

1. INTRODUCTION

The Board of Directors of XDL wishes to announce that XDL had on 13 April 2020 entered into a Collaboration Agreement (“CA”) with Fujian BiTiChong Baby Products Co, Ltd (“FBBP”) to venture into manufacturing of stylish, reusable and washable protective masks. (“Proposed Collaboration”).

2. DETAILS AND SALIENT TERMS OF THE PROPOSED COLLABORATION

2.1 Background information and collaboration arrangement

With reference to the impact from COVID-19 pandemic, Management of XDL internally forecast that people’s living behaviour would change accordingly and face mask would become an essential item.

Thus, XDL would set up a new division to venture into manufacturing of stylish, reusable and washable protective masks including sales and marketing as well as market expansion and setting of selling price. The production of the masks will use its existing shoes (if so required) and garments production lines.

With the Proposed Collaboration with FBBP, FBBP would provide technical support and supply of raw materials to XDL for the production of the stylish, reusable and washable protective masks.

2.2 Information on FBBP

FBBP was incorporated on 10 February 2012 as a company limited by shares in China. The registered capital of FBBP is RMB10,000,000 (Renminbi Ten Million) and the current issued share capital of FBBP is RMB3,800,000 (Renminbi Three Million and Eight Hundred Thousand). The sole director, shareholder and legal representative of FBBP is Yang MingKe.

FBBP is principally engaged in research and development, design, manufacturing and marketing of baby milk bottles, pacifiers, diapers, wet wipes, baby skin care products, baby shoes and garments, baby strollers, baby cots and other relevant baby products (excluding foods), medical-use protective masks, non-medical use protective masks, protective clothing, cleaning products, cosmetics and hygienic products, non-woven fabric products, daily-use chemical products, wet wipes and similar products (excluding food), soaps, liquid detergent (without hazardous substance) and/or import/export of goods/technology (excluding import/export of goods/technology which are prohibited by the Government of the People’s Republic of China or requires special administrative approval).

2.3 Commencement and Target Markets

XDL targets to commence production immediately upon complete fulfilment of the terms and conditions as stated in the CA.

The masks will be sold in China domestic market and overseas market.

2.4 Validity of CA and Other Agreed Terms and Conditions

- i. The CA shall be effective from the date of signing and affixation of common seal by both XDL and FBBP and shall continue to remain in force for a period of two (2) years. Any matter(s) which are not governed by the CA, upon mutual agreement by both XDL and FBBP, shall be formalised in separate supplemental agreement(s). Any supplement agreement entered into by the XDL and FBBP shall have the same legal effect as the CA.
- ii. In the event of dispute/disagreement, both XDL and FBBP shall engage each other and endeavour to resolve the dispute/disagreement amicably. If mutual agreement cannot be reached, the matter shall be submitted to the court having jurisdiction in the place of domicile for arbitration.

3. RATIONALE, BENEFIT AND PROSPECT FOR THE PROPOSED COLLABORATION

The Proposed Collaboration will allow XDL to expand and diversify its sources of income by investing into this new business venture without the need to expend otherwise heavy capital expenditure requirement by using its currently under-utilised garment production lines.

Further, it also ensures uninterrupted supply of protective face mask to XDL Group for own usage and donation to the society as part of the Corporate Social Responsibility of XDL, when necessary.

4. RISK FACTORS IN RELATION TO THE PROPOSED COLLABORATION

4.1 Ceiling Price of Product

Protective equipment such as face mask is important to the society especially during the outbreak of viruses, occurrence of natural disaster and etc. Thus, the government may impose ceiling price for face mask and that would affect the profit margin of XDL during these periods.

The risk could be mitigated by being cost efficient during the production. However, there is no assurance that the risk could be completely mitigated.

4.2 Technical, Infringement and Quality Risk

Research and develop, design and manufacture of medical-use face mask rely heavily on specialise technique, formula, process, machinery and etc to ensure its compliance with the high level of product quality standard/requirement to assure its usage safety and function. Any non-compliance of required quality standard, infringement of right to use and etc would result in adverse financial and non-financial impact.

Through the collaboration with FBBP, which has already obtained the necessary licenses, permits and certificate of compliance, the production process and final output of the reusable and washable protective masks would have complied with the necessary requirements and the risk of technical, infringement and quality could be mitigated. However, continuous improvement and monitoring action is required to ensure its high level of compliance.

4.3 Business, Political, Economic and Regulatory Risk

Occurrence of risk factors such as changes in political, economic and regulatory conditions, shortage of labour, increase in labour and material costs, recession, inflation and natural disaster that may affect the financial and operational conditions and the profitability of XDL.

Although these risks could be mitigated by taking more stringent internal controls over the business operations of XDL, no assurance can be given that any changes in these factors will not have any adverse impact on the business, prospects and/or future financial performance of XDL.

4.4 Reliance risk on FBBP

Supply of raw materials and technical support for the manufacturing of the protective masks would be relied on FBBP. Thus, any interruptions from FBBP would significantly affect the masks operation of XDL.

Thus, in order to limit the impact from the reliance risk, Other Agreed Terms and Conditions as mentioned in above Section 2.4 were stated in the CA.

5. FINANCIAL EFFECT OF THE PROPOSED COLLABORATION

The Proposed Collaboration will not have any effect on the issued and paid up share capital and the substantial shareholders' shareholding of XDL.

The Proposed Collaboration is not expected to have any material effect on the earnings per share, net assets per share and gearing for the financial period ending 30 June 2020.

Barring any unforeseen circumstances, the Proposed Collaboration is expected to contribute positively to the earnings of XDL Group after the commencement of the masks business.

6. INTEREST OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED TO THEM

None of the Directors and/or major shareholders of XDL, as well as persons connected to them, have any interest, direct or indirect, in the Proposed Collaboration.

7. STATEMENT BY THE BOARD OF DIRECTORS

Having considered all aspects of the Proposed Collaboration, the Board is of the opinion that the Proposed Collaboration is in the best interest of the Company.

This announcement is dated 15 April 2020.