

XIDELANG HOLDINGS LTD (“XDL” OR THE “COMPANY”)

PROPOSED ESTABLISHMENT OF AN EMPLOYEES’ SHARE OPTION SCHEME OF UP TO 15% OF THE ISSUED AND PAID-UP SHARE CAPITAL OF THE COMPANY

1. INTRODUCTION

On behalf of the Board of Directors of XDL (“**Board**”), Mercury Securities Sdn Bhd (“**Mercury Securities**”) wishes to announce that the Company proposes to establish an employees’ share option scheme (“**ESOS**” or the “**Scheme**”) of up to 15% of the issued and paid-up share capital of XDL (excluding treasury shares) for the eligible Directors (including non-executive Directors) and employees of XDL and its subsidiaries (excluding subsidiaries which are dormant) (“**XDL Group**” or “**Group**”) (“**Proposed ESOS**”).

2. DETAILS OF THE PROPOSED ESOS

The Company proposes to establish and implement the Proposed ESOS which involves granting of the ESOS options (“**Options**”) to Directors and employees of the XDL Group who meet the criteria of eligibility for the participation in the ESOS (“**Eligible Persons**”) as set out in the by-laws governing the Scheme (“**By-Laws**”). The Options granted under the Scheme shall entitle the Eligible Persons to subscribe for new ordinary shares of USD0.03 each of XDL (“**XDL Shares**” or “**Shares**”) at an exercise price to be determined at a later date (“**Exercise Price**”).

The Scheme will be administered by an ESOS committee, whose members will be duly appointed and authorised by the Board (“**ESOS Committee**”). The ESOS Committee will have the absolute discretion in administering the Scheme. Any liberty, power or discretion which may be exercised or any decision or determination which may be made by the ESOS Committee (including any selection) pursuant to the By-Laws may be exercised in the ESOS Committee’s sole and absolute discretion having regard to the terms of reference which the Board may establish to regulate and govern the ESOS Committee’s functions and responsibilities.

2.1 Maximum number of XDL Shares available under the Scheme

The maximum number of new XDL Shares that may be issued and allotted under the Scheme shall not exceed 15% of the Company’s total issued and paid-up share capital (excluding treasury shares, if any) at any point of time during the duration of the Scheme.

2.2 Basis of allocation and maximum allowable allocation of new XDL Shares

Subject to any adjustments as may be made under the By-Laws, the aggregate maximum number of new XDL Shares that may be allocated to any one category / designation of Eligible Persons shall be determined entirely at the discretion of the ESOS Committee after taking into consideration, amongst others, the Eligible Person’s performance and seniority subject to the following conditions:-

- (i) any ESOS Committee member shall not participate in the deliberation or discussion of, and shall abstain from voting on, their own allocation of Options; and
- (ii) not more than 10% of the Options available under the Scheme shall be allocated to any individual Eligible Person who, either singly or collectively through persons connected with the Eligible Person, holds 20% or more of the issued and paid-up share capital of the Company (excluding treasury shares, if any).

Subject to paragraph (i) above, in the event that the ESOS Committee has determined that certain Eligible Persons are entitled to be offered additional ESOS Options and the available balance of the unissued share capital of the Company under the Scheme is insufficient to grant their full additional entitlement, such available balance under the Scheme may be distributed on such basis as the ESOS Committee may determine and such decision shall be final and binding.

The ESOS Committee also has the discretion to determine, amongst others:-

- (i) whether or not to stagger the Offer over the duration of the Scheme and each Offer shall be separate and independent from the others;
- (ii) the number of Options to be offered in each offer and whether or not the Options are subject to any vesting period and if so, the vesting conditions and whether such vesting are subject to performance target(s); and
- (iii) such other terms and conditions as it shall deem fit and appropriate to be imposed for the participation in the Scheme.

2.3 Eligibility to participate in the Scheme

An employee / Director of the Group, shall be eligible to participate in the Scheme if, as at the date of the written offer of Options to him/her ("**Date of Offer**") ("**Offer**"):-

- (i) he / she is at least 18 years of age and he / she is not an undischarged bankrupt or subject to any bankruptcy proceedings;
- (ii) he / she is employed:-
 - (a) full time by and on the payroll of any company in the Group and his / her employment has been confirmed by any company in the Group; or
 - (b) under an employment contract for a fixed duration and has been in the employment of the Group for such period as may be determined by the ESOS Committee prior to and up to the Date of Offer;
- (iii) falls within such other categories and complies with such criteria that the ESOS Committee may decide at its absolute discretion for the purposes of selecting Eligible Persons from time to time;

If the employee / Director is employed by a company which is acquired by the Group during the Scheme and becomes a subsidiary whether directly or indirectly held by the Company upon such acquisition, such employee / Director must fulfil the following as at the Date of Offer:-

- (i) he / she is at least 18 years of age and he / she is not an undischarged bankrupt or subject to any bankruptcy proceedings;
- (ii) he / she is employed full time by and on the payroll of the newly acquired company and his / her employment has been confirmed by the newly acquired company; and
- (iii) he / she has been an employee of the newly acquired company for such period as may be determined by the ESOS Committee prior and up to the Date of Offer.

