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If you are in any doubt as to any aspect of this circular, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **BeijingWest Industries International Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

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京西重工國際有限公司

BEIJINGWEST INDUSTRIES INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2339)

CONTINUING CONNECTED TRANSACTIONS

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

**Independent Financial Adviser to the Independent Board Committee
and to the Independent Shareholders**

MESSIS  **大有融資**

A letter from the Independent Board Committee including its recommendations to the Independent Shareholders is set out on page 17 of this circular, and a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders on the terms of the Mutual Technical Services Agreement and the Parts and Components Supply Agreement as well as the annual caps of the transactions contemplated thereunder is set out on pages 18 to 36 of this circular.

A notice convening the EGM of BeijingWest Industries International Limited to be held at 11:00 a.m. on Tuesday, 17 December 2019 at Plaza 1-2, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the EGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the share registrar of BeijingWest Industries International Limited, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as practicable but in any event not less than 48 hours before the time appointed for holding of the EGM (i.e. at or before 11:00 a.m. on Sunday, 15 December 2019 (Hong Kong time)) or any adjournment thereof (as the case may be). Completion and return of the proxy form shall not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so desire.

28 November 2019

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	3
Letter from the Independent Board Committee	17
Letter from the Independent Financial Adviser	18
Appendix – General information	I-1
Notice of EGM	EGM-1

DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context indicates otherwise:

“associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“BWI”	BeijingWest Industries Co., Ltd.* (北京京西重工有限公司), a company incorporated in the PRC, a controlling shareholder of the Company
“BWI Group”	BWI and its subsidiaries (other than the Group) from time to time
“Company”	BeijingWest Industries International Limited (京西重工國際有限公司), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“connected person”	has the same meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the same meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Existing Mutual Technical Services Agreement”	the mutual technical services agreement entered into between the Company and BWI on 10 November 2016
“Existing Parts and Components Supply Agreement”	the parts and components supply agreement entered into between the Company and BWI on 10 November 2016
“EGM”	the extraordinary general meeting of the Company to be convened to approve the Mutual Technical Services Agreement and the Parts and Components Supply Agreement as well as the cap amounts in relation thereto, or any adjournment thereof (as the case may be)
“Group”	the Company and its subsidiaries
“HKD” or “HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in respect of, among other things, the terms of the Mutual Technical Services Agreement and the Parts and Components Supply Agreement as well as the annual caps of the transactions contemplated thereunder

DEFINITIONS

“Independent Financial Adviser”	Messis Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Mutual Technical Services Agreement and the Parts and Components Supply Agreement as well as the annual caps of the transactions contemplated thereunder
“Independent Shareholders”	the Shareholders other than BWI and its associates
“Latest Practicable Date”	26 November 2019, being the latest practicable date for the purpose of ascertaining certain information contained herein prior to the printing of this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mutual Technical Services Agreement”	the master agreement dated 7 November 2019 entered into between the Company and BWI in relation to the mutual provision of technical services
“Parts and Components Supply Agreement”	the agreement dated 7 November 2019 entered into between the Company and BWI in relation to the supply of auto parts and components by the Group to BWI and/or its associates
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macao Special Administrative Region and Taiwan
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	holders of the Shares
“Shares”	ordinary shares of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

* For identification purpose only

LETTER FROM THE BOARD



京西重工國際有限公司

BEIJINGWEST INDUSTRIES INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2339)

Executive Directors:

Mr. Jiang Yunan (*Chairman*)
Mr. Chen Zhouping (*Managing Director*)
Mr. Thomas P Gold

Independent Non-executive Directors:

Mr. Tam King Ching, Kenny
Mr. Yip Kin Man, Raymond
Mr. Chan Pat Lam

Registered Office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Principal Place of Business in

Hong Kong:
Rooms 1005-06, 10th Floor
Harcourt House
39 Gloucester Road
Wanchai
Hong Kong

28 November 2019

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

The Board announced that on 7 November 2019, the Company entered into, among others, the Mutual Technical Services Agreement and the Parts and Components Supply Agreement with BWI. As BWI is interested in approximately 52.55% of the issued share capital of the Company, it is the controlling shareholder and a connected person of the Company. Accordingly, the transactions contemplated under the Mutual Technical Services Agreement and the Parts and Components Supply Agreement constitute continuing connected transactions for the Company under the Listing Rules.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with information in respect of, among other things, (i) details of the Mutual Technical Services Agreement and the Parts and Components Supply Agreement; (ii) the recommendations of the Independent Board Committee to the Independent Shareholders on the terms and annual caps of the Mutual Technical Services Agreement and the Parts and Components Supply Agreement; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the terms and annual caps of the Mutual Technical Services Agreement and the Parts and Components Supply Agreement; and (iv) the notice convening the EGM.

(A) MUTUAL TECHNICAL SERVICES AGREEMENT

Date: 7 November 2019

Parties: The Company
BWI

BWI is a controlling shareholder and a connected person of the Company

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.

LETTER FROM THE BOARD

Cap Amounts: The cap amounts of the BWI Services and the Company Services for each of the three financial years ending 31 December 2022 will be as follows:

	For the financial year ending 31 December		
	2020	2021	2022
	<i>HKD' million</i>	<i>HKD' million</i>	<i>HKD' million</i>
Cap amount for the BWI Services	204.5	214.7	225.4
Cap amount for the Company Services	181.4	190.5	200.0

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.

Term: The Mutual Technical Services Agreement has a fixed term of three financial years ending on 31 December 2022.

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 study conducted by an independent third party consultant commissioned by the Company based on the Organisation for Economic Co-operation and Development ("OECD") Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (the "OECD Guidelines"). The OECD is a unique international organization with 36 member countries spanning the globe, from North and South America to Europe and Asia-Pacific. Together with the governments from the member countries, the OECD works on establishing international standards to a range of social, economic and environmental challenges including tax evasion. The OECD Guidelines set out the principles and methods for establishing arm's length transfer prices for goods, services, technical assistance, trademarks, or other assets that are transferred or licensed between related or controlled parties. The OECD Guidelines are the most complete set of guidance governing transfer pricing and the member countries of OECD (which include France, Germany, Italy, Luxembourg, Poland, the Czech Republic and the United Kingdom) and the tax authorities of the United States have endorsed the validity of 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.

LETTER FROM THE BOARD

The consultant was selected by the parties from one of the big four international accounting firms based on a competitive bid and their experience on advising on tax and transfer pricing related issues for multinational companies. The consultant has evaluated a series of methodologies that could be used for the case and determined that the transactional net margin method is best suited to these particular transactions. The transactional net margin method is used to examine the profit level indicators that the Company realizes from the transactions with BWI. Under this method, the profit level indicators of the Company from such controlled transactions should ideally be established by reference to the profit level indicators that the Company earns in comparable uncontrolled transactions. The profit level indicators include, among others, return on assets, operating margin and net cost plus mark-up. The comparability analysis would examine the differences between the connected transactions and unrelated party transactions on functions, risks, economic environment, and other factors that impact operating profit, including functions performed, risks assumed, assets used, business scale, product life cycle, as well as allocation of costs and expenses. The transactional net margin method was determined to be an appropriate method under the circumstances of the Mutual Technical Services Agreement and the tax legislations of the PRC and the United States, where the principal technical development center of BWI is based, and is consistent with the arm's length principle of the OECD Guidelines.

In applying the transactional net margin method, the consultant identifies comparable companies which have similar functions, bear similar risks and operate similar business. Under these criteria and sourced from a well-known empirical analysis tool widely used in the fields of securities investment analysis, strategic operating analysis for enterprises, multinational enterprise transfer pricing, and corporate finance analysis, a number of public companies in the Europe, United States and Asia Pacific Region are selected as comparable companies.

LETTER FROM THE BOARD

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 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. According to the study performed by the consultant, the profit levels of the comparable companies were within 3.74% to 8.69% for engineering services and 0.40% to 5.14% for manufacturing services. Accordingly, the profit levels of the service fee of 5% and 1.5% for engineering services and manufacturing services under the Mutual Technical Services Agreement fall within the range of profit levels of comparable companies. The parties will engage the consultant to review the transfer pricing policy from time to time to ensure that the adopted net cost plus mark-up method is reasonable under the arm's length principle. The consultant confirmed that the profit levels of the service fee of 5% and 1.5% for engineering services and manufacturing services under the Mutual Technical Services Agreement still fall within the reasonable range and are acceptable to date.

