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If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Billion Industrial Holdings Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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 TRANSACTIONS
RENEWAL OF SALES AGREEMENTS AND
PURCHASE AND PROCESSING AGREEMENTS**

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



Dongxing Securities (Hong Kong) Company Limited

A letter from the Board is set out on pages 8 to 26 of this circular.

A letter from the Independent Board Committee (as defined in this circular) containing its advice to the Independent Shareholders (as defined in this circular) is set out on pages 27 to 28 of this circular.

A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 29 to 71 of this circular.

A notice convening the EGM of the Company to be convened and held at 10:00 a.m., on Monday, 1 February 2021 at Unit 1501, Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong is set out on pages 77 to 79 of this circular. A form of proxy for use at the EGM is also enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event by not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so desire.

13 January 2021

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	8
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	27
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	29
APPENDIX – GENERAL INFORMATION	72
NOTICE OF EXTRAORDINARY GENERAL MEETING	77

DEFINITIONS

“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

DEFINITIONS

“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 and FDY by Billion Vietnam to Baikai Vietnam
“Additional Processing Agreement I”	the processing agreement entered into by Baikai Paper and Billion Fujian dated 31 December 2020, in relation to the provision of processing services of paper boxes, rolls and polyfoam boards by Baikai Paper to Billion Fujian
“Additional Processing Agreement II”	the processing agreement entered into by Baikai Paper and Billion High-tech dated 31 December 2020, in relation to the provision of processing services related to paper boxes and rolls by Baikai Paper to Billion High-tech
“Additional Purchase Agreement I”	the purchase agreement entered into by Baikai Paper and Billion Fujian dated 31 December 2020, in relation to the purchase of paper boxes, rolls and polyfoam boards by Billion Fujian from Baikai Paper
“Additional Purchase Agreement II”	the purchase agreement entered into by Baikai Paper and Billion High-tech dated 31 December 2020, in relation to the purchase of paper boxes and rolls by Billion High-tech from Baikai Paper
“Additional Purchase Agreement III”	the purchase agreement entered into by Baikai Vietnam and Billion Vietnam dated 31 December 2020, in relation to the purchase of paper boxes, rolls and polyfoam boards by Billion Vietnam from Baikai Vietnam
“Additional Purchase and Processing Agreements”	the Additional Purchase Agreement I, the Additional Processing Agreement I, the Additional Purchase Agreement II, the Additional Processing Agreement II and the Additional Purchase Agreement III
“Additional Sales Agreement I”	the sales agreement entered into by Baikai Elastic Weaving and Billion Fujian dated 31 December 2020, in relation to the sales of DTY, FDY and POY by Billion Fujian to Baikai Elastic Weaving

DEFINITIONS

“Additional Sales Agreement II”	the sales agreement entered into by Baikai Wrap Knitting and Billion Fujian dated 31 December 2020, in relation to the sales of DTY and FDY by Billion Fujian to Baikai Wrap Knitting
“Additional Sales Agreement III”	the sales agreement entered into by Baikai Textile and Billion Fujian dated 31 December 2020, in relation to the sales of PET chips, POY and spin finish oil by Billion Fujian to Baikai Textile
“Additional Sales Agreement IV”	the sales agreement entered into by Baikai Zipper and Billion Fujian dated 31 December 2020, in relation to the sales of DTY by Billion Fujian to Baikai Zipper
“Additional Sales Agreement V”	the sales agreement entered into by Baikai Vietman and Billion Vietman dated 31 December 2020, in relation to the sales of DTY and FDY by Billion Vietman to Baikai Vietman
“Additional Sales Agreements”	the Additional Sales Agreement I, the Additional Sales Agreement II, the Additional Sales Agreement III, the Additional Sales Agreement IV and Sales Agreement V
“Announcement”	the announcement of the Company dated 10 December 2020
“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

DEFINITIONS

“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 Industry 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 of the Company
“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)”	the 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 and held on 1 February 2021 to approve the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements

DEFINITIONS

“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 to Billion Fujian from Baikai Paper
“Existing Processing Agreement II”	the processing agreement entered into by Baikai Paper and Billion High-tech dated 11 December 2017, in relation to the provision of processing services related to paper boxes and rolls to 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

DEFINITIONS

“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, the 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
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“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
“Latest Practicable Date”	11 January 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“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

DEFINITIONS

“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
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Announcement”	the supplemental announcement of the Company dated 31 December 2020
“%”	per cent.

* *For identification purposes only*

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Sze Tin Yau (*Co-chairman*)

Mr. Wu Jinbiao (*Chief Executive Officer*)

Non-executive Director:

Mr. Zhang Shengbai (*Co-chairman*)

Independent Non-executive Directors:

Mr. Chan Shek Chi

Mr. Lin Jian Ming

Mr. Shih Chun Pi

Registered office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Head office and principal place of
business in Hong Kong:*

Unit 1501

Office Tower Convention Plaza

1 Harbour Road

Wanchai

Hong Kong

13 January 2021

To the Shareholders,

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS RENEWAL OF SALES AGREEMENTS AND PURCHASE AND PROCESSING AGREEMENTS

INTRODUCTION

Reference is made to the Announcement and the Supplemental Announcement.

By way of background, Billion Fujian entered into the 2021 Sales Agreement I, the 2021 Sales Agreement II, the 2021 Sales Agreement III and the 2021 Sales Agreement IV with Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile and Baikai Zipper, respectively, on 10 December 2020, pursuant to which, Billion Fujian agreed to sell various products of the Group to the relevant parties, including DTY, FDY, POY, PET chips and spin finish oil. Each of the 2021 Sales Agreements has also set out the annual caps for the transactions thereunder for the years ending 31 December 2021, 2022 and 2023.

LETTER FROM THE BOARD

On 10 December 2020, Billion Vietnam entered into the 2021 Sales Agreement V with Baikai Vietnam, pursuant to which Billion Vietnam agreed to sell DTY and FDY to Baikai Vietnam. The 2021 Sales Agreement V has also set out the annual caps for the transactions thereunder for the years ending 31 December 2021, 2022 and 2023.

Billion Fujian also entered into the 2021 Purchase Agreement I and 2021 Processing Agreement I with Baikai Paper on 10 December 2020, pursuant to which Baikai Paper agreed to provide paper boxes and rolls, and related processing services to Billion Fujian. The 2021 Purchase and Processing Agreements I have also set out the aggregated annual caps for the transactions thereunder for the years ending 31 December 2021, 2022 and 2023.

On 10 December 2020, Billion High-tech entered into the 2021 Purchase Agreement II and 2021 Processing Agreement II with Baikai Paper, pursuant to which Baikai Paper agreed to provide paper boxes and rolls, and related processing services to Billion High-tech. The 2021 Purchase and Processing Agreements II have also set out the aggregated annual caps for the transactions thereunder for the years ending 31 December 2021, 2022 and 2023.

On 10 December 2020, Billion Vietnam entered into the 2021 Purchase Agreement III with Baikai Vietnam, pursuant to which Baikai Vietnam agreed to provide paper boxes, rolls and polyfoam boards to Billion Vietnam. The 2021 Purchase Agreement III has also set out the aggregated annual caps for the transactions thereunder for the years ending 31 December 2021, 2022 and 2023.

Given that each of the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements will become effective only upon approval by the Independent Shareholders, and that due to business requirement, 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, on 31 December 2020, Billion Fujian, Billion High-tech and Billion Vietnam (as the case may be) entered into the Additional Sales Agreements and the Additional Purchase and Processing Agreements, the terms of each of which are substantially the same as the respective 2021 Sales Agreements and 2021 Purchase and Processing Agreements, for the purpose of carrying out the aforesaid continuing connection transactions during the period from 1 January 2021 until the date of the EGM, i.e. on 1 February 2021.

The purpose of this circular is to provide you with, among other things, (i) details of the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements; (ii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its advice on the aforesaid agreements; (iii) the recommendation of the Independent Board Committee in respect of the aforesaid agreements; and (iv) a notice convening the EGM.

LETTER FROM THE BOARD

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS AND PROPOSED NEW ANNUAL CAPS

1. 2021 Sales Agreements

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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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, 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.

LETTER FROM THE BOARD

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, 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.

LETTER FROM THE BOARD

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 and major raw materials; (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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

Reasons for Entering into the 2021 Sales Agreements

The transactions to be conducted under the 2021 Sales Agreements will increase the overall revenue of the Group. While the terms of the 2021 Sales Agreements are no less favorable (to the Group) as compared to that of the sales agreements between the Group and independent third party customers, by continuing to conduct sales to Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper and Baikai Vietnam, being existing customers of the Group, the Group will be able to save marketing and sales cost for the procurement of new customers, which the Group would otherwise need to incur. Further, the location of each of Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper and Baikai Vietnam is close to the Group's relevant production facilities such that transportation costs can be minimized.

The Directors (excluding independent non-executive Directors whose views are set out in the "Letter From The Independent Board Committee" on pages 27 to 28 of this circular) are of the opinion that the terms of the 2021 Sales Agreements have been entered into on normal commercial terms or better 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.

2. 2021 Purchase and Processing Agreements

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.

LETTER FROM THE BOARD

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, respectively, 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

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.

LETTER FROM THE BOARD

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, 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.

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.

LETTER FROM THE BOARD

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, 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>

LETTER FROM THE BOARD

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.

Reasons for Entering into the 2021 Purchase and Processing 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. Baikai Paper and Baikai Vietnam have been providing its paper products that meet the Group's quality standards to the Group and have been able to maintain a stable supply to the Group. By continuing to purchase from Baikai Paper, the Group can save the time and cost which the Group would otherwise need to incur in finding and assessing new suppliers that is able meet the Group's quality and quantity requirements. As the terms of the 2021 Purchase and Processing Agreements are no less favorable (to the Group) as compared to that of the sales agreements between the Group and independent third party suppliers, the Directors consider that 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 independent non-executive Directors whose views are set out in the "Letter From The Independent Board Committee" on pages 27 to 28 of this circular) are of the opinion that the terms of the 2021 Purchase and Processing Agreements have been entered into on normal commercial terms or better 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.

LETTER FROM THE BOARD

PRICING POLICY FOR CONTINUING CONNECTED TRANSACTIONS 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 Finance Department (財務部) will prepare a detailed cost calculation by reference to the cost of materials, products and labours, up to two (if any) 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. Pursuant to such standard pricing policy, the Sales and Marketing Department (營銷部) is primarily responsible for providing price quotations to customers and setting prices for the Group's products in the Group's day-to-day operations, taking into account the cost of such products, the customer's view, and competitors' pricing information. Under certain special circumstances, pricing of products will be subject to approval by the president and the cost committee of Billion Fujian or Billion Vietnam (as applicable), which comprise the president, head of sales, head of finance, head of procurement and head of production of the relevant company. Such circumstances include: (i) special discount; (ii) non-standard products; (iii) discount requested by the customer due to quality issues; (iv) discount requested by the customer due to delay in delivery; (v) volume discount requested by the customer; (vi) products sourced externally; (vii) new products; and (viii) mode of transaction and payment terms, and other circumstances related to the above. In setting or revising the pricing for the products, market prices are obtained by reference to production cost and up to two (if any) recent transaction prices of the Group within one month, and through 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

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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.

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.

LETTER FROM THE BOARD

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, polyfoam board, 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.

As Mr. Sze Tin Yau and Mr. Wu Jinbiao are considered to be materially interested in the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements, they have abstained from voting on the board resolutions for approving such agreements.

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.

As the aforesaid continuing connected transactions will continue following the expiration of the Existing Sales Agreements and the Existing Purchase and Processing Agreements on 31 December 2020 due to business requirement of the Group, each of the aggregated values of the sales transactions and the purchase and processing transactions as between Billion Fujian, Billion High-tech and Billion Vietnam (as the case may be) and the aforesaid connected persons will be closely monitored to ensure that they fall within 5% of the applicable percentage ratios as defined in the Listing Rules, prior to obtaining

LETTER FROM THE BOARD

approval from the Independent Shareholders on the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements at the EGM. Pursuant to Chapter 14A of the Listing Rules, continuing connected transactions falling within 5% of the applicable percentage ratios as defined in the Listing Rules are exempt from the shareholders' approval requirement.

EGM

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.

Kingom Power Limited is wholly-owned by Mr. Sze Tin Yau, an executive Director. As at the Latest Practicable Date, Kingom Power Limited held 643,720,000 ordinary shares in the share capital of the Company (“**Shares**”), representing approximately 30.37% of the issued share capital of the Company. Winwett Investments Limited, which held 136,820,000 Shares as at the Latest Practicable Date, representing approximately 6.45% of the issued shares capital of the Company, is wholly-owned by Mr. Wu Jinbiao, an executive Director. Kingom Power Limited and Winwett Investments Limited and their respective associates, will be required to abstain from voting in respect of the ordinary resolutions proposed for approval at the EGM. To the best knowledge of the Company after having made all reasonable enquiries, at the Latest Practicable Date, there were no other Shareholders (save as disclosed above) who were required to abstain from voting in respect of the ordinary resolution proposed to be considered and (if thought fit by the Shareholders) approved at the EGM.

A form of proxy for use at the EGM is also enclosed. Whether or not you are unable to attend the EGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible and, in any event no later than 48 hours before the time for EGM or any adjournment thereof. 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 should you so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of the Shareholders at a general meeting of the Company must be taken by way of poll. Accordingly, the resolutions to be considered and, if thought fit, approved at the EGM will be voted on by way of poll by the Independent Shareholders. After conclusion of the EGM, the poll results announcement will be published on the respective websites of the Stock Exchange and the Company.

CLOSURE OF REGISTER OF MEMBERS

To ascertain the identity of the Shareholders who are entitled to attend and vote at the EGM, the register of members of the Company will be closed from Wednesday, 27 January 2021 to Monday, 1 February 2021 (both days inclusive) during which period no share transfers can be registered. In order to be eligible to attend and vote at the EGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 26 January 2021.

