

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 TRANSACTIONS RENEWAL OF SALES AGREEMENTS AND PURCHASE AND PROCESSING AGREEMENTS

Reference is made to the announcements of the Company dated 11 December 2017 and 15 August 2019 (the “**Announcements**”) in respect of the Existing Sales Agreements and the Existing Purchase and Processing Agreements.

RENEWAL OF EXISTING SALES AGREEMENTS AND EXISTING PURCHASE AND PROCESSING AGREEMENTS

As disclosed in the Announcements, the Existing Sales Agreements and the Existing Purchase and Processing Agreements will expire on 31 December 2020.

As the Group intends to carry on the continuing connected transactions under the Existing Sales Agreements and the Existing Purchase and Processing Agreements after 31 December 2020 due to business requirement, on 10 December 2020 (after trading hours), Billion Fujian, Billion High-tech and Billion Vietnam (as the case may be), indirect wholly-owned subsidiaries of the Company, entered into the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements to renew the aforesaid agreements. The principal terms of each of the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements are substantially the same as the relevant Existing Sales Agreements and Existing Purchase and Processing Agreements.

2021 SALES AGREEMENTS

(1) 2021 Sales Agreement I

The 2021 Sales Agreement I was entered into on 10 December 2020 between Billion Fujian and Baikai Elastic Weaving with a term of three years from 1 January 2021 to 31 December 2023 and an annual cap for each of the years ending 31 December 2021, 2022 and 2023 being RMB348,000,000.

(2) 2021 Sales Agreement II

The 2021 Sales Agreement II was entered into on 10 December 2020 between Billion Fujian and Baikai Wrap Knitting with a term of three years from 1 January 2021 to 31 December 2023 and an annual cap for each of the years ending 31 December 2021, 2022 and 2023 being RMB410,000,000.

(3) 2021 Sales Agreement III

The 2021 Sales Agreement III was entered into on 10 December 2020 between Billion Fujian and Baikai Textile with a term of three years from 1 January 2021 to 31 December 2023 and an annual cap for each of the years ending 31 December 2021, 2022 and 2023 being RMB369,000,000.

(4) 2021 Sales Agreement IV

The 2021 Sales Agreement IV was entered into on 10 December 2020 between Billion Fujian and Baikai Zipper with a term of three years from 1 January 2021 to 31 December 2023 and an annual cap for each of the years ending 31 December 2021, 2022 and 2023 being RMB6,650,000.

(5) 2021 Sales Agreement V

The 2021 Sales Agreement V was entered into on 10 December 2020 between Billion Vietnam and Baikai Vietnam with a term of three years from 1 January 2021 to 31 December 2023 and an annual cap for each of the years ending 31 December 2021, 2022 and 2023 being RMB15,000,000.

2021 PURCHASE AND PROCESSING AGREEMENTS

(1) 2021 Purchase and Processing Agreement I

The 2021 Purchase Agreement I and the 2021 Processing Agreement I were entered into on 10 December 2020 between Billion Fujian and Baikai Paper each with a term of three years from 1 January 2021 to 31 December 2023. The aggregated annual cap for the transactions under the 2021 Purchase Agreement I and the 2021 Processing Agreement I for each of the years ending 31 December 2021, 2022 and 2023 is RMB496,000,000, RMB499,000,000 and RMB499,000,000, respectively.

(2) 2021 Purchase and Processing Agreement II

The 2021 Purchase Agreement II and the 2021 Processing Agreement II were entered into on 10 December 2020 between Billion High-tech and Baikai Paper each with a term of three years from 1 January 2021 to 31 December 2023. The aggregated annual cap for the transactions under the 2021 Purchase Agreement II and the 2021 Processing Agreement II for each of the years ending 31 December 2021, 2022 and 2023 is RMB38,000,000, RMB44,000,000 and RMB60,000,000, respectively.

(3) 2021 Purchase Agreement III

The 2021 Purchase Agreement III was entered into on 10 December 2020 between Billion Vietnam and Baikai Vietnam with a term of three years from 1 January 2021 to 31 December 2023. The aggregated annual cap for the transactions under the 2021 Purchase Agreement III for each of the years ending 31 December 2021, 2022 and 2023 is RMB93,000,000.

CONNECTED RELATIONSHIP BETWEEN THE PARTIES

Baikai Vietnam is a wholly foreign-owned subsidiary of Baikai Wrap Knitting, and each of Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper and Baikai Paper is a wholly foreign-owned subsidiary of Baikai H.K., which in turn is wholly-owned by Mr. Lin, who is a brother-in-law of both Mr. Sze Tin Yau and Mr. Wu Jinbiao, both being executive Directors. Mr. Lin controls the exercise of 100% of the voting power at general meetings and is the sole director of Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper, Baikai Paper and Baikai Vietnam. Accordingly, each of Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper, Baikai Paper and Baikai Vietnam is an associate of Mr. Sze Tin Yau and Mr. Wu Jinbiao, and therefore a connected person of the Company.