Given that the transactional net margin method is one of the methods approved by OECD for determining arm's length transfer prices for goods or services, and that the routine profit level of the Company will be determined through a comparable analysis drawn from a range of comparable companies, the Board is of the view that the procedures used to establish the services fee under the Mutual Technical Services Agreement are fair and reasonable so far as the Company and the Shareholders are concerned.

To ensure that the actual services fee charged will be in accordance with the transactional net margin method, the Company will conduct its own comparability analysis and review the analysis prepared by BWI. The finance department of the Company will also review and monitor the continuing connected transactions between the Group and BWI on a regular basis to ensure that the pricing mechanism and the annual caps under the Mutual Technical Services Agreement are in compliance with the terms stipulated therein.

LETTER FROM THE BOARD

As such, the Directors are of the view that the services fee to be paid to BWI under the Mutual Technical Services Agreement, the methodology of which for determining the services fee was recommended by the independent third party consultant and endorsed by the relevant tax authorities, are fair and reasonable.

In addition, the Company will engage the auditor of the Company to conduct an annual review of the continuing connected transactions of the Group pursuant to the Listing Rules.

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 2020 or such other date the parties may agree in writing, the Mutual Technical Services Agreement shall forthwith determine and no person shall be entitled to any rights or benefits or be under any obligations under the Mutual Technical Services Agreement.

LETTER FROM THE BOARD

Reasons for the Mutual Technical Services Agreement:

On 10 November 2016, the Company and BWI entered into the Existing Mutual Technical Services Agreement in respect of the BWI Services and Company Services for a fixed term of three financial years ending 31 December 2019. The cap amounts of the transactions contemplated under the Existing Mutual Technical Services Agreement for each of the three financial years ending 31 December 2019 are as follows:

	For the financial year ending 31 December		
	2017	2018	2019
	<i>HKD' million</i>	<i>HKD' million</i>	<i>HKD' million</i>
Cap amount for the BWI Services	236.6	284.0	340.8
Cap amount for the Company Services	120.0	144.0	172.8

The actual amounts of the transactions took place under the Existing Mutual Technical Services Agreement for the two financial years ended 31 December 2018 and for the six months ended 30 June 2019 are as follows:

	For the	For the	For the
	financial	financial	six months
	year ended	year ended	ended
	31 December	31 December	30 June
	2017	2018	2019
	<i>HKD' million</i>	<i>HKD' million</i>	<i>HKD' million</i>
Actual amount for the BWI Services	204.0	158.6	71.2
Actual amount for the Company Services	114.1	105.2	55.2

Details of the Existing Mutual Technical Services Agreement were disclosed in the circular of the Company dated 28 November 2016 and the Existing Mutual Technical Services Agreement was approved by the then independent shareholders of the Company at the extraordinary general meeting held on 23 December 2016. As the Existing Mutual Technical Services Agreement is due to expire on 31 December 2019, the Company has entered into the Mutual Technical Services Agreement with BWI for a fixed term of three financial years ending 31 December 2022.

The proposed annual caps under the Mutual Technical Services Agreement are determined with reference to (i) the historical transaction amounts of both the BWI Services and the Company Services (including the highest transaction amount with assumption that the transaction volume would reach the similar historical level); (ii) the projected increase in the demand of the Company Services; and (iii) a buffer of 5% which has been built in to cater for any changes in regional economic market conditions, fuel price and end customers' expectations on future economic situation and fluctuations in exchange rates. The buffer is being put in place to mitigate the burden of the Group to bear additional costs to conduct any revision to the relevant annual cap(s) if the cap is exceeded for reasons outside the control of the Company.

Based on the above, the Directors are of the view that the annual caps under the Mutual Technical Services Agreement are fair and reasonable under the circumstances.

LETTER FROM THE BOARD

The Group's products are manufactured according to its customers' specifications. There are similarities amongst customer specifications. However, each application has a unique set of specifications to make the products specifically fit the customers' vehicles. It is important to centralize core engineering in terms of each product family. 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. In this respect, as the engineering team of the technical center ensures that the product design process across multiple customers is consistent in terms of quality, and also ensures that the manufacturing process across multiple manufacturing plants is similarly and consistently of high quality. This helps to make sure that the Group's products meet the customers' specifications in an economical and efficient manner. Thus, the Group and BWI and/or its associates have been providing technical services to each other in the past for the reason that each of the Group and BWI and/or its associates 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. Although the mutual 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. The Mutual Technical Services Agreement was entered into to facilitate the continued provision of technical services between BWI and/or its associates and the Group.

The Directors believe that the Mutual Technical Services Agreement would be beneficial to the Group for the following reasons:

- (i) the technical services being provided under the Mutual Technical Services Agreement will be in the normal and ordinary course of business of the Group; and
- (ii) the Mutual Technical Services Agreement will be conducted under arm's length basis, on normal commercial terms, and at competitive prices.

Since the applicable ratios under the Listing Rules in respect of the annual caps for the Mutual Technical Services Agreement are more than 5%, the transactions under the Mutual Technical Services Agreement are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

(B) PARTS AND COMPONENTS SUPPLY AGREEMENT

Date: 7 November 2019

Parties: The Company
BWI

BWI is a controlling shareholder and a connected person of the Company.

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”).

Cap Amounts: The cap amounts of the Sales for each of the three financial years ending 31 December 2022 will be as follows:

	For the financial year ending 31 December		
	2020	2021	2022
	<i>HKD' million</i>	<i>HKD' million</i>	<i>HKD' million</i>
Cap amount for the Sales	23.5	86.9	212.1

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 to cater for any unexpected increases in demand during the term of the Parts and Components Supply Agreement.

Term: The Parts and Components Supply Agreement has a fixed term of three financial years ending on 31 December 2022.

Price: 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. 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 (i) the level of value-added services and technical standards; and (ii) 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.

LETTER FROM THE BOARD

The margins in respect of other completed products supplied by the Group to independent third party customers which was generally between 3% to 26% in 2018. The completed suspension products sold to independent third party customers had a higher margin as the work done by the Group in producing such completed products to be more than the work done in producing parts and components only.

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, taken into account of the same percentage of completion level of the products, of the Group supplied to independent third party customers.

In addition, in order to ensure the margins for the supply of the auto parts and components under the Parts and Components Supply Agreement are within range or no less favourable to the margins of the other products of the Group, taken into account the quality and specifications of the product and order of comparable quantities, the Group's pricing policies for continuing connected transactions will be followed in that the margin of the product for a particular order will be compared against the historical margins of other products supplied by the Group to independent third party customers for the prior financial year (of which will be updated annually) before finalisation of the relevant quotation. The Group considers that such historical margins in the prior year provide a reasonably recent and relevant reference for the Group to set its pricing for the supply of the parts and components under the Parts and Components Supply Agreement. The finance department of the subsidiaries of the Company will verify that the margins charged for the supply of auto parts and components under the Parts and Components Supply Agreement are in compliance with the terms of the agreement and the local tax reporting regulations and that the transactions are fair and reasonable.

The finance department of the Company will also review and monitor the continuing connected transactions between the Group and BWI on a regular basis to ensure that the pricing mechanism and the annual caps under the Parts and Components Supply Agreement are in compliance with the terms stipulated therein.

As such, the Directors are of the view that the margins charged for the supply of the auto parts and components to be paid by BWI under the Parts and Components Supply Agreement, the methodology of which for determining the margins for the supply of the auto parts and components was endorsed by the relevant tax authorities, are fair and reasonable.

LETTER FROM THE BOARD

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 2020 or such other date the parties may agree in writing, the Parts and Components Supply Agreement shall forthwith determine and no person shall be entitled to any rights or benefits or be under any obligations under the Parts and Components Supply Agreement.

Reasons for the Parts and Components Supply Agreement:

On 10 November 2016, the Company and BWI entered into the Existing Parts and Components Supply Agreement in respect of the Sales for a fixed term of three financial years ending 31 December 2019. The cap amounts of the transactions contemplated under the Existing Parts and Components Supply Agreement for each of the three financial years ending 31 December 2019 are as follows:

	For the financial year ending 31 December		
	2017	2018	2019
	<i>HKD' million</i>	<i>HKD' million</i>	<i>HKD' million</i>
Cap amount for the Sales	25.3	29.1	33.5

The actual amounts of the transactions took place under the Existing Parts and Components Supply Agreement for the two financial years ended 31 December 2018 and for the six months ended 30 June 2019 are as follows:

	For the financial year ended 31 December 2017	For the financial year ended 31 December 2018	For the six months ended 30 June 2019
	<i>HKD' million</i>	<i>HKD' million</i>	<i>HKD' million</i>
Actual amount for the Sales	14.4	17.7	5.5

As the Parts and Components Supply Agreement is due to expire on 31 December 2019, the Company has entered into the Parts and Components Supply Agreement with BWI for a fixed term of three financial years ending 31 December 2022.

