



## **XPD Soccer Gear Group Limited**

ACN 169 695 283



# **PROSPECTUS**

For the Offer of 75 million Shares at a price of \$0.20 each to raise a maximum of \$15 million (subject to a Minimum Subscription of \$5 million)

### **Important notice**

This document is important and it should be read in its entirety. If you are in any doubt as to the contents of this Prospectus, you should consult your stockbroker, lawyer, accountant or other professional adviser without delay. The Shares offered by this Prospectus should be considered highly speculative.

Lead Manager / **BBY Limited**

## IMPORTANT INFORMATION

### OFFER

The Offer contained in this Prospectus is an invitation for you to apply for fully paid ordinary shares (Shares) in XPD Soccer Gear Group Limited (ACN 169 695 283) (XPD or the Company). This Prospectus is issued by the Company for the purposes of Chapter 6D of the Corporations Act 2001 (Cth) (Corporations Act).

### LODGEMENT AND LISTING

This Prospectus is dated 27 February 2015 (Prospectus Date) and was lodged with the Australian Securities and Investments Commission (ASIC) on that date. Neither ASIC nor Australian Securities Exchange (ASX) takes any responsibility for the contents of this Prospectus, or the merits of the investment to which this Prospectus relates. The Company will apply to the ASX within seven days after the Prospectus Date for admission to the official list (Official List) and for official quotation of the Shares on the ASX.

### EXPIRY DATE

No Shares will be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

### NOTE TO APPLICANTS

The information in this Prospectus is not financial product advice and does not take into account the investment objectives, financial situation or particular needs of any prospective investor. It is important that you read this Prospectus carefully and in its entirety before deciding whether to invest in the Company.

In particular, you should consider the risk factors that could affect the financial performance of the Company. You should carefully consider these risks in light of your personal circumstances (including financial and tax issues) and seek professional guidance from your stockbroker, solicitor, accountant, tax adviser or other independent and qualified professional adviser before deciding whether to invest in the Company.

Some of the key risk factors that should be considered by prospective investors are set out in Section 8. There may be risk factors in addition to these that should be considered in light of your personal circumstances.

Except as required by law, and only to the extent required, no person named in this Prospectus, nor any other person, warrants or guarantees the performance of the Company or the repayment of capital or any return on investment made pursuant to this Prospectus.

No person is authorised to give any information or to make any representation in connection with the Offer described in this Prospectus, which is not contained in this Prospectus. Any information not so contained may not be relied upon as having been authorised by the Company or the Company's directors (Directors). You should rely only on information contained in this Prospectus.

### EXPOSURE PERIOD

The Corporations Act prohibits the Company from processing Applications for Shares in the seven day period after the Prospectus Date (Exposure Period). ASIC may extend this period by up to a further seven days (i.e. up to a total of 14 days). The purpose of the Exposure Period is to enable the Prospectus to be examined by market participants prior to the raising of the funds. The examination may result in the identification of certain deficiencies in this Prospectus, in which case any Application may need to be dealt with in accordance with section 724 of the Corporations Act. Applications received during the Exposure Period will not be processed until after the expiry of the Exposure Period. No preference will be given to Applications received during the Exposure Period.

### FORWARD-LOOKING STATEMENTS

This Prospectus contains forward looking statements which may be identified by words such as 'may', 'could', 'believes', 'estimates', 'expects', 'intends' and other similar words that connote risks and uncertainties. Certain statements, beliefs and opinions contained in this document, particularly those regarding industry growth or other trend projections are or may be forward looking statements. Any forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause actual events or outcomes to differ materially from the events or outcomes expressed or anticipated in these statements, many of which are beyond the control of XPD Group, the Directors and XPD Group's management team. The forward looking statements should be read in conjunction with, and qualified by reference to, the risk factors as set out in Section 8 and other information contained in this Prospectus.

This Prospectus, including the industry overview in Section 3, uses market data and third party estimates and projections. There is no assurance that any of the third party estimates or projections contained in this information will be achieved. The Company has not independently verified this information. Estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed in the risk factors set out in Section 8.

### STATEMENTS OF PAST PERFORMANCE

This Prospectus includes information regarding the past performance of the businesses of XPD Group. Investors should be aware that past performance should not be relied upon as being indicative of future performance.

### SELLING RESTRICTIONS

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer. No action has been taken to register or qualify the Shares or

to otherwise permit a public offering of the Shares in any jurisdiction outside Australia. The taxation treatment of Australian securities may not be the same as those for securities in foreign jurisdictions. If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

The distribution of this Prospectus outside Australia may be restricted by law. If you come into possession of this Prospectus, you should observe any such restrictions and seek your own advice on such restrictions. Any failure to comply with such restrictions may contravene applicable securities laws. This Prospectus may not be released or distributed in the United States. This Prospectus does not constitute an offer to any person in the United States.

The Shares described in this Prospectus have not been, and will not be, registered under the US Securities Act of 1933, as amended (US Securities Act) or the securities law of any state of United States, and may not be offered or sold directly or indirectly, in the United States.

#### **APPLICATIONS**

Applications may be made only during the Offer Period on the appropriate application form attached to, or accompanying, this Prospectus (Application Form) in its paper copy form, or in its electronic form which must be downloaded in its entirety from [www.xpdsoccer.com.au](http://www.xpdsoccer.com.au). By making an Application, you represent and warrant, among other things, that you were given access to this Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing on to another person an Application Form unless it is included in, or accompanied by, the complete and unaltered version of this Prospectus.

#### **NO COOLING-OFF RIGHTS**

Cooling-off rights do not apply to an investment in Shares issued under this Prospectus. This means that, in most circumstances, you cannot withdraw your Application once it has been accepted.

#### **PHOTOGRAPHS AND DIAGRAMS**

Photographs and diagrams used in this Prospectus are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents or that the assets shown in them are owned by the Company unless otherwise stated. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale.

#### **DEFINED TERMS AND ABBREVIATIONS**

Some words and expressions used in this Prospectus have defined meanings, some of which are explained in the glossary in Section 12. Unless otherwise stated or implied, a reference to a date or time in this Prospectus is to the date or time in Melbourne, Australia. Unless otherwise stated or implied, references to dates or years are calendar year references. Any discrepancies between totals and the sum of components in tables contained in this Prospectus are due to rounding.

All references in this Prospectus to “\$”, “AUD”, “dollar”, “cents” are references to Australian currency unless otherwise stated. All references to “RMB”, “Renminbi” or “Chinese Renminbi” are references to Chinese currency unless otherwise stated. All references to “US\$” or “USD” are references to the currency of the United States of America unless otherwise stated.

#### **PRIVACY**

By filling out the Application Form to apply for Shares you are providing personal information to the Company and its service provider, Boardroom Pty Ltd (“Share Registry”), which is contracted by the Company to manage Applications. The Company and the Share Registry on its behalf, may collect, hold and use that personal information in order to process your Application, service your needs as a Shareholder, provide facilities and services that you request and administer the Company. If you do not provide the information requested in the Application Form, the Company and the Share Registry may not be able to process or accept your Application.

