

10 August 2018

ASX Limited
20 Bridge Street
Sydney, NSW 2000

Chairmans Address and Market Update

Please find attached a copy of the Chairman's address proposed to be given at today's AGM.

End

Chairman's Address and Market Update

Welcome to all shareholders in attendance here today at the AGM for the year ended 31 December 2017. I declare the AGM open at 10AM.

My name is Simon Lill, and it is my task to Chair this meeting today. My fellow director alongside of me is Mr Neil Sheather. Neil and I sit here out of necessity rather than choice, when we decided to become part of the solution rather than be part of the problem. You will recall that we had commenced litigation against XPD seeking to uncover the truths to many issues that we, as shareholders and experienced investors did not understand and of which we were not happy. We both hold shares individually but also through the company on which we sit on the Board, Mejority Capital Limited.

It became clear earlier in the year that the Company was incapable of resolving the issue, would be delisted and undoubtedly move into Administration. Consequently we, through agreement with Mr Jiameng Zhang, ceased the legal action and agreed to join the Board.

Let me note that being on the Board of XPD is not our full time job and has consumed a substantial amount of time, particularly given the level of ongoing scrutiny the ASX has the Company under and the level of detailed information that they continue to seek.

We are comfortable that we have your support, as evidenced by the number of proxies in favour of our election as Directors. Our interests are aligned with yours – to achieve a reinstatement to trading for the company, and to seek to return XPD to being a dividend paying entity.

We are happy to field and answer any questions that we are able to, and we expect to conduct the AGM civilly.

I will apologise for the delay in holding this AGM, though I think all shareholders are well aware of the issues that we have been addressing. We trust the process has at least been transparent through the last 6 months.

We have not held the AGM on the Gold Coast deliberately to avoid shareholders. We are aware that many investors live throughout SE Queensland and that at last year's AGM many travelled to Melbourne to attend. We trust it has not been an issue for shareholders.

The ASX continues to scrutinise the inner dealings of the Company and we continue to operate under the threat of delisting. We continue to promote to the ASX that the interests of the shareholders firstly lie in achieving a reinstatement to trading and to then return to a dividend paying entity.

We have recently visited the Company's factory in Jinjiang and have met in person with Mr Zhuang. We can confirm that the factory exists and is operating. Unfortunately we did not have time to get to visit the Company's property development in Henan Yuanlong.

The key issue that we are trying to address is the transferability of funds from China. To that end it should be noted that p31 of the annual report contains a comment from our auditors basically noting that the convertibility of the RMB to foreign currency is difficult.

We should also note that, other than some former Director fees, we have been able to continue to pay creditors as and when they fall due.

The transferability of funds is an issue that appears to have changed in December of 2016.

There is much commentary about this change at the time and I quote from a comment by Allen Overy entitled "***China's new restrictions on outbound investments and remittance***" released in late December 2016.

In 2016, the value of RMB depreciated over 6% against the US dollar and China's foreign exchange reserves dropped sharply. Such depreciation of RMB and the continuous capital outflow at extraordinary levels have caused the Chinese Government concern. Among different types of capital outflow, China's outbound direct investment (ODI) continues to surge, with a 55.3% increase on a year-on-year basis in the period between January and November. Recently, there has been widespread media coverage of China's new restrictions on outbound investments by Chinese companies. While so far no new laws or regulations have

been officially promulgated, public statements by Chinese government officials and our recent experience in on-going transactions both suggest that such new measures have been implemented in practice. In recent cross-border transactions, we are seeing outbound investments by Chinese companies, certain foreign direct investment activities, and even the overseas repatriations of foreign invested enterprises (FIEs) being affected. Domestic companies, FIEs, and foreign companies need to be aware of the change of the atmosphere and to be prepared for the changes.

Given the level of commentary that we have since uncovered it is probable that the company should have announced these changes at the time. It is also probable that no-one quite understood the consequences of what these increased restrictions might mean. An alternative argument exists that the information was already in the public arena and it was not the Company's responsibility to report it.

However I will note that it is a significant change to the Company's business model after the ASX accepted the Company onto the Stock Exchange, and it is a significant change that is not of the Company's making. It is also a significant change that we assume is affecting other ASX listed entities with businesses operated out of China who are free to remain trading, albeit at significant discounts to cash.

Due to the difficulties and uncertainties of the funds transferrability we are not in a position to pay a dividend at this point in time.

We are in the process of appointing an external and independent consultant to provide the independent Board Members with detailed advice as to the movement of funds from China in situations such as these. This is now a priority for us as we, the independent directors, do wish to see the Company return to paying dividends.

We are advised that the Company's trading operations are continuing to trade commensurately to previous years, though the profitability is being impacted through wages and cost of raw materials increases of 5-10%. Wages are likely to increase again in the next Financial year at the similar rate whilst we expect the costs for raw materials will be reasonably stable. The cost increases should be reasonably offset by an increase in sale price.

Order books are within expectations for this time of the year.

The accounts to 31 December 2017 showed an increase in receivables with payment period drifting out to 120 days. The auditors stress tested these receivables when doing the audit and noted that they had been collected, however the drift of receivables to 120 days appears to be more permanent than we would like.

The auditors also qualified the company's investment in the Henan Yuanlong investment. XPD has a 28% interest in approximately 31 Hectares of land, and 80,000 m² of buildings, much of which we are advised is now leased.

The auditors requested an independent valuation of the land and buildings be undertaken to provide them and the directors with comfort that the carrying value was as stated in the accounts. We were not able to provide a valuation at that point and have agreed to retain the situation as is for the half year audit review. We have agreed to prepare and provide a suitable and independent valuation for the full year audit to 31 December 2018.

We also believe that independent valuation will support and perhaps increase the valuation of the property as we are advised that:

- 3 of the top Chinese sportswear companies - Anta Sports, Xtep and 361 Degree - have invested and built manufacturing facilities in Shangqiu City, Henan Province, where Yuanlong is located which will increase demand for land for sub-contracting activities to these companies; and
- A large portion of the building areas have been leased to other business which are involved in manufacturing products, manufacturing materials and logistics including subcontractors of XPD producing materials for XPD sportswear products.

Finally we note that the half year audit has commenced and should be finished and lodged by the due date of 31 August.

We also have a few minor corrections of corporate oversights to provide to the market – you will have noted those in the ASX letter to us of 27 July 2018.

The ASX have also advised us that following our ASX release late yesterday that they will have further queries.

We do need to get through the business of the day, which I would request that we do now, after which we are happy to leave the meeting open and to field any questions.

Simon Lill
Chairman
10 August 2018