LETTER FROM THE BOARD

The proposed annual caps under the Parts and Components Supply Agreement are determined with reference to (i) the historical transaction amounts of the Sales; (ii) the projected increase in the Sales; and (iii) a buffer of 5%. The annual caps for the Sales under the Parts and Components Supply Agreement in 2021 and 2022 represent a significant increase over that of the historical transaction amount. The increase was determined based on the number of product projects received as compared with that of 2018 and the anticipated increase in demand for products of the Group. In addition, a buffer of about 5% has been built in to cater for any changes in regional economic market conditions, fuel price and end customers' expectations on future economic situation and fluctuations in exchange rates. The buffer is being put in place to mitigate the burden of the Group to bear additional costs to conduct any revision to the relevant annual cap(s) if the cap is exceeded for reasons outside the control of the Company. The annual cap for the Sales under the Parts and Component Supply Agreement in 2020 decreases as compared to the annual cap for the Sales in 2019. This has taken into the account of the decrease in the historical transaction amounts of the Sales.

Based on the above, the Directors are of the view that the annual caps under the Parts and Components Supply Agreement are fair and reasonable under the circumstances.

The Group has been supplying auto parts and components to BWI and its associates in the past. 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. The Parts and Components Supply Agreement was entered into to facilitate the continued supply of auto parts and components from the Group to BWI and/or its associates.

The Directors believe that the Parts and Components Supply Agreement would be beneficial to the Group for the following reasons:

- (i) the Sales will be carried out in the normal and ordinary course of business of the Group;
- (ii) the Sales will be conducted under arm's length basis, on normal commercial terms, and at competitive prices which are no less favourable to the Group than that of transactions with independent third parties; and
- (iii) the Sales will provide a stable stream of revenue for the Group.

Since the applicable ratios under the Listing Rules in respect of the annual caps for the Parts and Components Supply Agreement are more than 5%, the transactions under the Parts and Components Supply Agreement are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

GENERAL

The Group is principally engaged in the manufacture, sale and trading of automotive parts and components, as well as provision of technical services. As at the Latest Practicable Date, BWI and its associates are interested as to approximately 52.55% of the issued share capital of the Company and is the controlling shareholder of the Company. Accordingly, BWI is a connected person of the Company and the transactions between the Group and BWI and/or its associates under the Mutual Technical Services Agreement and the Parts and Components Supply Agreement constitute continuing connected transactions for the Company under the Listing Rules.

BWI Group is principally engaged in the production and sale of vehicle parts and components. 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 Shougang Group Co., Ltd. (首鋼集團有限公司) (“Shougang Group”) 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”). Shougang Group is a state-owned enterprise established in the PRC on 13 May 1981 which is supervised by the State-owned Assets Supervision and Administration Commission of the People’s Government of Beijing Municipality (北京市人民政府國有資產監督管理委員會). 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). As set out in the website of Shougang Group, its operations are primarily related to the iron and steel industry, mineral resources, environment, static traffic, equipment manufacturing, construction and real estate, productive services and overseas industries. 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.

At the Board meeting held to approve, inter alia, the Mutual Technical Services Agreement and the Parts and Components Supply Agreement, Mr. Jiang Yunan, Mr. Chen Zhouping and Mr. Thomas P Gold, by virtue of their connection with BWI, have abstained from voting in respect of the resolutions proposed to approve such transactions. Besides, Mr. Li Shaofeng and Mr. Zhang Yaochun have not attended the Board meeting due to other business engagements and thus they have not voted for the resolutions approving such transactions^(Note). The remaining Directors present at the Board meeting for approving the Mutual Technical Services Agreement and the Parts and Components Supply Agreement are of the view that the terms of each of the abovementioned agreements are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

As the applicable percentage ratios under the Listing Rules in respect of 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 and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of the Mutual Technical Services Agreement and the Parts and Components Supply Agreement and the annual caps of the transactions contemplated thereunder. Messis Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Mutual Technical Services Agreement and the Parts and Components Supply Agreement and the annual caps of the transactions contemplated thereunder.

Note: With effect from 27 November 2019, Mr. Li Shaofeng and Mr. Zhang Yaochun resigned as Directors due to other business engagements and retirement respectively.

LETTER FROM THE BOARD

EGM

The Company will convene the EGM at 11:00 a.m. on Tuesday, 17 December 2019 at Plaza 1-2, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong to consider and if thought fit, approve the Mutual Technical Services Agreement and the Parts and Components Supply Agreement and the cap amounts of the transactions contemplated thereunder. A notice of the EGM is set out on pages EGM-1 to EGM-2 of this circular. In accordance with the requirements of the Listing Rules, all votes to be taken at the EGM will be by poll. BWI and its associates will be required to abstain from voting for the resolution proposed at the EGM to approve the Mutual Technical Services Agreement and the Parts and Components Supply Agreement and the cap amounts of the transactions contemplated thereunder.

A form of proxy for the EGM is enclosed herewith. Whether or not you intend to attend and vote at the EGM in person, you are requested to complete the form of proxy and return it to the Company's share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon as soon as practicable but in any event not later than 48 hours before the time appointed for holding of the EGM (i.e. at or before 11:00 a.m. on Sunday, 15 December 2019 (Hong Kong time)) or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish.

RECOMMENDATIONS

On the basis of the information set out in this circular, the Directors (including the independent non-executive Directors) consider the Mutual Technical Services Agreement and the Parts and Components Supply Agreement and the cap amounts of the transactions contemplated thereunder to be fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolutions proposed at the EGM.

FURTHER INFORMATION

Your attention is drawn to the other sections and appendix in this circular. You should consider carefully all the information set out in the circular before making a decision about the Mutual Technical Services Agreement and the Parts and Components Supply Agreement and the cap amounts of the transactions contemplated thereunder.

By Order of the Board
BeijingWest Industries International Limited
Jiang Yunan
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendations, prepared for the purpose of incorporation in the circular, from the Independent Board Committee to the Independent Shareholders regarding the terms of the Mutual Technical Services Agreement and the Parts and Components Supply Agreement as well as the cap amounts of the transactions contemplated thereunder.



京西重工國際有限公司

BEIJINGWEST INDUSTRIES INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2339)

28 November 2019

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company to the Shareholders dated 28 November 2019 (the “Circular”), in which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter will have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders on whether the terms of the Mutual Technical Services Agreement and the Parts and Components Supply Agreement and the cap amounts of the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Group and the Shareholders as a whole.

We wish to draw your attention to the letter of advice from Messis Capital Limited as set out on pages 18 to 36 of the Circular and the letter from the Board as set out on pages 3 to 16 of the Circular.

Having considered the terms of the Mutual Technical Services Agreement and the Parts and Components Supply Agreement, the situation of the Company, the factors and reasons considered by Messis Capital Limited and its opinion as stated in its letter of advice, we consider that the terms of the Mutual Technical Services Agreement and the Parts and Components Supply Agreement and the cap amounts of the transactions contemplated thereunder are being carried out on normal commercial terms and in the ordinary and usual course of business of the Company, the terms of which are fair and reasonable so far as the Independent Shareholders are concerned and the transactions are in the interests of the Group and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions proposed to approve the Mutual Technical Services Agreement and the Parts and Components Supply Agreement and the cap amounts of the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

The Independent Board Committee of

BeijingWest Industries International Limited

Mr. Tam King Ching, Kenny

Mr. Yip Kin Man, Raymond

Mr. Chan Pat Lam

Independent Non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Mutual Technical Services Agreement and the Parts and Components Supply Agreement and the annual caps of the transactions contemplated thereunder for the purpose of inclusion in this circular.



28 November 2019

To: The Independent Board Committee and the Independent Shareholders of BeijingWest Industries International Limited

Dear Sir/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 connection with the Mutual Technical Services Agreement and the Parts and Components Supply Agreement and the annual caps of the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 28 November 2019 (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.