Your personal information may also be used from time to time to inform you about other products and services offered by the Company, which it considers may be of interest to you. Your personal information may also be provided to the Company’s group members, agents and service providers on the basis that they deal with such information in accordance with the Company’s privacy policy and applicable laws. The members, agents and service providers of the Company may be located outside Australia where your personal information may not receive the same level of protection as that afforded under Australian law.

The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- the Share Registry for ongoing administration of the Shareholder register;
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- market research companies for the purpose of analysing the Shareholder base and for product development and planning; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

#### **EXCHANGE RATE**

Unless otherwise specified, all amounts disclosed in this Prospectus are presented in Australian dollars (converted on 16 February 2015 using the Reserve Bank of Australia’s foreign currency exchange rates: \$1 = RMB 4.8663, unless otherwise noted, are rounded to the nearest dollar).

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## KEY OFFER DETAILS

Key Offer Statistics	Minimum Subscription	Maximum Subscription
Offer price per share	\$0.20	\$0.20
Total number of Shares available under the Offer	25 million	75 million
Number of Existing Shares on issue	350 million	350 million
Total number of Shares on issue following the Offer	375 million	425 million
Total proceeds from the Offer	\$5 million	\$15 million
Indicative Market Capitalisation <sup>(1)</sup>	\$75 million	\$85 million
Total number of Broker Options on issue following the Offer <sup>(2)</sup>	0.625 million	1.875 million

(1) Calculated as the total number of Shares on issue upon completion of the Offer multiplied by the Offer Price.

(2) Broker Options are to be issued to the Lead Manager in accordance with the contract summarised in Section 9.1. Each Broker Option will have an exercise price of \$0.25 and an expiry date 3 years from issue

## IMPORTANT DATES

Dates shown in the table below are indicative only and are subject to change. The Company reserves the right to vary the dates and times of the Offer, including to close the Offer early, extend the Offer or accept late Applications, without notifying any recipient of this Prospectus or any Applicants. Applicants are encouraged to submit their Applications and payment as early as possible.

Event	Date
Lodgement of Prospectus with ASIC	27 February 2015
Offer opening date	16 March 2015
Offer closing date	1 May 2015
Allotment of Shares	6 May 2015
Dispatch of holding statements	8 May 2015
Shares expected to begin trading on ASX	12 May 2015

## CHAIRMAN'S LETTER

Dear Investor,

On behalf of the Directors of XPD Soccer Gear Group Limited (XPD or the Company), I am delighted to invite you to read this Prospectus and apply to become a Shareholder of the Company.

XPD Group is a fast growing sportswear business operating in China. XPD Group has been focused on growing its line of soccer gear within its sportswear products and has a leading market position in soccer footwear in China. XPD Group traces its origins back to 1992 when I founded the business in Jinjiang City of Fujian Province China.

XPD Group operates a vertically integrated business model where it designs, develops, manufactures, markets and distributes sportswear products under the XPD brand, thus giving the XPD Group control of its brands and products. XPD Group also manufactures sportswear products for international brands.

XPD Group offers a range of sportswear products, consisting of sports footwear, sports apparel and accessories, with a focus on soccer gear. The XPD brand products are sold on a wholesale basis to distributors throughout China and also retailed through online platforms. Since launch of the XPD brand products in 2004, XPD Group has successfully grown its market position in the Chinese soccer footwear sector. XPD has also achieved significant revenue growth and increasing margins. The Board and management continue to be focused on growing soccer gear business amid the Chinese Government's stated objective to develop Chinese soccer coupled with the general and growing enthusiasm of the Chinese people towards soccer.

Under this Prospectus, XPD is offering 75 million Shares at an issue price of \$0.20 each to raise a maximum of \$15 million. The Offer provides an opportunity for you to share in the Company's exciting future. The proceeds from the Offer will primarily be used to expand XPD Group's distribution networks in China, increase production capacity, and further enhance the XPD brand image and awareness.

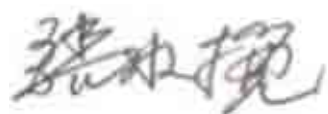
The Company is committed to listing on the ASX as it offers access to:

- capital to be raised under this IPO which will primarily be used to accelerate XPD's revenue growth and expand its market share;
- a sophisticated and liquid capital market to access capital for future expansion; and
- an internationally recognised and sustainable corporate governance environment, which the Company believes will enhance its relationships with government, suppliers and customers, and to provide a suitable platform for its expansion.

This Prospectus contains detailed information about the Offer, the industry in which XPD operates, XPD's strategy, and its operating and financial performance. As with other companies, XPD is subject to a range of risks, including specific and operating risks, as well as other risks of investing in XPD. A summary of these risks is set out in Section 8. It is important that you read this Prospectus carefully and in its entirety before making your investment decision.

On behalf of the Directors, I look forward to welcoming you as a Shareholder.

Yours sincerely,



Shui-Chiao Chang

Chairman


XPD Soccer Gear Group Limited



# 1 INVESTMENT OVERVIEW

Topic	Summary	For more information
<b>A. Introduction</b>		
<b>Who is the issuer of this Prospectus?</b>	XPD Soccer Gear Group Limited (ACN 169 695 283) (XPD or the Company), a company incorporated in Victoria Australia.	4.3&11.1
<b>What is the Company and what does it do?</b>	<ul style="list-style-type: none"> <li>XPD is the parent company of China Soccer Holdings Co., Ltd (a company incorporated in Hong Kong) which in turn holds 100% of the issued capital in Jinjiang Chaoda Shoes and Garment Co. Ltd (Chaoda) (a company incorporated in the PRC). Together, these companies make up XPD Group.</li> <li>XPD Group operates in the sportswear industry, primarily in China. XPD Group designs, develops, manufactures, markets and distributes high quality sportswear through wholesale channels to distributors in China. XPD Group has been focused on growing soccer gear within its sportswear products and has a leading market position in soccer footwear.</li> </ul>	4
<b>What is the Offer?</b>	The Offer is for 75 million Shares at an Offer Price of \$0.20 per Share to raise funds of \$15 million. The Offer has a Minimum Subscription of \$5 million	2.1
<b>Why is the Offer being conducted?</b>	<ul style="list-style-type: none"> <li>The purpose of the Offer is to: <ul style="list-style-type: none"> <li>provide XPD Group with capital and access to equity capital markets to pursue future growth plans;</li> <li>gain exposure to international equity markets through a respected stock exchange in a similar time zone;</li> <li>provide XPD Group with the benefit of an enhanced profile that arises from being a listed entity;</li> <li>provide the Company with a liquid market for its Shares and an opportunity for others to invest in the Company; and</li> <li>diversify the Company's shareholder base.</li> </ul> </li> </ul>	2.1.4
<b>B. Key features of XPD's business model</b>		
<b>What sectors does XPD operate in?</b>	<ul style="list-style-type: none"> <li>XPD Group operates in the sportswear industry in China with a focus on soccer gear.</li> <li>The sportswear industry in China increased from approximately RMB 115 billion (approximately \$23.6 billion) in 2009 to approximately RMB 140 billion (approximately \$28.8 billion) in 2013, representing a CAGR of 5.0% in terms of retail sales value despite a recent slowdown caused by high inventory levels.</li> <li>China's soccer gear market size grew from RMB 1036.5 million (approximately \$213 million) in 2009 to RMB 1553.1 million (approximately \$319.2 million) in 2013, representing a CAGR of 10.6%.</li> </ul>	3
<b>How does XPD generate its revenue?</b>	<ul style="list-style-type: none"> <li>XPD Group operates two business segments in China: the XPD brand business and OEM/ODM business;</li> <li>The XPD brand products are sold on a wholesale basis to distributors. The distributors sell products to end consumers through retail outlets operated either by themselves or by third party retailers with whom distributors subcontract. XPD Group recognises sales revenue when distributors take possession of the XPD brand products.</li> <li>XPD Group also sells the XPD brand products directly to end consumers through online platforms such as <a href="http://www.tmall.com">www.tmall.com</a>, <a href="http://www.jd.com">www.jd.com</a>, <a href="http://www.paixie.net">www.paixie.net</a></li> <li>OEM/ODM footwear products are sold to trading companies for resale and export to overseas brand owners.</li> </ul>	4.9



