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

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

(1) 2022 SALES AGREEMENTS

AND

(2) 2022 PURCHASE AND PROCESSING AGREEMENTS

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



建泉融資有限公司
VBG Capital Limited

A letter from the Board is set out on pages 9 to 28 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 29 to 30 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 31 to 61 of this circular.

A notice convening the EGM of the Company to be convened and held at 10:00 a.m., on Tuesday, 22 February 2022 at Unit 1501, Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong is set out on pages 67 to 69 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 17M Floor, 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.

31 January 2022

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DEFINITIONS

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

“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 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 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 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

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“2021 Sales Agreement III”	the sales agreement entered into by Baikai Textile and Billion Fujian dated 10 December 2020, in relation to the sales of PET chips, POY and spin finish oil by Billion Fujian to Baikai Textile
“2021 Sales Agreement IV”	the sales agreement entered into by Baikai Zipper and Billion Fujian dated 10 December 2020, in relation to the sales of DTY by Billion Fujian to Baikai Zipper
“2021 Sales Agreement V”	the sales agreement entered into by Baikai Vietnam and Billion Vietnam dated 10 December 2020, in relation to the sales of DTY, FDY and POY by Billion Vietnam to Baikai Vietnam
“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
“2022 Processing Agreement I”	the processing agreement entered into by Baikai Paper and Billion Fujian dated 12 January 2022, in relation to the provision of processing services of paper boxes, rolls, polyfoam boards and cardboards by Baikai Paper to Billion Fujian
“2022 Processing Agreement II”	the processing agreement entered into by Baikai Paper and Billion High-tech dated 12 January 2022, in relation to the provision of processing services related to paper boxes and rolls by Baikai Paper to Billion High-tech
“2022 Purchase Agreement I”	the purchase agreement entered into by Baikai Paper and Billion Fujian dated 12 January 2022, in relation to the purchase of paper boxes, rolls, polyfoam boards and cardboards by Billion Fujian from Baikai Paper
“2022 Purchase Agreement II”	the purchase agreement entered into by Baikai Paper and Billion High-tech dated 12 January 2022, in relation to the purchase of paper boxes and rolls by Billion High-tech from Baikai Paper
“2022 Purchase Agreement III”	the purchase agreement entered into by Baikai Vietnam and Billion Vietnam dated 12 January 2022, in relation to the purchase of paper boxes, rolls and polyfoam boards by Billion Vietnam from Baikai Vietnam
“2022 Purchase and Processing Agreements I”	the 2022 Purchase Agreement I and the 2022 Processing Agreement I

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“2022 Purchase and Processing Agreements II”	the 2022 Purchase Agreement II and the 2022 Processing Agreement II
“2022 Purchase and Processing Agreements”	the 2022 Purchase and Processing Agreements I, the 2022 Purchase and Processing Agreements II and the 2022 Purchase Agreement III
“2022 Sales Agreement I”	the sales agreement entered into by Baikai Elastic Weaving and Billion Fujian dated 12 January 2022, in relation to the sales of DTY, FDY and POY by Billion Fujian to Baikai Elastic Weaving
“2022 Sales Agreement II”	the sales agreement entered into by Baikai Wrap Knitting and Billion Fujian dated 12 January 2022, in relation to the sales of DTY and FDY by Billion Fujian to Baikai Wrap Knitting
“2022 Sales Agreement III”	the sales agreement entered into by Baikai Textile and Billion Fujian dated 12 January 2022, in relation to the sales of PET chips, POY and spin finish oil by Billion Fujian to Baikai Textile
“2022 Sales Agreement IV”	the sales agreement entered into by Baikai Zipper and Billion Fujian dated 12 January 2022, in relation to the sales of DTY by Billion Fujian to Baikai Zipper
“2022 Sales Agreement V”	the sales agreement entered into by Baikai Vietnam and Billion Vietnam dated 12 January 2022, in relation to the sales of DTY and FDY by Billion Vietnam to Baikai Vietnam
“2022 Sales Agreements”	the 2022 Sales Agreement I, the 2022 Sales Agreement II, the 2022 Sales Agreement III, the 2022 Sales Agreement IV and the 2022 Sales Agreement V
“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

DEFINITIONS

“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
“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 Vietnam and Billion Vietnam dated 31 December 2020, in relation to the sales of DTY, FDY and POY by Billion Vietnam to Baikai Vietnam
“Additional Sales Agreements”	the Additional Sales Agreement I, the Additional Sales Agreement II, the Additional Sales Agreement III, the Additional Sales Agreement IV and the Additional Sales Agreement V
“Announcement”	the announcement of the Company dated 12 January 2022

DEFINITIONS

“Baikai Elastic Weaving”	Fujian Baikai Elastic Weaving Co., Ltd.* (福建省百凱彈性織造有限公司), a limited liability company established under the laws of the PRC on 14 April 1997 and a wholly-owned subsidiary of Baikai H.K.
“Baikai H.K.”	Baikai (HK) Industrial Limited (百凱(香港)實業有限公司), a company incorporated in Hong Kong with limited liability on 3 June 2008. Baikai H.K. is wholly-owned by Mr. Lin
“Baikai Paper”	Fujian Baikai Paper Co., Ltd.* (福建百凱紙品有限公司), a limited liability company established under the laws of the PRC on 13 June 2001 and a wholly-owned subsidiary of Baikai H.K.
“Baikai Textile”	Fujian Baikai Textile Chemical Fiber Industry Co., Ltd.* (福建百凱紡織化纖實業有限公司), a limited liability company established under the laws of the PRC on 18 May 2000 and a wholly-owned subsidiary of Baikai H.K.
“Baikai Vietnam”	Baikai Industry (Viet Nam) Co., Ltd. (百凱實業(越南)有限公司), a company incorporated in Vietnam with limited liability and a wholly-owned subsidiary of Baikai Wrap Knitting
“Baikai Wrap Knitting”	Fujian Baikai Wrap Knitting Industry Co., Ltd.* (福建省百凱經編實業有限公司), a limited liability company established under the laws of the PRC on 27 September 2002 and a wholly-owned subsidiary of Baikai H.K.
“Baikai Zipper”	Fujian Baikai Zipper Dress Co., Ltd.* (福建省百凱拉鏈服飾有限公司), a limited liability company established under the laws of the PRC on 30 January 2002 and a wholly-owned subsidiary of Baikai H.K.
“Billion Fujian”	Fujian Billion Polymerization Fiber Technology Industrial Co., Ltd.* (福建百宏聚纖科技實業有限公司), a limited liability company established under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
“Billion High-tech”	Fujian Billion High-tech Material Industrial Co, Ltd.* (福建百宏高新材料實業有限公司), a limited liability company established under the laws of the PRC and an indirect wholly-owned subsidiary of the Company
“Billion Vietnam”	Billion Industrial (Viet Nam) Co., Ltd. (百宏實業(越南)有限公司), a company incorporated in Vietnam with limited liability and a wholly-owned subsidiary of Billion Fujian

DEFINITIONS

“Board”	the board of Directors
“BOPET”	Biaxially-oriented polyethylene terephthalate, a polyester film made from stretched PET and is used for its high tensile strength, chemical and dimensional stability, transparency, reflectivity, environmentally-friendly properties, gas and aroma barrier properties and electrical insulation
“Company”	Billion Industrial Holdings Limited (百宏實業控股有限公司), a limited liability company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange
“Director(s)”	director(s) of the Company
“DTY”	drawn textured yarn, a type of polyester filament yarn which has, among other qualities, good resistance to abrasion and elasticity. It is typically used to produce high-end sportswear, sport shoes and home furnishing textiles
“EGM”	an extraordinary general meeting of the Company to be convened and held on 22 February 2022 to approve the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements
“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. Yu Wai Ming, Mr. Lin Jian Ming and Mr. Shih Chun Pi
“Independent Financial Adviser”	VBG Capital Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and Independent Shareholders in relation to the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements

DEFINITIONS

“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”	25 January 2022, 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
“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
“Previous Processing Agreement I”	the processing agreement entered into by Baikai Paper and Billion Fujian dated 11 December 2017, in relation to the provision of processing services of paper boxes, rolls and polyfoam boards by Baikai Paper to Billion Fujian
“Previous 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 of paper boxes and rolls by Billion High-tech from Baikai Paper
“Previous 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
“Previous 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
“Previous 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

DEFINITIONS

“Previous Purchase and Processing Agreements”	the Previous Purchase Agreement I, the Previous Processing Agreement I, the Previous Purchase Agreement II, the Previous Processing Agreement II and the Previous Purchase Agreement III
“Previous 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
“Previous 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
“Previous 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
“Previous 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
“Previous 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
“Previous Sales Agreements”	the Previous Sales Agreement I, the Previous Sales Agreement II, the Previous Sales Agreement III, the Previous Sales Agreement IV and the Previous Sales Agreement V
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	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. Yu Wai Ming

Mr. Shih Chun Pi

Mr. Lin Jian Ming

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

No. 1 Harbour Road

Wanchai

Hong Kong

31 January 2022

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

(1) 2022 SALES AGREEMENTS

AND

(2) 2022 PURCHASE AND PROCESSING AGREEMENTS

INTRODUCTION

Reference is made to the announcements of the Company dated 10 December 2020, 31 December 2020, 2 February 2021, 30 June 2021, 29 December 2021 and 4 January 2022 (the “**Announcements**”) in respect of the 2021 Sales Agreements, the 2021 Purchase and Processing Agreements, the Additional Sales Agreements and the Additional Purchase and Processing Agreements.

On 12 January 2022 (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 2022 Sales Agreements and the 2022 Purchase and Processing Agreements to renew the aforesaid agreements.

LETTER FROM THE BOARD

PRINCIPAL TERMS OF THE 2022 SALES AGREEMENTS

The principal terms of each of the 2022 Sales Agreements are as follows:

(1) 2022 Sales Agreement I

Date:	12 January 2022
Parties:	Billion Fujian Baikai Elastic Weaving
Term:	From 12 January 2022 (Subject to approval of Independent Shareholders) to 31 December 2024
Subject Matter:	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 as a fair price after negotiation according to normal commercial practice and the principle of fairness and reasonableness. Such price shall be comparable to prices of similar transactions that Billion Fujian conducts with other independent parties of similar scale to Baikai Elastic Weaving during the same period.
Annual Caps:	The annual cap of the transaction amount under the 2022 Sales Agreement I for each of the three years ending 31 December 2022, 2023 and 2024 is RMB503,000,000. The above annual caps are determined based on (i) the actual sales made to Baikai Elastic Weaving in the years ended 31 December 2019 and 2020 and the eleven months ended 30 November 2021; (ii) the prevailing market prices of similar products; (iii) the estimated production capacity of Billion Fujian for the years 2022, 2023 and 2024; and (iv) the estimated production capacity of Baikai Elastic Weaving and the anticipated steady demand for Baikai Elastic Weaving's products in 2022, 2023 and 2024 in the PRC.

LETTER FROM THE BOARD

(2) 2022 Sales Agreement II

Date:	12 January 2022
Parties:	Billion Fujian Baikai Wrap Knitting
Term:	From 12 January 2022 (Subject to approval of Independent Shareholders) to 31 December 2024
Subject Matter:	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 as a fair price after negotiation according to normal commercial practice and the principle of fairness and reasonableness. Such price shall be comparable to prices of similar transactions that Billion Fujian conducts with other independent parties of similar scale to Baikai Wrap Knitting during the same period.
Annual Caps:	The annual cap of the transaction amount under the 2022 Sales Agreement II for each of the three years ending 31 December 2022, 2023 and 2024 is RMB544,000,000. The above annual caps are determined based on (i) the actual sales made to Baikai Wrap Knitting in the years ended 31 December 2019 and 2020 and the eleven months ended 30 November 2021; (ii) the prevailing market prices of similar products; (iii) the estimated production capacity of Billion Fujian for the years 2022, 2023 and 2024; and (iv) the estimated production capacity of Baikai Wrap Knitting and the anticipated steady demand for Baikai Wrap Knitting's products in 2022, 2023 and 2024 in the PRC.