Accordingly, the transactions under the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

IMPLICATIONS UNDER THE LISTING RULES

As the products to be provided by the Group under the 2021 Sales Agreements to Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper and Baikai Vietnam are of the same nature and the relevant counterparties to such agreements are controlled by the same ultimate shareholder, namely, Mr. Lin, the sales arrangements under the 2021 Sales Agreements are aggregated pursuant to Rule 14A.81 of the Listing Rules. The applicable percentage ratios of the transactions under such agreements in aggregate, on an annual basis, exceed 5%, and the aggregated annual cap for each of three years ending 31 December 2021, 2022 and 2023 is more than HK\$10 million.

As the products and services to be provided to the Group under the 2021 Purchase and Processing Agreements are of the same nature and the relevant counterparties to such agreements are the same, the purchase and process arrangements under the 2021 Purchase and Processing Agreements are aggregated pursuant to Rule 14A.81 of the Listing Rules.

The applicable percentage ratios of the transactions under such agreements in aggregate, on an annual basis, exceed 5%, and the aggregated annual cap for each of three years ending 31 December 2021, 2022 and 2023 is more than HK\$10 million.

Therefore, the transactions contemplated under the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements are subject to the reporting, announcement and shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will hold the EGM to approve the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements and the proposed annual caps for the continuing connected transactions contemplated thereunder.

The Independent Board Committee has been formed to consider and advise the Independent Shareholders as to whether the terms of the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements, and the respective annual caps for the transactions thereunder for each of the three years ending 31 December 2021, 2022 and 2023 are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders as to how to vote at the EGM. In this regard, Dongxing Securities (Hong Kong) Company Limited has been appointed as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

A circular containing, among other things, (1) details of the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements; (2) the recommendation of the Independent Board Committee; (3) the advice of the Independent Financial Adviser; and (4) a notice of the EGM, will be despatched to the Shareholders on or about 15 January 2021, as additional time is required to prepare and finalise the information to be included in the circular, such as the letter from the Board and the letter of advice from the Independent Financial Adviser.

Reference is made to the announcements of the Company dated 11 December 2017 and 15 August 2019 (the “**Announcements**”) in respect of the Existing Sales Agreements and the Existing Purchase and Processing Agreements.

RENEWAL OF EXISTING SALES AGREEMENTS AND EXISTING PURCHASE AND PROCESSING AGREEMENTS

As disclosed in the Announcements, the Existing Sales Agreements and the Existing Purchase and Processing Agreements will expire on 31 December 2020. As the Group intends to carry on the continuing connected transactions under the Existing Sales Agreements and the Existing Purchase and Processing Agreements after 31 December 2020 due to business requirement, on 10 December 2020 (after trading hours), Billion Fujian, Billion High-tech and Billion Vietnam (as the case may be), indirect wholly-owned subsidiaries of the Company, entered into the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements to renew the aforesaid agreements. The principal terms of each of the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements are substantially the same as the relevant Existing Sales Agreements and Existing Purchase and Processing Agreements.

2021 SALES AGREEMENTS

(1) 2021 Sales Agreement I

Background

As disclosed in the Announcements, Billion Fujian, an indirect wholly-owned subsidiary of the Company, entered into the Existing Sales Agreement I with Baikai Elastic Weaving on 11 December 2017, pursuant to which Billion Fujian agreed to sell DTY, FDY and POY to Baikai Elastic Weaving for a term of three years ending on 31 December 2020.

Principal Terms of the 2021 Sales Agreement I

On 10 December 2020, Billion Fujian and Baikai Elastic Weaving entered into the 2021 Sales Agreement I, principal terms of which are set out below:

- Subject Matter:** Pursuant to the 2021 Sales Agreement I, Billion Fujian agreed to provide DTY, FDY and POY to Baikai Elastic Weaving, 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 cap of the transaction amount under the 2021 Sales Agreement I for each of the three years ending 31 December 2021, 2022 and 2023 represents a 0.2% increase over the expected transaction amount for the year ending 31 December 2020, being RMB348,000,000. The above annual caps are determined based on (i) the actual sales made to Baikai Elastic Weaving in the years ended 31 December 2018, 2019 and the ten months ended 31 October 2020; (ii) the prevailing market prices of similar products and major raw materials; (iii) the estimated production capacity of Billion Fujian for the years 2021, 2022 and 2023; and (iv) the anticipated steady demand of Baikai Elastic Weaving for relevant polyester filament yarns products in 2021, 2022 and 2023.
- Term:** The 2021 Sales Agreement I will become effective upon approval by the Independent Shareholders, and is for a term of three years from 1 January 2021 to 31 December 2023 and renewable for a further term of three years at the option of Billion Fujian subject to compliance with applicable requirements of the Listing Rules.

(2) 2021 Sales Agreement II

Background

As disclosed in the Announcements, Billion Fujian and Baikai Wrap Knitting entered into the Existing Sales Agreement II on 11 December 2017, pursuant to which Billion Fujian agreed to sell DTY and FDY to Baikai Wrap Knitting for a term of three years ending on 31 December 2020.