On 10 November 2016, the Company and the 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 2019. As the Existing Mutual Technical Services Agreement and the Existing Parts and Components Supply Agreement are due to expire on 31 December 2019, on 7 November 2019, 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 and its associates are interested as to approximately 52.55% of the issued share capital of the Company and are the controlling shareholder and hence a connected person of the Company. Accordingly, the transactions contemplated under the abovementioned 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 and the Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

At the Board meeting held to approve, inter alia, the Mutual Technical Services Agreement and the Parts and Components Supply Agreement, Mr. Jiang Yunan, Mr. Chen Zhouping and Mr. Thomas P Gold, by virtue of their connection with BWI, have abstained from voting in respect of the resolutions proposed to approve such transactions. Besides, Mr. Li Shaofeng and Mr. Zhang Yaochun have not attended the Board meeting due to other business engagements and thus they have not voted for the resolutions approving 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 Mutual Technical Services Agreement and the Parts and Components Supply Agreement and the annual caps of the transactions contemplated thereunder. We, Messis Capital 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 do not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees or benefits from the Company. During the past two years, we acted as an independent financial adviser of the Company on one occasion as detailed in its circular dated 10 July 2018 in respect of a major and connected transaction. During the past two years, we were also appointed to act as the independent financial adviser of Shougang Concord Grand (Group) Limited (stock code: 730), a connected person of the Company, for four occasions as detailed (i) in its circular dated 10 December 2018 in relation to a major and connected transaction; (ii) in its circular dated 20 November 2018 in relation to continuing connected transaction; (iii) in its announcement dated 30 October 2018 in relation to adjustment to the outstanding share options; and (iv) in its circular dated 4 September 2018 in relation to several notifiable and connected transactions. Notwithstanding, we are independent from the Company pursuant to Rule 13.84 of the Listing Rules, in particular that we did not serve as a financial adviser to (i) the Company, (ii) BWI or its subsidiaries, or (iii) any core connected person of the Company or BWI within 2 years prior to 8 November 2019, being the date of making our independence declaration to the Stock Exchange pursuant to Rule 13.85(1) of the Listing Rules.

BASIS OF OUR OPINION AND RECOMMENDATION

In arriving at our recommendations, we have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Directors and the management of the Company are true and accurate at the time when they were made and will continue to be accurate as at the date of the dispatch of the Circular. 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 Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed by them in the Circular have been arrived at after due and careful consideration and there are no other material facts not contained in the Circular, the omission of which would make any such statement made by them that contained in the Circular misleading in all material respects. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any material facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group, BWI or any of their respective associates.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with the Mutual Technical Services Agreement and the Parts and Components Supply Agreement and the annual caps of the transactions contemplated thereunder. Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

1. BACKGROUND INFORMATION

1.1. Information of the Group

The Company was incorporated in the Cayman Islands with limited liability on 21 September 2001, the shares of which were listed on the main board of the Stock Exchange in 2003. The Group is principally engaged in the manufacture, sale and trading of automotive parts and components, as well as provision of technical services.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Historical financial performance of the Group

Set out below are the highlights of the audited financial information of the Group for each of the two years ended 31 December 2017 and 2018 as extracted from the Company's annual report for the year ended 31 December 2018 (the "2018 Annual Report") and unaudited financial information of the Group for the six months ended 30 June 2018 and 2019 as extracted from the Company's interim report for the six months ended 30 June 2019 (the "2019 Interim Report"):

	For the year ended 31 December 2017	For the year ended 31 December 2018	For the six months ended 30 June 2018	For the six months ended 30 June 2019
	<i>Approximate HK\$'000</i>	<i>Approximate HK\$'000</i>	<i>Approximate HK\$'000 (Unaudited)</i>	<i>Approximate HK\$'000 (Unaudited)</i>
Revenue	3,903,650	3,418,281	2,018,620	1,414,123
Gross profit	747,219	622,689	367,882	294,427
(Loss)/profit for the year/period attributable to owners to the Company	(8,572)	120,879	32,647	23,561

For the year ended 31 December 2018

For the year ended 31 December 2018, the Group recorded revenue of approximately HK\$3,418.3 million from manufacture and sales of suspension and brake products (year ended 31 December 2017: approximately HK\$3,903.7 million). The decrease in revenue contributed from the manufacturing and sales of brake products was mainly due to the disposal of the 51% equity interests in BWI (Shanghai) Co., Ltd in August 2018 (the "Disposal").

The gross profit of the Group for the year ended 31 December 2018 was approximately HK\$622.7 million, representing a decrease of approximately 16.7% as compared to that last year. Such decrease was mainly due to the Disposal as the gross profits of BWI (Shanghai) Co., Ltd. would no longer be consolidated into the Group financial statements upon the completion of the Disposal. The gross profit margin of the Group amounted to approximately 18.2% for the year ended 31 December 2018, represented a slight decrease from approximately 19.4% for the year ended 31 December 2017. The decrease was mainly because the Group's new plant in Czech Republic was in commencement stage and hence a lower profit margin was resulted.

The Group recorded a profit attributable to owners to the Company to approximately HK\$120.9 million for the year ended 31 December 2018 as compared to a loss of approximately HK\$8.6 million for the year ended 31 December 2017. The turnaround was mainly due to (i) the decrease in the research and development expenses by approximately 21.2% to approximately HK\$386.8 million as a result of tighten cost control and adoption of Hong Kong Financial Reporting Standard 15 as pre-production cost in the amount of approximately HK\$68.4 million previously included in the research and development expenses was capitalised as contract cost under other non-current assets; and (ii) increase in other income by approximately 129.5% to approximately HK\$173.8 million mainly due to disposal gain of approximately HK\$86.3 million realised upon the Disposal.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the six months ended 30 June 2019

For the six months ended 30 June 2019, revenue of the Group amounted to approximately HK\$1,331.6 million from manufacture and sales of suspension products and approximately HK\$82.5 million from technical services, representing a decrease of approximately 31.1% and 2.6%, respectively, as compared to six months period ended 30 June 2018. Such decrease was mainly due to (i) the Group no longer recorded any revenue from brake business upon the completion of the Disposal; and (ii) the impact of Brexit on the automotive components business started emerging and the European economy was weak at the same time, which these affected the sales of suspension products.

For the six months ended 30 June 2019, the gross profit and gross profit margin were approximately HK\$294.4 million and 20.8% respectively while for the six months ended 30 June 2018, the gross profit and gross profit margin were HK\$367.9 million and 18.2% respectively. The gross profit decreased mainly because the Group no longer recorded the gross profit from the brake business upon the completion of the Disposal and the decrease in sales of suspension products. However, the gross profit margin increased because after the Disposal, the gross profit margin would not be dragged downwards by the lower profit margin of the brake products.

Profit attributable to equity owners of the Company for the six months ended 30 June 2019 was approximately HK\$23.6 million as compared to that of approximately HK\$32.6 million for the six months ended 30 June 2018. The decrease in profit for the period attributable to equity owners was mainly due to (i) the decrease in gross profits with reasons as discussed above; (ii) the decrease in other income and gains of approximately HK\$16.8 million as a result from the decrease in profit from sale of scrap materials, prototypes and samples.

	As at 31 December 2017	As at 31 December 2018	As at 30 June 2019
	<i>Approximate HK\$' 000</i>	<i>Approximate HK\$' 000</i>	<i>Approximate HK\$' 000 (Unaudited)</i>
Current assets	2,038,568	1,500,187	1,356,043
Non-current assets	777,160	667,156	856,881
	<u>2,815,728</u>	<u>2,167,343</u>	<u>2,212,924</u>
Total assets			
Current liabilities	1,691,496	988,383	908,040
Non-current liabilities	110,917	159,601	305,514
	<u>1,802,413</u>	<u>1,147,984</u>	<u>1,213,554</u>
Total liabilities			
Equity attributable to owners of the Company	892,272	1,019,359	999,370

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at 31 December 2018, total assets of the Group amounted to approximately HK\$2,167.3 million, representing a decrease of approximately HK\$648.4 million as compared to that as at 31 December 2017. The decrease was mainly due to decrease in trade and bills receivables of approximately HK\$564.1 million. Total liabilities of the Group amounted to approximately HK\$1,148.0 million, representing a decrease of approximately HK\$654.4 million as compared to that as at 31 December 2017, which was mainly due to (i) the decrease in trade payables of approximately HK\$341.7 million and (ii) the decrease in bank borrowings of approximately HK\$217.3 million. As a result of the foregoing, the equity attributable to owners of the Company as at 31 December 2018 amounted to HK\$1,019.4 million.

