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## **BILLION INDUSTRIAL HOLDINGS LIMITED**

**百宏實業控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2299)**

### **CONTINUING CONNECTED TRANSACTION**

#### **INTRODUCTION**

##### **SUMMARY**

The Board announces that on 15 August 2019, Billion Vietnam, a wholly-owned subsidiary of the Company and Baikai Vietnam entered into (i) the Vietnam Purchase Agreement pursuant to which Baikai Vietnam agreed to provide paper boxes, roles and polyfoam boards to Billion Vietnam; and (ii) the Vietnam Sales Agreement pursuant to which Billion Vietnam agreed to sell DTY and FDY to Baikai Vietnam.

As at the date of this announcement, Baikai Vietnam is a wholly foreign-owned subsidiary of Baikai Wrap Knitting, which in turn is wholly-owned by Mr. Lin Jinjing, the brother-in-law of both Mr. Sze Tin Yau and Mr. Wu Jinbiao, both being executive Directors. Since Mr. Lin controls the exercise of 100% of the voting power at general meetings and is the sole director of Baikai Wrap Knitting, Baikai Wrap Knitting and its wholly-owned subsidiary, Baikai Vietnam, are associates of Mr. Sze Tin Yau and Mr. Wu Jinbiao. Accordingly, Baikai Vietnam is a connected person of the Company and the transactions under the Vietnam Purchase Agreement and the Vietnam Sales Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

## **LISTING RULES IMPLICATIONS**

The relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) for the transactions under the Vietnam Purchase Agreement are higher than 0.1% but less than 5%, and the annual transaction amount is expected to be greater than HK\$3,000,000. Accordingly, the Vietnam Purchase Agreement and the transactions contemplated under it are subject to the reporting and announcement requirements and the annual review requirements, but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) for the transactions under the Vietnam Sales Agreement are higher than 0.1% but less than 5%, and the annual transaction amount is expected to be greater than HK\$3,000,000. Accordingly, the Vietnam Sales Agreement and the transactions contemplated under it are subject to the reporting and announcement requirements and the annual review requirements, but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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## **THE VIETNAM PURCHASE AGREEMENT**

On 15 August 2019, Billion Vietnam and Baikai Vietnam entered into the Vietnam Purchase Agreement, principal terms of which are set out below:

Subject Matter : Pursuant to the Vietnam Purchase Agreement, Baikai Vietnam agreed to provide paper boxes, rolls and polyfoam boards to Billion Vietnam, at a price to be agreed between the parties from time to time after arm's length negotiation and comparable to market prices of similar products that Billion Vietnam pays to other independent suppliers.

- Annual Caps: : The aggregated annual caps of the transaction amounts under the Vietnam Purchase Agreement for each of the two years ending 31 December 2019 and 2020 are RMB46,840,000 and RMB140,510,000 respectively. The above annual caps are determined based on (i) the estimated demand of Billion Vietnam multiplied by the actual unit price of the same products purchased by the Group in July 2019; (ii) the prevailing market prices of similar products; (iii) the fact that the factories of Baikai Vietnam and Billion Vietnam are located in close proximity which reduces the delivery costs to the maximum extent; and (iv) the anticipated steady sales and production capacity of Baikai Vietnam for relevant products in 2019 and 2020.
- Term : With effect from 15 August 2019 to 31 December 2020 (both dates inclusive)

#### **THE VIETNAM SALES AGREEMENT**

On 15 August 2019, Billion Vietnam and Baikai Vietnam entered into the Vietnam Sales Agreement, principal terms of which are set out below:

- Subject Matter : Pursuant to the Vietnam Sales Agreement, Billion Vietnam agreed to provide DTY and FDY to Baikai Vietnam, at a price to be agreed between the parties from time to time after arm's length negotiation and comparable to market prices of similar products that Billion Fujian sells to other independent customers.
- Annual Caps: : The annual caps of the transaction amounts under the Vietnam Sales Agreement for each of the two years ending 31 December 2019 and 2020 are RMB2,330,000 and RMB9,330,000 respectively. The above annual caps are determined based on (i) the estimated demand of Baikai Vietnam multiplied by the average unit price of the same products sold by the Group for the six months ended 30 June 2019; (ii) the prevailing market prices of similar products; (iii) the estimated production capacity of Billion Vietnam for the years 2019 and 2020; and (iv) the anticipated steady demand of Baikai Vietnam for relevant products in 2019 and 2020.
- Term : With effect from 15 August 2019 to 31 December 2020 (both dates inclusive)

## **PRICING POLICY AND INTERNAL CONTROL**

The basis of determining the prices of the products to be supplied to or purchased by the Group under each of the Vietnam Purchase Agreement and the Vietnam Sales Agreement will be in accordance with the prevailing market prices of similar products and based on the following principles:

- (i) by reference to the prevailing market price of the same or substantially similar products, taking into account the price of the same or substantially similar products with comparable order quantities and quality offered to/by other purchasers or suppliers (as the case may be); and
- (ii) if there are not sufficient comparable transactions in (i) above, on normal commercial terms comparable to those currently offered by the Group to, or received by the Group from, independent third parties in respect of the same or substantially similar products with comparable quantities.