The employee / Director must fulfil any other criteria and/or fall within such category as may be determined by the ESOS Committee from time to time.

The eligibility to participate in the Scheme does not confer upon an Eligible Person a claim or right to participate in or any rights under the Scheme and an Eligible Person does not acquire or have any rights over or in connection with the Options or the Shares unless the ESOS Committee has made an Offer to the Eligible Person and such Eligible Person has accepted the Offer in accordance with the terms of the By-Laws.

2.4 Duration of the Proposed ESOS

The Scheme shall be in force for a duration of five (5) years from the effective date of the Scheme, being the date of full compliance with all relevant requirements stipulated in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“**Listing Requirements**”) (“**Bursa Securities**”), and may be extended by the ESOS Committee at its discretion, without having to obtain approval from the shareholders of the Company (“**Shareholder**”), provided that the initial period of the Scheme and such extension of the Scheme made shall not in aggregate exceed the duration of ten (10) years from the effective date of the Scheme.

In the event the Scheme is extended, the ESOS Committee shall furnish a written notification to all Eligible Persons who have accepted an Offer (“**Grantees**”) and the Company shall make the necessary announcements through Bursa Securities prior to the proposed extension of the Scheme.

2.5 Exercise of Options

Subject to the By-Laws, a Grantee shall be allowed to exercise the Options granted to him / her either in full or in such lesser number as the Grantee may be entitled under the Options at any time during the Option period whilst he / she is in the employment of any company within the Group. There will be no restriction to the Grantee on the percentage of Options exercisable by him / her during the Option period commencing from the date of an Offer is accepted by a Grantee and expiring on the last day of the duration of the Scheme or such other date as stipulated by the ESOS Committee in the Offer or upon the date of termination or expiry of the Scheme as provided in the By-Laws.

2.6 Exercise Price

Subject to any adjustments that may be made in accordance with the By-Laws, the Exercise Price shall be based on the higher of the following:-

- (i) a price to be determined by the Board upon recommendation of the ESOS Committee based on the five (5)-day volume weighted average market price (“**VWAP**”) of the Shares immediately preceding the Date of Offer with a discount of not more than ten percent (10%) or such other percentage of discount as may be permitted by Bursa Securities or any other relevant authorities from time to time during the duration of the Scheme; or
- (ii) the par value of XDL Shares from time to time, provided however that this provision shall cease to apply if due to a change in law, no par value is legally required to be ascribed to the share capital of the Company under the applicable law then in effect.

2.7 Ranking of the new XDL Shares to be issued pursuant to the exercise of the Options

The new XDL Shares to be allotted and issued upon the exercise of the Options shall, upon allotment and issue, rank *pari passu* in all respects with the then existing issued and paid-up XDL Shares, save and except that the new XDL Shares shall not be entitled to any dividends, rights, allotments and/or other distributions which may be declared, made or paid to Shareholders, the entitlement date of which is prior to the date of allotment of such new XDL Shares.

2.8 Utilisation of proceeds

The proceeds arising from the exercise of the Options will depend on, amongst others, the number of Options granted and exercised at the relevant point in time as well as the Exercise Price. As such, the actual amount of proceeds arising from the exercise of the Options as well as the timeframe for the utilisation of the proceeds could not be determined at this juncture. Nevertheless, the Company intends to utilise the proceeds arising from the exercise of the Options, if any, as working capital for the Group, as and when received by the Company.

2.9 Retention period

The new XDL Shares to be allotted and issued to the Grantees pursuant to the exercise of Options held by such Grantees will not be subject to any retention period or restrictions on transfer save for those (if any) as may be provided in the Bye-Laws of the Company for the time being. However, the Grantees are encouraged to hold the Shares as an investment rather than for any speculative purposes and/or for the realisation of any immediate gain.

Notwithstanding the above, a Grantee who is a non-executive Director must not sell, transfer or assign his / her Shares obtained through the exercise of the Options offered to him / her pursuant to the Scheme within one (1) year from the Date of Offer of such Options or such period as may be prescribed by Bursa Securities.