LETTER FROM THE BOARD

RECOMMENDATION

Your attention is drawn to the advice of the Independent Board Committee set out in its letter on pages 27 to 28 of this circular. Your attention is also drawn to the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the same matters, which is set out on pages 29 to 71 of this circular.

The Independent Board Committee, after taking into account the advice from the Independent Financial Adviser, is of the opinion that the terms of the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements are on normal commercial terms or better and in the ordinary and usual course of business of the Group and are fair and reasonable so far as the Company is concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends that the Independent Shareholders vote in favour of the resolutions as set out in the notice of the EGM for the approval of the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular.

Yours faithfully,
Billion Industrial Holdings Limited
Sze Tin Yau
Co-chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

13 January 2021

To the Independent Shareholders,

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS RENEWAL OF SALES AGREEMENTS AND PURCHASE AND PROCESSING AGREEMENTS

We refer to the circular of the Company dated 13 January 2021 (the “**Circular**”) of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter unless the context otherwise requires.

Under the Listing Rules, the transactions contemplated under the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements are subject to reporting, announcement and shareholders’ approval requirements.

We have been appointed as the Independent Board Committee by the Board to consider and advise the Independent Shareholders as to whether the terms of the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements are fair and reasonable, and in the interests of the Company and its Shareholders as a whole. Dongxing Securities (Hong Kong) Company Limited has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders.

We wish to draw your attention to the letter from the Board and the letter from the Independent Financial Adviser as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in its letter of advice, we consider that the terms of the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements are on normal commercial terms or better and in the ordinary and usual course of business of the Group and are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we would recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements.

Yours faithfully,
For and on behalf of
Independent Board Committee

Mr. Chan Shek Chi
*Independent non-executive
Director*

Mr. Lin Jian Ming
*Independent non-executive
Director*

Mr. Shih Chun Pi
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter received from the independent financial adviser setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the terms and the proposed annual caps for the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements, which was prepared for the purpose of inclusion in this Circular.



**DONGXING SECURITIES (HONG KONG)
COMPANY LIMITED**
Room 6805–6806A
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

13 January 2021

*To: The Independent Board Committee and the Independent Shareholders of
Billion Industrial Holdings Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS RENEWAL OF SALES AGREEMENTS AND PURCHASE AND PROCESSING AGREEMENTS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of whether the terms and the proposed annual caps for the 2021 Sales Agreements and 2021 Purchase and Processing Agreements are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Details of the 2021 Sales Agreements, the 2021 Purchase and Processing Agreements and the proposed annual caps are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 13 January 2021 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

Reference is made to the Announcement. 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 respectively 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 the 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.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Chan Shek Chi, Mr. Lin Jian Ming and Mr. Shih Chun Pi, 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.

We, Dongxing Securities (Hong Kong) Company Limited, have been appointed as the independent financial adviser by the Company to advise the Independent Board Committee and the Independent Shareholders in this regards.

BASIS OF OUR OPINION

In formulating our view and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the information and representations provided to us by the Company, which the Company considers to be complete and relevant.

We have also relied on the information and representations contained in the Letter from the Board and have assumed that all statements of belief, opinion and intention made by the Directors in the Circular were true, accurate and complete at the time they were made and continue to be true and accurate up to the date of the EGM. We have assumed that all statements of belief, opinion and intention made by the Directors in the Letter from the Board were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view and have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company. We have been advised by the Company that no material facts have been withheld or omitted from the information provided and referred to in the Circular.

We have not, however, carried out any independent verification of the information provided by the management of the Company and the Directors, nor have we conducted any independent investigation into the business and affairs of the Company, Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper, Baikai Paper, and Baikai Vietnam or any of their respective associates. We consider that we have performed our duties with impartiality and independence from the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We did not have any relationships or interests with the Company, Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper, Baikai Paper or Baikai Vietnam that could reasonably be regarded as relevant to our independence. In the last two years, there was no engagement between the Group and us. Apart from normal professional fees paid or payable to us in connection with this appointment as the independent financial adviser, no arrangement exist whereby we received any fees or benefits from the Company, Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper, Baikai Paper and Baikai Vietnam. Accordingly, we are qualified to give independent advice in respect of the 2021 Sales Agreements, the 2021 Purchase and Processing Agreements and the proposed annual caps.

PRINCIPAL REASONS AND FACTORS CONSIDERED

In arriving at our recommendation to the Independent Board Committee and the Independent Shareholders in respect of the 2021 Sales Agreements, the 2021 Purchase and Processing Agreements and the proposed annual caps, we have taken into consideration the following principal factors and reasons:

(1) Background and the reasons for entering into of the 2021 Sales Agreements and 2021 Purchase and Processing Agreements

Principal business of the Group

The Group is principally engaged in manufacturing and sale of polyester filament yarns and polyester products. The polyester filament yarns products of the Group are positioned at medium-and high-end markets in the PRC and overseas. Its main products include drawn textured yarn (“DTY”), fully drawn yarn (“FDY”) and partially oriented yarn (“POY”) which are widely used in the production of high-end fabrics and textiles for various consumer products, including apparel, footwear and home furnishings. As stated in the annual report for the year ended 31 December 2019 (“2019 AR”) and interim report for the six months ended 30 June 2020 (“2020 IR”) of the Company, revenue generated from the sale of polyester filament yarns products contributed to approximately 79.5 % and 77.6% of the total revenue of the Group for the respective year/period, with the balance of revenue contributed by the sale of polyester products which can be widely used in various sectors including packaging, magnetic materials, imaging, industry, electronics and electrical appliances.

2021 Sales Agreements

We have discussed with and understood from the Company that, as stated in the Letter from the Board, Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper and Baikai Vietnam are principally engaged in manufacturing, weaving, dyeing and/or processing of fabric, textile and clothing products or accessories of clothing. Hence, those companies require the polyester filament yarns products from the Group as major raw materials of their products. According to the website of the Group and its market peers, polyester filament yarns are widely used in textile industry for production of fabric, textile and clothing products.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As advised by the Company, the Group has commenced sales of polyester filament yarns products to Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile and Baikai Zipper since 2011. In December 2017, the Group entered into the Existing Sales Agreement I, Existing Sales Agreement II, Existing Sales Agreement III and Existing Sales Agreement IV with those Baikai group companies for the 3 year period from January 2018 to December 2020 which were approved by the then independent shareholders of the Company in February 2018. In addition, as announced by the Company in August 2019, the Group entered into the Existing Sales Agreement V with Baikai Vietnam with effect from August 2019 to December 2020, pursuant to which Billion Vietnam agreed to sell DTY and FDY to Baikai Vietnam.

Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper and Baikai Vietnam are major customers of the Group. For the year ended 31 December 2018 and 2019 and the six months ended 30 June 2020, aggregate sales to Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper and Baikai Vietnam accounted for approximately 11.4%, 13.6% and 20.5% of the Group's total revenue generated from sale of polyester filament yarns products respectively. As stated in the Letter from the Board, the Directors consider that the transactions to be conducted under the 2021 Sales Agreements will increase the overall revenue of the Group and therefore it is beneficial for the Group to enter into such agreements.

Given the above, in particular, (i) it is the ordinary course of business of the Group to sell polyester filament yarns which are major raw materials required by manufacturers of fabric, knit, textile and/or clothing products, including the relevant Baikai group companies, for production; (ii) the long term business relationship between them; and (iii) those relevant Baikai group companies were major customers of the Group, the entering into of the 2021 Sales Agreements by the Group is considered fair and reasonable.

2021 Purchase and Processing Agreements

The Group requires paper products including paper boxes, paper rolls, paper boards, and polyfoam boards for packaging of its polyester filament yarns and polyester products or production needs. Meanwhile, the Group may require Baikai Paper or other suppliers for processing service related to paper boxes and rolls if the aggregate cost of paper materials and processing service fee will be lower than the purchase price of paper packaging materials required by the Group.

As stated in the Letter from the Board, Baikai Paper and Baikai Vietnam are primarily engaged in the manufacturing of paper boxes, rolls and polyfoam boards. We have discussed with and understood from the Company that the packaging materials previously produced by Baikai Paper and Baikai Vietnam were of high quality and suitable for the use of the Group, which can be illustrated by the nil product return in the past and the Group's purchase of packaging materials from Baikai Paper for over 15 years and Baikai Vietnam since 2019 respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In addition, we understood from the Company that the relevant Baikai group companies have competitive advantage over other suppliers due to their locations. As stated in the 2020 IR and further advised by the Group, including one new production sites operated and two new production sites to be operated progressively since second half of 2020, the Group has eight production sites in the PRC, which are situated at two industrial zones in Longhu Town, Jinjiang City, Fujian Province, the PRC. According to the information released in the National Enterprise Credit Information Publicity System (國家企業信用信息公示系統), Baikai Paper is located in the same town with that of production sites of the Group in the PRC. As advised by the Company, the production base of Baikai Paper is around 0.5 kilometres to 2.5 kilometres away from the eight production sites of the Group in the PRC. In contrast, an independent supplier of the Group is located in the same city but is around 12 kilometres away from the production sites of the Group in the PRC, while other independent third party suppliers are located in different cities or provinces from that of the Group in the PRC which are around 50 to 760 kilometres away. The close proximity of Baikai Paper with eight production sites of the Group in the PRC allows timely delivery of products and minimises delivery costs. Hence, the Group has been purchasing packaging materials from Baikai Paper since 2005. Meanwhile, the Group has one production site in the Vietnam, which is situated at the Phuoc Dong Industrial Park, Phuoc Dong Commune, Go Dau District, Tay Ninh Province, Vietnam. According to the information released in the National Public Information on Business Registration, Baikai Vietnam is located in the same industrial park with that of the Group in the Vietnam. As advised by the Company, the production site of Baikai Vietnam is around 0.5 kilometres away from the production site of the Group in the Vietnam. While there are two independent third party suppliers from which the Group purchases packaging products in the Vietnam, one is located in different county from that of the production site of the Group in the Vietnam which is around 25 kilometres away, and the other is a trading company providing packaging products which are imported from outside of Vietnam. The close proximity of Baikai Vietnam with the production site of the Group in the Vietnam allows timely delivery of products and minimizes delivery costs. Hence, the Group has been purchasing packaging materials from Baikai Vietnam since 2019.

Given the long term business relationship between the Group and Baikai group, nil product return rate and close proximity of Baikai Paper and Baikai Vietnam with the Group, we concur with the Directors' assessment that it is reasonable for the Group to purchase packaging materials from Baikai Paper and Baikai Vietnam. In December 2017, the Group entered into the Existing Purchase and Processing Agreement I and Existing Purchase and Processing Agreement II with Baikai Paper for the 3-year period from January 2018 to December 2020 which were approved by the then independent shareholders of the Company in February 2018. Further, in August 2019, the Group entered into the Existing Purchase Agreement III with Baikai Vietnam with effect from August 2019 to December 2020, pursuant to which Baikai Vietnam agreed to provide paper boxes, roles and polyfoam boards to Billion Vietnam.

Baikai Paper and Baikai Vietnam are major suppliers of packaging materials of the Group. For the year ended 31 December 2018 and 2019 and the ten months ended 31 October 2020, approximately 98.2%, 97.5% and 98.8% respectively of the Group's total purchase amount of relevant packaging materials was attributable to Baikai Paper and Baikai Vietnam.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Taking into account of the above, in particular, (i) the principal business of the Group in selling polyester filament yarns and polyester products; (ii) polyester filament yarns are major raw materials required by manufacturers of fabric, knit, textile and/or clothing products, including the relevant Baikai group companies; (iii) the production and packaging needs of the Group to purchase packaging material products from manufacturers or suppliers of those products and Baikai Paper and Baikai Vietnam are expected to be two of them; (iv) the long term and stable sales and purchase relationship between the Group and the relevant Baikai group companies; (v) the relevant Baikai group companies are major customers or suppliers of the Group; (vi) the high quality and suitability of products purchased from Baikai Paper and Baikai Vietnam for use by the Group as considered by the Group as illustrated by the nil product return rate in the past in respect of the Group's purchase from Baikai Paper for over 15 years and Baikai Vietnam since 2019, we are of the view that entering into of the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements are in the ordinary and usual course of business and in the interests of the Company and the Shareholders as a whole.

(2) Principal terms of the 2021 Sales Agreements

2021 Sales Agreement I

On 10 December 2020, the Group, through Billion Fujian, entered into the 2021 Sales Agreement I with Baikai Elastic Weaving for the supply of DTY, FDY and POY to Baikai Elastic Weaving on the principal terms as set out below.

(i) Pricing

The prices of DTY, FDY and POY charged by the Group to Baikai Elastic Weaving will be agreed between the parties from time to time after arm's length negotiation and comparable to market prices of similar products that the Group sold to independent third party customers.

We have discussed with and understood from the Company that there is no fixed unit price or standard price for polyester filament yarns products. We have reviewed 24 samples of sales document which were randomly selected by us from the sales ledger of the Group, in respect of the sale of relevant polyester filament yarns products by the Group to Baikai Elastic Weaving and independent third party customers respectively. We noted from those samples that the unit price of the same or similar products charged by the Group to Baikai Elastic Weaving and the independent third party customers were similar.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) Payment terms

Baikai Elastic Weaving will generally be required to make full payment by cash, cheque or wire transfer within three months after its completion of inspection and acceptance of the products.

We have reviewed 24 samples of sales document which were randomly selected by us from the sales ledger of the Group, in respect of the sale of relevant polyester filament yarns products by the Group to Baikai Elastic Weaving and independent third party customers respectively. We noted from those samples that Baikai Elastic Weaving generally made the payment before stock delivery. In the case of sales to the independent third party customers, we noted from the samples that independent third party customers had to make the full payment before stock delivery, except for one independent third party customer who was allowed to make payment within 30 days after the stock delivery.