Given that none of the products under the Vietnam Purchase Agreement and the Vietnam Sales Agreement has a fixed unit price or standard price, or has a published reference price, in determining the prevailing market price for the products for a particular contract, the Group will:

- (i) in respect of procurement of products from Baikai Vietnam, invite quotations from at least two independent suppliers to get a reference on the prevailing market prices for the relevant products to be procured. Such quotations will be reviewed and evaluated from both the technical and commercial perspectives by the manager of the Quality Management Department (品質管理部) and compared against the quote from Baikai Vietnam to ensure that the products to be procured from Baikai Vietnam are comparable to the prices and terms for such products being offered by independent third parties. The Group will, based on the initial quotations from Baikai Vietnam and the independent suppliers, invite the independent suppliers to submit a revised offer. The revised offers will again be compared with the offer of Baikai Vietnam and procurements will only be made from Baikai Vietnam if the price and terms offered are competitive and comparable to those offered by independent suppliers. Orders, including the prices contained therein, for the products to be purchased by the Group under the Vietnam Purchase Agreement have to be reviewed and approved by the manager of the Procurement Department (採購部) of Billion Vietnam; and

- (ii) in respect of sale of products to Baikai Vietnam, evaluate and assess the scope of the relevant order and the manager of the Procurement Department (採購部) will prepare a detailed cost calculation by reference to the cost of materials, products and labours, quotes of the Group to other independent third party customers and the level of fees charged by competitors of the Group in the market (if available) to ensure that the prices and terms of the products of the Group are competitive and comparable to those being offered to independent third party customers of the Group. The Group has a standard pricing policy for its sales which is applicable to all customers. In setting or revising the pricing for the products, market prices are obtained through, among other things, recent transaction prices of the Group, enquiry with other industry players and researches on industry websites. The prices for the products to be sold to a connected person will be governed by such pricing policy and will not be less favourable than the price of similar products sold by the Group to independent customers. Orders, including the price contained therein, for the products to be supplied by the Group under the Vietnam Sales Agreement have to be reviewed and approved by the manager of the Sales and Marketing Department (營銷部) and the Accounting Officer of the Finance Department (財務部成本會計主任) of Billion Vietnam and under certain circumstances, such as a modification of the selling price due to quality-related issues or orders involving new products of Billion Vietnam, by the Costing Committee (成本研究委員會) of the Group as well.

To ensure that the actual prices for the continuing connected transactions of the Group are on normal commercial terms and on terms no less favourable to the Group than that available from independent third party suppliers or customers, the Group will conduct regular checks to review and assess whether the products have been supplied or purchased in accordance with the terms of the relevant agreement. In addition, the Company has engaged the auditors of the Company to conduct an annual review of the continuing connected transactions of the Group.

Given that sales to Baikai Vietnam have to strictly adhere to the pricing policy of the Group, and that procurements of the Group from Baikai Vietnam are based on prevailing market prices after comparison with offers from independent suppliers, the Directors, including the independent non-executive Directors, are of the view that the procedures adopted by the Group as described above could ensure that the aforementioned continuing connected transactions of the Group will be conducted on normal commercial terms or better, and are fair and reasonable and in the interests of the Shareholders as a whole.

## **GENERAL INFORMATION ABOUT THE GROUP AND BAIKAI VIETNAM**

The Group is one of the largest developers and manufacturers of polyester filament yarns in China, including DTY and FDY, the two main polyester filament yarns, which have a variety of end applications in consumer products, including apparel, footwear and home furnishings.

Baikai Vietnam is principally engaged in the business of manufacturing paper boxes, rolls, lace fabrics, wearing fabrics and ribbons.

## **RELATIONSHIP BETWEEN THE PARTIES**

As at the date of this announcement, Baikai Vietnam is a wholly foreign-owned subsidiary of Baikai Wrap Knitting, which in turn is wholly-owned by Mr. Lin Jinjing, the brother-in-law of both Mr. Sze Tin Yau and Mr. Wu Jinbiao, both being executive Directors. Since Mr. Lin controls the exercise of 100% of the voting power at general meetings and is the sole director of Baikai Wrap Knitting, Baikai Wrap Knitting and its wholly-owned subsidiary, Baikai Vietnam, are associates of Mr. Sze Tin Yau and Mr. Wu Jinbiao. Accordingly, Baikai Vietnam is a connected person of the Company and the transactions under the Vietnam Purchase Agreement and the Vietnam Sales Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

## **REASONS FOR AND BENEFITS OF THE VIETNAM PURCHASE AGREEMENT AND THE VIETNAM SALES AGREEMENT**

The paper boxes, rolls and polyfoam boards produced by Baikai Vietnam are of high quality and are suitable for the use of the Group and the production base of Baikai Vietnam is in close proximity to Billion Vietnam, which allows timely delivery of the paper boxes, rolls and polyfoam boards and minimizes delivery costs; therefore, it is in the best interest of the Group to enter into the Vietnam Purchase Agreement with Baikai Vietnam.