Principal Terms of the 2021 Sales Agreement II

On 10 December 2020, Billion Fujian and Baikai Wrap Knitting entered into the 2021 Sales Agreement II, principal terms of which are set out below:

Subject Matter: Pursuant to the 2021 Sales Agreement II, Billion Fujian agreed to provide DTY and FDY to Baikai Wrap Knitting, 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 cap of the transaction amount under the 2021 Sales Agreement II for each of the three years ending 31 December 2021, 2022 and 2023 represents a 1.2% increase over the expected transaction amount for the year ending 31 December 2020, being RMB410,000,000. The above annual caps are determined based on (i) the actual sales made to Baikai Wrap Knitting in the years ended 31 December 2018, 2019 and the ten months ended 31 October 2020; (ii) the prevailing market prices of similar products and major raw materials; (iii) the estimated production capacity of Billion Fujian for the years 2021, 2022 and 2023; and (iv) the anticipated steady demand of Baikai Wrap Knitting for relevant polyester filament yarns products in 2021, 2022 and 2023.

Term: The 2021 Sales Agreement II will become effective upon approval by the Independent Shareholders, and is for a term of three years from 1 January 2021 to 31 December 2023 and renewable for a further term of three years at the option of Billion Fujian subject to compliance with applicable requirements of the Listing Rules.

(3) 2021 Sales Agreement III

Background

As disclosed in the Announcements, Billion Fujian and Baikai Textile entered into the Existing Sales Agreement III on 11 December 2017, pursuant to which Billion Fujian agreed to sell PET chips, POY and spin finish oil to Baikai Textile for a term of three years ending on 31 December 2020.

Principal Terms of the 2021 Sales Agreement III

On 10 December 2020, Billion Fujian and Baikai Textile entered into the 2021 Sales Agreement III, principal the terms of which are set out below:

Subject Matter: Pursuant to the 2021 Sales Agreement III, Billion Fujian agreed to provide PET chips, POY and spin finish oil to Baikai Textile, 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 cap of the transaction amount under the 2021 Sales Agreement III for each of the three years ending 31 December 2021, 2022 and 2023 represents a 1.2% increase over the expected transaction amount for the year ending 31 December 2020, being RMB369,000,000. The above annual caps are determined based on (i) the actual sales made to Baikai Textile in the years ended 31 December 2018, and 2019 and the ten months ended 31 October 2020; (ii) the prevailing market prices of similar products; (iii) the estimated production capacity of Billion Fujian for the years 2021, 2022 and 2023; and (iv) the anticipated steady demand of Baikai Textile for relevant polyester filament yarns products in 2021, 2022 and 2023.

Term: The 2021 Sales Agreement III will become effective upon approval by the Independent Shareholders, and is for a term of three years from 1 January 2021 to 31 December 2023 and renewable for a further term of three years at the option of Billion Fujian subject to compliance with applicable requirements of the Listing Rules.

(4) 2021 Sales Agreement IV

Background

As disclosed in the Announcements, Billion Fujian and Baikai Zipper entered into the Existing Sales Agreement IV on 11 December 2017, pursuant to which Billion Fujian agreed to sell DTY to Baikai Zipper for a term of three years ending on 31 December 2020.

Principal Terms of the 2021 Sales Agreement IV

On 10 December 2020, Billion Fujian and Baikai Zipper entered into the 2021 Sales Agreement IV, principal terms of which are set out below:

Subject Matter: Pursuant to the 2021 Sales Agreement IV, Billion Fujian agreed to provide DTY to Baikai Zipper, 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 cap of the transaction amounts under the 2021 Sales Agreement IV for each of the three years ending 31 December 2021, 2022 and 2023 represents a 6.3% increase over the expected transaction amount for the year ending 31 December 2020, being RMB6,650,000. The above annual caps are determined based on (i) the actual sales made to Baikai Zipper in the years ended 31 December 2018, and 2019 and the ten months ended 31 October 2020; (ii) the estimated production capacity of Billion Fujian for the years 2021, 2022 and 2023; (iii) the prevailing market prices of similar products and major raw materials; and (iv) the anticipated steady demand of Baikai Zipper for relevant product in 2021, 2022 and 2023.

Term: The 2021 Sales Agreement IV will become effective upon approval by the Independent Shareholders, and is for a term of three years from 1 January 2021 to 31 December 2023 and renewable for a further term of three years at the option of Billion Fujian subject to compliance with applicable requirements of the Listing Rules.

(5) 2021 Sales Agreement V

Background

As disclosed in the Announcements, Billion Vietnam and Baikai Vietnam entered into the Existing Sales Agreement V on 15 August 2019, pursuant to which Billion Vietnam agreed to sell DTY and FDY to Baikai Vietnam for a term with effect from 15 August 2019 to 31 December 2020.

Principal Terms of the 2021 Sales Agreement V

On 10 December 2020, Billion Vietnam and Baikai Vietnam entered into the 2021 Sales Agreement V, principal terms of which are set out below:

Subject Matter: Pursuant to the 2021 Sales Agreement V, 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 Vietnam sells to other independent customers.