As further advised by the Company, some customers including Baikai Elastic Weaving and some independent customers are granted a credit period because such customers had a longer business relationship, larger annual transaction amount with the Group and better creditworthiness, compared to those customers who are requested to pay before stock delivery. As confirmed by the Company, it is the Group's policy (the "**Payment Terms Policy**") to fix the payment terms offered to its customers, including Baikai Elastic Weaving and independent third party customers, according to the actual transaction amount and volume, creditworthiness of and the Group's business relationship with relevant customers and/or request from the relevant customers. As further advised by the Company, credit period is generally allowed for a customer if the following three criteria (the "**Credit Criteria**") are met: (i) a good business relationship with the Group for no less than five years; (ii) average annual transaction amount with the Group for the preceding five years not less than RMB50 million; and (iii) a good creditworthiness without default record. In addition, the Group would review and adjust the payment terms of each customers from time to time based on the abovementioned Credit Criteria.

We have discussed with and understood from the Company that while it will follow the payment terms stipulated under the 2021 Sales Agreement I for future transaction with Baikai Elastic Weaving, it may also adjust the terms according to the Payment Terms Policy mentioned above. The adjustment mechanism above also applies to transactions with independent third party customers.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given, as confirmed by the Company, (i) the payment terms offered to Baikai Elastic Weaving, being a major and old customer of the Group, were fixed according to the Payment Terms Policy mentioned above in light of (a) the relatively large annual transaction amount; (b) the long business relationship between the Group and the Baikai group companies; (c) the good credit record of Baikai Elastic Weaving; (ii) the same adjustment mechanism above also applies to transactions with independent third party customers in accordance with the Payment Terms Policy; (iii) notwithstanding the possible variance of the actual payment terms with that stipulated under the 2021 Sales Agreement I, the Group will ensure that the price and payment terms for similar products of similar sales quantity offered by the Group to Baikai Elastic Weaving shall be no less favourable to the Group than those offered by it to its independent third party customers; and (iv) the Group will not be obliged to supply any products to Baikai Elastic Weaving under the 2021 Sales Agreement I if it considers that the terms requested by Baikai Elastic Weaving when placing order are not favourable to the Group, we consider that the arrangement of offering different payment terms to independent third party customers and the Baikai group companies previously was fair and reasonable.

2021 Sales Agreement II

On 10 December 2020, the Group, through Billion Fujian, entered into the 2021 Sales Agreement II with Baikai Wrap Knitting for the supply of DTY and FDY to Baikai Wrap Knitting on the principal terms as set out below.

(i) Pricing

The prices of DTY and FDY charged by the Group to Baikai Wrap Knitting will be agreed between the parties from time to time after arm's length negotiation and comparable to market prices of similar products that the Group sold to independent third party customers.

As mentioned above, we have discussed with and understood from the Company that there is no fixed unit price or standard price for polyester filament yarns products. We have reviewed 22 samples of sales document which were randomly selected by us from the sales ledger of the Group, in respect of the sale of relevant polyester filament yarns products by the Group to Baikai Wrap Knitting and independent third party customers respectively. We noted from those samples that the unit prices of the same or similar products charged by the Group from Baikai Wrap Knitting and the independent third party customers were similar.

(ii) Payment terms

Baikai Wrap Knitting will generally be required to make full payment by cash, cheque or wire transfer within three months after its completion of inspection and acceptance of the products.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed 22 samples of sales documents which were randomly selected by us from the sales ledger of the Group, in respect of the supply of relevant polyester filament yarns products by the Group to Baikai Wrap Knitting and independent third party customers respectively. We noted from those samples that Baikai Wrap Knitting generally made the payment within three months after the stock delivery and in some occasions, made the payment before stock delivery. In the case of sales to the independent third party customers, we noted from the samples that independent third party customers had to make the full payment before stock delivery. As advised by the Company, these independent third party customers were not allowed to make payment after stock delivery was due to the reason that they were unable to meet the Credit Criteria of the Group.

As confirmed by the Company, the actual payment terms requested by it from all customers, including Baikai Wrap Knitting and independent third party customers, were adjusted depending on the actual transaction amount and volume, and creditworthiness of and the Group's business relationship with relevant customers and/or request from the relevant customer according to the Payment Terms Policy mentioned in the paragraphs headed "2021 Sales Agreement I – (ii) Payment terms" above.

We have discussed with and understood from the Company that while it will follow the payment terms stipulated under the 2021 Sales Agreement II for future transaction with Baikai Wrap Knitting, it may also adjust the terms according to the Payment Terms Policy mentioned above. The adjustment mechanism above also applies to transactions with independent third party customers.

Given, as confirmed by the Company, (i) the payment terms offered to Baikai Wrap Knitting, being a major and old customer of the Group, were fixed according to the Payment Terms Policy mentioned above in light of (a) the relatively large annual transaction amount; (b) the long business relationship between the Group and the Baikai group companies; (c) the good credit record of Baikai Wrap Knitting; (ii) the same adjustment mechanism above also applies to transactions with independent third party customers in accordance with the Payment Terms Policy; (iii) notwithstanding the possible variance of the actual payment terms with that stipulated under the 2021 Sales Agreement II, the Group will ensure that the price and payment terms for similar products of similar sales quantity offered by the Group to Baikai Wrap Knitting shall be no less favourable to the Group than those offered by it to its independent third party customers; and (iv) the Group will not be obliged to supply any products to Baikai Wrap Knitting under the 2021 Sales Agreement II if it considers that the terms requested by Baikai Wrap Knitting when placing order are not favourable to the Group, we consider that the arrangement of offering different payment terms to independent third party customers and the Baikai group companies previously was fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2021 Sales Agreement III

On 10 December 2020, the Group, through Billion Fujian, entered into the 2021 Sales Agreement III with Baikai Textile for the supply of PET chips, POY and spin finish oil to Baikai Textile on the principal terms as set out below.

(i) Pricing

The prices of PET chips, POY and spin finish oil charged by the Group to Baikai Textile will be agreed between the parties from time to time after arm's length negotiation and comparable to market prices of similar products that the Group sold to independent third party customers.

We have discussed with and understood from the Company that there is no fixed unit price or standard price for PET chips, POY and spin finish oil. We have reviewed 24 samples of sales document which were randomly selected by us from the sales ledger of the Group, in respect of the sale of relevant polyester filament yarns products by the Group to Baikai Textile and independent third party customers respectively. We noted from those samples that the unit prices of the relevant products charged by the Group from Baikai Textile and the independent third party customers were similar.

(ii) Payment terms

Baikai Textile will generally be required to make full payment by cash, cheque or wire transfer within three months after its completion of inspection and acceptance of the products.

We have reviewed 24 samples of sales document which were randomly selected by us from the sales ledger of the Group, in respect of the supply of the relevant polyester filament yarns products by the Group to Baikai Textile and independent third party customers respectively. We noted from those samples that Baikai Textile generally made the payment within three months after the stock delivery and in some occasions, made the payment before stock delivery. In the case of sales to the independent third party customers, we noted from the samples that independent third party customers had to make the full payment before stock delivery, except for one independent third party customer who was allowed to make payment within 30 days after the stock delivery. As advised by the Company, certain customers including Baikai Textile and some other independent third party customers are granted a credit period as they were able to meet the Credit Criteria of the Group.

As confirmed by the Company, the actual payment terms requested by it from all customers, including Baikai Textile and independent third party customers, were adjusted depending on the actual transaction amount and volume, and creditworthiness of and the Group's business relationship with relevant customers and/or request from the relevant customer according to the Payment Terms Policy mentioned in the paragraphs headed "2021 Sales Agreement I – (ii) Payment terms" above.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have discussed with and understood from the Company that while it will follow the payment terms stipulated under the 2021 Sales Agreement III for future transaction with Baikai Textile, it may also adjust the terms according to the Payment Terms Policy mentioned above. The adjustment mechanism also applies to transactions with independent third party customers.

Given, as confirmed by the Company, (i) the payment terms offered to Baikai Textile, being a major and old customer of the Group, were fixed according to the Payment Terms Policy mentioned above in light of (a) the relatively large annual transaction amount; (b) the long business relationship between the Group and the Baikai group companies; and (c) the good credit record of Baikai Textile; (ii) the same adjustment mechanism above also applies to transactions with independent third party customers in accordance with the Payment Terms Policy; (iii) notwithstanding the possible variance of the actual payment terms with that stipulated under the 2021 Sales Agreement III, the Group will ensure that the price and payment terms for similar products of similar sales quantity offered by the Group to Baikai Textile shall be no less favourable to the Group than those offered by it to its independent third party customers; and (iv) the Group will not be obliged to supply any products to Baikai Textile under the 2021 Sales Agreement III if it considers that the terms requested by Baikai Textile when placing order are not favourable to the Group, we consider that the arrangement of offering different payment terms to independent third party customers and the Baikai group companies previously was fair and reasonable.

2021 Sales Agreement IV

On 10 December 2020, the Group, through Billion Fujian, entered into the 2021 Sales Agreement IV with Baikai Zipper for supply of DTY to Baikai Zipper on the principal terms as set out below.

(i) Pricing

The price of DTY charged by the Group to Baikai Zipper will be agreed between the parties from time to time after arm's length negotiation and comparable to market prices of similar product that the Group sold to independent third party customers.

As mentioned above, we have discussed with and understood from the Company that there is no fixed unit price or standard price for polyester filament yarns products. We have reviewed 18 samples of sales document which were randomly selected by us from the sales ledger of the Group, in respect of the sale of relevant polyester filament yarns products by the Group to Baikai Zipper and independent third party customers respectively. We noted from those samples that the unit prices of DTY charged by the Group to Baikai Zipper and the independent third party customers were similar.

(ii) Payment terms

Baikai Zipper will generally be required to make full payment by cash, cheque, wire transfer within three months after its completion of inspection and acceptance of the products.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed 18 samples of sales document which were randomly selected by us from the sales ledger of the Group, in respect of the supply of relevant products by the Group to Baikai Zipper and independent third party customers respectively. We noted from those samples that Baikai Zipper generally made the payment within three months after the stock delivery, and in some occasions, made the payment before stock delivery. In the case of sales to the independent third party customers, we noted from the samples that independent third party customers had to make the full payment before stock delivery, except for one independent third party customer who was allowed to make payment within 30 days after the stock delivery. As advised by the Company, certain customers including Baikai Zipper and some other independent third party customers are granted a credit period as they were able to meet the Credit Criteria of the Group.

As confirmed by the Company, the actual payment terms requested by it from all customers, including Baikai Zipper and independent third party customers, were adjusted depending on the actual transaction amount and volume, and creditworthiness of and the Group's business relationship with relevant customers and/or request from the relevant customer according to the Payment Terms Policy mentioned in the paragraphs headed "2021 Sales Agreement I – (ii) Payment terms" above.

We have discussed with and understood from the Company that while it will follow the payment terms stipulated under the 2021 Sales Agreement IV for future transaction with Baikai Zipper, it may also adjust the terms according to the Payment Terms Policy mentioned above if needed. And the adjustment mechanism also applies to transactions with independent third party customers.

Given, as confirmed by the Company, (i) the payment terms offered to Baikai Zipper, being a major and old customer of the Group, were fixed according to the Payment Terms Policy mentioned above in light of (a) the relatively large annual transaction amount; (b) the long business relationship between the Group and the Baikai group companies; and (c) the good credit record of Baikai Zipper; (ii) the same adjustment mechanism above also applies to transactions with independent third party customers in accordance with the Payment Terms Policy; (iii) notwithstanding the possible variance of the actual payment terms with that stipulated under the 2021 Sales Agreement IV, the Group will ensure that the price and payment terms for similar products of similar sales quantity offered by the Group to Baikai Zipper shall be no less favourable to the Group than those offered by it to its independent third party customers; and (iv) the Group will not be obliged to supply any products to Baikai Zipper under the 2021 Sales Agreement IV if it considers that the terms requested by Baikai Zipper when placing order are not favourable to the Group, we consider that the arrangement of offering different payment terms to independent third party customers and the Baikai group companies previously was fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2021 Sales Agreement V

On 10 December 2020, the Group, through Billion Vietnam, entered into the 2021 Sales Agreement V with Baikai Vietnam for supply of DTY and FDY to Baikai Vietnam on the principal terms as set out below.

(i) Pricing

The price of DTY and FDY charged by the Group to Baikai Vietnam will be agreed between the parties from time to time after arm's length negotiation and comparable to market prices of similar product that the Group sold to independent third party customers.

As mentioned above, we have discussed with and understood from the Company that there is no fixed unit price or standard price for polyester filament yarns products. We have reviewed 12 samples of sales document which were randomly selected by us from the sales ledger of the Group, in respect of the sale of relevant polyester filament yarns products by the Group to Baikai Vietnam and independent third party customers respectively. We noted from those samples that the unit prices of DTY and FDY charged by the Group to Baikai Vietnam and the independent third party customers were similar.

(ii) Payment terms

Baikai Vietnam will generally be required to make full payment by cash, cheque, wire transfer within three months after its completion of inspection and acceptance of the products.

We have reviewed 12 samples of sales document which were randomly selected by us from the sales ledger of the Group, in respect of the supply of relevant products by the Group to Baikai Vietnam and independent third party customers respectively. We noted from those samples that Baikai Vietnam generally made the payment within three months after the stock delivery and in some occasions, made the payment before stock delivery. In the case of sales to the independent third party customers, we noted from the samples that independent third party customers had to make the full payment before stock delivery. As advised by the Company, these independent third party customers were not allowed to make payment after stock delivery was due to the reason that they were unable to meet the Credit Criteria of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As confirmed by the Company, the actual payment terms requested by it from all customers, including Baikai Vietnam and independent third party customers, were adjusted depending on the actual transaction amount and volume, and creditworthiness of and the Group's business relationship with relevant customers and/or request from the relevant customer according to the Payment Terms Policy mentioned in the paragraphs headed "2021 Sales Agreement I – (ii) Payment terms" above.

