparable companies worldwide that provide similar services, performed similar functions and incurred similar risks. Companies were eliminated if they were engaged in different activities, lack sufficient information in relation to the activities of companies, lack sufficient financial data or presented with unreliable financial data, or incurred losses for the three consecutive years during 2016 to 2018. With these criteria, seven public companies and 11 public companies are selected as comparable companies for engineering services and manufacturing services, respectively. We have reviewed the details of these comparable companies and noted that they fulfilled the above selection criteria and provided similar services as the Group. Hence, we consider them appropriate for comparison purpose. The independent consultant selected the net cost plus margin ("**NCP Margin(s)**") as the profit level indicator for the analysis which is defined as operating profit divided by total costs.

We understand from the Study that the independent consultant calculated an inter-quartile range of NCP Margin of the comparable companies which are benchmarked as a reasonable range of profit level for the engineering services and the manufacturing services respectively. According to the Study, the NCP Margins of the comparable companies were within 3.74% to 8.69% for engineering services and 0.40% to 5.14% for manufacturing services. As such, the 5% markup for the engineering services and 1.5% markup for the manufacturing services adopted by the Group fall within the inter-quartile range of NCP Margins of the comparable companies and therefore are on normal commercial terms which are fair and reasonable.

In addition, regarding the internal control procedures, we also obtained and reviewed the internal pricing policy of the Group in relation to the technical services between the Group and BWI Group. We noted that (a) the fee for engineering services is based on a markup of 5%; and (b) the fee for manufacturing services is based on a markup of 1.5%, which are consistent with the pricing terms under the Mutual Technical Services Agreement.

Based on the above, we consider that the terms of the Mutual Technical Services Agreement are on normal commercial terms which are fair and reasonable.

(ii) The Parts and Components Supply Agreement

Details of the terms of the Parts and Components Supply Agreement are set out in the Letter from the Board, which are summarised as follows:

Date:	19 October 2022
Parties	The Company BWI, a controlling shareholder of the Company
Term:	A fixed term of three financial years ending on 31 December 2025
Subject:	The Group will supply auto parts and components, including automobile controlled and passive suspension products, and prototypes to BWI and/or its associates (the “Sales”).
Price:	<p>The basis of determining the prices for the Sales is in accordance with the cost plus approach as the products are unique and tailor-made and there does not exist a prevailing market price for such products. The terms of the Parts and Components Supply Agreement were concluded after arm’s length negotiations and were based on normal commercial terms in the parties’ ordinary course of business.</p> <p>The margins for the Sales depend on the products and size of orders and was generally between approximately 5% to 20% which is determined based on (a) the level of value-added services and technical standards; and (b) to the extent that the prices can satisfy the tax authorities of the countries of both the buying and selling sides that neither country is being cheated of tax revenue. The Company may supply parts and components with margin over 20%, if required, after taken into the aforesaid bases.</p>
Payment Terms:	Payments for the continuing connected transactions under the Parts and Components Supply Agreement will be on the second day of the third month following the shipment of the products, which is based on normal commercial terms that are no less favourable to the Company than those available to independent third parties.
Condition:	The Parts and Components Supply Agreement is subject to approval by the Independent Shareholders.

If the condition cannot be satisfied on or before 31 March 2023 or such other date the parties may agree in writing, the Parts and Components Supply Agreement shall forthwith terminate and no person shall be entitled to any rights or benefits or be under any obligations under the Parts and Components Supply Agreement.

As stated in the Letter from the Board, as the products to be sold to BWI and/or its associates are unique and tailor made, the Group will evaluate and assess the scope of the relevant order and prepare a detailed cost calculation by reference to cost of materials, products and labours, quotes of the Group to other independent third party customers and the level of profit margin of competitors of the Group in the market (if available) to ensure that the margins are set within the range or no less favourable to the margins of the other products.

Other than some completed products were sold at a loss, the margins in respect of other completed products supplied by the Group to independent third-party customers were generally between 1% to 18% in 2021. The loss trading products were mainly from the plant at the Czech Republic as the plant was still in its early stage of operation, pending to reach its designed capacity to achieve optimal production status. As per the Group's pricing policy, in the event that the Group supplies any parts and components of the suspension products to any independent customers in future, the price should be comparable to those offered to BWI Group.

In addition, regarding the internal control procedures, we have obtained and reviewed three copies of internal transfer price approval documents of the Group in relation to the supply of auto parts and components by the Group to BWI and/or its associates in each year from 2020 to 2021 and the six months ended 30 June 2022. We noted that the prices stated in the internal transfer price approval documents are consistent with the pricing terms under the Parts and Components Supply Agreement.