LETTER FROM THE BOARD

(3) 2022 Sales Agreement III

Date:	12 January 2022
Parties:	Billion Fujian Baikai Textile
Term:	From 12 January 2022 (Subject to approval of Independent Shareholders) to 31 December 2024
Subject Matter:	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 as a fair price after negotiation according to normal commercial practice and the principle of fairness and reasonableness. Such price shall be comparable to prices of similar transactions that Billion Fujian conducts with other independent parties of similar scale to Baikai Textile during the same period.
Annual Caps:	<p>The annual cap of the transaction amount under the 2022 Sales Agreement III for each of the three years ending 31 December 2022, 2023 and 2024 is RMB507,000,000.</p> <p>The above annual caps are determined based on (i) the actual sales made to Baikai Textile in the years ended 31 December 2019 and 2020 and the eleven months ended 30 November 2021; (ii) the prevailing market prices of similar products; (iii) the estimated production capacity of Billion Fujian for the years 2022, 2023 and 2024; and (iv) the estimated production capacity of Baikai Textile and the anticipated steady demand for Baikai Textile's products in 2022, 2023 and 2024 in the PRC.</p>

LETTER FROM THE BOARD

(4) 2022 Sales Agreement IV

Date:	12 January 2022
Parties:	Billion Fujian Baikai Zipper
Term:	From 12 January 2022 (Subject to approval of Independent Shareholders) to 31 December 2024
Subject Matter:	Billion Fujian agreed to provide DTY to Baikai Zipper, at a price to be agreed between the parties from time to time as a fair price after negotiation according to normal commercial practice and the principle of fairness and reasonableness. Such price shall be comparable to prices of similar transactions that Billion Fujian conducts with other independent parties of similar scale to Baikai Zipper during the same period.
Annual Caps:	<p>The annual cap of the transaction amounts under the 2022 Sales Agreement IV for each of the three years ending 31 December 2022, 2023 and 2024 is RMB12,000,000.</p> <p>The above annual caps are determined based on (i) the actual sales made to Baikai Zipper in the years ended 31 December 2019 and 2020 and the eleven months ended 30 November 2021; (ii) the prevailing market prices of similar products; (iii) the estimated production capacity of Billion Fujian for the years 2022, 2023 and 2024; and (iv) the estimated production capacity of Baikai Zipper's products and the anticipated steady demand for Baikai Zipper's products in 2022, 2023 and 2024 in the PRC.</p>

LETTER FROM THE BOARD

(5) 2022 Sales Agreement V

Date:	12 January 2022
Parties:	Billion Vietnam Baikai Vietnam
Term:	From 12 January 2022 (Subject to approval of Independent Shareholders) to 31 December 2024
Subject Matter:	Billion Vietnam agreed to provide DTY and FDY to Baikai Vietnam, at a price to be agreed between the parties from time to time as a fair price after negotiation according to normal commercial practice and the principle of fairness and reasonableness. Such price shall be comparable to prices of similar transactions that Billion Vietnam conducts with other independent parties of similar scale to Baikai Vietnam during the same period.
Annual Caps:	<p>The annual cap of the transaction amounts under the 2022 Sales Agreement V for each of the three years ending 31 December 2022, 2023 and 2024 is RMB15,000,000.</p> <p>The above annual caps are determined based on (i) the actual sales made to Baikai Vietnam in the years ended 31 December 2019 and 2020 and the eleven months ended 30 November 2021; (ii) the prevailing market prices of similar products; (iii) the estimated production capacity of Billion Vietnam for the years 2022, 2023 and 2024; and (iv) the expected production capacity of Baikai Vietnam and the anticipated steady demand for Baikai Vietnam's products for relevant product in 2022, 2023 and 2024 in Vietnam.</p>

LETTER FROM THE BOARD

ANNUAL CAPS OF THE 2022 SALES AGREEMENTS

Historical Transaction Amounts and Annual Caps

The aggregated historical transaction amounts and the annual caps of the continuing connected transactions under the Previous Sales Agreements of the Group for the three previous financial years ended 31 December 2018, 2019 and 2020 are as follows:

	Year ended 31 December		
	2018	2019	2020
	(RMB'000)	(RMB'000)	(RMB'000)
Aggregated transaction amount	777,129	1,014,343	1,128,667
Aggregated annual cap	1,133,650	1,135,980	1,142,980

The aggregated historical transaction amount of the continuing connected transactions under the Additional Sales Agreements of the Group for the eleven months ended 30 November 2021 and the annual cap for the year ended 31 December 2021 according to the unaudited management accounts of the Group are as follows:

	Eleven months ended 30 November 2021 (RMB'000)
	Aggregated transaction amount
Aggregated annual cap	350,802*

* for the year ended 31 December 2021.

Proposed Annual Caps

Due to the reasons set out below, the transactions under each of the 2022 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 2022, 2023 and 2024 will be as follows:

	Year ending 31 December		
	2022	2023	2024
	(RMB'000)	(RMB'000)	(RMB'000)
Proposed annual cap	1,581,000*	1,581,000	1,581,000

* as aggregated with the transactions performed during the year ending 31 December 2022 under the Additional Sales Agreements.

The basis for determining the annual caps in each of the 2022 Sales Agreements has been set out above.

LETTER FROM THE BOARD

2022 PURCHASE AND PROCESSING AGREEMENTS

The principal terms of each of the 2022 Purchase and Processing Agreements are as follows:

(1) 2022 Purchase and Processing Agreements I

Date:	12 January 2022
Parties:	Billion Fujian Baikai Paper
Term:	From 12 January 2022 (Subject to approval of Independent Shareholders) to 31 December 2024
Subject Matter:	Baikai Paper agreed to provide paper boxes, rolls, polyfoam boards and cardboards and related processing services to Billion Fujian, under each case at a price to be agreed between the parties from time to time as a fair price after negotiation according to normal commercial practice and the principle of fairness and reasonableness. Such price shall be comparable to prices of similar transactions that Billion Fujian conducts with other independent parties of similar scale to Baikai Paper during the same period.
Annual Caps:	The aggregated annual cap of the transaction amounts under the 2022 Purchase and Processing Agreements I for each of the years ending 31 December 2022, 2023 and 2024 is RMB489,000,000.

LETTER FROM THE BOARD

The above annual caps are determined based on (i) the actual transaction amounts Billion Fujian paid to Baikai Paper in the years ended 31 December 2019 and 2020 and the eleven months ended 30 November 2021; (ii) the prevailing market prices of similar products and services; (iii) the fact that the factories of Baikai Paper and Billion Fujian are located in close proximity allows timely delivery of products and minimizes delivery costs; and (iv) the expected steady sales and production capacity of Billion Fujian in the years from 2022 to 2024. The paper packaging materials purchased are used by the Group for production and packaging of polyester filament yarns and polyester industrial yarns in the PRC. Consequently, the purchase volume for the above annual caps was estimated with reference to the Group's expected production of polyester yarns in the future. The above annual caps are derived by multiplying the estimated average purchase price of the materials by the estimated purchase volume from Baikai Paper during the years from 2022 to 2024. While the utilization of the annual caps for the three years ended 31 December 2020 experienced a decreasing trend, from approximately 67% in 2018 to approximately 45% in 2020, primarily due to the impact of the COVID-19 pandemic and the Group's response to the requirements of the national prevent and control policies in the PRC, the Company anticipates that the utilization rate of the Group's production capacity will increase in line with global recovery and the Group may reach closer to full capacity, while taking into account the planned expansion of the Group during the years from 2022 to 2024. Following and subject to the global recovery, the Group's total designed production capacity for polyester yarns is expected to be fully utilized from 2022 onwards.

LETTER FROM THE BOARD

(2) 2022 Purchase and Processing Agreements II

Date:	12 January 2022
Parties:	Billion High-tech Baikai Paper
Term:	From 12 January 2022 (Subject to approval of Independent Shareholders) to 31 December 2024
Subject Matter:	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 as a fair price after negotiation according to normal commercial practice and the principle of fairness and reasonableness. Such price shall be comparable to prices of similar transactions that Billion High-tech conducts with other independent parties of similar scale to Baikai Paper during the same period.
Annual Caps:	The aggregated annual cap of the transaction amounts under the 2022 Purchase and Processing Agreements II for each of the years ending 31 December 2022, 2023 and 2024 is RMB45,000,000, RMB63,000,000 and RMB68,000,000.

LETTER FROM THE BOARD

The above annual caps are determined based on (i) the actual transaction amounts Billion High-tech paid to Baikai Paper in the years ended 31 December 2019 and 2020 and the eleven months ended 30 November 2021; (ii) the prevailing market prices of similar products and services; (iii) the fact that the factories of Baikai Paper and Billion High-tech are located in close proximity allows timely delivery of products and minimizes delivery costs; and (iv) the expected steady sales and production capacity of Billion High-tech in the years from 2022 to 2024. The paper packaging materials purchased are used by the Group for production and packaging of polyester filament yarns and polyester industrial yarns in the PRC. Consequently, the purchase volume for the above annual caps was estimated with reference to the Group's expected production of polyester yarns in the future. The above annual caps are derived by multiplying the estimated average purchase price of the materials by the estimated purchase volume from Baikai Paper during the years from 2022 to 2024. While the utilization of the annual caps for the three years ended 31 December 2020 experienced a decreasing trend, from approximately 67% in 2018 to approximately 45% in 2020, primarily due to the impact of the COVID-19 pandemic and the Group's response to the requirements of the national prevent and control policies in the PRC, the Company anticipates that the utilization rate of the Group's production capacity will increase in line with global recovery and the Group may reach closer to full capacity, while taking into account the planned expansion of the Group during the years from 2022 to 2024. In line with the production expansion by the Company, the existing production lines of the Group will be upgraded with additional designed production capacity for polyester thin films of 19,000 tpa in 2022. A total of six new polyester thin film production lines with total design production capacity of 209,000 tpa will be put into operation in the coming few years.

LETTER FROM THE BOARD

(3) 2022 Purchase Agreement III

Date:	12 January 2022
Parties:	Billion Vietnam Baikai Vietnam
Term:	From 12 January 2022 (Subject to approval of Independent Shareholders) to 31 December 2024
Subject Matter:	Baikai Vietnam agreed to provide paper boxes, rolls and polyfoam boards to Billion Vietnam, under each case at a price to be agreed between the parties from time to time as a fair price after negotiation according to normal commercial practice and the principle of fairness and reasonableness. Such price shall be comparable to prices of similar transactions that Billion Vietnam conducts with other independent parties of similar scale to Baikai Vietnam during the same period.
Annual Caps:	The aggregated annual cap of the transaction amounts under the 2022 Purchase Agreement III for each of the three years ending 31 December 2022, 2023 and 2024 is RMB69,000,000.

LETTER FROM THE BOARD

The above annual caps are determined based on (i) the actual transaction amounts Billion Vietnam paid to Baikai Vietnam in the years ended 31 December 2019 and 2020 and the eleven months ended 30 November 2021; (ii) the prevailing market prices of similar products and services; (iii) the fact that the factories of Baikai Vietnam and Billion Vietnam are located in close proximity allows timely delivery of products and minimizes delivery costs; and (iv) the expected steady sales and production capacity of Billion Vietnam in the years from 2022 to 2024. The paper packaging materials purchased are used by the Group for production and packaging of polyester filament yarns in Vietnam. Consequently, the purchase volume for the above annual caps was estimated with reference to the Group's expected production of polyester filament yarns in Vietnam in the future. The above annual caps are derived by multiplying the estimated average purchase price of the materials by the estimated purchase volume from Baikai Vietnam during the years from 2022 to 2024. While the utilization of the annual caps for the three years ended 31 December 2020 experienced a decreasing trend, from approximately 67% in 2018 to approximately 45% in 2020, primarily due to the impact of the COVID-19 pandemic and the Group's response to the requirements of the national prevent and control policies in the PRC, the Company anticipates that the utilization rate of the Group's production capacity will increase in line with global recovery and the Group may reach closer to full capacity, while taking into account the planned expansion of the Group during the years from 2022 to 2024.