We have discussed with and understood from the Company that while it will follow the payment terms stipulated under the 2021 Sales Agreement V for future transaction with Baikai Vietnam, it may also adjust the terms according to the Payment Terms Policy mentioned above if needed. And the adjustment mechanism also applies to transactions with independent third party customers.

Given, as confirmed by the Company, (i) the payment terms offered to Baikai Vietnam, being a major customer of the Group, were fixed according to the Payment Terms Policy mentioned above in light of (a) the relatively large annual transaction amount; (b) the long business relationship between the Group and the Baikai group companies; and (c) the good credit record of Baikai Vietnam; (ii) the same adjustment mechanism above also applies to transactions with independent third party customers in accordance with the Payment Terms Policy; (iii) notwithstanding the possible variance of the actual payment terms with that stipulated under the 2021 Sales Agreement V, the Group will ensure that the price and payment terms for similar products of similar sales quantity offered by the Group to Baikai Vietnam shall be no less favourable to the Group than those offered by it to its independent third party customers; and (iv) the Group will not be obliged to supply any products to Baikai Vietnam under the 2021 Sales Agreement V if it considers that the terms requested by Baikai Vietnam when placing order are not favourable to the Group, we consider that the arrangement of offering different payment terms to independent third party customers and the Baikai group companies previously was fair and reasonable.

Internal control measures adopted by the Company for transaction contemplated under the 2021 Sales Agreements

As stated in the Letter from the Board, none of the products to be supplied under the 2021 Sales Agreements has a fixed unit price or standard price. Hence, the Group has adopted internal control measures as summarized below to ensure that the terms, in particular, price and payment terms, for the products sold to the Baikai group companies will not be less favorable than the terms offered by the Group to independent third party customers:

1. The Group has a standard pricing policy for its sales which is applicable to all customers. Pursuant to such standard pricing policy, the Sales and Marketing Department (營銷部) is primarily responsible for providing price quotations to customers and setting prices for the Group's products in the Group's day-to-day operations, taking into account the cost of such products, the customer's view, and competitors' pricing information.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the Letter from the Board, the basis of determining the prices of the products to be supplied by the Group 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 with comparable order quantities and quality offered to other purchasers;
 - (ii) if there are not sufficient comparable transactions in (i) above, on normal commercial terms comparable to those currently offered by the Group to independent third parties in respect of the same or substantially similar products with comparable quantities.
2. In setting or revising the pricing for product for a particular contract, market prices are obtained through by reference to production cost and up to two recent transaction prices of the Group within one month (if any), and through enquiry with other industry players and researches on industry websites;
3. The Group will 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 Finance Department (財務部) will prepare a detailed cost calculation by reference to the cost of materials, products and labours, up to two quotes of the Group to other independent third party customers within one month (if any) and the level of fees charged by competitors of the Group in the market (if available) to ensure that the terms of the products of the Group are competitive and comparable to those being offered to independent third party customers of the Group.
4. Orders, including the prices, 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). Under certain circumstances, including (i) special discount; (ii) non-standard products; (iii) discount requested by the customer due to quality issues; (iv) discount requested by the customer due to delay in delivery; (v) volume discount requested by the customer; (vi) products sourced externally; (vii) new products; and (viii) mode of transaction and payment terms, and other circumstances related to the above, pricing of products will be subject to review and approval by the president or the Costing Committee (成本研究委員會) of the Group.
5. The Company has engaged its auditors to conduct an annual review of the continuing connected transactions of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have obtained and reviewed the Group's standard pricing policy and noted the key details of the policy as stated above. We have discussed and were confirmed by the Company that (i) the standard pricing policy above adopted by the Group applies to transaction with all the Group's customers, and (ii) any price adjustment is subject to review and approval of designated team or senior management with reference to a number of factors, such as new product, quality issue, purchase volume, as stated above.

We have also reviewed 12 samples of price setting documents which were randomly selected by us from the sales ledger of the Group, regarding previous sales made by the Group. We noted that the Group has prepared detailed cost calculation covering materials, staff and other production cost to derive the intended price of its products, which has taken into account available recent transaction prices and pricing information from other industry players or on industry website in accordance with the measures stated above as confirmed by the Company. We also noted that such pricing decisions were approved by various designated staff and senior management of the Group.

As confirmed by the Company, they will continue to carry out the procedures above to monitor the transaction to be contemplated under the 2021 Sales Agreements. And the Group will not be obliged to supply any products to the Baikai group companies under the 2021 Sales Agreements should it consider the terms, including but not limited to the price and payment terms, requested by the Baikai group companies when placing order are not favourable to the Group.

In addition, we have reviewed the assurance reports issued by the external auditors of the Company, pursuant to which the auditors stated that, for transactions between the Group and its connected parties in 2018 and 2019, nothing has come to their attention that causes them to believe that those continuing connected transactions were not in accordance with the pricing policies of the Group, or were not entered into in accordance with the relevant agreements governing such transactions, in all material respects.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We also noted the confirmation from the independent non-executive Directors of the Company as disclosed in the 2018 AR and 2019 AR that they have reviewed the continuing connected transactions of the Group for 2018 and 2019, and confirmed that those transactions were entered into (i) in the ordinary and usual course of the business of the Group; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. In addition, as stated in the 2018 AR and 2019 AR, the Company has an internal audit department which was engaged to assist the Board to perform review of internal control systems for the Group's business operations and processes, covering financial, compliance and operational control as well as risk management mechanisms. As confirmed by the Company, no findings of material insufficiency in the Group's internal control system were noted.

Given the above, we consider that the Group has sufficient internal control measures in place to monitor the transactions between the Group and the relevant Baikai group companies.

We considered that the findings shown in the samples regarding pricing and payment terms in sales and internal control we reviewed as mentioned above are fair and representative as they include samples for each item which were randomly selected by us from the sales ledger of the Group containing information regarding its sales to all its customers.

Taking into consideration of the above, in particular, (i) the price and payment terms offered by the Group to Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper, Baikai Vietnam and its independent third party customers as shown in sales documents reviewed were similar; (ii) internal control measures are in place and carried out by the Group to monitor the its transaction with Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper and Baikai Vietnam to ensure that the terms offered by the Group to those Baikai group companies will not be less favourable to the Group compared to that offered to independent third party customers; and (iii) the Group will not be obliged to supply any products to the Baikai group companies under the 2021 Sales Agreements should it consider the terms, including but not limited to the price and payment terms, requested by the Baikai group companies are not favourable to the Group, we concur with the Directors' view and consider that the terms under 2021 Sales Agreements are on normal commercial terms are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(3) Proposed annual caps for the 2021 Sales Agreements

Set out below is a summary of the historical transaction amounts under the Existing Sales Agreements for the year ended 31 December 2018, 2019 and the ten months ended 31 October 2020 and the proposed annual caps under the 2021 Sales Agreements for the year ending 31 December 2021, 2022 and 2023:

	Historical transaction amounts		
	For the year ended 31 December		For the ten months ended
	2018	2019	31 October 2020
Existing Sales Agreement I			
Sales amount (<i>RMB</i>)	293,180,000	347,218,000	303,152,000
Sales volume (<i>tonne</i>)	24,912	25,300	32,694
Average selling price (“ASP”) per tonne (<i>RMB</i>)	11,769	13,724	9,272
Existing Sales Agreement II			
Sales amount (<i>RMB</i>)	301,826,000	367,039,000	378,799,000
Sales volume (<i>tonne</i>)	25,634	25,880	35,100
ASP per tonne (<i>RMB</i>)	11,774	14,182	10,792
Existing Sales Agreement III			
Sales amount (<i>RMB</i>)	169,765,000	293,144,000	311,274,000
Sales volume (<i>tonne</i>)	21,209	43,143	63,012
ASP per tonne (<i>RMB</i>)	8,004	6,795	4,940
Existing Sales Agreement IV			
Sales amount (<i>RMB</i>)	6,358,000	6,647,000	6,259,000
Sales volume (<i>tonne</i>)	563	396	674
ASP per tonne (<i>RMB</i>)	11,293	16,785	9,286
Existing Sales Agreement V			
Sales amount (<i>RMB</i>)	–	295,000	2,331,000
Sales volume (<i>tonne</i>)	–	34	339
ASP per tonne (<i>RMB</i>)	–	8,676	6,876
Total sales amount (<i>RMB</i>)	771,129,000	1,014,343,000	1,001,815,000

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	Proposed annual caps		
	For the year ending 31 December		
	2021	2022	2023
2021 Sales Agreement I			
Proposed annual cap (<i>RMB</i>)	348,000,000	348,000,000	348,000,000
Estimated sales volume (<i>tonne</i>)	25,357	25,357	25,357
Estimated ASP per tonne (<i>RMB</i>)	13,724	13,724	13,724
2021 Sales Agreement II			
Proposed annual cap (<i>RMB</i>)	410,000,000	410,000,000	410,000,000
Estimated sales volume (<i>tonne</i>)	28,910	28,910	28,910
Estimated ASP per tonne (<i>RMB</i>)	14,182	14,182	14,182
2021 Sales Agreement III			
Proposed annual cap (<i>RMB</i>)	369,000,000	369,000,000	369,000,000
Estimated sales volume (<i>tonne</i>)	54,305	54,305	54,305
Estimated ASP per tonne (<i>RMB</i>)	6,795	6,795	6,795
2021 Sales Agreement IV			
Proposed annual cap (<i>RMB</i>)	6,650,000	6,650,000	6,650,000
Estimated sales volume (<i>tonne</i>)	396	396	396
Estimated ASP per tonne (<i>RMB</i>)	16,785	16,785	16,785
2021 Sales Agreement V			
Proposed annual cap (<i>RMB</i>)	15,000,000	15,000,000	15,000,000
Estimated sales volume (<i>tonne</i>)	1,729	1,729	1,729
Estimated ASP per tonne (<i>RMB</i>)	8,676	8,676	8,676
Total proposed annual cap			
(<i>RMB</i>)	1,148,650,000	1,148,650,000	1,148,650,000

2021 Sales Agreement I

As set out in the Letter from the Board, the proposed annual caps for the 2021 Sales Agreement I were determined with reference to (i) the actual sales made to Baikai Elastic Weaving for 2018, 2019 and the ten months ended 31 October 2020; (ii) the prevailing market prices of similar products and major raw materials required for manufacture of polyester filament yarns products; (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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

To assess the fairness and reasonableness of the proposed annual caps, we have discussed with the Company on the assumptions made to derive the proposed annual caps. We understood from the Company that, as shown in the table above, the proposed annual caps are derived by the estimated ASP of the relevant polyester filament yarns products and multiplied by the estimated sales volume to Baikai Elastic Weaving in 2021, 2022 and 2023. Hence, we have conducted analysis on the fairness and reasonableness of (i) the estimated ASP and (ii) the estimated sales volume from 2021 to 2023.

Estimated ASP

The estimated ASP of RMB13,724 per tonne of relevant polyester filament yarns products for 2021 is determined with reference to the ASP of relevant polyester filament yarns products for 2019, the time before the outbreak of COVID-19. As advised by the Company, the assumption is based on (i) the rebound in the prevailing market price of the relevant polyester filament yarns products since the second half of 2020 which, in accordance with the sales transactions with customers of the Company, is attributable to the rebound of major raw material required for production of polyester filament yarns products, including purified terephthalic acid (“PTA”) and monoethylene glycol (“MEG”) since the second half of 2020 as a result of the country’s management of COVID-19; and (ii) with the progress of COVID-19 vaccines, the expectation that global economy could strongly bounce back since 2021.

As advised by the Company, ASP of relevant polyester filament yarns products charged by the Company decreased by approximately 28.7% from RMB9,638 per tonne in January 2020 to RMB6,876 per tonne in May 2020 and showed an increasing trend thereafter, reaching to RMB7,308 per tonne in October 2020. The Group adjusted the unit price mainly due to the movements in the cost for those products, in particular, the decrease in the purchase cost of the major raw materials by approximately 31.3% from January 2020 to May 2020 and the increase by approximately 7.8 % from May 2020 to October 2020, namely PTA and MEG from RMB8,508 per tonne in January 2020 to RMB5,849 per tonne in May 2020, and from RMB5,849 per tonne in May 2020 to RMB6,305 per tonne in October 2020.

Further, as discussed with the Company, crude oil is the key material of PTA and MEG, and thus the selling price of them will move in line with the pricing trend of crude oil. According to the statistics released in www.oilprice.com, price index of major types of crude oil showed an increasing trend since late April 2020 following the consecutive two months drop since outbreak of COVID-19. On 24 November 2020, oil prices soared on to their highest level since early March after another pharmaceutical alliance announced a high level of protection of a vaccine candidate. Therefore, the Directors consider the ASP recovery in 2021 reasonable.

For the sake of prudence, the Company assumes the estimated ASP for 2022 and 2023 to remain at the same level as 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Taking into account of the above, in particular, the increasing trend in the market price of the relevant polyester filament yarns products due to the economy recovery and the expectation on the positive development of the pandemic in 2021, we concur with the Directors' view that the estimated ASP for 2021, 2022 and 2023 are fair and reasonable.

Estimated sales volume for 2021,2022 and 2023

The Company estimated that 25,357 tonnes of relevant polyester filament yarns products will be sold to Baikai Elastic Weaving for 2021, representing a similar sales volume of approximately 25,300 tonnes for 2019 and a decrease by 32.6% compared to that for the estimated sales volume of approximately 37,612 tonnes for 2020. The sales volume for 2022 and 2023, is estimated to remain the same as the level of 2021.