Given (a) the margin will be determined after taking into account the level of value-added services and technical standards; and (b) in the event that the Group supplies any parts and components of the suspension products to any independent customers in future, the price should be comparable to those offered to BWI Group, we consider that the terms of the Parts and Components Supply Agreement are on normal commercial terms which are fair and reasonable.

4. The Proposed Caps for the Transactions

(i) Caps amount for technical services

The Proposed Caps for the transactions under the Mutual Technical Services Agreement for the three years ending 31 December 2025 ("FY2023", "FY2024" and "FY2025", respectively) are set out below:

	FY2023	FY2024	FY2025
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Cap amount for the BWI Services	137.9	165.5	198.6
Cap amount for the Company Services	165.1	198.1	237.7

In determining the annual caps, the Company has taken into consideration the historical transaction amounts and the projected volume of technical services to be provided and a buffer to cater for any unexpected increases in demand during the term of the Mutual Technical Services Agreement.

In order to assess the fairness and reasonableness of the proposed annual caps for technical services, we have obtained and reviewed the calculations of the proposed annual caps prepared by the management of the Company and discussed with them on the bases and assumptions in arriving the proposed annual caps. Set out below are the actual amounts of the transactions took place under the Existing Mutual Technical Services Agreement for FY2020, FY2021 and 6M2022:

	FY2020	FY2021	6M2022	Average
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
	<i>A</i>	<i>B</i>	<i>C</i>	<i>D=</i> <i>(A+B+C)/2.5</i>
Actual amount for the BWI Services	133.5	107.1	46.8	115.0
Actual amount for the Company Services	152.4	126.0	65.4	137.5
	Average	FY2023	FY2024	FY2025
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
	<i>D</i>	<i>E=D*1.2</i>	<i>F=E*1.2</i>	<i>F*1.2</i>
Cap amount for the BWI Services	115.0	137.9	165.5	198.6
Cap amount for the Company Services	137.5	165.1	198.1	237.7

The BWI Services

In respect of the BWI Services, the historical transaction amounts were approximately HK\$133.5 million, HK\$107.1 million and HK\$46.8 million for FY2020, FY2021 and 6M2022, respectively, with an average of approximately HK\$115.0 million per year. As advised by the management of the Group, the decrease in historical transaction amounts was mainly attributable to tighten cost control which was in place to mitigate the unfavorable effects brought by the COVID-19 pandemic.

As illustrated in the table above, the proposed annual caps for the BWI Services are determined based on (a) the average historical transaction amount in FY2020, FY2021 and 6M2022 of approximately HK\$115.0 million per year; and (b) an overall annual growth rate of 20%. Notwithstanding the decreasing historical transaction amounts, the Company considers, and we concur, that it is appropriate to adopt an overall annual growth rate of 20% after taking into account (a) the impact of the COVID-19 pandemic would gradually diminish in the coming years as epidemic prevention measures continue to be relaxed; (b) the historical transaction amount for the BWI Services amounted to approximately HK\$158.1 million for the year ended 31 December 2019, being the year before the outbreak of the COVID-19, which was higher than that for FY2020 of approximately HK\$133.5 million by approximately 18.4% and higher than the average of approximately HK\$115.0 million per year by approximately 37.5%; (c) the reasons for and benefits of procuring the BWI Services as stated in the section headed "2. Reasons for and benefits of entering into of the Agreements" above; and (d) a certain buffer which is included in the estimated annual growth rate is allowed to tailor for any unexpected business growth in the future and additional demand on the BWI Services.

Given the proposed annual caps for BWI Services are determined based on historical average transaction amounts and an appropriate growth rate, we consider that the proposed annual caps for BWI Services are fair and reasonable.

The Company Services

In respect of the Company Services, the historical transaction amounts were approximately HK\$152.4 million, HK\$126.0 million and HK\$65.4 million for FY2020, FY2021 and 6M2022, respectively, with an average of approximately HK\$137.5 million per year. The decrease in historical transaction amounts by approximately 17.3% from approximately HK\$152.4 million for FY2020 to approximately HK\$126.0 million for FY2021 was in line with the decrease in technical service income of the Company by approximately 16.9% from approximately HK\$189.8 million for FY2020 to approximately HK\$157.8 million for FY2021.

As illustrated in the table above, the proposed annual caps for the Company Services are determined based on (a) the average historical transaction amount of approximately HK\$137.5 million per year; and (b) an overall annual growth rate of 20%. As discussed with the management of the Company, we consider it is appropriate to adopt an overall annual growth rate of approximately 20% after taking into account (a) the technical service income of the Group amounted to approximately HK\$103.2 million for 6M2022 translating into an annual income of approximately HK\$206.4 million which represented an increase of approximately 30.8% as compared to that for FY2021; (b) the reasons for and benefits of procuring the Company Services as stated in the section headed “2. Reasons for and benefits of entering into of the Agreements” above; and (c) a certain buffer which is included in the estimated annual growth rate is allowed to tailor for any unexpected business growth in the future.