Annual Caps: The annual cap of the transaction amounts under the 2021 Sales Agreement V for each of the three years ending 31 December 2021, 2022 and 2023 is RMB15,000,000, representing a 4.1 times increase over the expected transaction amount for the year ending 31 December 2020. The above annual caps are determined based on (i) the actual sales made to Baikai Vietnam in the five months ended 31 December 2019 and the ten months ended 31 October 2020; (ii) the prevailing market prices of similar products; (iii) the estimated production capacity of Billion Vietnam for the years 2021, 2022 and 2023 and (iv) the anticipated steady demand of Baikai Vietnam and the Vietnam market for relevant product in 2021, 2022 and 2023.

Term: The 2021 Sales Agreement V will become effective upon approval by the Independent Shareholders, and is for a term of three years from 1 January 2021 to 31 December 2023 and renewable for a further term of three years at the option of Billion Vietnam subject to compliance with applicable requirements of the Listing Rules.

ANNUAL CAPS OF THE 2021 SALES AGREEMENTS

Historical Transaction Values and Annual Caps

The aggregated historical transaction values of the continuing connected transactions under the Existing Sales Agreements of the Group for the two previous financial years ended 31 December 2018, and 2019 and the ten months ended 31 October 2020 according to the unaudited management accounts of the Group and the approved aggregated annual caps for the three years ending 31 December 2020 are as follows:

	Year ended 31 December 2018 (RMB)	Year ended 31 December 2019 (RMB)	Ten months ended 31 October 2020 (RMB)	Year ending 31 December 2020 (RMB)
Aggregated transaction amount	771,129,000	1,014,343,000	1,001,815,000	N/A
Approved aggregated annual cap	<u>1,133,650,000</u>	<u>1,135,980,000</u>	<u>N/A</u>	<u>1,142,980,000</u>

Proposed Annual Caps

Due to the reasons set out below, the transactions under each of the 2021 Sales Agreements should be aggregated pursuant to Rule 14A.81 of the Listing Rules. As such, the proposed annual caps for the transactions contemplated under such agreements in aggregate for the three years ending 31 December 2021, 2022 and 2023 will be as follows:

	Year ending 31 December 2021 (RMB)	Year ending 31 December 2022 (RMB)	Year ending 31 December 2023 (RMB)
Proposed annual cap	<u>1,148,650,000</u>	<u>1,148,650,000</u>	<u>1,148,650,000</u>

The basis for determining the annual caps in each of the 2021 Sales Agreements has been set out above.

2021 PURCHASE AND PROCESSING AGREEMENTS

2021 Purchase and Processing Agreements I

Background

As disclosed in the Announcements, Billion Fujian and Baikai Paper entered into the following agreements on 11 December 2017 each for a term of three years ending on 31 December 2020:

- (1) the Existing Purchase Agreement I, pursuant to which Baikai Paper agreed to provide paper boxes and rolls and polyfoam boards to Billion Fujian; and
- (2) the Existing Processing Agreement I, pursuant to which Baikai Paper agreed to provide processing services related to paper boxes and rolls to Billion Fujian.

Principal Terms of the 2021 Purchase and Processing Agreements I

On 10 December 2020, Billion Fujian and Baikai Paper entered into the 2021 Purchase and Processing Agreements I. Principal terms of these agreements are set out below:

Subject Matter: Pursuant to the 2021 Purchase and Processing Agreements I, Baikai Paper agreed to provide paper boxes, rolls and polyfoam boards and related processing services to Billion Fujian, under each case 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 or services that Billion Fujian pays to other independent suppliers.

Annual Caps: The aggregated annual cap of the transaction amounts under the 2021 Purchase and Processing Agreements I for each of the years ending 31 December 2021, 2022 and 2023 is RMB496,000,000, RMB499,000,000 and RMB499,000,000, representing a 77.0%, 78.0% and 78.0% increase over the expected transaction amount for the year ending 31 December 2020. The above annual caps are determined based on (i) the actual transaction amount Billion Fujian paid to Baikai Paper in the years ended 31 December 2018, 2019 and the ten months ended 31 October 2020; (ii) the fact that the factories of Baikai Paper and Billion Fujian are located in close proximity which reduces the delivery costs to the maximum extent; (iii) the estimated volume required by Billion Fujian for 2021, 2022 and 2023; (iv) the prevailing market prices of similar products; and (v) the anticipated stable demand for Baikai Paper's products in 2021, 2022 and 2023.

Term: Each of the 2021 Purchase and Processing Agreements I will become effective upon approval by the Independent Shareholders, and is for a term of three years from 1 January 2021 to 31 December 2023 and renewable for a further term of three years at the option of Billion Fujian subject to compliance with applicable requirements of the Listing Rules.