As at 30 June 2019, total asset of the Group amounted to approximately HK\$2,212.9 million, representing a slight increase of approximately HK\$45.6 million as compared to that as at 31 December 2018. The increase was mainly due to increase in right-of-use assets of approximately HK\$176.1 million, and partially offset by decrease in cash and cash equivalents of approximately HK\$133.6 million. Total liabilities of the Group also increased to approximately HK\$1,213.6 million, which was mainly due to the increase in leases liabilities of approximately HK\$171.4 million. As a result of the foregoing, the equity attributable to owners of the Company as at 30 June 2019 amounted to HK\$999.4 million.

1.2 Information of BWI Group

BWI Group is principally engaged in the production and sale of vehicle parts and components. BWI was established under the laws of the PRC with limited liability on 23 March 2009. As at the date of the Latest Practicable Date, BWI is held as to 55.45% by Shougang Group Co., Ltd. (首鋼集團有限公司) (“**Shougang Group**”) 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**”). Shougang Group is a state-owned enterprise established in the PRC on 13 May 1981 which is supervised by the State-owned Assets Supervision and Administration Commission of the People’s Government of Beijing Municipality (北京市人民政府國有資產監督管理委員會). 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). As set out in the website of Shougang Group, its operations are primarily related to the iron and steel industry, mineral resources, environment, static traffic, equipment manufacturing, construction and real estate, productive services and overseas industries. 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. MUTUAL TECHNICAL SERVICES AGREEMENT

On 10 November 2016, the Company and BWI entered into the Existing Mutual Technical Services Agreement in respect of the BWI Services and Company Services for a fixed term of three financial years ending 31 December 2019. As the Existing Mutual Technical Services Agreement is due to expire on 31 December 2019, the Company has entered into the Mutual Technical Services Agreement with BWI for a fixed term of three financial years ending 31 December 2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2.1 Reasons for Mutual Technical Services Agreement

The Group's products are manufactured according to its customers' specifications. There are similarities amongst customer specifications. However, each application has a unique set of specifications to make the products specifically fit the customers' vehicles. It is important to centralize core engineering in terms of each product family. 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. In this respect, as the engineering team of the technical center ensures that the product design process across multiple customers is consistent in terms of quality, and also ensures that the manufacturing process across multiple manufacturing plants is similarly and consistently of high quality. This helps to make sure that the Group's products meet the customers' specifications in an economical and efficient manner.

Thus, the Group and BWI and/or its associates have been providing technical services to each other in the past for the reason that each of the Group and BWI and/or its associates 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. We understand from the management of the Company that although the mutual 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. The Mutual Technical Services Agreement was entered into to facilitate the continued provision of technical services between BWI and/or its associates and the Group.

Further, based on our discussion with the management of the Company, we understand that the Mutual Technical Services Agreement would be beneficial to the Group as (i) the technical services being provided under the Mutual Technical Services Agreement will be in the normal and ordinary course of business of the Group; and (ii) the Mutual Technical Services Agreement will be conducted under arm's length basis, on normal commercial terms, and at competitive prices.

Based on the above, in particular that (i) through the Mutual Technical Service Agreement, the Group is able to acquire technologies and expertise it required for its ordinary course of business; (ii) the Company can generate a source of revenue through the Company Services; and (iii) 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 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2.2 Principal terms of the Mutual Technical Services Agreement

According to the terms of the Mutual Technical Services Agreement, BWI and/or its associates will provide the BWI Services to the Group and the Group will provide the Company Services to BWI and/or its associates. Such services are technical services which 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.

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. The pricing terms of which were identical to the Existing Mutual Technical Services Agreement. Based on our discussion with the management of the Company, we understand that the underlying technologies of the Mutual Technical Services Agreement are unique and irreplaceable for each party. The respective services fees chargeable under the Mutual Technical Services Agreement are determined with reference to a study conducted by an independent third party consultant commissioned by the Company based on the Organisation for Economic Co-operation and Development ("OECD") Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (the "OECD Guidelines"). The OECD is a unique international organization with 36 member countries spanning the globe, from North and South America to Europe and Asia-Pacific. Together with the governments from the member countries, the OECD works on establishing international standards to a range of social, economic and environmental challenges including tax evasion. The OECD Guidelines set out the principles and methods for establishing arm's length transfer prices for goods, services, technical assistance, trademarks, or other assets that are transferred or licensed between related or controlled parties. The OECD Guidelines are the most complete set of guidance governing transfer pricing and the member countries of OECD (which include France, Germany, Italy, Luxembourg, Poland, the Czech Republic and the United Kingdom) and the tax authorities of the United States have endorsed the validity of 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In order to assess the fairness and reasonableness of the pricing terms under the Mutual Technical Services Agreement, we have obtained and reviewed (i) the OECD Guidelines and (ii) the study conducted by the independent consultant which was used to determine the pricing terms of the Mutual Technical Services Agreement. The independent consultant had evaluated a series of methodologies that could be used for the case and determined that the transactional net margin method is best suited for the analysis of the engineering services as well as the manufacturing services. The transactional net margin method examines the net profit relative to an appropriate base (e.g. costs, sales, assets). Under this method, the profit level indicators of the Group from such controlled transactions should ideally be established by reference to the profit level indicators that the Group earns in comparable uncontrolled transactions. The independent consultant selected the net cost plus margin as the profit level indicator for the analysis. The net cost plus margin is defined as operating profit divided by total costs (i.e. cost of goods sold and sales and general and administrative expenses). The comparability analysis would examine the differences between the connected transactions and unrelated party transactions on functions, risks and other factors that impact the price or profit margin comparison. The transactional net margin method was determined to be an appropriate method under the circumstances of the Mutual Technical Services Agreement and the tax legislations of the PRC and the United States, where the principal technical development center of BWI is based, and is consistent with the arm's length principle of the OECD Guidelines.

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, incurred similar risks and operated in markets with similar characteristics as to the Group, given that sufficient information in relation to the activities of companies and sufficient and reliable financial data were available. Under these criteria and sourced from a well-known empirical analysis tool widely used in the fields of securities investment analysis, strategic operating analysis for enterprises, multinational enterprise transfer pricing, and corporate finance analysis, 7 public companies and 11 public companies in the Europe, United States and Asia Pacific Region are selected as comparable companies for engineering services and manufacturing services, respectively. In respect of the comparable companies used in the study, we have performed desktop research and noted that the principal businesses of the comparable companies are either engaged in (i) provision of engineering consultancy services or (ii) provision of administrative support services, and we consider that the comparable companies are appropriate reference in determining the fairness of the terms of the Mutual Technical Services Agreement as the Group provide similar services and/or functions to BWI under the terms of the Mutual Technical Services Agreement.

We understand from the study that the independent consultant calculated an inter-quartile range of net cost plus margin of the comparable companies which are benchmarked as a reasonable range of profit level for the engineering services and the manufacturing services respectively. The independent consultant compares the net cost plus a mark-up with selected comparable companies. According to the study performed by the independent consultant, the profit levels of the comparable companies were within 3.74% to 8.69% for engineering services and 0.40% to 5.14% for manufacturing services. The BWI Group adopted a 5% markup ratio as a proper profit indicator for the engineering services and a 1.5% markup ratio as a proper profit indicator for the manufacturing services, which fall within the inter-quartile range of net cost plus margin established by the respective independent comparable companies. Based on the above, the services fee for both engineering services and manufacturing services under the Mutual Technical Services Agreement are considered as being conducted under arm's length principle.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We noted 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. We further understand that the independent consultant is independent from the Company and the other parties involved in the Mutual Technical Services Agreement. We have also reviewed the terms of the engagements of the independent consultant having particular attention to the appropriateness of the scope of work. Based on our review, we are not aware of any limitations on the scope of work which might adversely impact on the degree of assurance given by the independent consultant's studies.

In addition, we have reviewed the 2018 Annual Report and note that the independent non-executive Directors and the auditors have confirmed that the terms of the Existing Mutual Technical Services Agreement are, among others, on normal commercial terms and in accordance with the pricing policies of the Group.

As advised by the Directors, the Company will engage the auditor of the Company to conduct an annual review of the continuing connected transactions of the Group pursuant to the Listing Rules. To ensure that the actual services fee charged will be in accordance with the transactional net margin method, the Company will conduct its own comparability analysis and review the analysis prepared by BWI. The finance department of the Company will also review and monitor the continuing connected transactions between the Group and BWI on a regular basis to ensure that the pricing mechanism and the annual caps under the Mutual Technical Services Agreement are in compliance with the terms stipulated therein.