2.10 Modification, variation and/or amendment to the Scheme

Subject to the compliance with the Listing Requirements and any other relevant authorities, the ESOS Committee may at any time recommend to the Board any addition or amendment to or deletion of the By-Laws as it shall think fit. The Board shall have the power by resolutions to add to, amend or delete all or any of the By-Laws upon such recommendation provided that no addition or amendment to or deletion of the By-Laws shall be made which will:-

- (i) prejudice any rights which have accrued to any Grantee without the prior consent or sanction of that Grantee; or
- (ii) increase the number of Shares available under the Scheme beyond the maximum set out in Section 2.1 above.

In compliance with the provisions set out in Appendix 6E of the Listing Requirements, the Board shall not amend or alter the By-Laws in any way whatsoever to the advantage of the Eligible Persons without prior approval of the Shareholders in a general meeting.

3. RATIONALE FOR THE PROPOSED ESOS

The Proposed ESOS is established primarily to achieve the following objectives:-

- (i) to motivate, reward and retain the Eligible Persons who, upon exercising their Options would be given the opportunity to participate in the equity of the Company and thereby relate their contribution directly to the performance of the Company;
- (ii) to provide incentives to the Eligible Persons to be committed to the Group without adversely affecting the cash flow of the Group; and
- (iii) to have a more competitive remuneration scheme to attract more skilled and experienced individuals to join the Group and contribute to its continued growth and profitability.

The allocation of Options to non-executive Directors is to recognise the contributions and efforts made by the non-executive Directors as they play a constructive role in contributing towards the growth and performance of the Group. Their participation in the equity of the Company is expected to enhance their level of commitment and contribution as well as to enable the Company to attract and retain capable individuals to act as non-executive Directors of the Company who will assist in the overall strategic decisions of the Group.

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4. EFFECTS OF THE PROPOSED ESOS

4.1 Issued and paid-up share capital

The Proposed ESOS will not have an immediate effect on the existing issued and paid-up share capital of the Company. However the issued and paid-up share capital of the Company will increase progressively depending on the number of Options exercised and the new XDL Shares to be issued pursuant thereto.

For illustrative purposes, based on the Minimum Scenario and Maximum Scenario (as defined below), the proforma effects of the Proposed ESOS on the issued and paid-up share capital of the Company are as follows:-

- Minimum Scenario : Assuming that as at 3 March 2015, being the latest practicable date prior to this announcement (“**LPD**”), none of the:-
- (i) 261,778,552 outstanding warrants with an exercise price of RM0.35 each, which have been issued by the Company on 26 April 2012 and are expiring on 25 April 2015 (“**Warrants 2012/2015**”); and
 - (ii) 181,499,212 outstanding warrants with an exercise price of RM0.35 each, which have been issued by the Company on 23 January 2014 and are expiring on 22 January 2017 (“**Warrants 2014/2017**”),
- are exercised and that all the existing 1,000 treasury shares held by the Company are retained within the Company prior to the implementation of the Proposed ESOS.
- Maximum Scenario : Assuming that all outstanding Warrants 2012/2015 and Warrants 2014/2017 are exercised and all the existing 1,000 treasury shares have been resold on the open market prior to the implementation of the Proposed ESOS.

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	Minimum Scenario			Maximum Scenario		
	No. of Shares '000	USD'000	⁽¹⁾ RM'000	No. of Shares '000	USD'000	⁽¹⁾ RM'000
Issued and paid-up share capital as at the LPD (including 1,000 treasury shares)	1,149,496	34,485	125,059	1,149,496	34,485	125,059
Full exercise of outstanding Warrants 2012 / 2015	-	-	-	261,779	7,853	28,480
Full exercise of outstanding Warrants 2014 / 2017	-	-	-	181,499	5,445	19,746
	1,149,496	34,485	125,059	1,592,774	47,783	173,285
To be issued upon the exercise of the Options under the Proposed ESOS ⁽²⁾	172,424	5,173	18,759	238,916	7,167	25,993
Enlarged share capital	1,321,920	39,658	143,818	1,831,690	54,951	199,278

Notes:-

(1) For illustrative purposes, all RM figures were translated based on BNM's exchange rate of USD1:RM3.6265 as at the LPD.

(2) Based on 15% of XDL's issued and paid-up share capital (excluding treasury shares) as at the LPD.

For the avoidance of doubt, the Proposed ESOS will not have an immediate effect on XDL's issued and paid-up share capital until and unless new XDL Shares are issued pursuant to the exercise of the Options granted and vested under the Scheme. XDL's issued and paid-up share capital will increase progressively depending on the number of new XDL Shares which are issued pursuant to the exercise of the Options.