We understood from the Company that the estimated sales volume of approximately 37,612 tonnes for 2020, representing a significant increase by 48.7% compared to the actual sales volume of approximately 25,300 tonnes for 2019, and this increase was due to the fact that Baikai Elastic Weaving increased its production by producing more medical textile to cater for the market demand due to the pandemic, with the expectation on the positive development of COVID-19 in 2021, the Directors consider that such significant increasing trend will not continue in 2021.

Having considered the above, in particular, the historical sales volume to Baikai Elastic Weaving; and the anticipated steady demand of Baikai Elastic Weaving for relevant polyester filament yarns products in 2021, 2022 and 2023, we consider that the assumptions made by the Company relating to the estimated sales volume to Baikai Elastic Weaving to derive the proposed annual caps under the 2021 Sales Agreement I are fair and reasonable.

2021 Sales Agreement II

As set out in the Letter from the Board, the proposed annual caps for the 2021 Sales Agreement II were determined with reference to (i) the actual sales made to Baikai Wrap Knitting for 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.

To assess the fairness and reasonableness of the proposed annual caps, we have discussed with the Company on the assumptions made to determine the proposed annual caps. We understood from the Company that, as shown in the table above, the proposed annual caps are derived by the estimated ASP of the relevant polyester filament yarns products and multiplied by the estimated sales volume to Baikai Wrap Knitting in 2021, 2022 and 2023. Hence, we have conducted analysis on the fairness and reasonableness of (i) the estimated ASP and (ii) the estimated sales volume from 2021 to 2023.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Estimated ASP

The estimated ASP of RMB14,182 per tonne of relevant polyester filament yarns products for 2021 is determined with reference to the ASP of relevant polyester filament yarns products for 2019, the time before the outbreak of COVID-19. Basis of such estimation by the Group and our analysis have been set out in the paragraphs headed “2021 Sales Agreement I – Estimated ASP” above.

Similar to that for 2021 Sales Agreement I, for the sake of prudence, the Company assumes the estimated ASP for 2022 and 2023 to remain at the same level as 2021.

Taking into account of the above, in particular, the increasing trend in the market price of the relevant polyester filament yarns products due to the economy recovery and the expectation on the positive development of the pandemic in 2021, we concur with the Directors’ view that the estimated ASP for 2021, 2022 and 2023 are fair and reasonable.

Estimated sales volume for 2021, 2022 and 2023

The Company estimated that approximately 28,910 tonnes of relevant polyester filament yarns products will be sold to Baikai Wrap Knitting for 2021, representing an increase by 11.7% compared to that for sales volume of approximately 25,880 tonnes for 2019 and a decrease by 23.9% compared to that for the estimated sales volume of approximately 37,974 tonnes for 2020 respectively. The sales volume for 2022 and 2023, is estimated to remain at the same as the level of 2021.

We understood from the Company that the estimated sales volume of approximately 37,974 tonnes for 2020, representing a significant increase by 46.7% compared to the actual sales volume of approximately 25,880 tonnes for 2019, and this increase was due to the fact that Baikai Wrap Knitting increased its production by producing more medical textile to cater for the market demand due to the outbreak of COVID-19, with the expectation of the positive development of COVID-19 in 2021, the Directors consider that such significant increasing trend will not continue in 2021 and an increase by 11.7% for 2021 compared to the sales volume for 2019, which is based on the expected growth rate of production capacity of the Baikai Wrap Knitting for 2021 as compared to 2019, is reasonable according to the discussion with Baikai Wrap Knitting.

Having considered the above, in particular, of the historical sales volume to Baikai Wrap Knitting; and the anticipated steady demand of Baikai Wrap Knitting for relevant polyester filament yarns products in 2021, 2022 and 2023, we consider that the assumptions made by the Company relating to the estimated sales volume to Baikai Wrap Knitting to derive the proposed annual caps under the 2021 Sales Agreement II are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2021 Sales Agreement III

As set out in the Letter from the Board, the proposed annual caps for the 2021 Sales Agreement III were determined with reference to (i) the actual sales made to Baikai Textile for 2018, 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 year 2021, 2022 and 2023; and (iv) the anticipated steady demand of Baikai Textile for relevant products in 2021, 2022 and 2023.

To assess the fairness and reasonableness of the proposed annual caps, we have discussed with the Company on the assumptions made to determine the proposed annual caps. We understood from the Company that, as shown in the table above, the proposed annual caps are derived by the estimated ASP of the relevant polyester filament yarns products and multiplied by the estimated sales volume of relevant products to Baikai Textile in 2021, 2022 and 2023. Hence, we have conducted analysis on the fairness and reasonableness of (i) the estimated ASP and (ii) the estimated sales volume from 2021 to 2023.

Estimated ASP

The estimated ASP of RMB6,795 per tonne of relevant polyester filament yarns products for 2021 is determined with reference to the ASP of relevant polyester filament yarns products for 2019, the time before the outbreak of COVID-19. Basis of such estimation by the Group and our analysis have been set out in the paragraphs headed “2021 Sales Agreement I – Estimated ASP” above.

Similar to that for 2021 Sales Agreement I, for the sake of prudence, the Company assumes the estimated ASP for 2022 and 2023 to remain at the same level as 2021.

Taking into account of the above, in particular, the increasing trend in the market price of the relevant polyester filament yarns products due to the economy recovery and the expectation on the positive development of the pandemic in 2021, we concur with the Directors’ view that the estimated ASP for 2021, 2022 and 2023 are fair and reasonable.

Estimated sales volume for 2021, 2022 and 2023

The Company estimated that approximately 54,305 tonnes of relevant polyester filament yarns products will be sold to Baikai Textile for 2021, representing an increase by 25.9% compared to that for sales volume of approximately 43,143 tonnes for 2019 and a decrease by 26.5% compared to that for the estimated sales volume of approximately 73,930 tonnes for 2020 respectively. The sales volume for 2022 and 2023, is estimated to remain at the same as the level of 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We understood from the Company that the estimated sales volume of approximately 73,930 tonnes for 2020, representing a significant increase by 71.4% compared to the actual sales volume of approximately 43,143 tonnes for 2019, and this increase was due to the fact that Baikai Textile increased its production by producing more medical textile to cater for the market demand due to the outbreak of COVID-19, with the expectation of the positive development of COVID-19 in 2021, the Directors consider that such significant increasing trend will not continue in 2021 and an increase by 25.9% for 2021 compared to the sales volume for 2019, which is based on the expected growth rate of production capacity of the Baikai Textile for 2021 as compared to 2019, is reasonable according to the discussion with Baikai Textile.

Having considered the above, in particular, the historical sales volume to Baikai Textile; and the anticipated steady demand of Baikai Textile for relevant polyester filament yarns products in 2021, 2022 and 2023, we consider that the assumptions made by the Company relating to the estimated sales volume to Baikai Textile to derive the proposed annual caps under the 2021 Sales Agreement III are fair and reasonable.

2021 Sales Agreement IV

As set out in the Letter from the Board, the proposed annual caps for the 2021 Sales Agreement IV were determined with reference to (i) the actual sales made to Baikai Zipper in 2018, 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.

To assess the fairness and reasonableness of the proposed annual caps, we have discussed with the Company on the assumptions made to determine the proposed annual caps. We understood from the Company that, as shown in the table above, the proposed annual caps are derived by the estimated ASP of the relevant polyester filament yarns product and multiplied by the estimated sales volume to Baikai Zipper in 2021, 2022 and 2023. Hence, we have conducted analysis on the fairness and reasonableness of (i) the estimated ASP and (ii) the estimated sales volume from 2021 to 2023.

Estimated ASP

The estimated ASP of RMB16,785 per tonne of relevant polyester filament yarns products for 2021 is determined with reference to the ASP of relevant polyester filament yarns products for 2019, the time before the outbreak of COVID-19. Basis of such estimation by the Group and our analysis have been set out in the paragraphs headed “2021 Sales Agreement I – Estimated ASP” above.

Similar to that for 2021 Sales Agreement I, for the sake of prudence, the Company assumes the estimated ASP for 2022 and 2023 to remain at the same level as 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Taking into account of the above, in particular, the increasing trend in the market price of the relevant polyester filament yarns products due to the economy recovery and the expectation of the positive development of the pandemic in 2021, we concur with the Directors' view that the estimated ASP for 2021, 2022 and 2023 are fair and reasonable.

Estimated sales volume for 2021, 2022 and 2023

The Company estimated that approximately 396 tonnes of relevant polyester filament yarns products will be sold to Baikai Zipper for 2021, which is the same as the sales volume of 396 tonnes in 2019 and represents a decrease by 41.2% compared to that for the estimated sales volume of approximately 674 tonnes for 2020. The sales volume for 2022 and 2023 is estimated to remain the same as the level of 2021.

We understood from the Company that the estimated sales volume of approximately 674 tonnes for 2020, representing a significant increase by 70.2% compared to the actual sales volume of approximately 396 tonnes for 2019, and such increase was due to the fact that Baikai Zipper increased its production by producing more medical textile to cater for the market demand due to the outbreak of COVID-19, with the expectation of the positive development of COVID-19 in 2021, the Directors consider that such significant increasing trend will not continue in 2021.

Having considered the above, in particular, the historical sales volume to Baikai Zipper; and the anticipated steady demand of Baikai Zipper for relevant polyester filament yarns products in 2021, 2022 and 2023, we consider that the assumptions made by the Company relating to the estimated sales volume to Baikai Zipper to derive the proposed annual caps under the 2021 Sales Agreement IV are fair and reasonable.

2021 Sales Agreement V

As set out in the Letter from the Board, the proposed annual caps for the 2021 Sales Agreement V were determined with reference to (i) the actual sales made to Baikai Wrap Knitting for the five months ended 31 December 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 Vietnam for the years 2021, 2022 and 2023; and (iv) the anticipated steady demand of Baikai Vietnam and the Vietnam market for relevant polyester filament yarns products in 2021, 2022 and 2023.

To assess the fairness and reasonableness of the proposed annual caps, we have discussed with the Company on the assumptions made to determine the proposed annual caps. We understood from the Company that, as shown in the table above, the proposed annual caps are derived by the estimated ASP of the relevant polyester filament yarns products and multiplied by the estimated sales volume to Baikai Vietnam in 2021, 2022 and 2023. Hence, we have conducted analysis on the fairness and reasonableness of (i) the estimated ASP and (ii) the estimated sales volume from 2021 to 2023.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Estimated ASP

The estimated ASP of RMB8,676 per tonne of relevant polyester filament yarns products for 2021 is determined with reference to the ASP of relevant polyester filament yarns products for 2019, the time before the outbreak of COVID-19. Basis of such estimation by the Group and our analysis have been set out in the paragraphs headed “2021 Sales Agreement I – Estimated ASP” above.

As advised by the Company, ASP of relevant polyester filament yarns products charged by the Billion Vietnam decreased by approximately 31.2% from RMB7,444 per tonne in February 2020 to RMB5,330 per tonne in August 2020 and showed an increase trend thereafter, reaching to RMB5,947 per tonne in October 2020. The Group adjust the unit price mainly due to the movements in the cost for those products, in particular, the decrease by approximately 29.2% in the purchase cost of the major raw materials, namely PTA and MEG from RMB8,086 per tonne in February 2020 to RMB5,725 per tonne in June 2020, and the increase by approximately 8.8% from RMB5,725 per tonne in June 2020 to RMB6,229 per tonne in October 2020.

Further, as discussed with the Company, crude oil is the key material of PTA and MEG, and thus the selling price of them will move in line with the pricing trend of crude oil. According to the statistics released in www.oilprice.com, price index of major types of crude oil showed an increasing trend since late April 2020 following the consecutive two months drop since outbreak of COVID-19. On 24 November 2020, oil prices soared on to their highest level since early March after another pharmaceutical alliance announced a high level of protection of a vaccine candidate. Therefore, the Directors consider the ASP recovery reasonable.

For the sake of prudence, the Company assumes the estimated ASP for 2022 and 2023 to remain at the same level as 2021.

Taking into account of the above, in particular, the increasing trend in the market price of the relevant polyester filament yarns products due to the economy recovery and the expectation of the positive development of the pandemic in 2021, we concur with the Directors’ view that the estimated ASP for 2021, 2022 and 2023 are fair and reasonable.

Estimated sales volume for 2021, 2022 and 2023

The Company estimated that approximately 1,729 tonnes of relevant polyester filament yarns products will be sold to Baikai Vietnam for 2021, representing an increase by 3.0 times compared to that for the estimated sales volume of 428 tonnes for 2020. The sales volume for 2022 and 2023 is estimated to remain the same as the level of 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As confirmed by the Company, such sales volume is assumed based on the expected increase in the demand of Baikai Vietnam for relevant polyester filament yarns products by around 3.0 times due to the expanded production capacity of Baikai Vietnam since 2021. As discussed with Baikai Vietnam by the Company, estimated sales volume to Baikai Vietnam for 2020 would be 428 tonnes, representing 84.5% of total purchase of Baikai Vietnam for the relevant polyester filament yarns products for 2020, and Baikai Vietnam intends to maintain this proportion of purchase from the Group for the forthcoming three years and therefore increase its purchase from the Group to fulfil its production needs.

Having considered the above, in particular, the historical sales volume to Baikai Vietnam; and the anticipated increase in demand of Baikai Vietnam for relevant polyester filament yarns products in 2021, 2022 and 2023 due to the expanded production capacity of Baikai Vietnam, we consider that the assumptions made by the Company relating to the estimated sales volume to Baikai Vietnam to derive the proposed annual caps under the 2021 Sales Agreement V are fair and reasonable.

(4) Principal terms of the 2021 Purchase and Processing Agreements

2021 Purchase and Processing Agreements I

Principal terms

On 10 December 2020, the Group, through Billion Fujian, entered into the 2021 Purchase and Processing Agreements I for the purchase of packaging materials, including paper products and polyfoam boards, and related processing services from Baikai Paper on the principal terms as set out below.

