

BURSA MALAYSIA SECURITIES BERHAD'S QUERIES DATED 1 AUGUST 2019
XIDELANG HOLDINGS LIMITED ("XDL" OR THE "COMPANY")

MEMORANDUM OF STRATEGIC COLLABORATION ("MOSC") BETWEEN GLOBAL INTERNATIONAL FOOTWEAR (HONG KONG) CO., LTD ("GIF") AND HONGPENG FUJIAN SHOES & GARMENTS CO., LTD ("HPFS")

We refer to the announcement by the Company dated 29 July 2019 ("**Announcement**") and the query by Bursa Malaysia Securities Berhad ("**Bursa Securities**") dated 1 August 2019 in relation to the MOSC.

Unless otherwise stated, defined terms used in this reply shall have the same meanings as those used in the Announcement.

The Company wishes to provide the following additional information pursuant to the abovementioned query:

- 1. Please substantiate and provide further elaboration on your statement that "both parties have enjoyed progressive growth through the said Memorandum of Collaboration ("MOC") entered into with GIF on 23 May 2017.**

Reply

The Parties have enjoyed progressive growth through the said MOC, as evidenced by the ODM orders completed throughout the 2-year tenure of the MOC.

Our Group's revenue generated from the ODM business segment recorded an increase of 13.0% from RMB195.5 million for the financial year ended ("FYE") 31 December 2017 to RMB221.0 million for the FYE 31 December 2018, and an increase of 37.9% from RMB42.0 million for the financial period ended ("FPE") 31 March 2018 to RMB57.9 million for the FPE 31 March 2019. These have been reflected in the annual report 2018 and Quarter 1, 2019 interim financial report of the Company.

- 2. It was stated in your announcement dated 25 May 2017 that both parties (i.e. HPFS and GIF) agreed that the Original Design Manufacturer production orders from GIF to HPFS in the next twenty-four (24) months shall not be less than RMB160 million in aggregate. In this regard, please quantify the final production orders upon the expiry of the MOC on 22 May 2019. In the event the final production orders is less than RMB160 million, to state the reasons thereof.**

Reply

The minimum aggregate orders over 24 months of RMB160 million as expressed in the MOC dated 23 May 2017 is indicative in nature. Throughout the 2-year tenure of the MOC, our Group had received aggregate sales of approximately RMB164.0 million referred by GIF; exceeding the level indicated in the MOC.

- 3. To highlight the difference between the MOC entered into on 23 May 2017 and the MOSC entered into on 29 July 2019.**

Reply

The MOSC is actually a furtherance of the MOC, premised on the positive results achieved through the MOC. The fundamental principles for the collaboration under the MOSC are consistent with those under the MOC, save for the parties expect to achieve a higher indicative aggregate ODM and OEM orders over the period of 24 months under the MOSC, covering more brands.

4. **To provide further elaboration on your statement which states that “the fundamental purpose of this MOSC is to achieve mutual benefits and mutual growth with mutual respects on privacy and markets and to optimise the competitive advantages and strengths of both parties”.**

Reply

Under the MOSC, the Parties will have different roles whereby GIF will focus on marketing and procurement of ODM/OEM production orders from international brands while our Group will support GIF in terms of production capability and capacity.

By virtue of the collaboration, the Parties will gain access to sensitive and confidential information amongst others, the contact details of the end-consumers (i.e. the brand owner), technical know-how and product specification/design (which will involve new products to be launched by the brand owners). It is the mutual understanding between the Parties that all these sensitive and confidential information are to be used strictly for the purpose of the collaboration with due respect to each other's privacy and trade secrets.

5. **It is represented in your announcement that both parties agreed that the Original Design Manufacturer and/or Original Equipment Manufacturer production orders from GIF to HPFS in the next twenty-four (24) months shall not be less than RMB400 million in aggregate, which is RMB240 million more than the production orders agreed in the MOC entered into on 23 May 2017. In this respect, please provide the degree of certainty on the achievability of the production orders of RMB400 million.**

Reply

The production orders provided in the MOSC is indicative in nature, setting out the expectation of the Parties, so that the Parties are prepared and have clear direction for internal planning and allocation of resources.

Barring any unforeseen circumstances, particularly any adverse market development or external factors beyond the control of the Parties, the Parties are of the opinion that the indicative production orders are reasonable and achievable after taking into consideration the following:

- (i) Increase in production capability and capacity of the Group, from 6 production lines at the point the MOC dated 23 May 2017 was signed to 8 production lines at present where 2 integrated and more advanced production lines have been added; and
- (ii) Expansion of the end-customer base, where there are new and additional international brands from whom ODM/OEM production orders are secured.

This announcement is dated 2 August 2019.