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4.2 Net assets (“NA”) and gearing

The Proposed ESOS is not expected to have an immediate effect on the consolidated NA, NA per Share and the gearing of XDL until such time when the Options are exercised.

The effects will depend on, amongst others, the number of new XDL Shares to be issued upon the exercise of the Options and the Exercise Price.

Upon the exercise of the Options, the NA per Share is expected to increase if the Exercise Price is higher than the NA per Share at such point of exercise, and decrease if the Exercise Price is lower than the NA per Share at such point of exercise.

4.3 Earnings and EPS

The Proposed New ESOS is not expected to have any immediate effect on the consolidated EPS of the Group until such time when the Options are granted. Any potential effect on the EPS of the Group will depend on the number of Options granted and exercised, the Exercise Price and the non-cash expense arising from the granting of the Options under Malaysian Financial Reporting Standards 2 (“MFRS 2”).

The cost relating to the Options granted pursuant to the Scheme will need to be measured at the date of granting the Options and recognised as an expense in the profit or loss account of XDL over the vesting period of such Options. However, it should be noted that the estimated cost does not represent a cash outflow by the Company as it is merely an accounting treatment.

The Board takes note of the potential impact of MFRS 2 on the XDL Group’s future earnings and shall take into consideration such impact in the allocation and of the Options to the Eligible Persons.

4.4 Substantial Shareholders’ shareholdings

The Proposed ESOS is not expected to have any immediate effect on the shareholdings of the substantial Shareholders of the Company until and unless new Shares are issued pursuant to the exercise of the Options. Any potential effect on the substantial Shareholders’ shareholdings in the Company would depend on the number of new Shares to be issued at the relevant point in time.

4.5 Existing convertible securities

The Proposed ESOS will not give rise to any adjustments to the exercise price and number of Warrants 2012/2015 and Warrants 2014/2017.

5. TENTATIVE TIMELINE

Barring any unforeseen circumstances, the Board expects the Proposed ESOS to be implemented by the second quarter of the financial year ending 2015.

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6. APPROVALS REQUIRED

The Proposed ESOS is subject to the following approvals being obtained:-

- (i) Bursa Securities for the listing and quotation of the new XDL Shares to be allotted and issued upon the exercise of the Options granted under the Scheme;
- (ii) the Shareholders at a special general meeting (“**SGM**”) to be convened for the Proposed ESOS; and
- (iii) any other relevant parties / authorities, if required.

7. INTER-CONDITIONALITY

The Proposed ESOS is not conditional upon any other corporate exercise / scheme undertaken or to be undertaken by the Company.

8. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM

Ding LiHong (the Executive Chairman of the Company), Ding PengPeng (the Managing Director / Chief Executive Officer of the Company), Ding PengWan (the Executive Director / Chief Operating Officer of the Company) and Lin YingYu (the Executive Director of the Company) (collectively, the “**Interested Directors**”) are deemed interested for the Options by virtue of their capacity as Executive Directors of XDL and in respect of their specific allocation.

The Board is proposing to grant Options to the Interested Directors. As such, the Interested Directors have abstained and will continue to abstain from all Board deliberations and voting in respect of any specific allocation of Options to themselves respectively as well as the specific allocations to any persons connected with them (where applicable) at the relevant Board meetings of the Company.

Further, the Interested Directors will continue to abstain from voting, in respect of their direct and/or indirect shareholdings in XDL, if any, on the resolutions pertaining to their respective specific allocation of Options as well as the specific allocations to any persons connected with them (where applicable) pursuant to the Proposed ESOS at the Company’s SGM to be convened.

The Interested Directors have undertaken that they shall also ensure that persons connected with them will abstain from voting in respect of their direct and/or indirect shareholdings in XDL, if any, on the resolutions pertaining to any specific allocation of Options to themselves respectively at the Company’s SGM to be convened.

Save as disclosed above, none of the other Directors, major shareholders and/or persons connected with them have any interest, direct or indirect, in the Proposed ESOS.

9. DIRECTORS’ STATEMENT

The Board (except for the Interested Directors who have abstained from expressing any opinion and recommendation insofar as the Proposed ESOS as well as their specific allocation and specific allocations to persons connected with them (where applicable) under the Proposed ESOS are concerned), after having considered all aspects including the rationale and effects of the Proposed ESOS, is of the opinion that the Proposed ESOS is in the best interest of the Company.

10. ADVISER

Mercury Securities has been appointed as the Principal Adviser for the Proposed ESOS.

This announcement is dated 10 March 2015.