LETTER FROM THE BOARD

ANNUAL CAPS OF THE 2022 PURCHASE AND PROCESSING AGREEMENTS

Historical Transaction Amounts and Annual Caps

The aggregated historical transaction amounts and the annual caps of the continuing connected transactions under the Previous Purchase and Processing Agreements of the Group for the three previous financial years ended 31 December 2018, 2019 and 2020 are as follows:

	Year ended 31 December		
	2018	2019	2020
	(RMB'000)	(RMB'000)	(RMB'000)
Aggregated transaction amount	331,520	333,898	315,708
Aggregated annual cap	489,000	603,840	697,510

The aggregated historical transaction amount of the continuing connected transactions under the Additional Purchase and Processing Agreements of the Group for the eleven months ended 30 November 2021 and the annual cap for the year ended 31 December 2021 according to the unaudited management accounts of the Group are as follows:

	Eleven months ended 30 November 2021 (RMB'000)
	Aggregated transaction amount
Aggregated annual cap	350,802*

* for the year ended 31 December 2021.

Proposed Annual Caps

Due to the reasons set out below, the transactions under the 2022 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 2022, 2023 and 2024 are as follows:

	Year ending 31 December		
	2022	2023	2024
	(RMB'000)	(RMB'000)	(RMB'000)
Proposed annual cap	603,000*	621,000	626,000

* as aggregated with the transactions performed during the year ending 31 December 2022 under the Additional Purchase and Processing Agreements.

The basis for determining the aggregated annual caps for the transactions under the 2022 Purchase and Processing Agreements has been set out above.

LETTER FROM THE BOARD

PRICING POLICY AND INTERNAL CONTROL

The basis of determining the prices of the products or services to be supplied to or purchased by the Group under each of the 2022 Sales Agreements and the 2022 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 prices of the same or substantially similar products or services, taking into account the prices 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 2022 Sales Agreements and the 2022 Purchase and Processing Agreements has a fixed unit price or standard price, or has a published reference price, in determining the selling/purchase prices (as the case maybe) for the products or services for a particular contract, the Group will:

- (a) in respect of the sales of products, evaluate and set the selling prices in the following way: the Finance Department (財務部) will prepare a detailed cost calculation by reference to the costs of materials, products and labour, and up to two (if any) recent transaction prices of the Group within one month to other independent third party customers. The Sales and Marketing Department (營銷部) will gather further information in respect of customers' views, and competitors' pricing information through enquiry with other industry players and researches on industry websites (if available) to ensure that the prices and terms of the products of the Group are competitive, and set the selling prices of different products of the Group (the "**Internal Price List**"). Depending on market situation, the Internal Price List is updated on at least on a quarterly basis. Such Internal Price List as well as the Group's other internal pricing policy on payment terms is applicable in every sales to all customers. Under certain special circumstances, variation in pricing of products will be subject to approval by the president and the cost committee of Billion Fujian or Billion Vietnam (as applicable), which comprises the president, head of sales, head of finance, head of procurement and head of production of the relevant company. Those circumstances include: (i) special discount; (ii) non-standard products; (iii) discount requested by the customer due to quality issues or delay in delivery; (iv) volume discount requested by the customer; (v) products sourced externally; (vi) new products; and (vii) longer payment terms after assessment of customers' credibility. Prices for the products to be sold to each of Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper and Baikai Vietnam will be governed by the Internal Price List and will not be less favourable to the Company than the price of similar products sold by the Group to independent customers; and

LETTER FROM THE BOARD

- (b) in respect of procurement of products and services, the Group will 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 (the “**Quotation Process**”). Such quotations will be reviewed and evaluated from both the technical and commercial perspectives by the Quality Management Department (品質管理部) and compared against the quote from Baikai Paper and Baikai Vietnam. Subject to the review and approval by the Procurement Department (採購部) of Billion Fujian or Billion High-tech or Billion Vietnam (as the case maybe), 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. The Group will endeavor to carry out the Quotation Process every time it requires to make the relevant procurement of products and services, but under circumstances such as procurement for urgent production requirement, the assessment result of the last Quotation Process will be relied upon for making the relevant procurement.

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 and the pricing policy set out above. 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 above could ensure that the aforementioned continuing connected transactions of the Group will be conducted on normal commercial terms, and are fair and reasonable and in the interests of the Shareholders as a whole.

TREATMENT OF ADDITIONAL SALES AGREEMENTS AND ADDITIONAL PURCHASE AND PROCESSING AGREEMENTS

Upon Independent Shareholders’ approval of the 2022 Sales Agreements, the 2022 Purchase and Processing Agreements, the transactions contemplated thereunder and the annual caps, no further transactions will be carried out under the Additional Sales Agreements and Additional Purchase and Processing Agreements, which will lapse on 30 June 2022.

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 2022 Sales Agreements and the 2022 Purchase and Processing Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

REASONS FOR AND BENEFITS OF THE 2022 SALES AGREEMENTS AND THE 2022 PURCHASE AND PROCESSING AGREEMENTS

The transactions to be conducted under the 2022 Sales Agreements will increase the overall revenue of the Group; therefore, it is beneficial for the Group to enter into such agreements.

The paper boxes, rolls and polyfoam boards produced or processed by Baikai Paper and Baikai Vietnam are of high quality and are suitable for the use of the Group and the production base of Baikai Paper and Baikai Vietnam is in close proximity to the Group, which allows timely delivery of the paper boxes, rolls and polyfoam boards and minimizes delivery costs; therefore, it is in the best interest of the Group to enter into the 2022 Purchase and Processing Agreements with Baikai Paper and Baikai Vietnam.

The Directors (excluding the independent non-executive Directors whose views are set out in the “Letter From The Independent Board Committee” of this circular) consider that the terms of the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements have been entered into on normal commercial terms and in the ordinary course of business of the Group, and are fair and reasonable and in the interests of the Shareholders as a whole.

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

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

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

Billion Vietnam is an indirectly wholly-owned subsidiary of the Company. It is primarily engaged in the business of developing, manufacturing and selling polyester bottle chip and polyester filament yarns in Vietnam.

LETTER FROM THE BOARD

The Group is one of the largest developers and manufacturers of polyester filament yarns in China, including DTY and FDY, the two main polyester filament yarns, which have a variety of end applications in consumer products, including apparel, footwear and home furnishings. The Group also produces partially oriented POY, which may be used as a raw material for the DTY or sold separately to the customers of the Group.

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

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

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

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

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

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

IMPLICATIONS UNDER THE LISTING RULES

As the products to be provided by the Group under the 2022 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 2022 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%.

As the products and services to be provided to the Group under the 2022 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 2022 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%.

Therefore, the transactions contemplated under the 2022 Sales Agreements and the 2022 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 2022 Sales Agreements and the 2022 Purchase and Processing Agreements, they have abstained from voting on the board resolutions for approving such agreements.

LETTER FROM THE BOARD

The Independent Board Committee has been formed to consider and advise the Independent Shareholders as to whether the terms of the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements, and the respective annual caps for the transactions thereunder for each of the three years ending 31 December 2022, 2023 and 2024 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, VBG Capital Limited has been appointed as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

EGM

The Company will hold the EGM to approve the 2022 Sales Agreements and the 2022 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 Shares, representing approximately 30.38% 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 6.46% 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 17 February 2022 to 22 February 2022 (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 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 16 February 2022.

LETTER FROM THE BOARD

RECOMMENDATION

Your attention is drawn to the advice of the Independent Board Committee set out in 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 in 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 2022 Sales Agreements and the 2022 Purchase and Processing Agreements are on normal commercial terms 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 2022 Sales Agreements and the 2022 Purchase and Processing Agreements.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Billion Industrial Holdings Limited
Sze Tin Yau
Co-chairman



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)

31 January 2022

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS
(1) 2022 SALES AGREEMENTS
AND
(2) 2022 PURCHASE AND PROCESSING AGREEMENTS

We refer to the circular of the Company dated 31 January 2022 (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 2022 Sales Agreements and the 2022 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 2022 Sales Agreements and the 2022 Purchase and Processing Agreements are fair and reasonable, and in the interests of the Company and its Shareholders as a whole. VBG Capital 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 2022 Sales Agreements and the 2022 Purchase and Processing Agreements are on normal commercial terms 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 2022 Sales Agreements and the 2022 Purchase and Processing Agreements.

Yours faithfully,
For and on behalf of
Independent Board Committee

Mr. Yu Wai Ming
*Independent non-executive
Director*

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

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the text of a letter received from VBG Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements, and the respective transactions contemplated thereunder for the purpose of inclusion in this circular.



18/F., Prosperity Tower
39 Queen's Road Central
Hong Kong

31 January 2022

*To: The independent board committee and the independent shareholders
of Billion Industrial Holdings Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS 2022 SALES AGREEMENTS AND 2022 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 the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements, and the respective transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 31 January 2022 issued by the Company to the Shareholders (the “**Circular**”), of which this letter of advice forms part. Capitalised terms used in this letter of advice shall have the same meanings as defined in the Circular unless the context requires otherwise.

Reference is made to the announcement of the Company dated 12 January 2022. On even date, Billion Fujian, Billion High-tech and Billion Vietnam (as the case may be), all being indirect wholly-owned subsidiaries of the Company, entered into the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements to renew the Additional Sales Agreements and the Additional Purchase and Processing Agreements for a term of three years from 12 January 2022 to 31 December 2024.

With reference to the Letter from the Board, the transactions contemplated under the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements when aggregated constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As such, they are subject to the reporting, announcement and independent shareholders’ approval requirements.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising Messrs. Yu Wai Ming, Lin Jian Ming and Shih Chun Pi (all being the independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the entering into of the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements at the EGM. We, VBG Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

OUR INDEPENDENCE

As at the Latest Practicable Date, apart from the existing engagement in connection with the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements, we did not have any business relationship with the Company within the past two years. Save for the normal fees payable to us in connection with this appointment, no arrangement exists whereby we shall receive any fees or benefits from the Company and its subsidiaries or the Directors, chief executive or substantial shareholders (as defined in the Listing Rules) of the Company or any of their associates. We consider ourselves independent to form our opinion in respect of the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements.

BASIS OF OUR OPINION

In formulating our opinion with regard to the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements, we have relied on the information and facts supplied, opinions expressed and representations made to us by the management of the Group (including but not limited to those contained or referred to in the Circular). We have assumed that the information and facts supplied, opinions expressed and representations made to us by the management of the Group were true, accurate and complete at the time they were made and continue to be true, accurate and complete in all material aspects until the date of the EGM. We have also assumed that all statements of belief, opinions, expectation and intention made by the management of the Group in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or advisers, which have been provided to us.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the 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 in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business and affairs or future prospects of the Group, Baikai H.K. or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements. Our opinion is necessarily based on the market, financial, economic and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Where information in this letter of advice has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we did not conduct any independent investigation into the accuracy and completeness of such information.

Shareholders should note that as the proposed annual caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2024, and they do not represent forecasts of revenues/costs or purchases/sales to be recorded/incurred from the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements. Consequently, we express no opinion as to how closely the actual revenues, costs, purchases or sales to be recorded under the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements will correspond with the proposed annual caps.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements, we have taken into consideration the following principal factors and reasons:

(1) Background of and reasons for the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements

Business overview of the Group

The Group is one of the largest developers and manufacturers of polyester filament yarns in the PRC, 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 manufactures partially oriented POY, which may be used as a raw material for DTY or sold separately to its customers.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the consolidated financial information of the Group for the six months ended 30 June 2021 and 2020, and the years ended 31 December 2020 and 2019 as extracted from the interim report of the Company for the six months ended 30 June 2021 and its annual report for the year ended 31 December 2020 (the “**2020 Annual Report**”), respectively:

	For the six months ended 30 June 2021 (unaudited) <i>RMB'000</i>	For the six months ended 30 June 2020 (unaudited) <i>RMB'000</i>	For the year ended 31 December 2020 (audited) <i>RMB'000</i>	For the year ended 31 December 2019 (audited) <i>RMB'000</i>
Revenue	6,462,928	3,614,662	8,431,054	9,396,866
Profit for the period/year attributable to owners of the Company	835,740	225,366	781,482	853,222

As referred to in the 2020 Annual Report, the COVID-19 pandemic (the “**Pandemic**”) had caused economic losses to China’s textile enterprises in terms of domestic sales and foreign trade orders. However, since the second quarter of 2020, amid the resumption of economic and life activities in an orderly manner and the positive support of the government to boost local consumption, sales in domestic market of the textile industry increased quarter by quarter. Coupled with the gradual rebound of demand from overseas markets, business of China’s textile enterprises has showed a trend of stable recovery after a sharp decline in early 2020. Riding on the said industry recovery, the financial performance of the Group improved substantially in 2021 regardless of the shrink in revenue and profit size in 2020 as compared to 2019. During the first half of 2021, the Group’s revenue and net profit surged drastically by approximately 78.8% and 270.8%, respectively, as compared to the corresponding period in 2020.