Topic	Summary	For more information
<b>What is XPD's growth strategy?</b>	<p>XPD Group's key business strategies are to:</p> <ul style="list-style-type: none"> <li>• strengthen and expand the distribution network;</li> <li>• further promote the XPD brand and enhance marketing efforts to increase brand awareness;</li> <li>• continue to grow soccer gear segment while increasing market share in the Chinese sportswear industry;</li> <li>• continue to strengthen product design and development capabilities; and</li> <li>• increase production capacity to benefit from greater economies of scale.</li> </ul>	4.17
<b>What are XPD's competitive strengths?</b>	<p>XPD Group believes its competitive strengths are as follows:</p> <ul style="list-style-type: none"> <li>• established and differentiated soccer footwear brand in China;</li> <li>• extensive sales network;</li> <li>• vertically integrated business model;</li> <li>• effective and focused marketing and promotion strategy; and</li> <li>• experienced management team with a proven track record.</li> </ul>	4.16
<b>What is the corporate structure of XPD?</b>	 <pre> graph TD     A["<b>XPD Soccer Gear Group Limited</b> (Australia incorporated)"] -- 100% --&gt; B["<b>China Soccer Holdings Co., Ltd</b> (HK incorporated)"]     B -- 100% --&gt; C["<b>Jinjiang Chaoda Shoes and Garment Co., Ltd</b> (PRC incorporated)"] </pre>	4.3
<b>How does XPD expect to fund its operations?</b>	XPD Group expects to fund its operations from the revenues generated from its business activities as well as the cash on the balance sheet following completion of the Offer.	5
<b>Who are XPD's main competitors?</b>	XPD Group is competing with international sportswear companies (such as Adidas and Nike), which have operations in China, and Chinese domestic sportswear companies.	3.5

Topic	Summary	For more information																								
<b>C. Key Offer statistics</b>																										
<b>What are the key Offer statistics?</b>	<p>The table below sets out the key Offer statistics:</p> <table border="1"> <thead> <tr> <th>Key Offer Statistics</th><th>Minimum Subscription</th><th>Maximum Subscription</th></tr> </thead> <tbody> <tr> <td>Offer price per share</td><td>\$0.20</td><td>\$0.20</td></tr> <tr> <td>Total number of Shares available under the Offer</td><td>25 million</td><td>75 million</td></tr> <tr> <td>Number of Existing Shares on issue</td><td>350 million</td><td>350 million</td></tr> <tr> <td>Total number of Shares on issue following the Offer</td><td>375 million</td><td>425 million</td></tr> <tr> <td>Total proceeds from the Offer</td><td>\$5 million</td><td>\$15 million</td></tr> <tr> <td>Indicative Market Capitalisation <sup>(1)</sup></td><td>\$75 million</td><td>\$85 million</td></tr> <tr> <td>Total number of Broker Options on issue following the Offer <sup>(2)</sup></td><td>0.625 million</td><td>1.875 million</td></tr> </tbody> </table> <p>(1) Calculated as the total number of Shares on issue on Completion of the Offer multiplied by the Offer Price.</p> <p>(2) Broker Options are to be issued to the Lead Manager in accordance with the contract summarised in Section 9.1. Each Broker Option will have an exercise price of \$0.25 and an expiry date 3 years from issue</p>	Key Offer Statistics	Minimum Subscription	Maximum Subscription	Offer price per share	\$0.20	\$0.20	Total number of Shares available under the Offer	25 million	75 million	Number of Existing Shares on issue	350 million	350 million	Total number of Shares on issue following the Offer	375 million	425 million	Total proceeds from the Offer	\$5 million	\$15 million	Indicative Market Capitalisation <sup>(1)</sup>	\$75 million	\$85 million	Total number of Broker Options on issue following the Offer <sup>(2)</sup>	0.625 million	1.875 million	2.1
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<b>D. Financial Information</b>																										
<b>What is XPD's pro forma financial position?</b>	<p>XPD was incorporated on 22 May 2014 and has limited financial history. XPD was formed for the purpose of the XPD Group listing on the official list of ASX.</p> <p>As at 30 June 2014, the XPD Group has:</p> <ul style="list-style-type: none"> <li>• Cash balance of \$3.9 million;</li> <li>• Total asset of \$41.5 million;</li> <li>• Net asset of \$26.1 million; and</li> <li>• Shareholders' equity of \$26.1 million.</li> </ul> <p>The above financial information for the half year ended 30 June 2014 is based on the reviewed financial statements of Chaoda. The financial information has been converted to AUD from the XPD Group's presentation currency of RMB based on the foreign currency translation policy outlined in Section 5.5.</p> <p>Further financial information regarding the Company is set out in Section 5 and is considered in the Investigating Accountant's Report in Section 6 of this Prospectus.</p>	5																								

Topic	Summary	For more information
<b>E. Key risks</b>		
<b>Distributorship model</b>	XPD Group sells its XPD brand products to independent third-party distributors on a wholesale basis. The distributors sell products to end consumers through retail outlets operated either by themselves or by third party retailers with whom distributors subcontract. XPD Group does not own or operate any retail outlets and does not enter into any contractual relationship with the third party retail outlet operators except contracts with distributors. XPD Group expects to continually rely on distributors for a substantial portion of its sales in the near future. As such, the sales performance of its distributors and the ability of its distributors to expand their business and sales networks are crucial to the future growth of XPD Group's business. If XPD Group fails to retain existing distributors or to attract new distributors, XPD Group's sales network and its business, results of operations and financial performance may be materially and adversely affected.	8.1.1
<b>Customer concentration risk</b>	There is a concentration of sales to a number of key and large customers over the historical period. During FY2011, FY2012, FY2013 and the half-year ended 30 June 2014, revenue from top 10 customers amount to 64% (\$8.6 million), 60% (\$12.8 million), 54% (\$29.7 million) and 53% (\$15.9 million) of total sales respectively. If XPD Group were to lose certain key customers without replacing them with new key customers then this may have a negative impact on XPD Group's sales and, therefore, profitability.	8.1.2
<b>Operations in China</b>	The XPD Group conducts substantially all of its business operations in the PRC. Accordingly, the XPD Group's results of operations, financial condition and prospects are significantly dependent on economic, political and social developments in China.	8.1.4
<b>Foreign exchange risk</b>	XPD Group has revenues, costs, and expenses denominated in RMB. The Company reports its consolidated financial results in Australian dollars. Accordingly, the Company's reported financial performance may be influenced by fluctuations in exchange rates between the Australian dollar and RMB.	8.1.5
<b>Credit risk</b>	XPD Group has offered revolving credit to its distributors. This revolving credit provides for a maximum credit limit that may be outstanding at any one time. If one or more major distributors were to default on payments for their purchases in a timely manner or at all, XPD Group's operation and financial condition may be adversely affected.	8.1.6
<b>Reliance on management team</b>	Executive Directors play a key role in setting the XPD Group's strategic direction and managing its business. The XPD Group is dependent on the continued service and performance of its Executive Directors. The XPD Group may be unable to attract or retain suitable replacements if an unexpected departure or loss of either of its Executive Directors occurred. To recruit and retain suitable replacements, the XPD Group may also incur significant additional costs. This could have a material adverse effect on the business, its financial performance and operations.	8.1.7