Given the proposed annual caps for the Company Services are determined based on historical average transaction amounts and an appropriate growth rate, we consider that the proposed annual caps for Company Services are fair and reasonable.

(ii) Caps amount for the Sales

The Proposed Caps for the transactions under the Parts and Components Supply Agreement for the three years ending 31 December 2025 are set out below:

	FY2023	FY2024	FY2025
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Cap amount for the Sales	246.2	272.4	319.6

In determining the annual caps, the Company has taken into consideration the historical transaction amounts and the projected increase in sales by BWI and its associates, which will result in a corresponding increase in the Sales, and a buffer of 10% to cater for any unexpected increases in demand during the term of the Parts and Components Supply Agreement.

The historical amount for the Sales amounted to approximately HK\$111.2 million for FY2021, representing a significant increase of approximately 723.7% as compared to that of approximately HK\$13.5 million for FY2020. Such increase was mainly due to that the Group received certain new production projects from BWI in 2021 and BWI has raised its orders for existing production projects for the purpose of managing its supply-chain risk. For 6M2022, the actual amount for the Sales amounted to approximately HK\$71.4 million, representing approximately 64.2% of the actual amount for FY2021.

In order to assess the fairness and reasonableness of the proposed annual caps for the Sales, we have obtained and reviewed the calculations of the proposed annual caps prepared by the management of the Group and discussed with them on the bases and assumptions in arriving the proposed annual caps.

In reviewing the calculations, we understand that (a) the proposed annual caps are based on a detailed budget which includes the demands on the parts and components from different manufacturing plants in North America and the PRC. As discussed with the management of the Group, this budget is prepared after taking into account the latest demand schedule provided by BWI Group; (b) based on the budget, the sale amounts are expected to be approximately HK\$223.8 million, HK\$247.6 million and HK\$290.5 million for FY2023, FY2024 and FY2025, respectively; and (c) 10% buffer is built in to tailor for any unexpected business growth in the future, especially taking into account the significant growth in 2021.

Generally speaking, in our opinion, it is in the interests of the Group for the caps amount for the Sales to be as accommodating to the Group as possible. Provided that the terms of the transactions contemplated under the Parts and Components Supply Agreement are fair and reasonable, the Group would have flexibility in conducting and expanding its businesses if the caps amount for the Sales are tailored to the estimated demands from BWI Group and future business growth, in particular in view of that the Sales could increase the revenue and therefore improve the financial performance of the Group.

Given the proposed annual caps for the Sales are determined based on a budget which has taken into account the latest demand schedule from BWI Group and a 10% buffer, we consider that the proposed annual caps for the Sales are fair and reasonable.

5. Reporting requirements and conditions of the Transactions

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Transactions are subject to the following annual review requirements:

- (i) the independent non-executive Directors must review the Transactions and confirm in the annual report that the Transactions have been entered into:
 - (a) in the ordinary and usual course of business of the Group;
 - (b) on normal commercial terms or better; and
 - (c) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

- (ii) the Company must engage its auditors to report on the Transactions every year. The Company's auditors must provide a letter to the Board (with a copy to be provided to the Stock Exchange at least ten business days before the bulk printing of the Company's annual report) confirming whether anything has come to their attention that causes them to believe that the Transactions:
 - (a) have not been approved by the Board;
 - (b) were not, in all material respects, in accordance with the pricing policies of the Group if the Transactions involve the provision of goods or services by the Group;
 - (c) were not entered into, in all material respects, in accordance with the relevant agreement governing the Transactions; and
 - (d) have exceeded the Proposed Caps;
- (iii) the Company must allow, and ensure that the counter-parties to the Transactions allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Transactions as set out in paragraph (ii); and
- (iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors of the Company cannot confirm the matters as required.

In light of the reporting requirements attached to the Transactions, in particular, (i) the restriction of the value of the Transactions by way of the Proposed Caps; and (ii) the ongoing review by the independent non-executive Directors and the auditors of the Company of the terms of the Transactions and the Proposed Caps not being exceeded, we are of the view that appropriate measures have been in place to monitor the conduct of the Transactions and assist in safeguarding the interests of the Independent Shareholders.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Transactions are conducted in the ordinary and usual course of business of the Group and on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Transactions (including the Proposed Caps).

Yours faithfully,
For and on behalf of
Rainbow Capital (HK) Limited



Larry Choi
Managing Director

Mr. Larry Choi is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over ten years of experience in the corporate finance industry.

* *For identification purpose only*