At present, the Group has eight production sites located in the PRC and one production site located in Vietnam for production of polyester filament yarns and polyester products. As advised by the Directors, in order to cope with the growing domestic and overseas demand for its various products, the Group will continue to actively expand its production capacity in both the PRC and Vietnam.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Recent development of the textile industry in the PRC

Based on our independent research, the outbreak of the Pandemic in early 2020 had inevitably hurt the PRC's economy. Nevertheless, it is widely believed that the impact of the Pandemic on the PRC's economy would be rather temporary, and would not change the fundamentals of China's stable and long-term economic expansion. Such optimistic belief is proved correct by various economic data. For example, based on the statistics released by the National Bureau of Statistics, despite the short-term drop in early 2020, the gross domestic product of the PRC attained approximately RMB102 trillion during 2020, increasing by approximately 2.3% as compared to 2019. The PMI index also rebounded in March 2020 from the deep fall in February 2020 and stayed by and large at above 50 thereafter. From January 2021 to October 2021, profit of industrial enterprises above designated size exceeded RMB7,100 billion, representing a year-on-year increase of approximately 42.2%.

As pointed out in the sub-section headed "Business overview of the Group" of this letter of advice, the Pandemic had likewise caused economic losses to China's textile enterprises in terms of domestic sales and foreign trade orders. However, since the second quarter of 2020, amid the resumption of economic and life activities in an orderly manner and the positive support of the government to boost local consumption, sales in domestic market of the textile industry increased quarter by quarter. Coupled with the gradual rebound of demand from foreign markets, business of China's textile enterprises has showed a trend of stable recovery. Based on the statistics released by the National Bureau of Statistics, the total operating income and profit of industrial enterprises above designated size within the textile industry were approximately RMB2 trillion and RMB85 billion during the ten months ended 31 October 2021, surging year-on-year by approximately 11.0% and 1.9%, respectively. Moreover, the total amount of textile and apparel export has largely stayed at a high level of over United States Dollar (US\$)25,000 million per month after reaching the floor of approximately US\$490 million in February 2020.

Leveraging on the recovery of the textile industry, demand for the relevant raw materials also witnessed a growing momentum. Take polyester filament yarns products as an example. Its market demand grew by around 4% year-on-year during the second half of 2020. The average operating rate of polyester filament yarns production rose to around 96% as at August 2021. The inventory turnover rate of polyester filament yarns products remained at a reasonable interval of around 15 days. The growth in demand has also driven up market prices. According to the National Bureau of Statistics, overall speaking, prices of raw materials for textile products increased year-on-year by approximately 4.0% between January 2021 and October 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

From our independent research, we also notice that the PRC government has promulgated a number of supportive policies to transform the textile industry and increase its competitiveness, including but not limited to:

- (i) The Textile Industry Development Plan (2016–2020) (《紡織工業發展規劃(2016–2020)》). There are six initiatives thereunder: enhancing industrial innovation capability, vigorously implementing the “three products” strategy, promoting textile intelligent production, accelerating the green development process, promoting coordinated regional development and enhancing the comprehensive strength of enterprises.
- (ii) The 14th Five-Year Plan of Domestic Textile Industry (《紡織行業“十四五”發展綱要》) which emphasises that the textile industry should meet, lead and create domestic demand with high-quality supply, and fully meet the people’s new expectations for a better life.
- (iii) The Made in China 2025 (《中國製造2025》) which aims at comprehensively upgrading the manufacturing industry, making it more efficient and integrated so that it can be positioned at the top of the global production chains.

Reasons for and possible benefits of the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements

The 2022 Sales Agreements

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. Thus, they require polyester filament yarns products as key raw materials during the production process.

Based on our discussion with the Directors, we understand that the Group has commenced sales of polyester filament yarns products to Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile and Baikai Zipper since 2011. After the establishment of Billion Vietnam, the Group further expanded its business and started the sale of DTY and FDY to Baikai Vietnam. Throughout the years, these companies have become major customers of the Group generating stable income.

In light of that (i) the production and sale of polyester filament yarns products is a principal business of the Group; (ii) each of Baikai Elastic Weaving, Baikai Wrap Knitting, Baikai Textile, Baikai Zipper and Baikai Vietnam has established long term business relationship with the Group and has become its major customers; and (iii) it is expected that the transactions under the 2022 Sales Agreements would continue to generate stable income to the Group, we concur with the Directors the entering into of the 2022 Sales Agreements is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The 2022 Purchase and Processing Agreements

As stated in the Letter from the Board, Baikai Paper and Baikai Vietnam are principally engaged in the production of paper boxes, rolls and polyfoam boards.

The Group requires paper packaging materials including paper boxes, paper rolls, paper boards and polyfoam boards for production or packaging of its polyester filament yarns products. In this regard, the Directors advised us that the Group sources suppliers primarily based on the price, suitability and quality of their paper packaging materials. Moreover, location is a key factor to consider as close proximity between the production sites of the Group and the supplier will allow for timely delivery of paper packaging materials to satisfy the Group's tight production schedule and minimise delivery costs.

In relation to the above, we understand from the Directors that the paper packaging materials manufactured by Baikai Paper and Baikai Vietnam are up to standard and suitable for the Group's use, and there has been limited product return history so far. In addition, both Baikai Paper and Baikai Vietnam are located near to the Group's production sites. The production base of Baikai Paper is located in the same town and around 0.5 kilometres to 2.5 kilometres away from the production sites of the Group in the PRC. In contrast, an independent supplier is located in the same city but around 12 kilometres away from the production sites of the Group in the PRC; while other independent suppliers are located in different cities or provinces. On the other hand, as aforementioned, the Group also has production site located in Vietnam. The production base of Baikai Vietnam is around 0.5 kilometres away from the production site of the Group in Vietnam. In contrast, there are two independent suppliers, one is located in a different county from that of the production site of the Group in Vietnam which is around 25 kilometres away, and the other is a Vietnam trading company providing packaging products which are imported from outside of Vietnam. As a result of the aforesaid competitive advantages possessed by Baikai Paper and Baikai Vietnam in terms of product quality and factory location, the Group has been purchasing paper packaging materials from them since 2005 and 2019, respectively.

In light of that (i) the Group requires paper packaging materials for production or packaging of its polyester filament yarns products; (ii) Baikai Paper and Baikai Vietnam enjoy the competitive advantages in terms of product quality and factory location; and (iii) Baikai Paper and Baikai Vietnam have established long term business relationship with the Group, we concur with the Directors the entering into of the 2022 Purchase and Processing Agreements is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(2) Principal terms of the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements

The 2022 Sales Agreement I

On 12 January 2022, Billion Fujian entered into the 2022 Sales Agreement I with Baikai Elastic Weaving for the supply of DTY, FDY and POY to Baikai Elastic Weaving, from 12 January 2022 (subject to approval of the Independent Shareholders) to 31 December 2024, at a price to be agreed between the parties from time to time as a fair price after negotiation according to normal commercial practice and the principle of fairness and reasonableness. Such price shall be comparable to prices of similar transactions that Billion Fujian conducts with other independent parties of similar scale during the same period.

The 2022 Sales Agreement I is a framework agreement that sets out the general principles of the sale of products only. Therefore, for our due diligence purpose, we have randomly selected and reviewed (i) 18 individual contracts governing the actual transactions between the Group and Baikai Elastic Weaving; and (ii) 18 contracts entered into between the Group (as supplier) and independent third parties (as customer) governing the sale of similar products, covering the period from 2019 to 2021. We consider the said samples to be fair and adequate based on our random selection.

Upon review of those samples, we noted that notwithstanding that there is no fixed unit price or standard price for polyester filament yarns products and POY, 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. With regard to payment terms, we were advised by the Directors that the Group generally requires its customers to make payment before stock delivery; nonetheless, for the sake of maintaining better customer relationship, the Group has adopted a payment policy (the “**Payment Policy**”) of granting credit period of no longer than three months after stock delivery to those customers who can meet the following three criteria (the “**Credit Criteria**”): (i) having a good business relationship with the Group for no less than five years; (ii) the average annual transaction amount with the Group for the preceding five years is no less than RMB50 million; and (iii) having a good creditworthiness without default record. Judging from (i) the reason for the Payment Policy; (ii) the basis of the Credit Criteria; and (iii) the fact that all customers of the Group are equally subject to the Payment Policy and Credit Criteria, we concur with the Directors that the Payment Policy and Credit Criteria are fair and reasonable. We noted that Baikai Elastic Weaving normally made payment before or within three months after stock delivery. As confirmed by the Directors, given that the Credit Criteria had been met, Baikai Elastic Weaving was granted a longer credit period in accordance with the Payment Policy. As for sales to the independent third party customers, full payment was normally made before stock delivery given that those customers were unable to meet the Credit Criteria.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In view of that (i) our due diligence review of the past transaction record revealed that the price of the transactions between the Group and Baikai Elastic Weaving, and the independent third party customers were similar; (ii) Baikai Elastic Weaving was granted a longer credit period because it was able to meet the Credit Criteria, thus, this was not a preferential treatment; (iii) all customers of the Group are equally subject to the Payment Policy and Credit Criteria which are fair and reasonable; and (iv) the Company has set up thorough internal control measures as detailed in the section headed “Pricing policy and internal control” in the Letter from the Board to monitor the future transactions contemplated under the 2022 Sales Agreement I, we are of the view that the 2022 Sales Agreement I is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned.

The 2022 Sales Agreement II

On 12 January 2022, Billion Fujian entered into the 2022 Sales Agreement II with Baikai Wrap Knitting for the supply of DTY and FDY to Baikai Wrap Knitting, from 12 January 2022 (subject to approval of the Independent Shareholders) to 31 December 2024, at a price to be agreed between the parties from time to time as a fair price after negotiation according to normal commercial practice and the principle of fairness and reasonableness. Such price shall be comparable to prices of similar transactions that Billion Fujian conducts with other independent parties of similar scale during the same period.

The 2022 Sales Agreement II is a framework agreement that sets out the general principles of the sale of products only. Therefore, for our due diligence purpose, we have randomly selected and reviewed (i) 18 individual contracts governing the actual transactions between the Group and Baikai Wrap Knitting; and (ii) 18 contracts entered into between the Group (as supplier) and independent third parties (as customer) governing the sale of similar products, covering the period from 2019 to 2021. We consider the aforesaid samples to be fair and adequate based on our random selection.

Upon review of those samples, we noted that notwithstanding that there is no fixed unit price or standard price for polyester filament yarns products, the unit price of the same or similar products charged by the Group to Baikai Wrap Knitting and the independent third party customers were similar. With regard to payment terms, we noted that Baikai Wrap Knitting normally made payment before or within three months after stock delivery. As confirmed by the Directors, given that the Credit Criteria had been met, Baikai Wrap Knitting was granted a longer credit period in accordance with the Payment Policy. As for sales to the independent third party customers, full payment was normally made before stock delivery given that those customers were unable to meet the Credit Criteria.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In view of that (i) our due diligence review of the past transaction record revealed that the price of the transactions between the Group and Baikai Wrap Knitting, and the independent third party customers were similar; (ii) Baikai Wrap Knitting was granted a longer credit period because it was able to meet the Credit Criteria, thus, this was not a preferential treatment; (iii) all customers of the Group are subject to the same Payment Policy and Credit Criteria which are fair and reasonable; and (iv) the Company has set up thorough internal control measures as detailed in the section headed “Pricing policy and internal control” in the Letter from the Board to monitor the future transactions contemplated under the 2022 Sales Agreement II, we are of the view that the 2022 Sales Agreement II is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned.

