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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)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO CHANGE OF AUDITOR

Reference is made to the announcement (the “**Announcement**”) of Billion Industrial Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 18 December 2020 relating to, among others, the change of auditor of the Company. Unless otherwise stated, terms defined in the Announcement have the same meanings when used in this announcement.

The Board would like to provide the following further information to enable shareholders and potential investors of the Company to better understand the resignation of KPMG as the auditor of the Company.

The circumstances leading to KPMG’s cessation as the Company’s auditor are set out below in further detail:

1. In July 2020, KPMG had originally been instructed to perform the Interim Review, though the Company and KPMG had not agreed on the fee for such service at the time of the initial instruction.
2. During the course of KPMG’s Interim Review, KPMG identified areas requiring further explanations and supporting documents in respect of certain sales to Jinjiang Hengcai Textile Industry Co., Ltd. (“**Hengcai**”) of RMB175 million and payments to Hengcai of RMB540 million by the Group during the six months ended 30 June 2020.

3. In a letter from KPMG to the Board and the Audit Committee dated 12 August 2020, in relation to the transactions between Hengcai and the Group, KPMG indicated that,
- a. Hengcai was engaged by Fujian Billion Polymerization Fiber Technology Industrial Co., Ltd.* (福建百宏聚纖科技實業有限公司) (“**Billion Fujian**”), a subsidiary of the Company, as a new customer in April 2020. The names of the two shareholders of Hengcai were among the names on Billion Fujian’s employee list. KPMG was told by the Group’s management that Hengcai was instructed by a related party, Baikai Group, to enter into purchase agreements with Billion Fujian for purchases in the amount of RMB500 million to RMB600 million (which amount was subject to further confirmation). From 24 April 2020 to 30 June 2020, Billion Fujian had delivered goods in the amount of approximately RMB175 million, and recorded trade receivable of approximately RMB200 million (tax included) and sales of approximately RMB175 million;
 - b. during May and June 2020, Billion Fujian paid RMB540 million to Hengcai in aggregate from its bank deposit and received bills (銀行匯票) from Hengcai of RMB480 million in aggregate, tendered bills in the aggregate amount of RMB420 million for cash, for which Billion Fujian bore approximately RMB650,000 of bill discount expense (貼現費) and Hengcai bore the rest of the bill discount expense; and as of 30 June 2020, the balance of bills receivable and trade receivable from Hengcai recorded by Billion Fujian was RMB60 million and RMB260 million, respectively;
 - c. the Group’s management had not provided the reasons and all supporting documents for the transactions set out in (a) and (b) above, including sales contracts, stock-in record, receipt and purchase orders, and had not provided the corresponding disclosure in the Company’ interim report;
 - d. the Group’s management had not provided the contract between Billion Fujian and the relevant bank for the redemption of the bills, and had not explained whether there was any risk claims against Billion Fujian for the tendering of the bills;
 - e. the Group’s management had not provided it with other information and documents it requested in relation to the Interim Review;
 - f. KPMG also reminded the Directors to identify and confirm whether Hengcai was a related party of the Group and whether the flows of funds between Billion Fujian and Hengcai constituted lending to related parties or third parties by the Company, and the implications of such findings.

4. Concurrent with KPMG's work on the Interim Review, the Company and KPMG had been negotiating on the fee for such service but could not reach a consensus. In particular, KPMG had requested to raise their fees for the Interim Review as well as the audit of the Company's financial statements for the year ending 31 December 2020 due to additional costs and resources incurred by KPMG in relation to the issues set out in paragraphs 2 and 3 above. However, the Company found the bases of such fee increase unacceptable. Accordingly, the Company did not proceed to provide the additional information to KPMG and decided not to engage KPMG to perform further work on the Interim Review.
5. The Board and the Audit Committee, having considered the issues mentioned in KPMG's letter dated 12 August 2020 and the explanation provided by the management to them, resolved to approve the Company's interim results on 17 August 2020 without further involvement of KPMG. In particular, the management explained that the shareholders of Hengcai, who were employees of the Group, were neither directors nor substantial shareholders of the Group. When Hengcai initially ordered from Billion Fujian, it prepaid for the purchases with bills. However, the parties subsequently agreed to delay the delivery of the products ordered, and accordingly Billion Fujian arranged for a refund of the prepayment made by Hengcai. As a substantial part of the bills had already been tendered to the relevant banks for cash, Billion Fujian refunded the prepayment in cash to Hengcai. The payments made to Hengcai were refunds by the Group due to the difference of the timing on receipts of the prepayments and/or settlements from Hengcai by bank acceptance bills issued from major banks in the PRC; and upon receipts of the bank acceptance bills from Hengcai, we discounted all these bills to our banks, and the related bank charges from the discounting of the bills were charged to and reimbursed by Hengcai subsequently.
6. As the Group's management did not provide the explanation and supporting documents within the requested timeframe, KPMG was unable to further proceed with their work on the Interim Review. As at the date of KPMG's resignation, the Company had not provided the explanation and supporting documents to KPMG as requested.
7. As at the date of KPMG's resignation, KPMG and the Company had not reached a consensus on the services fees of KPMG's work done on the Interim Review up to 12 August 2020 and for the audit of the consolidated financial statements of the Group for the year ending 31 December 2020.

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

Hong Kong, 23 December 2020

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

* *For identification purpose only*