Given that (i) the transactional net margin method is one of the methods approved by OECD for determining arm's length transfer prices for goods and services, and that the routine profit level of the Company will be determined through a comparable analysis drawn from a range of comparable companies; (ii) the 5% markup ratio as a proper profit indicator for the engineering services and a 1.5% markup ratio as a proper profit indicator for the manufacturing services fall within the inter-quartile range of net cost plus margin established by the respective independent comparable companies; (iii) the independent consultant is experienced and qualified to publish the report, we are of the view that the studies conducted by the consultant are a fair and reasonable reference for setting the fees level on services to be conducted under the Mutual Technical Services Agreement. Taken into account of the aforesaid and that the terms of the Mutual Technical Services Agreement are the same as the Existing Mutual Technical Services Agreement which is on normal commercial terms and in accordance with the pricing policies of the Group. Accordingly, we concur with the view of the Directors that the terms of the Mutual Technical Services Agreement are on normal commercial terms and are fair and reasonable as far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2.3 The Annual Cap

The proposed annual caps for the BWI Services under the Mutual Technical Services Agreement would be HK\$204.5 million, HK\$214.7 million and HK\$225.4 million for the three years ending 31 December 2020, 2021 and 2022 respectively and the proposed annual caps for the Company Services under the Mutual Technical Services Agreement would be HK\$181.4 million, HK\$190.5 million and HK\$200.0 million for the three years ending 31 December 2020, 2021 and 2022 respectively.

Based on information provided by the Company, we summarise in the following table (i) the historical transaction amounts for the two financial years ended 31 December 2018 and for the six months ended 30 June 2019; and (ii) the proposed annual caps for the three years ending 31 December 2022:

	For the financial year ended		For the	For the financial year ending		
	31 December	31 December	six months	31 December		
	2017	2018	ended	2020	2021	2022
	HK\$'million	HK\$'million	ended	HK\$'million	HK\$'million	HK\$'million
	Approximate	Approximate	30 June	Approximate	Approximate	Approximate
	(Actual)	(Actual)	2019	(Annual cap)	(Annual cap)	(Annual cap)
			HK\$'million			
			Approximate			
			(Actual)			
Historical transaction amounts/annual caps for the BWI Services	204.0	158.6	71.2	204.5	214.7	225.4

	For the financial year ended		For the	For the financial year ending		
	31 December	31 December	six months	31 December		
	2017	2018	ended	2020	2021	2022
	HK\$'million	HK\$'million	ended	HK\$'million	HK\$'million	HK\$'million
	Approximate	Approximate	30 June	Approximate	Approximate	Approximate
	(Actual)	(Actual)	2019	(Annual cap)	(Annual cap)	(Annual cap)
			HK\$'million			
			Approximate			
			(Actual)			
Historical transaction amounts/annual caps for the Company Services	114.1	105.2	55.2	181.4	190.5	200.0

The proposed annual caps for each of the three years ending 31 December 2022 were determined by the Directors after taking into consideration (i) the historical transaction amounts; (ii) the projected volume of technical services to be provided; and (iii) 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, 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Proposed annual caps for the BWI Services

The historical transaction amounts for the BWI Services were approximately HK\$204.0 million, HK\$158.6 million and HK\$71.2 million for the years ended 31 December 2017 and 2018 and for the six months ended 30 June 2019 respectively. The historical transaction amount for BWI Services decreased by approximately 22.3% from 2017 to 2018. As advised by the management of the Company, such decrease was mainly attributable to tighten cost control on the research and development expenses during the year.

We noted from the 2018 Annual Report and the 2019 Interim Report that the Group has adopted measures to tighten the expenses including research and development expenses in response to possible challenges to the slowdown of global economy and shrinking automotive industry.

As advised by the management of the Company, in arriving the proposed annual cap for the year ending 31 December 2020, the Company has considered (i) the highest transaction amount of the BWI Services under the Existing Mutual Technical Services Agreement of approximately HK\$204.0 million. The Directors consider that the historical amount is an appropriate reference in determining the proposed annual cap of HK\$204.5 million for the year ending 31 December 2020 with the assumption that the transaction volume would reach the similar historical level; and (ii) a buffer of 5% is included for any unforeseen event in the future. After taken into account, in particular, (i) the historical transaction amounts of the BWI Services which is close to the proposed annual cap for the year ending 31 December 2020 and (ii) the Company expects the demand for the BWI Services would reach similar historical level as the Group will continue to procure research and development as well as engineering activities which is important to the Group in maintaining and improving its leadership position in the industry as discussed in the 2019 Interim Report, we consider that the bases and assumptions in arriving the proposed annual cap for the year ending 31 December 2020 are justifiable.

The proposed annual caps for the two years ending 31 December 2022 represents an increase at a growth rate of 5%. In respect of the buffer and/or growth rate of 5%, we understand that (i) the transaction amounts rely on the overall market demand for cars, which may be affected by factors such as inflations, regional economic market conditions, fuel price and end customers' expectations on future economy situation. These factors are beyond the Group's control; (ii) it may mitigate the burden of the Group to bear additional costs to conduct another revision of the relevant annual cap(s) in the near future, and therefore we consider such buffer to be acceptable for the purpose of determining the annual caps.

Based on the above, we concur with the view of the Directors' that the bases and assumptions in arriving the proposed annual caps of the BWI Services are fair and reasonable as far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Annual Caps for the Company Services

The historical transaction amounts for the Company Services were approximately HK\$114.1 million, HK\$105.2 million and HK\$55.2 million for the years ended 31 December 2017 and 2018 and the six months ended 30 June 2019, respectively. The historical transaction amount for the Company Services decreased by approximately 7.8% from 2017 to 2018.

Although there was a decrease in transaction amount in the Company Services, the Directors expect the proposed annual cap of the Company Services for the year ending 31 December 2020 would be HK\$181.4 million. As advised by the management of the Company, in considering the proposed annual caps for the Company Services, the Directors have taken into account that a new manufacturing plant of BWI located in Indiana, the United States has commenced operations in September 2019 and will manufacture products to customers in the coming three years. We have been provided with a summary of breakdown showing the estimated transactions between the Indiana plant of the BWI and the Group's technical centres. According to the said breakdown, it is estimated that the Group's technical centres will provide technical services to the Indiana plant, and it is therefore anticipated that the demand of the Company Services will increase in near future. Further, in arriving the proposed annual caps for Company Services, the Company has made reference to the high utilisation rate of the existing annual caps for the years ended 31 December 2017 and 2018 which were approximately 95.1% and 73.1%, respectively. Having considered that (i) the high utilisation rate of the historical annual caps and (ii) it is expected there will be an increase in demand for the Company Services according to the breakdown, we consider that the bases and assumptions in arriving the proposed annual cap for the year ended 31 December 2020 are fair and reasonable.

Based on the calculations provided by the Company, we note that there is a growth rate or buffer of 5% for the proposed annual caps for each of the two years ended 31 December 2022. In respect of the buffer and/or growth rate of 5%, we understand that (i) the transaction amounts rely on the overall market demand for cars, which may be affected by factors such as inflations, regional economic market conditions, fuel price and end customers' expectations on future economy situation. These factors are beyond the Group's control; and (ii) it may mitigate the burden of the Group to bear additional costs to conduct another revision of the relevant annual cap(s) in the near future, and therefore we consider such buffer to be acceptable for the purpose of determining the proposed annual caps.

Based on the aforesaid, we concur with the view of the Directors that the proposed annual caps of the Company Services are determined under fair and reasonable bases as far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. PARTS AND COMPONENTS SUPPLY AGREEMENT

On 10 November 2016, the Company and BWI entered into the Existing Parts and Components Supply Agreement in respect of the supplying auto parts and components, including automobile controlled and passive suspension products, and prototypes to BWI and/or its associates for a fixed term of three financial years ending 31 December 2019. As the Existing Parts and Components Supply Agreement is due to expire on 31 December 2019, the Company has entered into the Parts and Components Supply Agreement with BWI for a fixed term of three financial years ending 31 December 2022.

3.1 Reasons for the Parts and Components Supply Agreement

The Company has been supplying auto parts and components to BWI and its associates in the past. The sales made by the Company are for the manufacture of end-products hence are on the normal course of business of the Company. It is expected that the supply arrangement will continue and the Parts and Components Supply Agreement was entered into to facilitate the continue supply of auto parts and components from the Group to BWI and/or its associates.

Further, based on our discussion with the management of the Company, we understand that the Parts and Components Supply Agreement would be beneficial to the Group as (i) the supply of parts and components will be carried out in the normal and ordinary course of business of the Group; (ii) the sales will be conducted under arm's length basis, on normal commercial terms, and at competitive prices which are no less favourable to the Group than that of transactions with independent third parties; and (iii) the supply will provide a stable stream of revenue for the Group.