Topic	Summary	For more information
<b>Managing growth</b>	XPD Group has experienced significant growth over the past few years. XPD Group intends to expand its operations, which include, among other things, expanding retail networks and increasing production capacities. This expansion plan may result in an increased level of responsibility for management personnel and require additional operational and financial resources to support it. If XPD Group is unable to manage its expected growth successfully, it may not be able to take advantage of market opportunities, satisfy customer requirements, execute its business plan or respond to competitive pressures. If XPD Group is unable to manage the demands placed onto management, its business, operations, and financial performance may be materially adversely affected	8.1.8
<b>Contract manufacturer</b>	XPD Group relies on contract manufacturers to manufacture a portion of its products. XPD Group does not have any long-term agreements with any contract manufacturers. Any shortfall in such available production capacity could significantly affect XPD Group's ability to deliver its products in a timely fashion, which may result in a loss of turnover and may damage its relationships with customers. In addition, if the cost of contract manufacturing increases and XPD Group is unable to pass on such higher costs to its customers, its profit margins may be significantly reduced, thereby adversely affecting its financial condition and operation.	8.1.11
<b>Unexpected change in consumer spending patterns</b>	In the sportswear industry, consumer spending patterns are affected by various factors, including local economic conditions, uncertainties about future economic prospects, interest rates, taxation, and shifts in discretionary spending towards other goods and services. Unexpected changes in consumer spending patterns may adversely affect XPD Group's business, its operation and financial performance.	8.1.13
<b>Chinese legal system and legal risks</b>	XPD Group's operations in China are governed by PRC laws and regulations. The introduction of new laws, changes to existing laws and the interpretation or application thereof or the delays in obtaining approvals from the relevant authorities may have an adverse impact on the XPD Group's business or operations.	8.1.24
<b>F. XPD Directors and key management</b>		
<b>Who are the directors of XPD?</b>	<p>The Board of Directors consist of:</p> <ul style="list-style-type: none"> <li>• Shui-Chiao Chang, Non-Executive Chairman</li> <li>• Jiameng Zhang, Managing Director and Chief Executive Officer</li> <li>• Jiashun Zhang, Executive Director and Chief Operations Officer</li> <li>• Andrew Simith, Non-Executive Director</li> <li>• Ben Meikle, Non-Executive Director</li> <li>• Andrew Plympton, Non-Executive Director</li> </ul>	7.1
<b>Who are the key management of XPD?</b>	<p>The key management team consist of:</p> <ul style="list-style-type: none"> <li>• Jiameng Zhang, Chief Executive Officer</li> <li>• Jiashun Zhang, Chief Operations Officer</li> <li>• Renfeng Xiu, Chief Financial Officer</li> <li>• Dehe Yang, Chief Brand Officer</li> <li>• Jianhong Huang, Production Manager</li> <li>• Yapei Zhuang, Chief Sales Officer</li> </ul>	7.2