The 2022 Sales Agreement III

On 12 January 2022, Billion Fujian entered into the 2022 Sales Agreement III with Baikai Textile for the supply of PET chips, POY and spin finish oil to Baikai Textile, from 12 January 2022 (subject to approval of the Independent Shareholders) to 31 December 2024, at a price to be agreed between the parties from time to time as a fair price after negotiation according to normal commercial practice and the principle of fairness and reasonableness. Such price shall be comparable to prices of similar transactions that Billion Fujian conducts with other independent parties of similar scale during the same period.

The 2022 Sales Agreement III is a framework agreement that sets out the general principles of the sale of products only. Therefore, for our due diligence purpose, we have randomly selected and reviewed (i) 17 individual contracts governing the actual transactions between the Group and Baikai Textile; and (ii) 17 contracts entered into between the Group (as supplier) and independent third parties (as customer) governing the sale of similar products, covering the period from 2019 to 2021. We consider the aforesaid samples to be fair and adequate based on our random selection.

Upon review of those samples, we noted that notwithstanding that there is no fixed unit price or standard price for PET chips, POY and spin finish oil, the unit price of the same or similar products charged by the Group to Baikai Textile and the independent third party customers were similar. With regard to payment terms, we noted that Baikai Textile normally made payment before or within three months after stock delivery. As confirmed by the Directors, given that the Credit Criteria had been met, Baikai Textile was granted a longer credit period in accordance with the Payment Policy. As for sales to the independent third party customers, full payment was normally made before stock delivery given that those customers were unable to meet the Credit Criteria.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In view of that (i) our due diligence review of the past transaction record revealed that the price of the transactions between the Group and Baikai Textile, and the independent third party customers were similar; (ii) Baikai Textile was granted a longer credit period because it was able to meet the Credit Criteria, thus, this was not a preferential treatment; (iii) all customers of the Group are subject to the same Payment Policy and Credit Criteria which are fair and reasonable; and (iv) the Company has set up thorough internal control measures as detailed in the section headed “Pricing policy and internal control” in the Letter from the Board to monitor the future transactions contemplated under the 2022 Sales Agreement III, we are of the view that the 2022 Sales Agreement III is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned.

The 2022 Sales Agreement IV

On 12 January 2022, Billion Fujian entered into the 2022 Sales Agreement IV with Baikai Zipper for the supply of DTY to Baikai Zipper, from 12 January 2022 (subject to approval of the Independent Shareholders) to 31 December 2024, at a price to be agreed between the parties from time to time as a fair price after negotiation according to normal commercial practice and the principle of fairness and reasonableness. Such price shall be comparable to prices of similar transactions that Billion Fujian conducts with other independent parties of similar scale during the same period.

The 2022 Sales Agreement IV is a framework agreement that sets out the general principles of the sale of products only. Therefore, for our due diligence purpose, we have randomly selected and reviewed (i) 10 individual contracts governing the actual transactions between the Group and Baikai Zipper; and (ii) 12 contracts entered into between the Group (as supplier) and independent third parties (as customer) governing the sale of similar products, covering the period from 2019 to 2021. We consider the aforesaid samples to be fair and adequate based on our random selection.

Upon review of those samples, we noted that notwithstanding that there is no fixed unit price or standard price for polyester filament yarns products, the unit price of the same or similar products charged by the Group to Baikai Zipper and the independent third party customers were similar. With regard to payment terms, we noted that Baikai Zipper normally made payment before or within three months after stock delivery. As confirmed by the Directors, given that the Credit Criteria had been met, Baikai Zipper was granted a longer credit period in accordance with the Payment Policy. As for sales to the independent third party customers, full payment was normally made before stock delivery given that those customers were unable to meet the Credit Criteria.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In view of that (i) our due diligence review of the past transaction record revealed that the price of the transactions between the Group and Baikai Zipper, and the independent third party customers were similar; (ii) Baikai Zipper was granted a longer credit period because it was able to meet the Credit Criteria, thus, this was not a preferential treatment; (iii) all customers of the Group are subject to the same Payment Policy and Credit Criteria which are fair and reasonable; and (iv) the Company has set up thorough internal control measures as detailed in the section headed “Pricing policy and internal control” in the Letter from the Board to monitor the future transactions contemplated under the 2022 Sales Agreement IV, we are of the view that the 2022 Sales Agreement IV is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned.

The 2022 Sales Agreement V

On 12 January 2022, Billion Vietnam entered into the 2022 Sales Agreement V with Baikai Vietnam for the supply of DTY and FDY to Baikai Vietnam, from 12 January 2022 (subject to approval of the Independent Shareholders) to 31 December 2024, at a price to be agreed between the parties from time to time as a fair price after negotiation according to normal commercial practice and the principle of fairness and reasonableness. Such price shall be comparable to prices of similar transactions that Billion Vietnam conducts with other independent parties of similar scale during the same period.

The 2022 Sales Agreement V is a framework agreement that sets out the general principles of the sale of products only. Therefore, for our due diligence purpose, we have randomly selected and reviewed (i) 18 individual contracts governing the actual transactions between the Group and Baikai Vietnam; and (ii) 18 contracts entered into between the Group (as supplier) and independent third parties (as customer) governing the sale of similar products, covering the period from 2019 to 2021. We consider the aforesaid samples to be fair and adequate based on our random selection.

Upon review of those samples, we noted that notwithstanding that there is no fixed unit price or standard price for polyester filament yarns products, the unit price of the same or similar products charged by the Group to Baikai Vietnam and the independent third party customers were similar. With regard to payment terms, we noted that Baikai Vietnam normally made payment before or within three months after stock delivery. As confirmed by the Directors, given that the Credit Criteria had been met, Baikai Vietnam was granted a longer credit period in accordance with the Payment Policy. As for sales to the independent third party customers, full payment was normally made before stock delivery given that those customers were unable to meet the Credit Criteria.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In view of that (i) our due diligence review of the past transaction record revealed that the price of the transactions between the Group and Baikai Vietnam, and the independent third party customers were similar; (ii) Baikai Vietnam was granted a longer credit period because it was able to meet the Credit Criteria, thus, this was not a preferential treatment; (iii) all customers of the Group are subject to the same Payment Policy and Credit Criteria which are fair and reasonable; and (iv) the Company has set up thorough internal control measures as detailed in the section headed “Pricing policy and internal control” in the Letter from the Board to monitor the future transactions contemplated under the 2022 Sales Agreement V, we are of the view that the 2022 Sales Agreement V is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned.

The 2022 Purchase and Processing Agreements I

On 12 January 2022, Billion Fujian entered into the 2022 Purchase and Processing Agreements I with Baikai Paper for the purchase of paper boxes, rolls, polyfoam boards and cardboards and related processing services, from 12 January 2022 (subject to approval of Independent Shareholders) to 31 December 2024, at a price to be agreed between the parties from time to time as a fair price after negotiation according to normal commercial practice and the principle of fairness and reasonableness. Such price shall be comparable to prices of similar transactions that Billion Fujian conducts with other independent parties of similar scale during the same period.

The 2022 Purchase and Processing Agreements I are framework agreements that set out the general principles of the purchase of products and services only. Therefore, for our due diligence purpose, we have randomly selected and reviewed (i) 18 individual contracts governing the actual transactions between the Group and Baikai Paper; and (ii) 18 contracts entered into between the Group (as customer) and independent third parties (as supplier) governing the purchase of similar products, covering the period from 2019 to 2021. We consider the aforesaid samples to be fair and adequate based on our random selection.

Upon review of those samples, we noted that notwithstanding that there is no fixed unit price or standard price for relevant packaging materials, the unit price of the same or similar products charged by Baikai Paper and the independent third party suppliers to the Group were similar. With regard to payment terms, we noted that the Group was normally required to make full payment to the independent third party suppliers within 25 days after stock delivery and receipt of the relevant value-added tax invoice. Whereas in the transactions with Baikai Paper, the Group was allowed to make full payment within three months after stock delivery.

In view of that (i) our due diligence review of the past transaction record revealed that the price and payment terms of the transactions between the Group and Baikai Paper, and the independent third party suppliers were similar; and (ii) the Company has set up thorough internal control measures as detailed in the section headed “Pricing policy and internal control” in the Letter from the Board to monitor the future transactions contemplated under the 2022 Purchase and Processing Agreements I, we are of the view that the 2022 Purchase and Processing Agreements I are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The 2022 Purchase and Processing Agreements II

On 12 January 2022, Billion High-tech entered into the 2022 Purchase and Processing Agreements II with Baikai Paper for the purchase of paper boxes and rolls and related processing services, from 12 January 2022 (subject to approval of Independent Shareholders) to 31 December 2024, at a price to be agreed between the parties from time to time as a fair price after negotiation according to normal commercial practice and the principle of fairness and reasonableness. Such price shall be comparable to prices of similar transactions that Billion High-tech conducts with other independent parties of similar scale during the same period.

The 2022 Purchase and Processing Agreements II are framework agreements that set out the general principles of the purchase of products and services only. Therefore, for our due diligence purpose, we have randomly selected and reviewed (i) 18 individual contracts governing the actual transactions between the Group and Baikai Paper; and (ii) 18 contracts entered into between the Group (as customer) and independent third parties (as supplier) governing the purchase of similar products, covering the period from 2019 to 2021. We consider the aforesaid samples to be fair and adequate based on our random selection.

Upon review of those samples, we noted that notwithstanding that there is no fixed unit price or standard price for relevant packaging materials, the unit price of the same or similar products charged by Baikai Paper and the independent third party suppliers to the Group were similar. With regard to payment terms, we noted that the Group was normally required to pay 50% deposit before stock delivery to the independent third party suppliers and the balance within one month after receipt of the relevant value-added tax invoice. Whereas in the transactions with Baikai Paper, Baikai Paper did not request the Group to make any deposit, and the Group could make full payment within three months after stock delivery.

In view of that (i) our due diligence review of the past transaction record revealed that the price of the transactions between the Group and Baikai Paper, and the independent third party suppliers were similar; (ii) the Group could enjoy relatively less strict payment terms with Baikai Paper as compared to the independent third party suppliers; and (iii) the Company has set up thorough internal control measures as detailed in the section headed “Pricing policy and internal control” in the Letter from the Board to monitor the future transactions contemplated under the 2022 Purchase and Processing Agreements II, we are of the view that the 2022 Purchase and Processing Agreements II are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

The 2022 Purchase Agreement III

On 12 January 2022, Billion Vietnam entered into the 2022 Purchase Agreement III with Baikai Vietnam for the purchase of paper boxes, rolls and polyfoam boards, from 12 January 2022 (subject to approval of Independent Shareholders) to 31 December 2024, at a price to be agreed between the parties from time to time as a fair price after negotiation according to normal commercial practice and the principle of fairness and reasonableness. Such price shall be comparable to prices of similar transactions that Billion Vietnam conducts with other independent parties of similar scale during the same period.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The 2022 Purchase Agreement III is a framework agreement that sets out the general principles of the purchase of products only. Therefore, for our due diligence purpose, we have randomly selected and reviewed (i) 18 individual contracts governing the actual transactions between the Group and Baikai Vietnam; and (ii) 2 contracts entered into between the Group (as customer) and independent third parties (as supplier) governing the purchase of similar products, covering the period from 2019 to 2021. We consider the aforesaid samples to be fair and adequate based on our random selection.

Upon review of those samples, we noted that notwithstanding that there is no fixed unit price or standard price for relevant packaging materials, the unit price of the same or similar products charged by Baikai Vietnam and the independent third party suppliers to the Group were similar. With regard to payment terms, we noted that the Group was normally required to pay within three months after satisfactory inspection and acceptance of products supplied by either Baikai Vietnam or the independent third party suppliers.

In view of that (i) our due diligence review of the past transaction record revealed that the price and payment terms of the transactions between the Group and Baikai Vietnam, and the independent third party suppliers were similar; and (ii) the Company has set up thorough internal control measures as detailed in the section headed “Pricing policy and internal control” in the Letter from the Board to monitor the future transactions contemplated under the 2022 Purchase Agreement III, we are of the view that the 2022 Purchase Agreement III is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned.