Having taking into consideration of the above, we concur with the Directors' view that the entering into the Parts and Components Supply Agreement is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

3.2 Principal terms of the Parts and Components Supply Agreement

According to the Parts and Components Supply Agreement, 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").

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. The margins for the Sales depend on the products and size of orders and was generally between approximately 5% and 20% which is determined based on (i) the level of value-added services and technical standards; and (ii) 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The margins in respect of other completed products supplied by the Group to independent third party customers which was generally between 3% to 26% in 2018. The completed suspension products sold to independent third party customers had a higher margin as the work done by the Group in producing such completed products to be more than the work done in producing parts and components only.

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, taken into account of the same percentage of completion level of the products, of the Group supplied to independent third party customers.

In order to assess the fairness and reasonableness of the pricing terms under the Parts and Components Supply Agreement, we have obtained (i) 9 purchase orders entered into between the Group and other independent customers in 2019, covering all product categories offered to independent customers which we consider such samples are sufficient, and the profit margins of these product categories in 2019 range from 2% to 15% and (ii) a breakdown of profit margins by different products categories supplied to (a) related parties and (b) independent customers in 2018. Based on our review, we noted that the Group provided the parts and components of suspension products for BWI and/or its associates for further processing and the suspension products for the independent customers. We also note that the profit margins for the supply of the parts and components depend on the products and size of orders and was generally between 5% and 20%. As the products supplied under the Parts and Components Supply Agreement are unique and tailor made, we note that according to the Group's pricing policy, the margins for the supply of products under the Parts and Components Supply Agreement are set within the range of or no less favourable than the margins in respect of other products supplied by the Group to independent customers which was generally between 3% and 26% in 2018.

As advised by the Company, the higher profit margin of the suspension products was mainly due to more add-value services involved and strict technical standards required as compared with the parts and components of suspension products. However, we consider it is reasonable for the completed suspension products to have higher margin as the work done by the Group in producing such products to be more than the work done in producing parts and components only. 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.

In addition, we have further discussed with the Company regarding the cost plus mark-up pricing approach. The Company has advised that the supply of auto parts and components by the Group to BWI and/or its associates must be at prices that satisfy the tax authorities of the countries of both the buying and the selling sides that neither country is being cheated of tax revenue. In this connection, we have obtained and reviewed 3 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 2019 and we have also noted that the factors taken into account in determining the prices generally include the production cost, the logistics cost, and a reasonable profit margin such that neither the selling side nor the buying side is advantaged or disadvantaged from a transfer pricing perspective.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Further, we have reviewed the 2018 Annual Report and note that the independent non-executive Directors and the auditors have confirmed that the terms of the Existing Parts and Components Supply Agreement are, among others, on normal commercial terms and in accordance with the pricing policies of the Group.

We note that in order to ensure the margins for the supply of the auto parts and components under the Parts and Components Supply Agreement are within range or no less favourable to the margins of the other products of the Group, taken into account the quality and specifications of the product and order of comparable quantities, the Group's pricing policies for continuing connected transactions will be followed in that the margin of the product for a particular order will be compared against the historical margins of other products supplied by the Group to independent third party customers for the prior financial year (of which will be updated annually) before finalisation of the relevant quotation. The Group considers that such historical margins in the prior year provide a reasonably recent and relevant reference for the Group to set its pricing for the supply of the parts and components under the Parts and Components Supply Agreement. The finance department of the subsidiaries of the Company will verify that the margins charged for the supply of auto parts and components under the Parts and Components Supply Agreement are in compliance with the terms of the agreement and the local tax reporting regulations and that the transactions are fair and reasonable.

As advised by the Directors, the finance department of the Company will also review and monitor the continuing connected transactions between the Group and BWI on a regular basis to ensure that the pricing mechanism and the annual caps under the Parts and Components Supply Agreement are in compliance with the terms stipulated therein.

Having considered that (i) the products supplied under the Parts and Components Supply Agreement are unique and tailor made; (ii) the historical margins of other products supplied by the Group to independent customers for the prior financial year will be taken as a reference for comparison purpose having regard to the relevant factors such as the size of the orders of comparable quantities; (iii) such reference of historical margins will be updated annually; and (iv) the terms of the Parts and Components Supply Agreement are the same as the Existing Parts and Components Supply Agreement which is on normal commercial terms and in accordance with the pricing policies of the Group, we consider that such historical margins in the prior year provide a reasonably recent and relevant reference for the Group to set its pricing for the supply of the parts and components under the Parts and Components Supply Agreement. Based on the aforesaid, we are of the view that the terms of the Parts and Components Supply Agreement are on normal commercial terms and are fair and reasonable as far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3.3 Annual Caps

The proposed annual caps under the Parts and Components Supply Agreement would be HK\$23.5 million, HK\$86.9 million and HK\$212.1 million for the three years ending 31 December 2020, 2021 and 2022 respectively.

Based on information provided by the Company, we summarise in the following table (i) the historical transaction amounts for the two financial years ended 31 December 2018 and for the six months ended 30 June 2019; and (ii) the annual cap:

	For the financial year ended 31 December		For the six months ended 30 June	For the financial year ending 31 December		
	2017	2018	2019	2020	2021	2022
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
	<i>Approximate</i>	<i>Approximate</i>	<i>Approximate</i>	<i>Approximate</i>	<i>Approximate</i>	<i>Approximate</i>
	<i>(Actual)</i>	<i>(Actual)</i>	<i>(Actual)</i>	<i>(Annual cap)</i>	<i>(Annual cap)</i>	<i>(Annual cap)</i>
Historical transaction amounts/annual caps for the supply of parts and components	14.4	17.7	5.5	23.5	86.9	212.1

The annual cap for each of the three years ending 31 December 2022 were determined by the Directors after taking into consideration (i) the historical transaction amounts; (ii) the projected increase in sales by BWI and its associates, which will result in a corresponding increase in the Sales and (iii) a buffer to cater for any unexpected increases in demand during the term of the Parts and Components Supply Agreement.

The historical transaction amounts for the Sales were approximately HK\$14.4 million, HK\$17.7 million and HK\$5.5 million for the years ended 31 December 2017 and 2018 and for the six months ended 30 June 2019 respectively. The historical transaction amount for the Sales increased by approximately HK\$2.3 million, or 22.9% from 2017 to 2018.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In order to assess the fairness and reasonableness of the proposed annual caps, 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.

We note that the annual cap for Sales for the year ending 31 December 2020 is lower than the existing annual caps for each of the 3 years ending 31 December 2019 and is set at 70% of the existing annual cap for the year ending 31 December 2019. As advised by the management of the Company, in arriving the annual cap for the year ending 31 December 2020, the Company has considered (i) the highest transaction amount under the Existing Parts and Components Supply Agreement of approximately HK\$17.7 million. The Directors consider that the historical amount is an appropriate reference in determining the proposed annual cap of HK\$23.5 million for the year ending 31 December 2020 with the assumption that the transaction volume would reach the similar historical level; and (ii) a buffer is included for any unforeseen event in the future.

We note that the proposed annual caps for the Sales for the two years ending 31 December 2022 are significantly higher than that of the year ending 31 December 2019. We have discussed with the management of the Company and are given to understand that such annual caps are determined based on a budget provided by the Company which shows the estimated transactions between the Indiana plant of the BWI and the Group on supplying parts and components (the “**Budget**”). As discussed above, BWI has opened a new manufacturing plant in Indiana, the United States in September 2019 and will manufacture, among others, a new product offering to customer in the coming years. One of the Group’s manufacturing plants which is located in Luton, the United Kingdom will manufacture parts and components for a new product and supplying to the new manufacturing plant in Indiana for final assembly before being shipped to the independent customer of BWI. As such, it is expected that the production volumes for the new product will substantially increase in 2021 and 2022 according to the Budget. Hence, the transactions amounts between the Group and BWI are expected to increase significantly. Further, we noted that the Company has also included a buffer of 5% to cater for any unexpected increases in demand during the term of the Parts and Components Supply Agreement.

In respect of the buffer of 5%, we understand that (i) the transaction amounts rely on the overall market demand for cars, which may be affected by factors such as inflations, regional economic market conditions, fuel price and end customers’ expectations on future economy situation. These factors are beyond the Group’s control; and (ii) it may mitigate the burden of the Group to bear additional costs to conduct another revision of the relevant annual cap(s) in the near future, and therefore we consider such buffer to be acceptable for the purpose of determining the proposed annual caps.