Topic	Summary	For more information																																																																																															
G. Significant interests of key people and related party transactions																																																																																																	
Who are the existing shareholders and what will be their interest in XPD at completion of the Offer?	<table><tr><th rowspan="2">Shareholders</th><th colspan="2">Date of Prospectus</th><th colspan="2">Following the Offer (Minimum Subscription)</th><th colspan="2">Following the Offer (Maximum Subscription)</th></tr><tr><th>No.</th><th>%</th><th>No.</th><th>%</th><th>No.</th><th>%</th></tr><tr><td>Chou Qin International Co., Ltd<sup>1</sup></td><td>234,804,834</td><td>67.1</td><td>234,804,834</td><td>62.6</td><td>234,804,834</td><td>55.2</td></tr><tr><td>Meng Shun Da Group Co., Ltd<sup>2</sup></td><td>15,321,477</td><td>4.4</td><td>15,321,477</td><td>4.1</td><td>15,321,477</td><td>3.6</td></tr><tr><td>Surplus Fountain Investments Limited</td><td>10,500,000</td><td>3.0</td><td>10,500,000</td><td>2.8</td><td>10,500,000</td><td>2.5</td></tr><tr><td>Bright Future Co., Ltd</td><td>10,500,000</td><td>3.0</td><td>10,500,000</td><td>2.8</td><td>10,500,000</td><td>2.5</td></tr><tr><td>ACA Partners Pte. Ltd</td><td>30,802,554</td><td>8.8</td><td>30,800,000</td><td>8.2</td><td>30,800,000</td><td>7.2</td></tr><tr><td>Xiangfeng International Holdings Limited</td><td>13,948,928</td><td>4.0</td><td>13,948,928</td><td>3.7</td><td>13,948,928</td><td>3.3</td></tr><tr><td>AGF Management Pty Ltd</td><td>9,607,843</td><td>2.7</td><td>9,607,843</td><td>2.6</td><td>9,607,843</td><td>2.3</td></tr><tr><td>Bridge Global Securities Pty Ltd</td><td>9,607,843</td><td>2.7</td><td>9,607,843</td><td>2.6</td><td>9,607,843</td><td>2.3</td></tr><tr><td>Wanjia Global Limited<sup>3</sup></td><td>13,661,651</td><td>3.9</td><td>13,661,651</td><td>3.6</td><td>13,661,651</td><td>3.2</td></tr><tr><td>Jin Tay</td><td>1,244,870</td><td>0.4</td><td>1,244,870</td><td>0.3</td><td>1,244,870</td><td>0.3</td></tr><tr><td><b>Total</b></td><td><b>350,000,000</b></td><td><b>100</b></td><td><b>350,000,000</b></td><td><b>93.3</b></td><td><b>350,000,000</b></td><td><b>82.4</b></td></tr></table>						Shareholders	Date of Prospectus		Following the Offer (Minimum Subscription)		Following the Offer (Maximum Subscription)		No.	%	No.	%	No.	%	Chou Qin International Co., Ltd <sup>1</sup>	234,804,834	67.1	234,804,834	62.6	234,804,834	55.2	Meng Shun Da Group Co., Ltd <sup>2</sup>	15,321,477	4.4	15,321,477	4.1	15,321,477	3.6	Surplus Fountain Investments Limited	10,500,000	3.0	10,500,000	2.8	10,500,000	2.5	Bright Future Co., Ltd	10,500,000	3.0	10,500,000	2.8	10,500,000	2.5	ACA Partners Pte. Ltd	30,802,554	8.8	30,800,000	8.2	30,800,000	7.2	Xiangfeng International Holdings Limited	13,948,928	4.0	13,948,928	3.7	13,948,928	3.3	AGF Management Pty Ltd	9,607,843	2.7	9,607,843	2.6	9,607,843	2.3	Bridge Global Securities Pty Ltd	9,607,843	2.7	9,607,843	2.6	9,607,843	2.3	Wanjia Global Limited <sup>3</sup>	13,661,651	3.9	13,661,651	3.6	13,661,651	3.2	Jin Tay	1,244,870	0.4	1,244,870	0.3	1,244,870	0.3	<b>Total</b>	<b>350,000,000</b>	<b>100</b>	<b>350,000,000</b>	<b>93.3</b>	<b>350,000,000</b>	<b>82.4</b>	2.1.7
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<div>1. Chou Qin International Co. Ltd is owned by Non-Executive Chairman Shui-Chiao Chang(40%) and Managing Director Jiameng Zhang(60%).</div> <div>2. Meng Shun Da Group Co., Ltd is solely owned by Executive Director Jiashun Zhang.</div> <div>3. Wanjia Global Limited is solely owned by Chia-Ta Chang who is a son of Shui-Chiao Chang and brother of Jiameng Zhang and Jiashun Zhang.</div>																																																																																																	
What significant benefits and interests are payable to Directors and other persons connected with the Offer?	<div>The Directors will be paid directors' fees for operating the Company following the successful listing of XPD on the ASX.</div> <div><ul style="list-style-type: none"><li>As Non-Executive Chairman, Mr. Shui-Chiao Chang will be paid \$50,000 per annum plus statutory superannuation (if any)</li><li>As Managing Director and Chief Executive Officer, Mr. Jiameng Zhang will be paid \$60,000 per annum plus statutory superannuation (if any)</li><li>As Executive Director and Chief Operations Officer, Mr. Jiashun Zhang will be paid \$55,000 per annum plus statutory superannuation (if any)</li><li>The remaining Non-Executive Directors (Mr Andrew Smith, Mr Ben Meikle, Mr Andrew Plympton) will be paid an annual director fee of \$48,000 each plus statutory superannuation (if any)</li></ul></div> <div>For further information on the Directors' interests, please refer to Section 7.3.4</div> <div>XPD Group's operating subsidiary Chaoda has in the past and continues to conduct business transactions with Jinjiang XPD Import and Export Co., Ltd – a company which is 20% owned by XPD's Managing Director, Jiameng Zhang. The nature of the business transactions is that Chaoda sells OEM products to Jinjiang XPD Import and Export Co., Ltd for resale and export to overseas brand owners. The Board considers that the business transactions between Chaoda and Jinjiang XPD Import and Export Co., Ltd are on arm's length terms. Please see Section 11.6 for further information.</div> <div>XPD will pay various advisers and services providers connected with the issue of the Offer. Full details of the amounts paid, or to be paid are included at Section 11.8</div>						7.3																																																																																										
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Are the Directors or any Existing Shareholders selling Shares into this Offer?	No, the Directors and Existing Shareholders are not selling Shares into the Offer.																																																																																																

Topic	Summary	For more information
<b>H. Overview of the Offer</b>		
<b>Who is the issuer of this prospectus</b>	XPD Soccer Gear Group Limited (ACN 169 695 283) (the Company), a company incorporated in Victoria Australia.	4.3&11.1
<b>What is the Offer?</b>	The Offer is for 75 million Shares at an Offer Price of \$0.20 per Share to raise funds of \$15 million. The Offer has a Minimum Subscription of \$5 million.	2.1
<b>What is the Maximum Subscription available under the Offer?</b>	The Maximum Subscription is 75 million Shares to raise \$15 million.	2.1
<b>What is the Minimum Subscription under the Offer?</b>	The Minimum Subscription is 25 million Shares to raise \$5 million.	2.1
<b>What is the Minimum Subscription under the Offer?</b>	The Minimum Subscription is 25 million Shares to raise \$5 million.	2.1
<b>What is the minimum Application size under the Offer?</b>	The minimum Application under the Offer is \$2,000 worth of Shares (i.e.10,000 Shares) and in multiples of \$200 worth of Shares (i.e.1,000 Shares) thereafter.	2.1.2
<b>Is there any brokerage, commission or stamp duty payable by Applicants?</b>	No brokerage, commission or stamp duty is payable by Applicants on the acquisition of the Shares under the Offer.	2.1.2
<b>Is the Offer underwritten?</b>	No, the offer is not underwritten.	2.1.3

Topic	Summary	For more information																																												
What is the proposed use of funds raised pursuant to the Offer?	<table><tr><th rowspan="2">Use of funds</th><th colspan="2">Maximum Subscription</th><th colspan="2">Minimum Subscription</th></tr><tr><th>\$</th><th>%</th><th>\$</th><th>%</th></tr><tr><td>Expansion of retail networks and sales channels in China by increasing the number of distributors and retail outlets both through distributors and the XPD Group opening five flagship stores</td><td>4,700,000</td><td>31.3</td><td>1,700,000</td><td>34.0</td></tr><tr><td>Promotion of the XPD brand through increased spending in the XPD Group's advertising and promotional activities in China</td><td>2,000,000</td><td>13.3</td><td>1,000,000</td><td>20.0</td></tr><tr><td>Increasing footwear production capacity by acquiring five production lines and establishing a new manufacturing centre in China</td><td>3,000,000</td><td>20</td><td>0</td><td>0</td></tr><tr><td>Improving in-house product design and development capability</td><td>1,000,000</td><td>6.7</td><td>0</td><td>0</td></tr><tr><td>Working capital</td><td>2,473,000</td><td>16.5</td><td>1,079,000</td><td>21.6</td></tr><tr><td>Costs of offer</td><td>1,827,000</td><td>12.2</td><td>1,221,000</td><td>24.4</td></tr><tr><td><b>Total</b></td><td><b>15,000,000</b></td><td><b>100</b></td><td><b>5,000,000</b></td><td><b>100</b></td></tr></table>	Use of funds	Maximum Subscription		Minimum Subscription		\$	%	\$	%	Expansion of retail networks and sales channels in China by increasing the number of distributors and retail outlets both through distributors and the XPD Group opening five flagship stores	4,700,000	31.3	1,700,000	34.0	Promotion of the XPD brand through increased spending in the XPD Group's advertising and promotional activities in China	2,000,000	13.3	1,000,000	20.0	Increasing footwear production capacity by acquiring five production lines and establishing a new manufacturing centre in China	3,000,000	20	0	0	Improving in-house product design and development capability	1,000,000	6.7	0	0	Working capital	2,473,000	16.5	1,079,000	21.6	Costs of offer	1,827,000	12.2	1,221,000	24.4	<b>Total</b>	<b>15,000,000</b>	<b>100</b>	<b>5,000,000</b>	<b>100</b>	2.1.4
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Note: If only the Minimum Subscription, or less than the Maximum Subscription, is raised, the Company believes that this may have an effect on the rate at which its expansion plans are undertaken. The use of further equity funding or share placements will be considered by the Directors where it is appropriate to accelerate a specific project.																																														
Will the Shares be quoted on ASX	The Company will apply within seven days of the date of this Prospectus to ASX for its admission to the Official List and quotation of Shares on ASX (which is expected to be under the code: XPD)		2.4.1																																											
What is the allocation policy?	The basis of allocation of Shares under the Offer (including any amount above the Minimum Subscription) will be determined by the Company, in consultation with the Lead Manager.  The Company, in consultation with the Lead Manager, reserves the right in its absolute discretion to issue no Shares to Applicants under the Offer and may reject any Application or allocate a lesser amount of Shares than those applied for at its absolute discretion.		2.1.2																																											
Will the Company pay dividends?	The Directors cannot and do not give any assurance as to the extent, timing, level of franking or payment of any dividends in any future period as all of the foregoing are dependent upon a number of factors including the level of future earnings, the amount of tax paid, the financial position of the Company, future operating conditions and future cash requirements to fund growth.  The Company is not likely to be subject to any Australian tax that will allow it to generate franking credits. Please see the Taxation Report at Section 10 for further details.		11.4																																											
Are any shares escrowed?	Subject to the Company being admitted to the Official List, certain Shares on issue prior to the Offer may be classified by ASX as restricted securities and will be required to be held in escrow. If ASX does not require any of the Company's Shares to be escrowed, then certain Shares will nevertheless be subject to voluntary escrow arrangements.		2.1.9																																											