(3) Annual caps under the 2022 Sales Agreement and the 2022 Purchase and Processing Agreements

The 2022 Sales Agreement I

Set out below is a summary of the proposed annual caps under the 2022 Sales Agreement I for the three years ending 31 December 2024 and the relevant historical transaction amounts for the two years ended 31 December 2020 and the eleven months ended 30 November 2021:

	Proposed annual caps			Historical transaction amounts		
	For the year ending 31 December			For the year ended 31 December		For the eleven months ended
	2022	2023	2024	2019	2020	30 November 2021
Average selling price per tonne (RMB)	13,724	13,724	13,724	13,724	9,482	8,039
Sales volume (tonne)	36,643	36,643	36,643	25,300	36,643	19,162
Total (RMB)	503,000,000	503,000,000	503,000,000	347,218,000	347,445,000	154,037,000

Note: The figures shown as totals and the multiples of the corresponding figures above may be different.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

To assess the fairness and reasonableness of the proposed annual caps under the 2022 Sales Agreement I, we have discussed with the Directors with regard to their basis of determination and reviewed the relevant calculations. Based on our discussion with the Directors and review of the relevant calculations, we noted that, as shown in the above table, the proposed annual caps were derived by multiplying the estimated average selling price of the products by the estimated sales volume to Baikai Elastic Weaving during the respective years concerned, details of which are as follows:

Estimated average selling price

As represented by the Directors, the estimated average selling price of the relevant polyester filament yarns products for 2022 was determined with reference to that of the same products for 2019, the time before the Pandemic. The Directors consider such basis to be reasonable because:

- (i) there had been a significant drop in the market price of polyester filament yarns products in 2020 in the PRC owing to the substantial reduction in demand for such products amid the Pandemic. The textile industry had been anomalously affected by the Pandemic in 2020 but business of China's textile enterprises started to recover soon afterwards as a result of the resumption of economic and life activities in the local and foreign markets. With this being the case, the Directors consider the 2019 average selling price to be a fairer reference for the future average selling price; and
- (ii) as set forth in the sub-section headed "Pricing policy and internal control" in the Letter from the Board, the Group would set its product prices after taking into account, amongst others, the costs of production. In this regard, as the costs of the raw materials for manufacturing polyester filament yarns, namely pure terephthalic acid (PTA) and monoethylene glycol (MEG), have risen in 2021, it is expected that a higher price will be set by the Group for the relevant polyester filament yarns products.

As demonstrated by our independent research in the sub-section headed "Recent development of the textile industry in the PRC" of this letter of advice, the textile industry in the PRC has been recovering steadily from mid-2020 onwards. National statistics released show that the total operating income and profit of industrial enterprises above designated size within the textile industry surged year-on-year by approximately 11.0% and 1.9%, respectively, during the ten months ended 31 October 2021. Moreover, the total amount of textile and apparel export has largely stayed at a high level of over US\$25,000 million per month after reaching the floor of approximately US\$490 million in February 2020. Overall speaking, prices of raw materials for textile products increased year-on-year by approximately 4.0% between January 2021 and October 2021. As such, it is likely that the market prices of polyester filament yarns products will further increase when the effect of the Pandemic completely fades out.

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In addition, from market data, we noted that the average market prices of PTA and MEG have mounted by more than 20% and 30%, respectively, in 2021 as compared to 2020. Such mount in raw materials costs may lead to a corresponding increase in the market prices of polyester filament yarns products.

Judging from the above, we consider that it is practical for the Directors to estimate the average selling price of the relevant polyester filament yarns products for 2022 with reference to that of the same products for 2019, the time before the Pandemic, and for prudence sake, to assume the estimated average selling price for 2023 and 2024 to remain at the same level as 2022.

Estimated sales volume

As discussed, the textile industry in the PRC has been recovering steadily from mid-2020 onwards. Hence, the actual sales volume from the Group to Baikai Elastic Weaving jumped considerably by approximately 44.8% from approximately 25,300 tonnes in 2019 to 36,643 tonnes in 2021. The Directors advised us that since the parties to each of the Additional Sales Agreements have agreed to maintain the aggregate value of the transactions carried out pursuant to the Additional Sales Agreements to a level such that the highest applicable percentage ratios as defined in the Listing Rules on such aggregate transaction value shall be less than 5% at any time when the Additional Sales Agreements are in force, and that they shall co-operate with the Company and take necessary control mechanisms to ensure that such aggregate transaction value shall fall within the 5% threshold (being RMB350,802,000), the actual sales volume from the Group to Baikai Elastic Weaving was constrained at a minimum level in 2021. As a matter of fact, we noted that the aggregate transaction value under the Additional Sales Agreements amounted to approximately RMB342 million for the eleven months ended 30 November 2021, which was barely below the aforesaid 5% threshold. With this being the case and having considered the recovery trend of the textile industry in the PRC, we concur with the Directors that the actual sales volume from the Group to Baikai Elastic Weaving for 2020 is a fairer reference for estimating the future sales volume.

Taking into account the above, we are of the opinion that the proposed annual caps under the 2022 Sales Agreement I are fair and reasonable so far as the Independent Shareholders are concerned.

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The 2022 Sales Agreement II

Set out below is a summary of the proposed annual caps under the 2022 Sales Agreement II for the three years ending 31 December 2024 and the relevant historical transaction amounts for the two years ended 31 December 2020 and the eleven months ended 30 November 2021:

	Proposed annual caps			Historical transaction amounts		
	For the year ending 31 December			For the year ended 31 December		For the eleven months ended
	2022	2023	2024	2019	2020	30 November 2021
Average selling price per tonne (<i>RMB</i>)	14,182	14,182	14,182	14,182	10,698	8,877
Sales volume (<i>tonne</i>)	38,306	38,306	38,306	25,881	38,306	9,121
Total (<i>RMB</i>)	544,000,000	544,000,000	544,000,000	367,039,000	409,806,000	80,968,000

Note: The figures shown as totals and the multiples of the corresponding figures above results may be different.

To assess the fairness and reasonableness of the proposed annual caps under the 2022 Sales Agreement II, we have discussed with the Directors with regard to their basis of determination and reviewed the relevant calculations. Based on our discussion with the Directors and review of the relevant calculations, we noted that, as shown in the above table, the proposed annual caps were derived by multiplying the estimated average selling price (i.e. the 2019 average selling price) of the products by the estimated sales volume (i.e. the 2020 actual sales volume) to Baikai Wrap Knitting during the respective years concerned. Having considered that the nature as well as market location of the products for sale under the 2022 Sales Agreements (except for the 2022 Sales Agreement V where the market location is Vietnam instead of China) are similar, we are of the opinion that the proposed annual caps under the 2022 Sales Agreement II, which were determined using the same basis as those under the 2022 Sales Agreement I (see our discussion in the sub-section headed “Annual caps under the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements – The 2022 Sales Agreement I” of this letter of advice), are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The 2022 Sales Agreement III

Set out below is a summary of the proposed annual caps under the 2022 Sales Agreement III for the three years ending 31 December 2024 and the relevant historical transaction amounts for the two years ended 31 December 2020 and the eleven months ended 30 November 2021:

	Proposed annual caps			Historical transaction amounts		
	For the year ending			For the year ended		
	31 December			31 December		
	2022	2023	2024	2019	2020	For the eleven months ended 30 November 2021
Average selling price per tonne (RMB)	6,795	6,795	6,795	6,795	4,865	6,009
Sales volume (tonne)	74,590	74,590	74,590	43,143	74,590	17,295
Total (RMB)	507,000,000	507,000,000	507,000,000	293,144,000	362,904,000	103,922,000

Note: The figures shown as totals and the multiples of the corresponding figures above may be different.

To assess the fairness and reasonableness of the proposed annual caps under the 2022 Sales Agreement III, we have discussed with the Directors with regard to their basis of determination and reviewed the relevant calculations. Based on our discussion with the Directors and review of the relevant calculations, we noted that, as shown in the above table, the proposed annual caps were derived by multiplying the estimated average selling price (i.e. the 2019 average selling price) of the products by the estimated sales volume (i.e. the 2020 actual sales volume) to Baikai Textile during the respective years concerned. Having considered that the nature as well as market location of the products for sale under the 2022 Sales Agreements (except for the 2022 Sales Agreement V where the market location is Vietnam instead of China) are similar, we are of the opinion that the proposed annual caps under the 2022 Sales Agreement III, which were determined using the same basis as those under the 2022 Sales Agreement I (see our discussion in the sub-section headed “Annual caps under the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements – The 2022 Sales Agreement I” of this letter of advice), are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The 2022 Sales Agreement IV

Set out below is a summary of the proposed annual caps under the 2022 Sales Agreement IV for the three years ending 31 December 2024 and the relevant historical transaction amounts for the two years ended 31 December 2020 and the eleven months ended 30 November 2021:

	Proposed annual caps			Historical transaction amounts		
	For the year ending			For the year ended		
	31 December			31 December		30 November
	2022	2023	2024	2019	2020	2021
Average selling price per tonne (RMB)	16,785	16,785	16,785	16,785	9,286	10,290
Sales volume (tonne)	674	674	674	396	674	198
Total (RMB)	12,000,000	12,000,000	12,000,000	6,647,000	6,259,000	2,037,000

Note: The figures shown as totals and the multiples of the corresponding figures above may be different.

To assess the fairness and reasonableness of the proposed annual caps under the 2022 Sales Agreement IV, we have discussed with the Directors with regard to their basis of determination and reviewed the relevant calculations. Based on our discussion with the Directors and review of the relevant calculations, we noted that, as shown in the above table, the proposed annual caps were derived by multiplying the estimated average selling price (i.e. the 2019 average selling price) of the products by the estimated sales volume (i.e. the 2020 actual sales volume) to Baikai Zipper during the respective years concerned. Having considered that the nature as well as market location of the products for sale under the 2022 Sales Agreements (except for the 2022 Sales Agreement V where the market location is Vietnam instead of China) are similar, we are of the opinion that the proposed annual caps under the 2022 Sales Agreement IV, which were determined using the same basis as those under the 2022 Sales Agreement I (see our discussion in the sub-section headed “Annual caps under the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements – The 2022 Sales Agreement I” of this letter of advice), are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The 2022 Sales Agreement V

Set out below is a summary of the proposed annual caps under the 2022 Sales Agreement V for the three years ending 31 December 2024 and the relevant historical transaction amounts for the two years ended 31 December 2020 and the eleven months ended 30 November 2021:

	Proposed annual caps			Historical transaction amounts		
	For the year ending			For the year ended		
	31 December			31 December		
	2022	2023	2024	2019	2020	For the eleven months ended 30 November 2021
Average selling price per tonne (RMB)	8,667	8,667	8,667	8,667	6,437	8,859
Sales volume (tonne)	1,725	1,725	1,725	34	350	113
Total (RMB)	15,000,000	15,000,000	15,000,000	295,000	2,253,000	1,001,000

Note: The figures shown as totals and the multiples of the corresponding figures above may be different.

To assess the fairness and reasonableness of the proposed annual caps under the 2022 Sales Agreement V, we have discussed with the Directors with regard to their basis of determination and reviewed the relevant calculations. Based on our discussion with the Directors and review of the relevant calculations, we noted that, as shown in the above table, the proposed annual caps were derived by multiplying the estimated average selling price of the products by the estimated sales volume to Baikai Vietnam during the respective years concerned, details of which are presented as follows:

Estimated average selling price

As represented by the Directors, the estimated average selling price of the relevant polyester filament yarns products for 2022 was determined with reference to that of the same products for 2019, the time before the Pandemic. The Directors consider such basis to be reasonable because:

- (i) alike the PRC market, there had been a significant drop in the market price of polyester filament yarns products in 2020 in Vietnam owing to the substantial reduction in demand for such products amid the Pandemic. However, the disruption was rather short-term and the Vietnam textile industry has soon started to recover. As such, the average selling price of the relevant polyester filament yarns products increased by approximately 37.6% from RMB6,437 per tonne in 2020 to RMB8,859 per tonne in 2021. The Directors therefore estimated the average selling price of the relevant polyester filament yarns products for 2022 with reference to that for 2019; and
- (ii) as the costs of the raw materials for production of polyester filament yarns, namely PTA and MEG, have risen substantially in 2021, it is expected that a higher price will be set by the Group for the relevant polyester filament yarns products.