2021 Purchase and Processing Agreements II

Background

As disclosed in the Announcements, Billion High-tech and Baikai Paper entered into the following agreements on 11 December 2017 each for a term of three years ending on 31 December 2020:

- (1) the Existing Purchase Agreement II, pursuant to which Baikai Paper agreed to provide paper boxes and rolls to Billion High-tech; and
- (2) the Existing Processing Agreement II, pursuant to which Baikai Paper agreed to provide processing services related to paper boxes and rolls to Billion High-tech.

Principal Terms of the 2021 Purchase and Processing Agreements II

On 10 December 2020, Billion High-tech and Baikai Paper entered into the 2021 Purchase and Processing Agreements II. Principal terms of these agreements are set out below:

Subject Matter: Pursuant to the 2021 Purchase and Processing Agreements II, Baikai Paper agreed to provide paper boxes and rolls and related processing services to Billion High-tech, under each case 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 or services that Billion High-tech pays to other independent suppliers.

Annual Caps: The aggregated annual cap of the transaction amounts under the 2021 Purchase and Processing Agreements II for each of the years ending 31 December 2021, 2022 and 2023 is RMB38,000,000, RMB44,000,000 and RMB60,000,000, respectively, representing a 2.0 times, 2.5 times and 3.7 times increase over the expected transaction amount for the year ending 31 December 2020. The above annual caps are determined based on (i) the actual transaction amount Billion High-tech paid to Baikai Paper in the years ended 31 December 2018, and 2019 and the ten months ended 31 October 2020; (ii) the fact that the factories of Baikai Paper and Billion High-tech are located in close proximity which reduces the delivery costs to the maximum extent; (iii) the estimated increase in volume required by Billion High-tech for 2021, 2022 and 2023 given its expansion of production capacity by 94.3%, 1.3 times and 1.9 times in 2021, 2022 and 2023, respectively compared to current production capacity in 2020; (iv) the prevailing market prices of similar products; and (v) the anticipated increasing demand for Baikai Paper's products over the 3 years from 2021 to 2023.

Term: Each of the 2021 Purchase and Processing Agreements II will become effective upon approval by the Independent Shareholders, and is for a term of three years from 1 January 2021 to 31 December 2023 and renewable for a further term of three years at the option of Billion High-tech subject to compliance with applicable requirements of the Listing Rules.

(3) 2021 Purchase Agreement III

Background

As disclosed in the Announcements, Billion Vietnam and Baikai Vietnam entered into the Existing Purchase Agreement III on 15 August 2019, pursuant to which Baikai Vietnam agreed to provide paper boxes, rolls and polyfoam boards to Billion Vietnam for a term with effect from 15 August 2019 to 31 December 2020.

Principal Terms of the 2021 Purchase Agreement III

On 10 December 2020, Billion Vietnam and Baikai Vietnam entered into the 2021 Purchase Agreement III, principal terms of which are set out below:

Subject Matter: Pursuant to the 2021 Purchase Agreement III, 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 2021 Purchase Agreement III for each of the three years ending 31 December 2021, 2022 and 2023 is RMB93,000,000, representing a 1.3 times increase over the expected transaction amount for the year ending 31 December 2020. The above annual caps are determined based on (i) the actual transaction amount Billion Vietnam paid to Baikai Vietnam in the five months ended 31 December 2019 and the ten months ended 31 October 2020; (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 stable demand for Baikai Vietnam's products in 2021, 2022 and 2023.

Term: The 2021 Purchase Agreement III will become effective upon approval by the Independent Shareholders, and is for a term of three years from 1 January 2021 to 31 December 2023 and renewable for a further term of three years at the option of Billion Vietnam subject to compliance with applicable requirements of the Listing Rules.

ANNUAL CAPS OF THE 2021 PURCHASE AND PROCESSING AGREEMENTS

Historical Transaction Values and Annual Caps

The aggregated historical transaction values of the continuing connected transactions under the Existing Purchase and Processing Agreements of the Group for the two previous financial years ended 31 December 2018, and 2019 and the ten months ended 31 October 2020 according to the unaudited management accounts of the Group and the approved aggregated annual caps for the three years ending 31 December 2020 are as follows:

	Year ended 31 December 2018 (RMB)	Year ended 31 December 2019 (RMB)	Ten months ended 31 October 2020 (RMB)	Year ending 31 December 2020 (RMB)
Aggregated transaction amount	331,520,000	333,898,000	282,785,000	N/A
Approved aggregated annual cap	<u>489,000,000</u>	<u>603,840,000</u>	<u>N/A</u>	<u>697,510,000</u>

Proposed Annual Caps

Due to the reasons set out below, the transactions under the 2021 Purchase and Processing Agreements should be aggregated pursuant to Rule 14A.81 of the Listing Rules. As such, the proposed annual caps for the transactions contemplated under such agreements in aggregate for the three years ending 31 December 2021, 2022 and 2023 are as follows:

	Year ending 31 December 2021 (RMB)	Year ending 31 December 2022 (RMB)	Year ending 31 December 2023 (RMB)
Proposed annual cap	<u>627,000,000</u>	<u>636,000,000</u>	<u>652,000,000</u>

The basis for determining the aggregated annual caps for the transactions under the 2021 Purchase and Processing Agreements has been set out above.