Topic	Summary	For more information
<b>What are the tax implications of investing in the Shares?</b>	The tax consequences of any investments in the Shares will depend upon an investor's particular circumstances. Applicants should obtain their own tax advice prior to deciding whether to invest.	10
<b>When will I receive confirmation that my Application has been successful?</b>	It is expected that initial holding statements will be sent to successful Applicants by standard post on or around 8 May 2015.	
<b>How can I apply?</b>	You may apply for Shares by completing a valid Application Form attached to or accompanying this Prospectus.  To the extent permitted by law, an Application by an Applicant under the Offer is irrevocable.	2.1.2
<b>Can the Offer be withdrawn?</b>	XPD reserves the right not to proceed with the Offer at any time before the issue of Shares to successful Applicants.  If the Offer does not proceed, Application Monies will be refunded. No interest will be paid on any Application Monies refunded as a result of the withdrawal of the Offer.	2.3
<b>Where can I find more information about this Prospectus or the Offer?</b>	If you are unclear in relation to any matter or are uncertain as to whether Shares are a suitable investment for you, you should seek professional guidance from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest.	

## 2. Details of the Offer



## 2 DETAILS OF THE OFFER

### 2.1 THE OFFER

By this Prospectus the Company offers for subscription of 75 million Shares at an Offer Price of \$0.20 each to raise \$15 million, subject to a Minimum Subscription of \$5 million.

The Shares to be issued pursuant to this Prospectus are of the same class and will rank equally in all respects with the Existing Shares in the Company. The rights and liabilities attaching to Shares are further described at Section 11.2 of the Prospectus.

If the Minimum Subscription is not obtained within four months after the date of this Prospectus, the Company will repay all Application Monies in full without interest as soon as practicable or issue a supplementary or replacement prospectus and allow Applicants one month to withdraw their Applications and be repaid their Application Monies in full without interest.

#### 2.1.1 STRUCTURE OF THE OFFER

The Offer is a general public offer of Shares.

#### 2.1.2 HOW TO APPLY FOR SHARES UNDER THE OFFER

Applications for Shares may only be made on an Application Form attached to or accompanying this Prospectus. Application Forms must be completed in accordance with the accompanying instructions.

By making an Application, you declare that you were given access to this Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or a complete and unaltered electronic version of this Prospectus.

Applications under the Offer must be a minimum of 10,000 Shares (\$2,000) and then in increments of 1,000 shares (\$200). No brokerage, commission or stamp duty is payable by applicants. Applicants are encouraged to submit their Applications as early as possible as the Offer may close early without notice.

##### **(a) Payment Methods**

Applicants under the Offer must pay their Application Monies in accordance with instructions set out on the reverse of the Application Form.

##### **(b) Application Monies**

All Application Monies will be held by the Company on trust in a separate bank account on behalf of the Applicants until the Shares are issued to successful Applicants.

The Company reserves the right to decline any Application and all Applications in whole or in part, without giving any reason.

Applicants under the Offer whose Applications are not accepted, or who are allocated a lesser number of Shares than the amount applied for, will receive a refund of all or part of their Application Monies, as applicable. Interest will not be paid on any monies refunded.

##### **(c) Allocation policy**

The basis of allocation of Shares under the Offer (including any amount above the Minimum Subscription) will be determined by the Company, in consultation with the Lead Manager.

The Company, in consultation with the Lead Manager, reserves the right in its absolute discretion to issue no Shares to Applicants under the Offer and may reject any Application or allocate a lesser amount of Shares than those applied for at its absolute discretion.

#### 2.1.3 THE OFFER IS NOT UNDERWRITTEN.

#### 2.1.4 PURPOSE OF THE OFFER AND USE OF FUNDS

The purpose of the Offer is to:

- provide XPD with capital and access to equity capital market to pursue future growth plans;
- gain exposure to international equity markets through a respected stock exchange in a similar time zone;
- provide XPD with the benefit of an enhanced profile that arises from being a listed entity;
- provide the Company with a liquid market for its Shares and an opportunity for others to invest in the Company; and
- diversify the Company's shareholder base.

The allocation of the funds raised under the Offer is summarised in the table below.

Use of funds	Maximum Subscription		Minimum Subscription	
	\$	%	\$	%
Expansion of retail networks and sales channels in China by increasing the number of distributors and retail outlets both through distributors and the XPD Group opening five flagship stores <sup>1</sup>	4,700,000	31.3	1,700,000	34.0
Promotion of the XPD brand through increased spending in the XPD Group's advertising and promotional activities in China <sup>2</sup>	2,000,000	13.3	1,000,000	20.0
Increasing footwear production capacity by acquiring five production lines and establishing a new manufacturing centre in China	3,000,000	20	0	0
Improving in-house product design and development capability	1,000,000	6.7	0	0
Working capital	2,473,000	16.5	1,079,000	21.6
Costs of offer	1,827,000	12.2	1,221,000	24.4
<b>Total</b>	<b>15,000,000</b>	<b>100</b>	<b>5,000,000</b>	<b>100</b>

Notes:

1. \$1.2 million towards assisting distributors in opening new retail outlets in China and maintaining and promoting existing sales channels. \$500,000 towards developing and promoting XPD Group's online retail platform. If Maximum Subscription is reached, \$3 million towards opening 5 flagship stores in selected cities of China.
2. \$1 million (approximately \$2 million if Maximum Subscription) towards media advertising (including television commercials, magazine, internet advertisement) and brand promotional and marketing activities (including sponsorship of brand ambassador, sports events and organising sales fairs).
3. Actual expenditure may differ from the above estimates due to a number of factors. For details of the Company's business and risk factors relating to its operations please refer to Section 4 – Business Overview and Section 8- Risk Factors of this Prospectus.
4. If the proceeds from the Offer are between the Minimum Subscription and the Maximum Subscription, the funds will be allocated between the above uses on a pro-rata basis. If only the Minimum Subscription, or less than the Maximum Subscription, is raised, the Company believes that this may have an effect on the rate at which its expansion plans are undertaken. The use of further equity funding or share placements will be considered by the Directors where it is appropriate to accelerate a specific project.