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For the same reasons as explained previously, we consider that it is practical for the Directors to estimate the average selling price of the relevant polyester filament yarns products for 2022 with reference to that of the same products for 2019, the time before the Pandemic, and for prudence sake, to assume the estimated average selling price for 2023 and 2024 to remain at the same level as 2022.

Estimated sales volume

The Directors expected that there will be a substantial growth in the sales volume of its polyester filament yarns products to Baikai Vietnam in 2022. From the information provided by the Company, we noted that the estimated sales volume was arrived at based on the future production plan of Baikai Vietnam. Based on an operation of 345 days per year and the consumption of five tonnes of polyester filament yarns every day, Baikai Vietnam would require 1,725 tonnes of polyester filament yarns per annum for future production.

Upon our further enquiry, we understand from the Directors that Baikai Vietnam commenced commercial trial of production in late-2019. Accordingly, the Group's sale of polyester filament yarns products to Baikai Vietnam in 2019 was minimal. In 2020 and 2021, the operation of Baikai Vietnam had been heavily disrupted by the Pandemic, in particular from July 2021 to October 2021 when production of Baikai Vietnam was forced to be completely suspended due to the nationwide lockdown. Nevertheless, the Vietnam government has exerted greater effort in combating the Pandemic in recent months by different measures, including but not limited to accelerating and boosting the vaccination rates. Such measures have brought positive impact on the textile industry. As referred to in a research report named "2022 Textile and Apparel Investment Strategy" published by BOC International (China) Co., Ltd. in December 2021, production of textile factories owned by PRC enterprises in Vietnam have been back to normal with utilisation rates achieving 90%. As further referred to the forecast released by the Vietnam Textile and Garment Association, if the Pandemic is basically under control in the first quarter of 2022, the export value target of the textile industry will be US\$42.5 billion to US\$43.5 billion in 2022; if the Pandemic is under control in mid-2022, the export value target will be US\$40 billion to US\$41 billion; if the Pandemic continues until the end of 2022, the export value target will be US\$38 billion to US\$39 billion, being roughly the same as the total export value recorded in 2019.

In light of that the Vietnam government has exerted greater effort in combating the Pandemic in recent months and production of textile factories owned by PRC enterprises in Vietnam have been back to normal with utilisation rates achieving 90%, we are of the view that it is reasonable to estimate the future sales volume by the Group to Baikai Vietnam based on the future production plan of Baikai Vietnam.

Taking into account the above, we are of the opinion that the proposed annual caps under the 2022 Sales Agreement V are fair and reasonable so far as the Independent Shareholders are concerned.

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The 2022 Purchase and Processing Agreements I

Set out below is a summary of the proposed annual caps under the 2022 Purchase and Processing Agreements I for the three years ending 31 December 2024 and the relevant historical transaction amounts for the two years ended 31 December 2020 and the eleven months ended 30 November 2021:

	Proposed annual caps			Historical transaction amounts		
	For the year ending 31 December			For the year ended 31 December		For the eleven months ended
	2022	2023	2024	2019	2020	30 November 2021
Average purchase price per piece (RMB)	2.3	2.3	2.3	2.7	2.8	1.9
Purchase volume (piece)	213,860,200	213,860,200	213,860,200	117,063,185	97,596,317	122,212,259
Total (RMB)	489,000,000	489,000,000	489,000,000	316,233,000	270,215,000	228,652,000

Note: The figures shown as totals and the multiples of the corresponding figures above may be different.

To assess the fairness and reasonableness of the proposed annual caps under the 2022 Purchase and Processing Agreements I, we have discussed with the Directors with regard to their basis of determination and reviewed the relevant calculations. Based on our discussion with the Directors and review of the relevant calculations, we noted that, as shown in the above table, the proposed annual caps were derived by multiplying the estimated average purchase price of the materials by the estimated purchase volume from Baikai Paper during the respective years concerned, details of which are presented as follows:

Estimated average purchase price

The average purchase price of paper packaging materials, mainly paper boxes, rolls, polyfoam boards and cardboards, was estimated to be RMB2.3 per piece for the three years ending 31 December 2024.

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From our independent research, we noted that since late 2017, the PRC government has promulgated a series of restrictive policies in respect of the importation of wastepaper from overseas. On 14 December 2017, the Environmental Protection Management Regulation on Importing Waste Paper was released by the Ministry of Ecology and Environment to limit the foreign import of wastepaper. Subsequently on 2 May 2018, the General Administration of Customs issued an urgent notice pursuant to which full unpacking and inspection and quarantine of waste materials from the United States of America has been carried out with effect from 4 May 2018. On 8 August 2018, the Ministry of Commerce further announced the Notice of the Customs Tariff Commission of the State Council on Adding Tariffs to Imported Goods of About US\$16 Billion from the United States of America (Announcement of the Taxation Committee [2018] No. 7) to implement a 25% tariff on imported wastepaper from the United States of America starting from 23 August 2018. The aforesaid restrictive policies have substantially curbed the supply of wastepaper from overseas, thereby causing the market price of paper packaging materials to stay at a high level. Despite the interim drop in the market price of paper packaging materials in 2021 owing to the weak demand from different industries as a result of the Pandemic, the market price of paper packaging materials may resume to a high level again under the restrictive circumstances just mentioned when the effect of the Pandemic completely fades out. With this being the case, we are of the opinion that the estimated average purchase price of RMB2.3, which is roughly the average of the actual average purchase price from 2019 to 2021, is acceptable.

Estimated purchase volume

As advised by the Directors, the paper packaging materials purchased under the 2022 Purchase and Processing Agreements I are used by the Group for production and packaging of polyester filament yarns and polyester industrial yarns in the PRC. Consequently, the purchase volume for the proposed annual caps was estimated with reference to the Group's expected production of polyester yarns in future. For this reason, we have requested the Company to provide us with detailed information in relation to the Group's production and future development plan, including the designed production capacity and utilisation rate of its production lines. From the information we received, we noted that currently, the Group's has five production sites in the PRC for production of polyester filament yarns and polyester industrial yarns with total designed production capacity of 1,010,000 tonnes per annum (tpa) and 250,000 tpa, respectively. In 2019, the total production capacity of polyester filament yarns was utilised as to around 79% on average while the production lines for manufacturing polyester industrial yarns had not yet been put under operation. In 2020, due to the relatively lower market demand, the utilisation rate of the production capacity for polyester filament yarns fell to around 64% while that of polyester industrial yarns was around 94%. In 2021, both production capacities were utilised by more than 90%. Following the global recovery, the Directors expected that the Group's total designed production capacity for polyester yarns will be fully utilised from 2022 onwards. We noted that the future purchase volume for 2022 to 2024 was estimated on such basis, and the increase is largely attributable to the expected expansion in production of polyester filament yarns products of the Group in the PRC.

Taking into account the above, we are of the opinion that the proposed annual caps under the 2022 Purchase and Processing Agreements I are fair and reasonable so far as the Independent Shareholders are concerned.

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The 2022 Purchase and Processing Agreements II

Set out below is a summary of the proposed annual caps under the 2022 Purchase and Processing Agreements II for the three years ending 31 December 2024 and the relevant historical transaction amounts for the two years ended 31 December 2020 and the eleven months ended 30 November 2021:

	Proposed annual caps			Historical transaction amounts		
	For the year ending 31 December			For the year ended 31		For the
	2022	2023	2024	December	2020	eleven
				2019	2020	months
						ended
						30 November
						2021
Average purchase price						
per piece (RMB)	28.2	28.2	28.2	28.2	22.9	25.3
Purchase volume (piece)	1,573,926	2,234,610	2,391,498	446,462	517,336	862,372
Total (RMB)	45,000,000	63,000,000	68,000,000	12,046,000	11,847,000	21,818,000

Note: The figures shown as totals and the multiples of the corresponding figures above may be different.

To assess the fairness and reasonableness of the proposed annual caps under the 2022 Purchase and Processing Agreements II, we have discussed with the Directors with regard to their relevant basis of determination and reviewed the relevant calculations. Based on our discussion with the Directors and review of the relevant calculations, we noted that, as shown in the above table, the proposed annual caps were derived by multiplying the estimated average purchase price of the materials by the estimated purchase volume from Baikai Paper during the respective years concerned, details of which are presented as follows:

Estimated average purchase price

The average purchase price of paper packaging materials, mainly paper boxes and rolls, was estimated to be RMB28.2 per piece for the three years ending 31 December 2024.

As aforementioned, the series of policies promulgated by the PRC government since late 2017 have substantially curbed the supply of wastepaper from overseas, thereby causing the market price of paper packaging materials to stay at a high level. Despite the interim drop in the market price of paper packaging materials in 2021 owing to the weak demand from different industries as a result of the Pandemic, the market price of paper packaging materials may resume to a high level again under the restrictive circumstances mentioned when the effect of the Pandemic completely fades out. With this being the case, we are of the opinion that the estimated average purchase price of RMB28.2, which is the same as the actual average purchase price for 2019, is acceptable.

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Estimated purchase volume

As advised by the Directors, the paper packaging materials purchased under the 2022 Purchase and Processing Agreements II are used by the Group for production and packaging of polyester films products in the PRC. Consequently, the purchase volume for the proposed annual caps was estimated with reference to the Group's expected production of polyester films products in future. For this reason, we have requested the Company to provide us with detailed information in relation to the Group's production and future development plan, including the designed production capacity and utilisation rate of its production lines. From the information we received, we noted that the Group is currently manufacturing polyester films products at two production sites in the PRC. Its total designed production capacity for polyester thin films and polyester films expanded substantially from 252,500 tpa and 28,800 tpa in 2020 to 474,500 tpa and 86,400 tpa in 2021, respectively. In alignment with the roll out plan for production expansion formulated by the Company, the existing production lines of the Group will be upgraded with additional designed production capacity for polyester thin films of 19,000 tpa in 2022. In addition, a total of six new polyester thin film production lines with total design production capacity of 209,000 tpa will be put into operation in the coming few years. Two of them will start commercial production in September 2022 and November 2022. Four will start commercial production successively in January 2023, March 2023, May 2023 and July 2023. At the same time, new production lines for polyester films with total design production capacity of 72,000 tpa will be put into operation in December 2022, and subsequently in May 2023. In summary, the Group's total designed production capacity for polyester thin films and polyester films will be expanded to 493,500 tpa and 88,800 tpa in 2022, and to 664,500 tpa and 144,000 tpa in 2023, and further to 702,500 tpa and 158,400 tpa in 2024, respectively.

On the other hand, in 2019, the Group's total production capacity of polyester films was utilised as to around 78%. In 2020, the utilisation rate reached 94%. In 2021, the utilisation rate jumped further to around 99% on average. Following the global recovery, the Directors expected that the Group's total designed production capacity for polyester films will continue to be fully utilised from 2022 onwards. We noted that the future purchase volume for 2022 to 2024 was estimated on such basis, and the increase is largely attributable to the expected expansion in production of polyester films of the Group in the PRC.

Taking into account the above, we are of the opinion that the proposed annual caps under the 2022 Purchase and Processing Agreements II are fair and reasonable so far as the Independent Shareholders are concerned.

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The 2022 Purchase Agreement III

Set out below is a summary of the proposed annual caps under the 2022 Purchase Agreement III for the three years ending 31 December 2024 and the relevant historical transaction amounts for the two years ended 31 December 2020 and the eleven months ended 30 November 2021:

	Proposed annual caps			Historical transaction amounts		
	For the year ending 31 December			For the year ended 31		For the
	2022	2023	2024	December	2020	eleven months ended 30 November 2021
Average purchase price per piece (RMB)	1.5	1.5	1.5	1.5	1.5	1.7
Purchase volume (piece)	44,488,000	44,488,000	44,488,000	3,878,253	22,430,667	13,766,471
Total (RMB)	69,000,000	69,000,000	69,000,000	5,619,000	33,646,000	23,403,000

Note: The figures shown as totals and the multiples of the corresponding figures above may be different.