Having considered the above, in particular that (i) our review of the calculation of the proposed annual caps, which are based on the historical amounts and projected volume of parts and components to be provided; and (ii) our review of the Budget provided by the Company which accounts for the substantial expected increase in transaction volume in future and the rate of buffer, which are acceptable for the purpose of determining the proposed annual caps, we concur with the view of the Directors that the proposed annual caps under the Parts and Components Supply Agreement are determined under fair and reasonable bases as far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having taken into account the principal factors discussed above, we are of the view that (i) the entering into of the Mutual Technical Services Agreement and the Parts and Components Supply Agreement is in the ordinary course and usual business of the Group and is in the interests of the Company and the Shareholders as a whole; (ii) the terms of the Mutual Technical Services Agreement and the Parts and Components Supply Agreement and the annual caps of the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders, and the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution to be proposed at the EGM to approve the Mutual Technical Services Agreement and the Parts and Components Supply Agreement and the annual caps of the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Messis Capital Limited
Vincent Cheung
Managing Director

Mr. Vincent Cheung is a licensed person registered with the SFC and regarded as a responsible officer of Messis Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 12 years of experience in corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. INTERESTS OF DIRECTORS**(a) Interests of Directors in the shares, underlying shares and debentures of the Company**

As at the Latest Practicable Date, none of the Directors or chief executives of the Company, or their respective associates had any personal, family, corporate and other interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) of the Listing Rules.

(b) Interests of Directors in the assets of the Company

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had, since 31 December 2018, being the date to which the latest published audited financial statements of the Company were made up, been acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group.

(c) Interests of Directors in contracts

There is no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director is materially interested in and which is significant to the business of the Group.

3. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, Shareholders (other than a Director or chief executive of the Company) who had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of SFO, or who was, directly or indirectly interested in 5% or more of the issued share capital of the Company:

Name of shareholders	Capacity in which interests were held	Number of shares/ underlying shares	Interests as to % of the issued share capital of the Company	Note
BWI Company Limited ("BWI HK")	Beneficial owner	301,842,572	52.55%	1
BWI	Interests of controlled corporation	301,842,572	52.55%	1
北京房山國有資產經營 有限責任公司 (Beijing Fangshan State-owned Assets Management Co. Ltd.*) ("Beijing Fangshan")	Interests of controlled corporation	301,842,572	52.55%	1
首鋼集團有限公司 (Shougang Group Co., Ltd.*) ("Shougang Group")	Interests of controlled corporation	301,842,572	52.55%	1

* For identification purpose only

Note:

1. BWI HK was a wholly owned subsidiary of BWI. BWI was held as to 55.45% by Shougang Group and as to 44.55% by Beijing Fangshan. The interests held by BWI HK, BWI, Shougang Group and Beijing Fangshan were the same block of shares of the Company.

Save as disclosed above, so far as is known to the Directors or chief executive of the Company, as at the Latest Practicable Date, no other person (other than a Director or chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Mr. Jiang Yunan and Mr. Chen Zhouping are directors of BWI and BWI HK. Mr. Thomas P Gold is the Vice President of Operations in BWI. Apart from that, as at the Latest Practicable Date, none of the Directors is a director or employee of a company which has an interest or short position in the Shares or underlying Shares of the Company, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which will not expire or which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

5. COMPETING BUSINESS INTEREST OF DIRECTORS

Pursuant to Rule 8.10 of the Listing Rules, the following Directors have declared interests in the following businesses (other than those businesses where the Directors of the Company were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group:

Name of Director	Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of the Director in the entity	<i>Notes</i>
Jiang Yunan	BWI	Sale of auto parts, machinery and equipment	Director	1
Chen Zhouping	BWI	Sale of auto parts, machinery and equipment	Director	1
Thomas P Gold	BWI	Sale of auto parts, machinery and equipment	Director	1, 2

Notes:

1. The relevant information is disclosed on a group basis. The businesses of such entity may be carried out through the subsidiaries or associates of the entity concerned or by way of other forms of investments.
2. Such director only holds directorship for certain subsidiaries of the entity.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group as required to be disclosed pursuant to the Listing Rules.

6. MATERIAL ADVERSE CHANGE

Save as disclosed in the Company's announcement dated 21 August 2019, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, the date to which the latest published audited financial statements of the Company were made up.

7. EXPERT AND CONSENT

The following are the qualifications of the expert who has been named in this circular or has given opinion or letter contained in this circular:

Name	Qualifications
Messis Capital Limited	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Messis Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letters, reports and/or summary of its opinions (as the case may be) and references to its name in the form and context in which they respectively appear herein.

As at the Latest Practicable Date, MESSIS Capital Limited was not beneficially interested in the share capital of any member of the Group or had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and MESSIS Capital Limited did not have any interest, either directly or indirectly, in any assets which have been, since 31 December 2018 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. GENERAL

- (a) The company secretary of the Company is Cheng Chun Shing, a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Institute of Chartered Accountants in England and Wales.
- (b) The Company's Registrar and transfer office in Hong Kong is Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at Rooms 1005-06, 10th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong during normal business hours on any weekdays, except public holidays, from the date of this circular up to and including the date of the EGM;

- (a) the letter of recommendations from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;
- (b) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" in this circular;
- (c) the written consent of the expert referred to in the section headed "Expert and Consent" of this appendix;
- (d) the Mutual Technical Services Agreement;
- (e) the Parts and Components Supply Agreement; and
- (f) this circular.

NOTICE OF EGM



京西重工國際有限公司

BEIJINGWEST INDUSTRIES INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2339)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of BeijingWest Industries International Limited (the “Company”) will be held at 11:00 a.m. on Tuesday, 17 December 2019 at Plaza 1-2, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “THAT:

- (a) the master agreement dated 7 November 2019 (the “**Mutual Technical Services Agreement**”) entered into between the Company and BeijingWest Industries Co., Ltd. (“**BWI**”), a controlling shareholder and a connected person of the Company, a copy of which is tabled at the meeting and marked “A” and initialed by the chairman of the meeting for identification purpose, in relation to the mutual provision of technical services for a period of three financial years until 31 December 2022 (as further detailed in the circular of the Company dated 28 November 2019 (the “**Circular**”)), be and is hereby approved, confirmed and ratified;
- (b) the annual caps under the Mutual Technical Services Agreement as set out in the Circular for each of the three financial years ending 31 December 2022 be and are hereby approved and confirmed; and
- (c) any one director of the Company be and is hereby authorised to do all such further acts and things and to sign and execute all such documents, including under seal of the Company, where applicable, and to take all such steps which in his/her opinion may be necessary, appropriate, desirable or expedient to implement and/or give effects to the transactions contemplated under the Mutual Technical Services Agreement.”

NOTICE OF EGM

2. “THAT:

- (a) the master agreement dated 7 November 2019 (the “**Parts and Components Supply Agreement**”) entered into between the Company and BWI, a controlling shareholder and a connected person of the Company, a copy of which is tabled at the meeting and marked “B” and initialed by the chairman of the meeting for identification purpose, in relation to the supply of auto parts and components for a period of three financial years until 31 December 2022 (as further detailed in the Circular), be and is hereby approved, confirmed and ratified;
- (b) the annual caps under the Parts and Components Supply Agreement as set out in the Circular for each of the three financial years ending 31 December 2022 be and are hereby approved and confirmed; and
- (c) any one director of the Company be and is hereby authorised to do all such further acts and things and to sign and execute all such documents, including under seal of the Company, where applicable, and to take all such steps which in his/her opinion may be necessary, appropriate, desirable or expedient to implement and/or give effects to the transactions contemplated under the Parts and Components Supply Agreement.”

By Order of the Board
BeijingWest Industries International Limited
Jiang Yunan
Chairman

28 November 2019

Notes:

1. Any member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him/her in accordance with the articles of association of the Company. A proxy need not be a member of the Company but must be present in person to represent the member.
2. The instrument appointing a proxy shall be in writing under the hand of the appointer or his/her attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of any officer, attorney or other person duly authorised to sign the same.
3. In order to be valid, the form of proxy in the prescribed form together with a power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, must be deposited at the Company’s share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for holding the meeting (i.e. at or before 11:00 a.m. on Sunday, 15 December 2019 (Hong Kong time)) or any adjournment thereof (as the case may be).
4. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish, and in such an event, the form of proxy shall be deemed to be revoked.
5. Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such shares as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members of the Company in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.