The Directors are of the opinion that following the Offer, XPD Group will have sufficient capital to meet its stated objectives.

## 2.1.5 CAPITAL STRUCTURE

Set out in the table below is a summary of the capital structure of the Company before and after completion of the Offer.

Security	Minimum Subscription		Maximum Subscription	
	No.	%	No.	%
Existing Shares on issue at the date of this Prospectus	350,000,000	93.3	350,000,000	82.4
Shares now offered under this Prospectus	25,000,000	6.7	75,000,000	17.6
<b>Total Shares on issue at completion of the Offer</b>	<b>375,000,000</b>	<b>100.0</b>	<b>425,000,000</b>	<b>100.0</b>
Broker Options issued to the Lead Manager <sup>1</sup>	625,000	0.2	1,875,000	0.4
<b>Total fully diluted Share capital</b>	<b>375,625,000</b>	<b>100.0</b>	<b>426,875,000</b>	<b>100.0</b>

Notes:

1. Broker Options are to be issued to the Lead Manager in accordance with the contract summarised in Section 9.1. Each Broker Option will have an exercise price of \$0.25 and an expiry date 3 years from issue.

## 2.1.6 PRO FORMA BALANCE SHEET

XPD Group's Pro Forma Balance Sheet upon completion of the Offer, including details of the Pro Forma adjustments, is set out in Section 5.

## 2.1.7 EXISTING SHAREHOLDERS

The table below sets out the interests of existing shareholders as at the date of this Prospectus and immediately following the Offer. The table does not reflect any Shares which the relevant Shareholders may subscribe for under the Offer.

Shareholders	Date of Prospectus		Following the Offer (Minimum Subscription)		Following the Offer (Maximum Subscription)	
	No.	%	No.	%	No.	%
Chou Qin International Co., Ltd	234,804,834	67.1	234,804,834	62.6	234,804,834	55.2
Meng Shun Da Group Co., Ltd	15,321,477	4.4	15,321,477	4.1	15,321,477	3.6
Surplus Fountain Investments Limited	10,500,000	3.0	10,500,000	2.8	10,500,000	2.5
Bright Future Co., Ltd	10,500,000	3.0	10,500,000	2.8	10,500,000	2.5
ACA Partners Pte. Ltd	30,802,554	8.8	30,800,000	8.2	30,800,000	7.2
Xiangfeng International Holdings Limited	13,948,928	4.0	13,948,928	3.7	13,948,928	3.3
AGF Management Pty Ltd	9,607,843	2.7	9,607,843	2.6	9,607,843	2.3
Bridge Global Securities Pty Ltd	9,607,843	2.7	9,607,843	2.6	9,607,843	2.3
Wanjia Global Limited	13,661,651	3.9	13,661,651	3.6	13,661,651	3.2
Jin Tay	1,244,870	0.4	1,244,870	0.3	1,244,870	0.3
<b>Total</b>	<b>350,000,000</b>	<b>100</b>	<b>350,000,000</b>	<b>93.3</b>	<b>350,000,000</b>	<b>82.4</b>

### 2.1.8 CONTROL IMPLICATIONS OF THE OFFER

Following the Offer assuming the Maximum Subscription, Chou Qin International Co., Ltd, Meng Shun Da Group Co., Ltd and Wanjia Global Limited will collectively own 62.1% of XPD's share capital. Mr Shui-Chiao Chang and Mr Jiameng Zhang are shareholders and directors in Chou Qin International Co., Ltd. Mr Jiashun Zhang is the sole shareholder and director of Meng Shun Da Group Co., Ltd. Mr Chia-Ta Chang is the sole shareholder and director of Wanjia Global Limited. They are deemed to be persons acting in concert because of their family relationships among Shui-Chiao Chang, Jiameng Zhang, Jiashun Zhang, and Chia-Ta Chang.

### 2.1.9 RESTRICTED SECURITIES

Subject to the Company being admitted to the Official List, ASX may classify certain Existing Shares on issue prior to the Offer as 'restricted securities' and will require those Existing Shares to be held in escrow for a certain period. If ASX determines that such mandatory escrow applies, then the Company considers that the following Shares will be subject to escrow for the following periods:

Shareholder	No. of Shares	Escrow period
Chou Qin International Co., Ltd	234,804,834	24 months
Meng Shun Da Group Co., Ltd	15,321,477	24 months
Surplus Fountain Investments Limited	10,500,000	12 months
Bright Future Co., Ltd	10,500,000	12 months
ACA Partners Pte. Ltd	6,223,457	12 months
Xiangfeng International Holdings Limited	2,381,878	12 months
AGF Management Pty Ltd	1,569,774	12 months
Bridge Global Securities Pty Ltd	1,640,607	12 months
Wanjia Global Limited	13,661,651	12 months
Jin Tay	601,285	12 months

Notes:

- Shares escrowed for 24 months will be escrowed from the date of quotation of the Shares on the Official List.
- Shares escrowed for 12 months will be escrowed from the date the Shares are issued.

ASX may determine that further or other escrow restrictions apply once the Company lodges its application for quotation of the Shares. In the event that ASX does not impose mandatory escrow the Company will enter into voluntary escrow agreements with certain Shareholders, such that the following Shares will be subject to escrow for the following periods:

Shareholder	No. of Shares	Escrow period
Chou Qin International Co., Ltd	234,804,834	18 months
Meng Shun Da Group Co., Ltd	15,321,477	6 months
Surplus Fountain Investments Limited	10,500,000	6 months

Note:

All Shares escrowed for 6 or 18 months will be escrowed from the date of quotation of the Shares on the Official List.

## 2.2 RESTRICTIONS ON DISTRIBUTION

This Prospectus and the Offer do not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offering of Shares, in any jurisdiction outside Australia.

The distribution of this Prospectus outside Australia may be restricted by law and persons who come into possession of this Prospectus outside Australia should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

In particular, the Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any State of the United States and may not be offered or sold in the United States except in a transaction exempt from, or not subject to, the registration requirements of the US Securities Act and applicable U.S. state securities laws is available.

The Shares may not be offered or sold in any country outside Australia except to the extent permitted below.

### 2.2.1 PRC RESIDENTS

The information in this document does not constitute a public offer of the Shares, whether by way of sale or subscription, in the People's Republic of China (excluding, for purposes of this paragraph, Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan). The Shares may not be offered or sold directly or indirectly in the PRC to any resident of the PRC except pursuant to applicable laws and regulations of the PRC. The contents of this Prospectus have not been reviewed by any PRC regulatory authority. You are advised to exercise caution in relation to the Offer. If you are in doubt about any contents of this Prospectus, you should obtain independent professional advice.