(i) Pricing

The prices of the products or services payable to Baikai Paper by the Group will be agreed between the parties from time to time after arm's length negotiation, with reference to the prevailing market prices of relevant products or services and normal commercial terms comparable to those offered by independent third party suppliers to the Group.

We have discussed with and understood from the Company that there is no fixed unit price or standard price for relevant packaging materials or processing services. We have reviewed 18 samples of previous purchase document and quotation which were randomly selected by us from the purchase ledger of the Group, in relation to the purchase of relevant products by the Group from Baikai Paper or independent third party suppliers. We noted that the unit price of the purchase from Baikai Paper was lower than that quoted by the independent third party suppliers.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Also, as confirmed by the Group, if the unit price quoted by Baikai Paper and independent third party suppliers are similar, the Group may purchase from Baikai Paper as the packaging materials provided by Baikai Paper are of high quality and are suitable for the use of the Group and the production base of Baikai Paper is in close proximity to the Group, which allows timely delivery of products as requested by the Group.

(ii) Payment terms

Billion Fujian will generally be required to pay by cash, cheque, wire transfer or bills within 90 days after satisfactory inspection and acceptance of products supplied or processed by Baikai Paper.

We have reviewed 18 samples of purchase document which were randomly selected by us from the purchase ledger of the Group, in respect of the purchase of relevant packaging materials, including paper products and polyfoam boards, by the Group from Baikai Paper or independent third party suppliers. We noted from the quotations that the Group was required to pay within 90 days after satisfactory inspection and acceptance of products supplied or processed. We were further advised by the Group that the Group was required to pay 50% deposit before stock delivery to the independent third party suppliers and the balance within one month after receiving relevant value-added tax (“VAT”) invoice from such suppliers practically. In the case of purchase from Baikai Paper, We noted from the purchase documents that delivery was made by batches within one month and no deposit was requested by Baikai Paper, we further noted that the Group either made the payment to Baikai Paper gradually by bank transfer after stock delivery or made the payment before the last batch of stock delivery. As advised by the Group, due to the long and stable business relationship between the Group and Baikai Paper, Baikai Paper did not request for payment terms, in particular, deposit or full payment within one month after receiving relevant VAT invoices, as requested by the independent third party suppliers. And the Group was generally allowed by Baikai Paper to make instalment payment after stock delivery.

We have discussed with and understood from the Company that, while it will follow the payment terms stipulated under the 2021 Purchase and Processing Agreements I for future transaction with Baikai Paper, it may also adjust the terms as mentioned above if the terms offered by Baikai Paper to the Group are no less favourable to the Group than those offered by its independent third party suppliers.

In addition, the Group will not be obliged to purchase any products or services from Baikai Paper under the 2021 Purchase and Processing Agreements I if it considers that the terms requested by Baikai Paper when placing order are not favourable to the Group compared to those offered by independent third party suppliers.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2021 Purchase and Processing Agreements II

Principal terms

On 10 December 2020, the Group, through Billion High-tech, entered into the 2021 Purchase and Processing Agreements II for the purchase of packaging materials including paper products and related processing services from Baikai Paper on the principal terms as set out below.

(i) Pricing

The prices of the products or services payable to Baikai Paper by the Group will be agreed between the parties from time to time after arm's length negotiation, with reference to the prevailing market prices of relevant products or services and normal commercial terms comparable to those offered by independent third party suppliers to the Group.

We have discussed with and understood from the Company that there is no fixed unit price or standard price for relevant packaging materials or processing services. We have reviewed 21 samples of previous purchase document and quotation which were randomly selected by us from the purchase ledger of the Group, in relation to the purchase of relevant products by the Group from Baikai Paper or independent third party suppliers. We noted that the unit price of the purchase from Baikai Paper was lower than that quoted by the independent third party suppliers.

Also, as confirmed by the Group, if the unit price quoted by Baikai Paper and independent third party suppliers are similar, the Group may purchase from Baikai Paper as the packaging materials provided by Baikai Paper are of high quality and are suitable for the use of the Group and the production base of Baikai Paper is in close proximity to the Group, which allows timely delivery of products as requested by the Group.

(ii) Payment terms

Billion High-tech will generally be required to pay by cash, cheque, wire transfer or bills within 90 days after satisfactory inspection and acceptance of products supplied or processed by Baikai Paper.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed 21 samples of purchase document which were randomly selected by us from the purchase ledger of the Group, in respect of the purchase of relevant packaging materials by the Group from Baikai Paper or independent third party suppliers. We noted from the purchase documents and further advised by the Group, it was required to pay 50% deposit before stock delivery to the independent third party supplier and the balance within one month after receiving relevant VAT invoices from such supplier generally. In the case of purchase from Baikai Paper, we noted from the purchase documents that delivery was made by batches within one month and no deposit was requested by Baikai Paper. We further noted that the Group either made the payment gradually after the stock delivery by bank transfer or made the payment to Baikai Paper before the last batch of stock delivery. As advised by the Group, due to the long and stable business relationship between the Group and Baikai Paper, Baikai Paper did not request for payment terms, in particular, deposit or full payment within one month after receiving relevant VAT invoices, as that requested by the independent third party suppliers. And the Group was generally allowed by Baikai Paper to make instalment payment after stock delivery.

We have discussed with and understood from the Company that, while it will follow the payment terms stipulated under the 2021 Purchase and Processing Agreements II for future transaction with Baikai Paper, it may also adjust the terms as mentioned above if the terms offered by Baikai Paper to the Group are no less favourable to the Group than those offered by its independent third party suppliers.

In addition, the Group will not be obliged to purchase any products or services from Baikai Paper under the 2021 Purchase and Processing Agreements II if it considers that the terms requested by Baikai Paper when placing order are not favourable to the Group compared to those offered by independent third party suppliers.

2021 Purchase Agreement III

Principal terms

On 10 December 2020, the Group, through Billion Vietnam, entered into the 2021 Purchase Agreement III for the purchase of packaging materials including paper products and related processing services from Baikai Vietnam on the principal terms as set out below.

(i) Pricing

The prices of the products or services payable to Baikai Vietnam by the Group will be agreed between the parties from time to time after arm's length negotiation, with reference to the prevailing market prices of relevant products or services and normal commercial terms comparable to those offered by independent third party suppliers to the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have discussed with and understood from the Company that there is no fixed unit price or standard price for relevant packaging materials or processing services. We have reviewed seven samples of previous purchase document and quotation which were randomly selected by us from the purchase ledger of the Group, in relation to the purchase of relevant products by the Group from Baikai Vietnam or independent third party suppliers. We noted that the unit price of the purchase from Baikai Vietnam was similar to or lower than that quoted by the independent third party suppliers.

Also, as confirmed by the Group, if the unit price quoted by Baikai Vietnam and independent third party suppliers are similar, the Group may purchase from Baikai Vietnam as the packaging materials provided 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 the Group, which allows timely delivery of the production base of Baikai Vietnam is in close proximity to the Group, which allows timely delivery of products as requested by the Group.

(ii) Payment terms

Billion Vietnam will generally be required to pay by cash, cheque, wire transfer or bills within 90 days after satisfactory inspection and acceptance of products supplied by Baikai Vietnam.

We have reviewed seven samples of purchase document which were randomly selected by us from the purchase ledger of the Group, in respect of the purchase of relevant packaging materials by the Group from Baikai Vietnam or independent third party suppliers. We noted from quotations that the Group was required to pay within 90 days after satisfactory inspection and acceptance of products supplied or processed. In the case of purchase from Baikai Vietnam, We noted from the purchase documents and were advised by the Group that payment to Baikai Vietnam and independent third party suppliers were generally made by the Group by bank transfer within three months after satisfactory inspection and acceptance of products supplied.

As further advised by the Group, if the payment terms provided by Baikai Vietnam and independent third party suppliers are similar, the Group may purchase from Baikai Vietnam as the packaging materials provided 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 the Group, which allows timely delivery of products as requested by the Group.

We have discussed with and understood from the Company that, while it will follow the payment terms stipulated under the 2021 Purchase Agreement III for future transaction with Baikai Vietnam, it may also adjust the terms as mentioned above if the terms offered by Baikai Vietnam to the Group are no less favourable to the Group than those offered by its independent third party suppliers.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In addition, the Group will not be obliged to purchase any products or services from Baikai Vietnam under the 2021 Purchase Agreement III if it considers that the terms requested by Baikai Vietnam when placing order are not favourable to the Group compared to those offered by independent third party suppliers.

Internal control measures adopted by the Company for transaction contemplated under the 2021 Purchase and Processing Agreements

As stated in the Letter from the Board, none of the products or processing services to be purchased under the 2021 Purchase and Processing Agreements has a fixed unit price or standard price. Hence, the Group has adopted internal control measures as summarised below to ensure that the terms, in particular, price and payment terms, for the products or services purchased from Baikai Vietnam will not be less favourable than the terms offered by independent third party suppliers to the Group:

- (a) The Group will invite quotations from at least two independent third party suppliers to get a reference on the prevailing market prices for the relevant products or processing services to be procured. In case quotation cannot be obtained at relevant time, the Group will try to obtain quotations of similar products or processing services available in the market, or make reference to price information available online.
- (b) Each transaction to be contemplated with Baikai Paper or Baikai Vietnam under the 2021 Purchase and Processing Agreements will be subject to review and approval of the manager(s) of the Procurement Department and/or Quality Management Department of the Company. Factors considered by them will generally include whether the prices and terms offered by Baikai Paper or Baikai Vietnam are consistent with those stipulated under the 2021 Purchase and Processing Agreements, and the prices and terms offered by independent third party suppliers and Baikai Paper or Baikai Vietnam to the Group. With the implementation of this review process, the Group believes that Baikai Paper and Baikai Vietnam will generally not be awarded the contract unless the price and terms offered are competitive and comparable to those offered by its independent third party suppliers.
- (c) Regular checks will be conducted to review and assess whether the products are purchased in accordance with the terms of the relevant agreement. The team designated to conduct regular checks comprise three management personnel in Billion Fujian, Billion High-tech or Billion Vietnam who are responsible for quality control, purchase or management function of the Group respectively.
- (d) The Company has engaged its auditors to conduct an annual review of the continuing connected transactions of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed 46 samples of walkthrough document which were randomly selected by us from the purchase ledger of the Group, regarding previous purchases made by the Group. We noted that the Group has obtained quotations from three suppliers for a proposed purchase and the one selected was signed and approved by the designated staff, supporting that the Group has carried out the internal control procedures above.

As confirmed by the Company, they will continue to carry out the procedures above to monitor the transaction to be contemplated under the 2021 Purchase and Processing Agreements. And the Group will not be obliged to purchase any products or processing services from Baikai Paper and Baikai Vietnam under the 2021 Purchase and Processing Agreements should it consider the terms, including but not limited to the price and payment terms, requested by Baikai Paper when placing order are not favourable to the Group compared to those offered by independent third party suppliers.

In addition, we have reviewed the assurance reports issued by the external auditors of the Company, pursuant to which the auditors stated that, for transactions between the Group and its connected parties in 2018 and 2019, nothing has come to their attention that causes them to believe that those continuing connected transactions were not in accordance with the pricing policies of the Group, or were not entered into in accordance with the relevant agreements governing such transactions, in all material respects.

We also noted the confirmation from the independent non-executive Directors as disclosed in the 2018 AR and 2019 AR that they have reviewed the continuing connected transactions of the Group for 2018 and 2019, and confirmed that those transactions were entered into (i) in the ordinary and usual course of the business of the Group; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. In addition, as stated in the 2018 AR and 2019 AR, the Company has an internal audit department which was engaged to assist the Board to perform review of internal control systems for the Group's business operations and processes, covering financial, compliance and operational control as well as risk management mechanisms. As confirmed by the Company, no findings of material insufficiency in the Group's internal control system were noted.

Given the above, we consider that the Group has sufficient internal control measures in place to monitor the transactions between the Group and Baikai Paper or Baikai Vietnam.

As confirmed by the Group, it did not purchase any processing services from Baikai Paper in last few years and thus there was no sample document available for our review. Nevertheless, we have discussed with and were confirmed by the Group that it would apply the internal control measures above if it procures processing services under the 2021 Purchase and Processing Agreements in the future.

We considered that the findings shown in the samples regarding pricing and payment terms in purchase and internal control we reviewed as mentioned above are fair and representative as they included samples for each item which were randomly selected by us from the purchase ledger of the Group containing information regarding its purchase from all its suppliers.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Taking into consideration of the above, in particular, (i) the price and payment terms offered by Baikai Paper or Baikai Vietnam and independent third party suppliers to the Group as shown in the purchase documents reviewed; (ii) internal control measures are in place and carried out by the Group to monitor the its transaction with Baikai Paper and Baikai Vietnam to ensure that the terms offered by Baikai Paper and Baikai Vietnam to the Group will not be less favourable compared to that offered by the independent third party suppliers to the Group; and (iii) the Group will not be obliged to purchase any products or services from Baikai Paper and Baikai Vietnam should it consider the terms, including but not limited to the price and payment terms, requested by Baikai Paper and Baikai Vietnam are not favourable to the Group than those offered by independent third party suppliers, we concur with the Directors' view and consider that the terms under the 2021 Purchase and Processing Agreements are on normal commercial terms are fair and reasonable.