PRICING POLICY AND INTERNAL CONTROL

The basis of determining the prices of the products or services to be supplied to or purchased by the Group under each of the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements 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 or services, taking into account the price of the same or substantially similar products or services with comparable order quantities and quality offered to/by other purchasers, suppliers or processing service providers (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 or services with comparable quantities.

Given that none of the products or services under the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements has a fixed unit price or standard price, or has a published reference price, in determining the prevailing market price for the products or services for a particular contract, the Group will:

- (a) in respect of sale of products to each of Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper and 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 prices contained therein, for the products to be supplied by the Group under each of the 2021 Sales Agreements have to be reviewed and approved by the manager of the Sales and Marketing Department (營銷部) and the manager of the Costing Department (成本核算部) of Billion Fujian and Billion Vietnam (as the case may be) and under certain circumstances, such as a modification of the selling price due to quality-related issues or orders involving new products of Billion Fujian and Billion Vietnam, by the Costing Committee (成本研究委員會) of the Group as well; and

- (b) in respect of procurement of products and services from Baikai Paper and Baikai Vietnam, invite quotations from at least two independent suppliers to get a reference on the prevailing market prices for the relevant products or services 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 Paper and Baikai Vietnam to ensure that the products or services to be procured from Baikai Paper and Baikai Vietnam are comparable to the prices and terms for such products or services being offered by independent third parties. The Group will, based on the initial quotations from Baikai Paper and 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 Paper and Baikai Vietnam and procurements will only be made from Baikai Paper and 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 or services to be purchased by the Group under each of the 2021 Purchase and Processing Agreements have to be reviewed and approved by the manager of the Procurement Department (採購部) of Billion Fujian or Billion High-tech or Billion Vietnam (as the case may be).

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 Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper and Baikai Vietnam have to strictly adhere to the pricing policy of the Group, and that procurements of the Group from Baikai Paper and 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.

CONNECTED RELATIONSHIP BETWEEN THE PARTIES

Baikai Vietnam is a wholly foreign-owned subsidiary of Baikai Wrap Knitting, and each of Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper and Baikai Paper is a wholly foreign-owned subsidiary of Baikai H.K., which in turn is wholly-owned by Mr. Lin, who is a 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 Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper, Baikai Paper and Baikai Vietnam. Accordingly, each of Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper, Baikai Paper and Baikai Vietnam is an associate of Mr. Sze Tin Yau and Mr. Wu Jinbiao, and therefore a connected person of the Company.

Accordingly, the transactions under the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

REASONS FOR AND BENEFITS OF THE 2021 SALES AGREEMENTS AND THE 2021 PURCHASE AND PROCESSING AGREEMENTS

The transactions to be conducted under the 2021 Sales Agreements will increase the overall revenue of the Group; therefore, it is beneficial for the Group to enter into such agreements.

The paper boxes, rolls and polyfoam boards produced or processed by Baikai Paper and Baikai Vietnam are of high quality and are suitable for the use of the Group and the production base of Baikai Paper and Baikai Vietnam is in close proximity to the Group, 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 2021 Purchase and Processing Agreements with Baikai Paper and Baikai Vietnam.

The Directors (excluding the independent non-executive Directors whose views will be set out in the circular to be sent to the Shareholders) consider that the terms of the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements have been entered into on normal commercial terms and in the ordinary course of business of the Group, and are fair and reasonable and in the interests of the Shareholders as a whole.

INFORMATION ON BILLION FUJIAN, BILLION HIGH-TECH, BILLION VIETNAM, THE GROUP AND THE CONNECTED PERSONS

Billion Fujian is an indirectly wholly-owned subsidiary of the Company. It is primarily engaged in the business of developing, manufacturing and selling regular and differentiated polyester filament yarns in the PRC.

Billion High-tech is an indirect wholly-owned subsidiary of the Company. It is primarily engaged in the business of manufacturing and selling of multi-functional BOPET.

Billion Vietnam is an indirectly wholly-owned subsidiary of the Company. It is primarily engaged in the business of developing, manufacturing and selling polyester bottle chip and polyester filament yarns in 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. The Group also produces partially oriented POY, which may be used as a raw material for the DTY or sold separately to the customers of the Group.

Baikai Elastic Weaving is primarily engaged in the business of manufacturing fabric, weave belt, knit products and high-end textile.

Baikai Wrap Knitting is primarily engaged in the business of weaving, dyeing and processing high-end knit fabric.

Baikai Textile is primarily engaged in the business of manufacturing DTY, chemical fabric, clothing and accessories of clothing.

Baikai Zipper is primarily engaged in the business of manufacturing zippers, hardware die cast products and clothing.

Baikai Paper is primarily engaged in the business of manufacturing paper boxes, rolls and polyfoam boards.