To assess the fairness and reasonableness of the proposed annual caps under the 2022 Purchase Agreement III, we have discussed with the Directors with regard to their basis of determination and reviewed the relevant calculations. Based on our discussion with the Directors and review of the relevant calculations, we noted that, as shown in the above table, the proposed annual caps were derived by multiplying the estimated average purchase price of the materials by the estimated purchase volume from Baikai Vietnam during the respective years concerned, details of which are presented as follows:

Estimated average purchase price

The average purchase price of paper packaging materials, mainly paper boxes, rolls and polyfoam boards, was estimated to be RMB1.5 per piece for the three years ending 31 December 2024.

As advised by the Directors, since the raw materials for manufacturing paper products by Baikai Vietnam are mostly imported from the PRC, the purchase price of the relevant packaging materials is highly susceptible to the market price of those products in the PRC. With this being the case, for the same reasons as discussed in the sub-section headed “Annual caps under the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements – The 2022 Purchase and Processing Agreements I” of this letter of advice, we are of the opinion that the estimated average purchase price of RMB1.5, which is the same as the actual average purchase price for 2019, is acceptable.

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Estimated purchase volume

As advised by the Directors, the paper packaging materials purchased under the 2022 Purchase Agreement III are used by the Group for production and packaging of polyester filament yarns in Vietnam. Consequently, the purchase volume for the proposed annual caps was estimated with reference to the Group's expected production of polyester filament yarns in Vietnam in future. After reviewing the information provided by the Company, we noted that the production site of the Group commenced operation in late-2019 with total designed production capacity of 200,000 tpa. From 2020 to 2021, since (i) the commercial trail of production has just been started; and (ii) the operation of Billion Vietnam had been heavily disrupted by the Pandemic, in particular from July 2021 to October 2021 when production of Billion Vietnam was forced to be completely suspended due to the nationwide lockdown, the production capacity of Billion Vietnam had far from being fully utilised. Nevertheless, as aforementioned, the Vietnam government has exerted greater effort in combating the Pandemic in recent months by different measures, including but not limited to accelerating and boosting the vaccination rates. Such measures have brought positive impact on the textile industry. As referred to in a research report named "2022 Textile and Apparel Investment Strategy" published by BOC International (China) Co., Ltd. in December 2021, production of textile factories owned by PRC enterprises in Vietnam have been back to normal with utilisation rates achieving 90%. As further referred to the forecast released by the Vietnam Textile and Garment Association, if the Pandemic is basically under control in the first quarter of 2022, the export value target of the textile industry will be US\$42.5 billion to US\$43.5 billion in 2022; if the Pandemic is under control in mid-2022, the export value target will be US\$40 billion to US\$41 billion; if the Pandemic continues until the end of 2022, the export value target will be US\$38 billion to US\$39 billion, being roughly the same as the total export value recorded in 2019.

For instance, the Directors further advised us that the Group has targeted to continuously develop its production site in Vietnam to create a demonstration platform for China-Vietnam production cooperation, which is a great leap forward for the advancement of the Group. Benefiting from the geographical location of Vietnam and its huge market potential, the Directors expected that the production capacity of Billion Vietnam will be utilised fully in the near future. We noted that the future purchase volume for 2022 to 2024 was estimated on such basis, and the increase is largely attributable to the expected expansion in production of polyester filament yarns of the Group in Vietnam.

Taking into account the above, we are of the opinion that the proposed annual caps under the 2022 Purchase Agreement III are fair and reasonable so far as the Independent Shareholders are concerned.

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(4) Listing rules implication and internal control of the Group

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 and 14A.55 of the Listing Rules pursuant to which (i) the transaction values contemplated under each of the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements must be restricted by the annual caps for the years concerned under the respective agreements; (ii) the terms of the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements (together with the respective annual caps) must be reviewed by the independent non-executive Directors annually; and (iii) details of independent non-executive Directors' annual review on the terms of the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements (together with the respective annual caps) must be included in the Company's subsequent published annual reports and financial accounts. As also stipulated under Rule 14A.56 of the Listing Rules, auditors of the Company must provide a letter to the Board confirming, among other things, that the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements are carried out in accordance with the pricing policies of the Company, and their respective annual caps are not being exceeded. In the event that the total transaction values of the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements exceed their respective annual caps, or that there is any material amendment to the terms of the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements, the Company, as confirmed by the Directors, shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

In relation to the above, we have reviewed the annual reports of the Company for each the three years ended 31 December 2020 and noted that the Company had complied with the aforesaid stipulated requirements under the Listing Rules. We have also requested and obtained from the Company the letters from the independent auditors of the Company confirming that the continuing connected transactions were carried out in accordance with the pricing policies of the Company, and their respective annual caps were not exceeded.

Shareholders should also refer to section headed "Pricing policy and internal control" in the Letter from the Board with regard to the internal control measures that the Company has adopted to determine the pricing of products and/or materials under the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements, which we summarise as follows:

- (i) in respect of the sales of products, the Group will evaluate and set the selling prices of its different products in the following way: the finance department will prepare a detailed cost calculation with reference to the costs of materials, products and labour, and up to two (if any) recent transaction prices of the Group within one month. The sales and marketing department will gather further information in respect of customers' views, and competitors' pricing information to ensure that the prices and terms of the products of the Group are competitive, and set the selling prices of different products of the Group (the "**Internal Price List(s)**"). Depending on market situation, the Internal Price List is updated on at least quarterly basis. Such Internal Price List as well as the Group's payment policy is applicable in every sales to all customers; and

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- (ii) in respect of procurement of products and services, the Group will invite quotations from at least two independent third party suppliers to get a reference for the prevailing market prices of the products or services to be procured (the “**Quotation Process**”). Such quotations will be reviewed and evaluated, and compared against the quote from Baikai Paper and Baikai Vietnam. Procurements will only be made from Baikai Paper and Baikai Vietnam if the price and terms they offered are competitive and comparable to those offered by independent third party suppliers. The Group will endeavor to carry out the Quotation Process every time it requires to make procurement of products and services, but under circumstances such as procurement for urgent production requirement, the assessment result of the last Quotation Process will be relied upon for making the relevant procurement.

As substantiation, for the sales transactions, we have obtained 15 Internal Price Lists of the Group for its different products covering the period from 2019 to 2021 and compared the prices of the Group’s actual sales to members of Baikai H.K. group during the relevant time, from which we noted that prices of the Group’s actual sales to members of Baikai H.K. group were in line with the set prices of the relevant Internal Price List. As for the procurement transactions, we have obtained 15 record regarding the Quotation Process covering the period from 2019 to 2021, from which we noted that the Group made procurement from members of Baikai H.K. group when the price they offered were better than that of the independent third party suppliers.

Given (i) the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules; (ii) the internal control measures adopted by the Company and the relevant internal documents that we have obtained as substantiation; and (iii) the results of our sample checks which indicated that members of Baikai H.K. group were not granted with more favourable terms, we are of the view that there are sufficient and effective measures in place to monitor the 2022 Sales Agreements as well as the 2022 Purchase and Processing Agreements to ensure that they are on normal commercial terms, and hence the interest of the Independent Shareholders would be safeguarded.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the 2022 Sales Agreements and the 2022 Purchase and Processing Agreements and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully,
For and on behalf of
VBG Capital Limited
Doris Sing
Managing Director

Ms. Doris Sing is a licensed person and responsible officer of VBG Capital Limited registered with the Securities and Futures Commission to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and has over 17 years of experience in corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the 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, are as follows:

Long position in ordinary shares of the Company:

Name of Director/ Chief Executive Officer	Capacity	Number of Shares as at the Latest Practicable Date	Percentage of issued share capital as at the Latest Practicable Date
Mr. Sze Tin Yau ⁽¹⁾	Interested in a controlled corporation	643,720,000	30.38%
Mr. Wu Jinbiao ⁽²⁾	Interested in a controlled corporation	136,820,000	6.46%

Notes:

- (1) Mr. Sze Tin Yau owned 100% of the issued shares of Kingom Power Limited, which directly owned 643,720,000 shares of the Company. Accordingly, Mr. Sze Tin Yau was deemed to be interested in all the shares of the Company owned by Kingom Power Limited by virtue of the SFO.
- (2) Mr. Wu Jinbiao owned 100% of the issued shares of Winwett Investments Limited, which directly owned 136,820,000 shares of the Company. Accordingly, Mr. Wu Jinbiao was deemed to be interested in all the shares of the Company owned by Winwett investments Limited by virtue of the SFO.

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 (other than a Director or chief executive of the Company) 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 (“ Hong Kong Rong An ”)	Beneficial owner	784,384,808	37.02%
CECEP Chongqing Industry Co., Ltd. (“ CECEP Chongqing ”) ⁽¹⁾	Interest in controlled corporation	784,384,808	37.02%
China Energy Conservation and Environmental Protection Group (“ CECEP ”) ⁽²⁾	Interest in controlled corporation	784,384,808	37.02%
Kingom Power Limited	Beneficial owner	643,720,000	30.38%

Name of Shareholder	Capacity	Number of Shares as at the Latest Practicable Date	Percentage of issued share capital as at the Latest Practicable Date
Winwett Investments Limited	Beneficial owner	136,820,000	6.46%
Mr. Huang Shaorong	Beneficial owner	19,425,000	0.92%
	Interest in controlled corporation	188,532,000	8.89%
Ever Luxuriant Global Trading Limited	Beneficial owner	188,532,000	8.89%
Mr. Lin Haibin	Beneficial owner	27,723,000	1.31%
	Nominee for another person (other than a bare trustee)	166,706,000	7.87%
Haibin International Investments Limited	Beneficial owner	170,140,000	8.03%
Export – Import Bank of China	Person having a security interest in shares	300,000,000	14.16%

Notes:

- (1) CECEP Chongqing owned 100% of the issued share capital of Hong Kong Rong An, therefore, was thus deemed to be interested in all shares of the Company that Hong Kong Rong An was interested in under the SFO.
- (2) CECEP Chongqing was a non-wholly-owned subsidiary of CECEP. CECEP was therefore deemed to be interested in all shares of the Company CECEP Chongqing was interested in under the SFO.

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.

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, 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
VBG Capital Limited	a corporation licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities under the SFO

VBG Capital 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 VBG Capital Limited are given as of the date of this circular for incorporation herein.

As at the Latest Practicable Date, VBG Capital 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, VBG Capital Limited did not have any interest, direct or indirect, in any assets since 31 December 2020, 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 2020, 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 2020, being the date to which the latest published audited accounts of the Company were made up.

As at the Latest Practicable Date, none of the Directors had any material interest in any contract or arrangement which was subsisting and significant in relation to the business of the Group.

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 2022 Sales Agreements and the 2022 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 ON DISPLAY

Electronic copies of the following documents are published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.baihong.com/>) for a period of 14 days from the date of this circular (both days inclusive):

- (a) the 2022 Sales Agreements; and
- (b) the 2022 Purchase and Processing Agreements.

9. MISCELLANEOUS

- (a) The principal registrar of the Company is Suntera (Cayman) Limited, Suite 3204, Unit 2A, Block 3, Building D, P.O. Box 1586, Gardenia Court, Camana Bay, Grand Cayman, KY1-1110, Cayman Islands.
- (b) The Hong Kong branch share registrar is Computershare Hong Kong Investor Services Limited, at 17M 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 Unit 1501, Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong on 22 February 2022 at 10:00 a.m. 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 12 January 2022 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 12 January 2022 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 “**2022 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 RMB1,581,000 for the three years ending 31 December 2022, 2023 and 2024 for the transactions under the 2022 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 12 January 2022 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 “**2022 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 12 January 2022 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 “**2022 Purchase and Processing Agreements II**”) (a copy of each of which is produced to the EGM), and the purchase agreement dated 12 January 2022 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 2022 Purchase and Processing Agreements I and the 2022 Purchase and Processing Agreements II, the “**2022 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 RMB603,000,000, RMB621,000,000 and RMB626,000,000 for the years ending 31 December 2022, 2023 and 2024, respectively, for the transactions under the 2022 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, 31 January 2022

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 31 January 2022.
- (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.

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (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 17M Floor, 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. Yu Wai Ming, Mr. Lin Jian Ming and Mr. Shih Chun Pi as independent non-executive Directors.

* *For identification purposes only*