(5) Annual caps under the 2021 Purchase and Processing Agreements

Set out below is a summary of (i) the historical transaction amounts under the Existing Purchase and Processing Agreements for 2018, 2019 and the ten months ended 31 October 2020; and (ii) the proposed annual caps for the 2021 Purchase and Processing Agreements for 2021, 2022 and 2023:

	Historical transaction amounts		
	For the year ended 31 December		For the ten months ended 31 October 2020
	2018	2019	
Existing Purchase and Processing Agreements I			
Transaction amount (<i>RMB</i>)	320,104,000	316,233,000	244,719,000
Purchase volume (<i>pieces</i>)	125,996,750	117,063,185	90,700,153
Average purchase price (“ APP ”) per piece (<i>RMB</i>)	2.5	2.7	2.7
Existing Purchase and Processing Agreements II			
Transaction amount (<i>RMB</i>)	11,416,000	12,046,000	9,687,000
Purchase volume (<i>pieces</i>)	414,865	446,462	467,835
Average purchase price (“ APP ”) per piece (<i>RMB</i>)	27.5	27.0	20.7
Existing Purchase Agreement III			
Transaction amount (<i>RMB</i>)	–	5,619,000	28,379,000
Purchase volume (<i>pieces</i>)	–	3,878,253	19,222,448
Average purchase price (“ APP ”) per piece (<i>RMB</i>)	–	1.5	1.5
Total purchase amount (<i>RMB</i>)	331,520,000	333,898,000	282,785,000

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	Proposed annual caps		
	For the year ending 31 December		
	2021	2022	2023
2021 Purchase and Processing Agreements I			
Proposed annual cap (RMB)	496,000,000	499,000,000	499,000,000
Estimated purchase volume (pieces)	160,227,630	161,631,630	161,631,630
Estimated APP per piece (RMB)	3.1	3.1	3.1
2021 Purchase and Processing Agreements II			
Proposed annual cap (RMB)	38,000,000	44,000,000	60,000,000
Estimated purchase volume (pieces)	1,174,181	1,358,864	1,852,996
Estimated APP per piece (RMB)	32.4	32.4	32.4
2021 Purchase Agreement III			
Proposed annual cap (RMB)	93,000,000	93,000,000	93,000,000
Estimated purchase volume (pieces)	51,666,667	51,666,667	51,666,667
Estimated APP per piece (RMB)	1.8	1.8	1.8
Total proposed annual caps (RMB)	<u>627,000,000</u>	<u>636,000,000</u>	<u>652,000,000</u>

In relation to Existing Purchase and Processing Agreements II, we noted that the actual transaction amount for the two years ended 31 December 2019 were very low compared to the historical annual cap. As advised by the Company, such low actual transaction amount were mainly due to the reason that two new production lines for manufacturing polyester thin film product which had been planned to come into full operation in the fourth quarter of 2018 but did not commence operation until August 2020.

In relation to Existing Purchase Agreement III, we noted that the actual transaction amount for five months ended 31 December 2019 were very low compared to the historical annual cap. We understand from the Company that such low actual transaction amounts were due to the delay in the completion of installation of facilities and hence delay in the commercial production of polyester filament yarn products in Vietnam. There are ten production lines planned for polyester filament yarn products in Vietnam. The first four production lines did not commence operation until September 2019 and not achieved scalable production until 2020. As advised by the Company, there was only one new production line coming into operation in 2020 due to the COVID-19 pandemic and the remaining five production lines are expected to be put into operation in 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2021 Purchase and Processing Agreements I

As set out in the Letter from the Board, the proposed annual caps for the 2021 Purchase and Processing Agreements I were determined with reference to (i) the actual transaction amount between the Group, through Billion Fujian, and Baikai Paper in 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.

To assess the fairness and reasonableness of the proposed annual caps, we have discussed with the Company on the assumptions made to derive the proposed annual caps. We understood from the Company that, as shown in the table above, the proposed annual caps are derived by the estimated APP of the relevant packaging materials and multiplied by the estimated purchase volume from Baikai Paper in 2021, 2022 and 2023. Hence, we have conducted analysis on the fairness and reasonableness of (i) the estimated APP and (ii) the estimated purchase volume from 2021 to 2023. As advised by the Company, it considers prudent not to consider factors related to processing services which the Group may require from Baikai Paper under the 2021 Processing Agreement I, to derive the proposed annual caps as the Group has not purchased such processing service from Baikai Paper or independent third party suppliers in the past few years.

Estimated APP

The estimated APP of approximately RMB3.1 per piece of relevant packaging materials for 2021 represents an increase of approximately 14.8%, compared to the historical APP of approximately RMB2.7 per piece of packaging products purchased from Baikai Paper for the ten months ended 31 October 2020. As advised by the Company, such increase is assumed based on the projected 20% increase in the average unit price of the relevant packaging materials in 2021 compared to that for the year ended 31 December 2019.

As discussed with the Company, the projected 20% increase in the unit purchase price of the relevant packaging material is assumed based on the projected upward trend in the market price of the relevant packaging materials. Such estimation was based on the following reasons:

- (i) The projected increase in the market price of raw materials for manufacturing paper products due to the increasingly strengthening government policy to ban on imports of waste paper. Since 2017, Chinese government has implemented a series of policies aiming to ban the imports of foreign waste paper, it is expected that the imports of waste paper would be reduced to zero by the end of 2020 as mentioned in certain government documents, which would result in a larger shortage of supply of waste paper once the economy bounce back to the level before COVID-19 pandemic;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) In January 2020, Chinese government unveiled a plan to reduce single-use plastics across the country aiming to ban the use of non-degradable bags in major cities by the end of 2020 and in all cities and towns by 2022, therefore, a larger demand of paper products, as a substitute of plastic product, would be expected; and
- (iii) According to the news released on the website of Securities Daily (證券日報網) on 16 November 2020, major leading companies in packaging paper industry have been increasing the unit price of packaging paper since August 2020 due to the rebound in the market demand for paper products as a result of the resumption of business in the PRC with the COVID-19 becoming more contained. The Directors consider that with the progress of COVID-19 vaccines and the market expectation on the positive development of COVID-19, the economy will resume to the level in 2019 in the first half of 2021, which drives to a steady growth of overseas demand and domestic demand for paper products in 2021.

For the sake of prudence, the Company assumes the estimated APP for 2022 and 2023 to remain at the same level as 2021.

Taking into account of the above, we concur with the Directors' view that the estimated APP for 2021, 2022 and 2023 are fair and reasonable.

Estimated purchase volume for 2021, 2022 and 2023

The Company estimated that approximately 160.2 million pieces and 161.6 million pieces of packaging materials will be purchased from Baikai Paper for 2021 and 2022 respectively, representing an increase by 54.6% for 2021 and 56.0% for 2022, compared to the estimated purchase volume for 2020 of approximately 103.6 million pieces. The purchase volume for 2023 is estimated to remain the same as the level of 2022.

As advised by the Group, the actual transaction amount for the two years ended 31 December 2019 were low compared to the historical annual cap was mainly due to the delay of the full operation of ten new production lines for manufacturing polyester filaments yarns in a new production zone. These ten new production lines had been planned to be in full operation in mid of 2018, however, the first four and the remaining six new production lines actually had commenced operation in October 2018 and in mid of 2019 respectively. As further advised by the Company, due to the lower market demand resulting from the COVID-19, the estimated utilization rate of designed production capacity of polyester filaments yarns in Billion Fujian in 2020 is only around 68%, with the expectation of positive development of COVID-19, the Directors of the Company expect that the utilization rate will increase to 90% in 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Furthermore, we noted an announcement of the Company dated 12 September 2018, the Group has approved the expansion plan of Billion Fujian (the “**2018 Expansion Plan**”) to establish production lines for polyester industrial yarn products in the PRC, which will have an aggregate estimated production capacity of about 250,000 tonnes per year upon completion. As further advised by the Group, there are a total of 16 production lines under 2018 Expansion Plan, of which eight production lines had commenced operation gradually in 2020 and scalable production for these production lines is expected to achieve in the second half of 2021, in addition, the remaining eight production lines are expected to come into full operation since second half of 2021.

Due to the reasons discussed in the above two paragraphs, demand for relevant materials is expected to increase in 2021, 2022 and remain stable in 2023, representing a increase of 54.6% for 2021, 56.0% for 2022 and 56.0% for 2023 respectively, compared to that in 2020.

Having considered the above, in particular, (i) historical purchase volume from Baikai Paper; (ii) the expected increase in the Group’s demand of packaging materials as a result of its increase in production from the 2021; (iii) nil processing service is assumed for 2021, 2022 and 2023; and (iv) steady demand for 2022 and 2023 is expected by the Company, we consider that the assumptions made by the Company relating to the estimated purchase volume by the Group to derive the proposed annual caps under the 2021 Purchase and Processing Agreements I are fair and reasonable.

2021 Purchase and Processing Agreements II

As set out in the Letter from the Board, the proposed annual caps for the 2021 Purchase and Processing Agreements II were determined with reference to (i) the actual transaction amount between the Group, through Billion High-tech, and Baikai Paper in 2018, 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 approximately 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’ products in 2021, 2022 and 2023.

To assess the fairness and reasonableness of the proposed annual caps, we have discussed with the Company on the assumptions made to derive the proposed annual caps. We understood from the Company that, as shown in the table above, the proposed annual caps are derived by the estimated APP of the relevant packaging materials and multiplied by the estimated purchase volume from Baikai Paper in 2021, 2022 and 2023. Hence, we have conducted analysis on the fairness and reasonableness of (i) the estimated APP and (ii) the estimated purchase volume from 2021 to 2023. As advised by the Company, it considers prudent not to consider factors related to processing services which the Group may require from Baikai Paper under the 2021 Processing Agreement II, to derive the proposed annual caps as the Group has not purchased such processing service from Baikai Paper or independent third party suppliers in the past few years.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Estimated APP

The estimated APP of approximately RMB32.4 per piece of relevant packaging materials for 2021 represents an increase of approximately 56.5%, compared to the historical APP of approximately RMB20.7 per piece of packaging products purchased from Baikai Paper for the ten months ended 31 October 2020. As advised by the Company, such increase is assumed based on the projected 20% increase in the unit purchase price of the relevant packaging materials in 2021 compared to that for 2019.

We noted from the purchase record of the Group that the packaging products purchased by the Billion High-tech from Baikai Paper and other independent suppliers mainly included paper rolls and Billion High-tech used paper rolls for packaging polyester thin film products and polyester films, the historical APP of paper rolls for packaging polyester thin film products and polyester films for the ten months ended 31 October 2020 was RMB23.0 per tonne and RMB23.0 per tonne, representing a decrease of approximately 22.6% and 14.6%, compared to that for the historical APP for 2019 of RMB29.7 per tonne and RMB26.9 per tonne respectively. As advised by the Company, in 2020, due to the COVID-19, paper rolls purchased by Billion High-tech were shorter in length in general than that purchased in previous years due to the decrease of the number of orders and volume of each order placed by Billion High-tech's customers, which resulted in the decrease of APP of paper rolls for the ten months ended 31 October 2020 compared to that for 2019. With the expectation that customer's demand for the Group's products bounce back to the level before the pandemic since 2021 due to the economy recovery, Billion High-tech intends to purchase longer paper rolls for packaging products.

As discussed with the Company, the projected 20% increase in the unit purchase price of the relevant packaging materials is assumed based on the projected upward trend in the market price of the relevant packaging materials. Basis of such estimation by the Group and our analysis have been set out in the paragraphs headed "2021 Purchase and Processing Agreements I – Estimated APP" above.

For the sake of prudence, the Company assumes the estimated APP for 2022 and 2023 to remain at the same level as 2021.

Taking into account of the above, we concur with the Directors' view that the estimated APP for 2021, 2022 and 2023 are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Estimated purchase volume of for 2021, 2022 and 2023

The Company estimated that approximately 1.2 million, 1.4 million and 1.9 million pieces of paper rolls will be purchased from Baikai Paper for 2021, 2022 and 2023 respectively, representing an increase by 95.6% for 2021, 1.3 times for 2022 and 2.1 times for 2023, as compared to the estimated purchase volume for 2020 of approximately 0.6 million pieces.

We have discussed with the Company and understood that in order to capture the increasing consumption of polyester thin film in the PRC market in the recent years, the Group has been enhancing its current production capacity of polyester thin film and strengthening the Group's market position as one of the largest polyester thin film manufacturer. We also noted an announcement of the Company dated 6 March 2019, the Group has approved the expansion plan of Billion High-tech to establish new production lines for polyester thin film in the PRC over a three years period from 2019 to 2021, which will have an aggregate estimated production capacity of about 255,000 tonnes per year upon completion (the "**2019 Expansion Plan**"). In another announcement of the Company dated 2 September 2020, the Group has approved the expansion plan of Billion High-tech to establish new production lines for polyester thin film in the PRC over a three years period from 2020 to 2022, which will have an aggregate estimated production capacity of about 330,000 tonnes per year upon completion (the "**2020 Expansion Plan**").

As further advised by the Company, under the 2019 Expansion Plan and 2020 Expansion Plan, it is expected that six, two and four new production lines for polyester thin film products would be progressively in full operation in 2021, 2022 and 2023 respectively. In addition, three, one and one new production lines for polyester films would be progressively in full operation in 2021, 2022 and 2023 respectively. These two expansion plans would result in a continuing and significant increase of 94.3%, 1.3 times and 1.9 times in the production capacity of polyester thin film and polyester film of the Group over the forthcoming three years as compared to that of 2020, which in turn would result in the increase of demand for paper rolls. The growth rate of demand for paper rolls is expected to be approximately 92.0% for 2021, 1.2 times for 2022 and 2.0 times for 2023, compared to that in 2020.

Having considered the above, in particular, (i) historical purchase volume from Baikai Paper; (ii) the expected continuing and significant increase in the Group's demand of packaging materials as a result of its expansion in production capacity over the forthcoming three years; and (iii) nil processing service is assumed for 2021, 2022 and 2023, we consider that the assumptions made by the Company relating to the estimated purchase volume by the Group to derive the proposed annual caps under the 2021 Purchase and Processing Agreements II are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2021 Purchase Agreement III

As set out in the Letter from the Board, the proposed annual caps for the 2021 Purchase Agreement III were determined with reference to (i) the actual transaction amount between the Group, through Billion Vietnam, and Baikai Vietnam in the five months ended 31 December 2019 and the ten months ended 31 October 2020; (ii) the prevailing market price 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; (iv) anticipated stable demand for Baikai Vietnam's products in 2021, 2022 and 2023.