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

IMPLICATIONS UNDER THE LISTING RULES

As the products to be provided by the Group under the 2021 Sales Agreements to Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper and Baikai Vietnam are of the same nature and the relevant counterparties to such agreements are controlled by the same ultimate shareholder, namely, Mr. Lin, the sales arrangements under the 2021 Sales Agreements are aggregated pursuant to Rule 14A.81 of the Listing Rules. The applicable percentage ratios of the transactions under such agreements in aggregate, on an annual basis, exceed 5%, and the aggregated annual cap for each of three years ending 31 December 2021, 2022 and 2023 is more than HK\$10 million.

As the products and services to be provided to the Group under the 2021 Purchase and Processing Agreements are of the same nature and the relevant counterparties to such agreements are the same, the purchase and process arrangements under the 2021 Purchase and Processing Agreements are aggregated pursuant to Rule 14A.81 of the Listing Rules.

The applicable percentage ratios of the transactions under such agreements in aggregate, on an annual basis, exceed 5%, and the aggregated annual cap for each of three years ending 31 December 2021, 2022 and 2023 is more than HK\$10 million.

Therefore, the transactions contemplated under the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements are subject to the reporting, announcement and shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will hold the EGM to approve the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements and the proposed annual caps for the continuing connected transactions contemplated thereunder.

The Independent Board Committee has been formed to consider and advise the Independent Shareholders as to whether the terms of the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements, and the respective annual caps for the transactions thereunder for each of the three years ending 31 December 2021, 2022 and 2023 are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders as to how to vote at the EGM. In this regard, Dongxing Securities (Hong Kong) Company Limited has been appointed as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

A circular containing, among other things, (1) details of the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements; (2) the recommendation of the Independent Board Committee; (3) the advice of the Independent Financial Adviser; and (4) a notice of the EGM, will be despatched to the Shareholders on or about 15 January 2021, as additional time is required to prepare and finalise the information to be included in the circular, such as the letter from the Board and the letter of advice from the Independent Financial Adviser..

DEFINITIONS

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

“2021 Processing Agreement I”	the processing agreement entered into by Baikai Paper and Billion Fujian dated 10 December 2020, in relation to the provision of processing services of paper boxes, rolls and polyfoam boards by Baikai Paper to Billion Fujian
“2021 Processing Agreement II”	the processing agreement entered into by Baikai Paper and Billion High-tech dated 10 December 2020, in relation to the provision of processing services related to paper boxes and rolls by Baikai Paper to Billion High-tech
“2021 Purchase Agreement I”	the purchase agreement entered into by Baikai Paper and Billion Fujian dated 10 December 2020, in relation to the purchase of paper boxes, rolls and polyfoam boards by Billion Fujian from Baikai Paper
“2021 Purchase Agreement II”	the purchase agreement entered into by Baikai Paper and Billion High-tech dated 10 December 2020, in relation to the purchase of paper boxes and rolls by Billion High-tech from Baikai Paper
“2021 Purchase Agreement III”	the purchase agreement entered into by Baikai Vietnam and Billion Vietnam dated 10 December 2020, in relation to the purchase of paper boxes, rolls and polyfoam boards by Billion Vietnam from Baikai Vietnam
“2021 Purchase and Processing Agreements”	the 2021 Purchase and Processing Agreements I, the 2021 Purchase and Processing Agreements II and the 2021 Purchase Agreement III
“2021 Purchase and Processing Agreements I”	the 2021 Purchase Agreement I and the 2021 Processing Agreement I
“2021 Purchase and Processing Agreements II”	the 2021 Purchase Agreement II and the 2021 Processing Agreement II

“2021 Sales Agreements”	the 2021 Sales Agreement I, the 2021 Sales Agreement II, the 2021 Sales Agreement III, the 2021 Sales Agreement IV and the 2021 Sales Agreement V
“2021 Sales Agreement I”	the sales agreement entered into by Baikai Elastic Weaving and Billion Fujian dated 10 December 2020, in relation to the sales of DTY, FDY and POY by Billion Fujian to Baikai Elastic Weaving
“2021 Sales Agreement II”	the sales agreement entered into by Baikai Wrap Knitting and Billion Fujian dated 10 December 2020, in relation to the sales of DTY and FDY by Billion Fujian to Baikai Wrap Knitting
“2021 Sales Agreement III”	the sales agreement entered into by Baikai Textile and Billion Fujian dated 10 December 2020, in relation to the sales of PET chips, POY and spin finish oil by Billion Fujian to Baikai Textile
“2021 Sales Agreement IV”	the sales agreement entered into by Baikai Zipper and Billion Fujian dated 10 December 2020, in relation to the sales of DTY by Billion Fujian to Baikai Zipper
“2021 Sales Agreement V”	the sales agreement entered into by Baikai Vietnam and Billion Vietnam dated 10 December 2020, in relation to the sales of DTY, FDY and POY by Billion Vietnam to Baikai Vietnam
“Baikai Elastic Weaving”	Fujian Baikai Elastic Weaving Co., Ltd.* (福建省百凱彈性織造有限公司), a limited liability company established under the laws of the PRC on 14 April 1997 and a wholly-owned subsidiary of Baikai H.K.
“Baikai H.K.”	Baikai (HK) Industrial Limited (百凱(香港)實業有限公司), a company incorporated in Hong Kong with limited liability on 3 June 2008. Baikai H.K. is wholly-owned by Mr. Lin
“Baikai Paper”	Fujian Baikai Paper Co., Ltd.* (福建百凱紙品有限公司), a limited liability company established under the laws of the PRC on 13 June 2001 and a wholly-owned subsidiary of Baikai H.K.