The transactions to be conducted under the Vietnam Sales Agreement will increase the overall revenue of the Group; therefore, it is beneficial for the Group to enter into the Vietnam Sales Agreement with Baikai Vietnam.

The Board (including the independent non-executive Directors) considers that Vietnam Purchase Agreement and the Vietnam Sales Agreement were entered into in the ordinary course of business of the Company, its terms are fair and reasonable, and in the interests of the Company and the Shareholders as a whole. Mr. Sze Tin Yau and Mr. Wu Jinbiao have abstained from voting on the relevant board resolution approving the Vietnam Purchase Agreement and the Vietnam Sales Agreement and the transactions contemplated under them. Save as disclosed above, no other Directors have any material interest in the Vietnam Purchase Agreement and the Vietnam Sales Agreement and the transactions contemplated under them.

## **LISTING RULES IMPLICATIONS**

The relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) for the transactions under the Vietnam Purchase Agreement are higher than 0.1% but less than 5%, and the annual transaction amount is expected to be greater than HK\$3,000,000. Accordingly, the Vietnam Purchase Agreement and the transactions contemplated under it are subject to the reporting and announcement requirements and the annual review requirements, but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) for the transactions under the Vietnam Sales Agreement are higher than 0.1% but less than 5%, and the annual transaction amount is expected to be greater than HK\$3,000,000. Accordingly, the Vietnam Sales Agreement and the transactions contemplated under it are subject to the reporting and announcement requirements and the annual review requirements, but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## DEFINITIONS

In this announcement, the following expressions shall have the following meanings unless the otherwise stated:

“Baikai Vietnam”	Baikai Industry (Viet Nam) Co., Ltd. (百凱實業(越南)有限公司), a company incorporated in Vietnam with limited liability and a wholly-owned subsidiary of Baikai Wrap Knitting
“Baikai Wrap Knitting”	Fujian Baikai Wrap Knitting Industry Co., Ltd.* (福建省百凱經編實業有限公司), a limited liability company established under the laws of the PRC on 27 September 2002 and a wholly-owned subsidiary of Baikai (HK) Industrial Limited (百凱(香港)實業有限公司), which is in turn wholly-owned by Mr. Lin Jinjing
“Billion Fujian”	Fujian Billion Polymerization Fiber Technology Industrial Co., Ltd.* (福建百宏聚纖科技實業有限公司), a limited liability company established under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
“Billion Vietnam”	Billion Industrial (Viet Nam) Co., Ltd. (百宏實業(越南)有限公司), a company incorporated in Vietnam with limited liability and a wholly-owned subsidiary of Billion Fujian
“Board”	the board of Directors
“Company”	Billion Industrial Holdings Limited (百宏實業控股有限公司), a limited liability company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange
“Director(s)”	director(s) of the Company

“DTY”	drawn textured yarn, a type of polyester filament yarn which has, among other qualities, good resistance to abrasion and elasticity. It is typically used to produce high-end sportswear, sport shoes and home furnishing textiles
“FDY”	fully draw yarn, a type of polyester filament yarn which has, among other qualities, good fabric strength. It is typically used to produce high-end undergarments, high-end sportswear and home furnishing textile
“Group”	the Company and its subsidiaries
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vietnam Purchase Agreement”	the purchase agreement entered into by Baikai Vietnam and Billion Vietnam dated 15 August 2019, in relation to the purchase of paper boxes, rolls and polyfoam boards by Billion Vietnam from Baikai Vietnam
“Vietnam Sales Agreement”	the sales agreement entered into by Baikai Vietnam and Billion Vietnam dated 15 August 2019, in relation to the sales of DTY, FDY and POY by Billion Vietnam to Baikai Vietnam

By Order of the Board  
**Billion Industrial Holdings Limited**  
**Sze Tin Yau**  
*Co-Chairman*

Hong Kong, 15 August 2019

*As at the date of this announcement, the Board comprises Mr. Sze Tin Yau and Mr. Wu Jinbiao as executive directors, Mr. Zhang Shengbai as non-executive director and Mr. Chan Shek Chi, Mr. Lin Jian Ming and Mr. Shih Chun Pi as independent non-executive directors.*

\* *For identification purposes only*