To assess the fairness and reasonableness of the proposed annual caps, we have discussed with the Company on the assumptions made to derive the proposed annual caps. We understood from the Company that, as shown in the table above, the proposed annual caps are derived by the estimated APP of the relevant packaging materials and multiplied by the estimated purchase volume from Baikai Vietnam in 2021, 2022 and 2023. Hence, we have conducted analysis on the fairness and reasonableness of (i) the estimated APP and (ii) the estimated purchase volume from 2021 to 2023.

Estimated APP

The estimated APP of approximately RMB1.8 per piece of relevant packaging materials for 2021 represents an increase of approximately 20%, compared to the historical APP of approximately RMB1.5 per piece of packaging products purchased from Baikai Paper for the ten months ended 31 October 2020. As advised by the Company, such increase is assumed based on the projected 20% increase in the unit purchase price of the relevant packaging material in 2021 compared to that for 2019.

As advised by the Company, as the raw materials for manufacturing paper products in Baikai Vietnam are mostly imported from PRC, purchase price of the relevant packaging materials from Baikai Vietnam is highly susceptible to the market price of the relevant packaging materials in the PRC. Due to the reasons as discussed in the paragraphs headed "2021 Purchase and Processing Agreements I – Estimated APP" above which supports the 20% increase in the market price the relevant packaging materials in the PRC in 2021, compared to that for 2019. We concur with the Directors' view that the projected 20% increase in the unit purchase price of the relevant packaging material in 2021 compared to that for 2019 under 2021 Purchase Agreement III is fair and reasonable.

For the sake of prudence, the Company assumes the estimated APP for 2022 and 2023 to remain at the same level as 2021.

Taking into account of the above, we concur with the Directors' view that the estimated APP for 2021, 2022 and 2023 are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Estimated purchase volume of for 2021, 2022 and 2023

The Company estimated that approximately 52 million pieces of packaging materials will be purchased from Baikai Vietnam for 2021, representing an increase by 95.4% for 2021, compared to that for the estimated purchase volume for 2020 of approximately 26 million pieces. The purchase volume for 2022 and 2023 are estimated to remain at the same as the level of 2021.

As advised by the Company, such increase is estimated based on the increased demand for the relevant packaging materials in 2021, compared to that for 2020 due to the following factors:

- (i) the combined production volume of POY, FDY and DTY of Billion Vietnam is expected to increase by 84.3% in 2021, compared to estimated production volume for 2020 as a results of the expansion of production capacity with the rest five new production lines for polyester filament yarns coming into full operation in 2021
- (ii) the unit consumption of paper rolls for manufacturing POY in 2021 is expected to bounce back to the level of 70 pieces per tonne in 2019, representing an increase by 31.4% compared to that of 53.3 pieces per tonne in 2020. We noted from the Company that POY produced by the Group is primarily used as raw material to produce DTY and its production volume accounts for approximately 40% of the total production volume of polyester filament yarns. In 2020, Billion Vietnam had reused the paper rolls for packaging thick denier POY due to the cost consideration, which reduced the unit consumption of paper rolls for POY. However, as further advised by the Company, paper rolls which were used to package thin denier POY are not reusable while the proportion of production of thin denier POY and thick denier POY are determined based on the customers' requirement on the specification of DTY at the relevant time. Therefore, as confirmed by the Company, it is prudent to adopt a higher unit consumption ratio for the purpose of calculation of proposed annual caps.

Having considered the above, in particular, (i) historical purchase volume from Baikai Vietnam; (ii) the expected increase in the demand of packaging materials as a result of its expansion in production capacity and higher unit consumption of paper rolls for manufacturing POY from 2021; and (iii) stable demand for Baikai Vietnam's products in 2021, 2022 and 2023 is expected by the Company, we consider that the assumptions made by the Company relating to the estimated purchase volume by the Group to derive the proposed annual caps under the 2021 Purchase Agreement III are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Taking into consideration of the above principal reasons and factors, we consider that the terms under the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements and the proposed annual caps are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to approve the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements and the proposed annual caps at the EGM and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully, For and on behalf of
Dongxing Securities (Hong Kong) Company Limited
TSANG Wing Ngai
Executive Director
Investment Banking Department

Mr. TSANG Wing Ngai is a licensed person registered with the Securities and Future Commission since 2008 and is currently a responsible officer of Dongxing Securities (Hong Kong) Company Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. Mr. TSANG Wing Ngai has over 12 years of experience in the corporate finance industry, and has participated in the provision of independent financial advisory services for various connected transactions involving companies listed in Hong Kong.

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 Company. 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. DISCLOSURE OF INTERESTS

(a) Interests and short positions of the Directors in the share capital and associated corporations of the Company as at the Latest Practicable Date

As at the Latest Practicable Date, the interests or short positions of the Directors and the chief executive in the Shares, underlying Shares and debentures of the associated corporations of the Company, within the meaning of Part XV of the SFO which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

Interests and short positions in the Shares, underlying Shares and debentures and associated corporations of the Company:

Name of Director/Chief Executive Officer	Capacity	Number of Shares as at the Latest Practicable Date	Long/short position	Percentage of issued share capital as at the Latest Practicable Date
Mr. Sze Tin Yau	Interested in a controlled corporation	643,720,000	Long position	30.37%
Mr. Wu Jinbiao	Interested in a controlled corporation	136,820,000	Long position	6.45%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had or was deemed to have any 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) which will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them has taken or deemed to have taken under the SFO), or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO

As at the Latest Practicable Date, so far as the Directors are aware, the following persons have interests or short positions in the Shares or underlying Shares which are required to be disclosed pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or, are directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

Interests and short positions in the Shares and underlying Shares or which are required, pursuant to section 336 of the SFO, to be recorded in the register referred to therein:

Name of Shareholder	Capacity	Number of Shares as at the Latest Practicable Date	Percentage of issued share capital as at the Latest Practicable Date
Hong Kong (Rong An) Investment Limited	Beneficial owner	784,384,808	37.00%
Kingom Power Limited	Beneficial owner	643,720,000	30.37%
Winwett Investments Limited	Beneficial owner	136,820,000	6.45%
Ever Luxuriant Global Trading Limited	Beneficial owner	188,644,000	8.90%

Name of Shareholder	Capacity	Number of Shares as at the Latest Practicable Date	Percentage of issued share capital as at the Latest Practicable Date
Mr. Huang Shaorong	Beneficial owner and through controlled corporation	208,065,000	9.81%
Haibin International Investments Limited	Beneficial owner	177,252,000	8.36%
Mr. Lin Haibin	Beneficial owner and through controlled corporation	203,797,000	9.61%

Mr. Sze Tin Yau is a director of Kingom Power Limited and Mr. Wu Jinbiao is a director of Winwett Investments Limited.

Save as disclosed above, as at the Latest Practicable Date, so far as the Directors are aware, there is no other person (other than the Director or chief executive of the Company) who has interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which will be required, pursuant to section 336 of the SFO, to be recorded in the register referred to therein.

Save as disclosed above, none of the Directors is a director or employee of the above substantial shareholders of the Company.

3. SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into a service agreement with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

4. QUALIFICATIONS AND CONSENT OF EXPERT

The following is the qualifications of the experts or professional advisers who have given opinion or advice contained in this circular:

Name	Qualification
Dongxing Securities (Hong Kong) Company Limited	a corporation licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) of the regulated activities under the SFO

Dongxing Securities (Hong Kong) Company Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

The letter and recommendation given by Dongxing Securities (Hong Kong) Company Limited are given as of the date of this circular for incorporation herein.

As at the Latest Practicable Date, Dongxing Securities (Hong Kong) Company Limited did not have any shareholding in or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company.

As at the Latest Practicable Date, Dongxing Securities (Hong Kong) Company Limited did not have any interest, direct or indirect, in any assets since 31 December 2019, being the date to which the latest published audited accounts of the Company were made up, have been acquired or disposed of by or leased to the Company, or are proposed to be acquired or disposed of by or leased to the Company.

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited financial statements of the Company were made up.

6. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and their associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

7. INTEREST OF DIRECTORS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 31 December 2019, being the date to which the latest published audited accounts of the Company were made up.

As stated in this circular, each of Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper, Baikai Paper and Baikai Vietnam, the counter parties to the 2021 Sales Agreements and the 2021 Purchase and Processing Agreements, is indirectly wholly-owned by Mr. Lin, who was 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.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at Unit 1501, Office Tower Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong during normal business hours from the date of this circular up to and including the date of the EGM:

- (a) the 2021 Sales Agreements;
- (b) the 2021 Purchase and Processing Agreements;
- (c) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 27 to 28 of this circular;
- (d) the letter of advice from Dongxing Securities (Hong Kong) Company Limited, the text of which is set out on pages 29 to 71 of this circular; and
- (e) the written consent from Dongxing Securities (Hong Kong) Company Limited referred in paragraph 4 of this appendix.

9. MISCELLANEOUS

- (a) The principal registrar of the Company is Royal Bank of Canada Trust Company (Cayman) Limited, 4th Floor, Royal Bank House, 24 Shedden Road, George Town, Grand Cayman KY1-1110, Cayman Islands.
- (b) The Hong Kong branch share registrar is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) In case of inconsistency, the English text of this circular and the enclosed form of proxy shall prevail over its Chinese text.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “EGM”) of Billion Industrial Holdings Limited (the “Company”) will be held at 10:00 a.m. on Monday, 1 February 2021 at Unit 1501, Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong to consider and, if thought fit, pass with or without amendments, the following resolutions as ordinary resolutions of the Company:–

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) each of the sales agreements dated 10 December 2020 entered into between Fujian Billion Polymerization Fiber Technology Industrial Co., Ltd.* (福建百宏聚纖科技實業有限公司), an indirectly wholly-owned subsidiary of the Company, and Fujian Baikai Elastic Weaving Co., Ltd.* (福建省百凱彈性織造有限公司), Fujian Baikai Wrap Knitting Industry Co., Ltd.* (福建省百凱經編實業有限公司), Fujian Baikai Textile Chemical Fiber Industry Co., Ltd.* (福建百凱紡織化纖實業有限公司) and Fujian Baikai Zipper Dress Co., Ltd.* (福建省百凱拉鍊服飾有限公司), and the sales agreement dated 10 December 2020 entered into between Billion Industrial (Viet Nam) Co., Ltd. (百宏實業(越南)有限公司), an indirectly wholly-owned subsidiary of the Company, and Baikai Industry (Viet Nam) Co., Ltd. (百凱實業(越南)有限公司) (collectively, the “**2021 Sales Agreements**”), respectively (a copy of each of which is produced to the EGM), the terms and conditions thereof, the continuing connected transactions contemplated thereunder and the implementation thereof, be and are hereby approved, confirmed and ratified; and
- (b) the annual cap of RMB1,148,650,000 for the three years ending 31 December 2021, 2022 and 2023 for the transactions under the 2021 Sales Agreements be and is hereby approved, confirmed and ratified.”

NOTICE OF EXTRAORDINARY GENERAL MEETING

2. “THAT:

- (a) each of the purchase agreement and the processing agreement dated 10 December 2020 entered into between Fujian Billion Polymerization Fiber Technology Industrial Co., Ltd.* (福建百宏聚纖科技實業有限公司) and Fujian Baikai Paper Co., Ltd.* (福建百凱紙品有限公司) (collectively, the “**2021 Purchase and Processing Agreements I**”) (a copy of each of which is produced to the EGM), and each of the purchase agreement and the processing agreement dated 10 December 2020 entered into between Fujian Billion Hightech Material Industrial Co., Ltd.* (福建百宏高新材料實業有限公司), an indirectly wholly-owned subsidiary of the Company, and Fujian Baikai Paper Co., Ltd.* (福建百凱紙品有限公司) (collectively, the “**2021 Purchase and Processing Agreements II**”) (a copy of each of which is produced to the EGM), and the purchase agreement dated 10 December 2020 entered into between Billion Industrial (Viet Nam) Co., Ltd. (百宏實業(越南)有限公司), an indirectly wholly-owned subsidiary of the Company, and Baikai Industry (Viet Nam) Co., Ltd. (百凱實業(越南)有限公司) (a copy of each of which is produced to the EGM) (together with the 2021 Purchase and Processing Agreements I and the 2021 Purchase and Processing Agreements II, the “**2021 Purchase and Processing Agreements**”), the terms and conditions thereof, the continuing connected transactions contemplated thereunder and the implementation thereof, be and are hereby approved, confirmed and ratified; and
- (b) the annual cap of RMB627,000,000, RMB636,000,000 and RMB652,000,000 for the years ending 31 December 2021, 2022 and 2023, respectively, for the transactions under the 2021 Purchase and Processing Agreements be and is hereby approved, confirmed and ratified.”

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

Hong Kong, 13 January 2021

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

- (a) At the extraordinary general meeting, the chairman of the meeting will put each of the above resolutions to be voted by way of a poll pursuant to requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
- (b) Any member entitled to attend and vote at the extraordinary general meeting is entitled to appoint another person as his proxy to attend and vote in his stead. A proxy need not be a member of the Company. A Shareholder who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the extraordinary general meeting. A form of proxy for use in connection with the extraordinary general meeting is enclosed with the circular to shareholders dated 13 January 2021.
- (c) Where there are joint registered holders of any share in the issued share capital of the Company, any one of such persons may vote at the extraordinary general meeting, either personally or by proxy, in respect of such share as if he/she/it were solely entitled thereto; but if more than one of such joint holders be present at the extraordinary general meeting, the vote of the senior holder who tenders a vote, whether in personal or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of such joint holding.
- (d) To be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time fixed for holding of the extraordinary general meeting or any adjourned meeting.

As at the date of this notice, 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*