“Baikai Textile”	Fujian Baikai Textile Chemical Fiber Industry Co., Ltd.* (福建百凱紡織化纖實業有限公司), a limited liability company established under the laws of the PRC on 18 May 2000 and a wholly-owned subsidiary of Baikai H.K.
“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 H.K.
“Baikai Zipper”	Fujian Baikai Zipper Dress Co., Ltd.* (福建省百凱拉鍊服飾有限公司), a limited liability company established under the laws of the PRC on 30 January 2002 and a wholly-owned subsidiary of Baikai H.K.
“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 High-tech”	Fujian Billion High-tech Material Industrial Co, Ltd.* (福建百宏高新材料實業有限公司), 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
“BOPET”	Biaxially-oriented polyethylene terephthalate, a polyester film made from stretched PET and is used for its high tensile strength, chemical and dimensional stability, transparency, reflectivity, environmentally-friendly properties, gas and aroma barrier properties and electrical insulation

“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
“EGM”	an extraordinary general meeting of the Company to be convened to approve the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements
“Existing Processing Agreement I”	the processing agreement entered into by Baikai Paper and Billion Fujian dated 11 December 2017, in relation to the provision of processing services of paper boxes, rolls and polyfoam boards by Baikai Paper to Billion Fujian
“Existing Processing Agreement II”	the processing agreement entered into by Baikai Paper and Billion High-tech dated 11 December 2017, in relation to the processing of paper boxes and rolls by Billion High-tech from Baikai Paper
“Existing Purchase Agreement I”	the purchase agreement entered into by Baikai Paper and Billion Fujian dated 11 December 2017, in relation to the purchase of paper boxes, rolls and polyfoam boards by Billion Fujian from Baikai Paper
“Existing Purchase Agreement II”	the purchase agreement entered into by Baikai Paper and Billion High-tech dated 11 December 2017, in relation to the purchase of paper boxes and rolls by Billion High-tech from Baikai Paper
“Existing Purchase Agreement III”	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

“Existing Purchase and Processing Agreements”	the Existing Purchase Agreement I, the Existing Processing Agreement I, the Existing Purchase Agreement II, the Existing Processing Agreement II and the Existing Purchase Agreement III
“Existing Sales Agreement I”	the sales agreement entered into by Baikai Elastic Weaving and Billion Fujian dated 11 December 2017, in relation to the sales of DTY, FDY and POY by Billion Fujian to Baikai Elastic Weaving
“Existing Sales Agreement II”	the sales agreement entered into by Baikai Wrap Knitting and Billion Fujian dated 11 December 2017, in relation to the sales of DTY and FDY by Billion Fujian to Baikai Wrap Knitting
“Existing Sales Agreement III”	the sales agreement entered into by Baikai Textile and Billion Fujian dated 11 December 2017, in relation to the sales of semi-dull PET chips, POY and spin finish oil by Billion Fujian to Baikai Textile
“Existing Sales Agreement IV”	the sales agreement entered into by Baikai Zipper and Billion Fujian dated 11 December 2017, in relation to the sales of DTY by Billion Fujian to Baikai Zipper
“Existing Sales Agreement V”	the sales agreement entered into by Baikai Vietnam and Billion Vietnam dated 15 August 2019, in relation to the sales of DTY and FDY by Billion Vietnam to Baikai Vietnam
“Existing Sales Agreements”	the Existing Sales Agreement I, the Existing Sales Agreement II, the Existing Sales Agreement III, Existing Sales Agreement IV and the Existing Sales Agreement V
“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
“Independent Board Committee”	an independent committee of the Board composed of all independent non-executive Directors, namely Mr. Chan Shek Chi, Mr. Lin Jian Ming and Mr. Shih Chun Pi
“Independent Financial Adviser”	Dongxing Securities (Hong Kong) Company Limited, a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and Independent Shareholders in relation to the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements
“Independent Shareholders”	the Shareholders who are not required to abstain from voting in respect of the ordinary resolutions proposed for approval at the EGM pursuant to the Listing Rules
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mr. Lin”	Mr. Lin Jinjing, who is a brother-in-law of both Mr. Sze Tin Yau and Mr. Wu Jinbiao, both being executive Directors
“PET”	polyethylene terephthalate, an organic compound which is used in producing polyester filament yarns and other products such as plastic containers and bottles
“POY”	partially oriented yarn, a type of polyester filament yarn which is typically used to produce DTY
“PRC”	the People’s Republic of China

“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

By order of the Board of
Billion Industrial Holding Limited
Sze Tin Yau
Co-chairman

Hong Kong, 10 December 2020

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*