### 2.2.2 HONG KONG RESIDENTS

**WARNING:** This document has not been, and will not be, registered as a prospectus under the Companies Ordinance (Cap. 32) of Hong Kong (the "Companies Ordinance"), nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the "SFO"). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the Offer Shares have not been and will not be offered or sold in Hong Kong other than to "professional investors" (as defined in the SFO).

No advertisement, invitation or document relating to the Offer Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Offer Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors (as defined in the SFO and any rules made under that ordinance). No person allotted Offer Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the Offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

### 2.2.3 SINGAPORE RESIDENTS

This Prospectus and any other materials relating to the Offer Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this Prospectus and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of Offer Shares, may not be issued, circulated or distributed, nor may the Offer Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1. Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the 'SFA'), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

### 2.2.4 UNITED STATES RESIDENTS

This document may not be released or distributed in the United States. This document does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. Any securities described in this document have not been, and will not be, registered under the US Securities Act of 1933 and may not be offered or sold in the United States except in transactions exempt from, or not subject to, registration under the US Securities Act and applicable US state securities laws.



### 2.3 DISCRETION REGARDING THE OFFER

The Company may withdraw the Offer at any time before the issue or transfer of Shares to Successful Applicants. If the Offer, or any part of it, does not proceed, all relevant Application Monies will be refunded (without interest).

The Company and the Lead Manager also reserve the right to extend or shorten the Offer or any part of it, accept late Applications or reject any Application, or allocate to any Applicant fewer Shares than applied or bid for.

### 2.4 ASX LISTING

#### 2.4.1 APPLICATION TO ASX FOR LISTING AND QUOTATION OF SHARES

The Company will apply for admission to the Official List and quotation of the Shares on the ASX within seven days of this Prospectus Date. The Company's ASX code is expected to be XPD.

ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that ASX may admit the Company to the Official List is not to be taken as an indication of the merits of the Company or the Shares offered for subscription.

If permission is not granted for the official quotation of the Shares on ASX within three months after the date of this Prospectus (or any later date permitted by law), all Application Monies received by the Company will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.

Subject to certain conditions (including any waivers obtained by the Company from time to time), the Company will be required to comply with the ASX Listing Rules.

#### 2.4.2 CHESS AND ISSUER SPONSORED HOLDINGS

The Company will apply to participate in ASX's Clearing House Electronic Subregister System (CHESS) and will comply with ASX Listing Rules and the ASX Settlement Operating rules. The Company will operate an electronic CHESS subregister and an electronic issue sponsored sub-register. These two sub-registers will make up the Company's register of shares. The Company will not issue certificates to shareholders. Rather, holding statements (similar to bank statements) will be dispatched to shareholders as soon as practicable after allotment. Holding statements will be sent either by CHESS (for shareholders who elect to hold shares on the CHESS sub-register) or by the Company's Share Registry (for shareholders who elect to hold their shares on the issuer sponsored sub-register). The statements will set out the number of Shares allotted under the Prospectus and provide details of a shareholder's Holder Identification Number (for shareholders who elect to hold shares on the CHESS sub register) or Shareholder Reference Number (for shareholders who elect to hold their shares on the issue sponsored sub-register). Updated holding statements will also be sent to each shareholder following the month in which the balance of their shareholding changes, and also as required by the Listing Rules or the Corporations Act.

Persons who apply for Shares pursuant to this Prospectus are asked to provide personal information to the Company, either directly or through the Share Registry. The Company and the Share Registry collect, hold and use that personal information to assess Applications for Shares, to provide facilities and services to shareholders, and to carry out various administrative functions. Access to the information collected may be provided to the Company's agents and service providers and to ASX, ASIC and other regulatory bodies on the basis that they deal with such information in accordance with the relevant privacy laws. If the information requested is not supplied, Applications for Shares will not be processed. In accordance with privacy laws, information collected in relation to specific Shareholders can be obtained by that Shareholder through contacting the Company, or the Share Registry on 1300 737 760 from within Australia and on +61 2 9290 9600 from outside Australia.

## 2.5 ELECTRONIC PROSPECTUS

In addition to issuing this Prospectus in printed form, a read-only version of this Prospectus is also available on the Company's website, [www.xpdsoccer.com.au](http://www.xpdsoccer.com.au). There is no facility for online applications. Any person accessing the electronic version of this Prospectus for the purpose of making an investment in the Company must be an Australian resident and must only access the Prospectus from within Australia. The Corporations Act prohibits any person passing onto another person an Application Form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered electronic version of this Prospectus.

## 2.6 FORECAST FINANCIAL INFORMATION

There are significant uncertainties associated with forecasting XPD Group's future revenues and expenses. In light of uncertainty due to the short-term nature of XPD Group's contracts with both its customers and suppliers, the timing and outcome of XPD Group's expansion strategies, as well as uncertain macro market and economic conditions in markets where XPD Group operates and how they apply to XPD Group, XPD Group's financial performance in any future period cannot be reliably estimated. On this basis and after considering ASIC Regulatory Guide 170, the Directors do not believe that they have a reasonable basis to reliably forecast future earnings and have therefore decided not to include financial forecasts in this Prospectus.

## 2.7 ENQUIRIES

This Prospectus is important and should be read in its entirety. Persons who are in any doubt as to the course of action to be followed should consult their stockbroker, solicitor, accountant or other professional advisor without delay. Questions relating to the completion of the Application Forms can be directed to the Share Registry, Boardroom Pty Limited on 1300 737 760 from within Australia and on +61 2 9290 9600 from outside Australia.

# 3. Industry Overview



## 3 INDUSTRY OVERVIEW

The information that appears in this Industry Overview about the soccer wear market in the PRC is based on information contained in a market research report prepared by Euromonitor International Limited (**Euromonitor**). Euromonitor has consented to the inclusion of this information in this Prospectus on condition that, to the maximum extent permitted by law, Euromonitor disclaims and excludes any and all liability (whether arising in contract, tort or otherwise) for any loss of any nature suffered by any party as a direct or indirect result of any error in or omission from the information, as a direct or indirect result of the use of any of the information or of making any investment decision, or refraining from making any decision, in reliance or based wholly or partly on any data, expression of opinion, statement or other information or data contained in the information. References to Euromonitor should not be considered as the opinion of Euromonitor as to the value of any security or the advisability of investing in the XPD Group.

The information contained in this Industry Overview reflects estimates of market conditions based on publicly available sources and trade opinion surveys. The Directors believe that the sources of information contained in this Industry Overview are appropriate sources for such information and have taken reasonable care in reproducing such information. The Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading.

### 3.1 INTRODUCTION

XPD Group is a sportswear business operating in China. XPD Group has been focused on growing soccer gear within its sportswear products line and has a leading market position in soccer footwear.

### 3.2 MACROECONOMIC ENVIRONMENT IN CHINA

Demand for sportswear products in China is influenced by general economic conditions including Chinese Gross Domestic Product (GDP) growth, interest rates, disposable income and consumer sentiment.

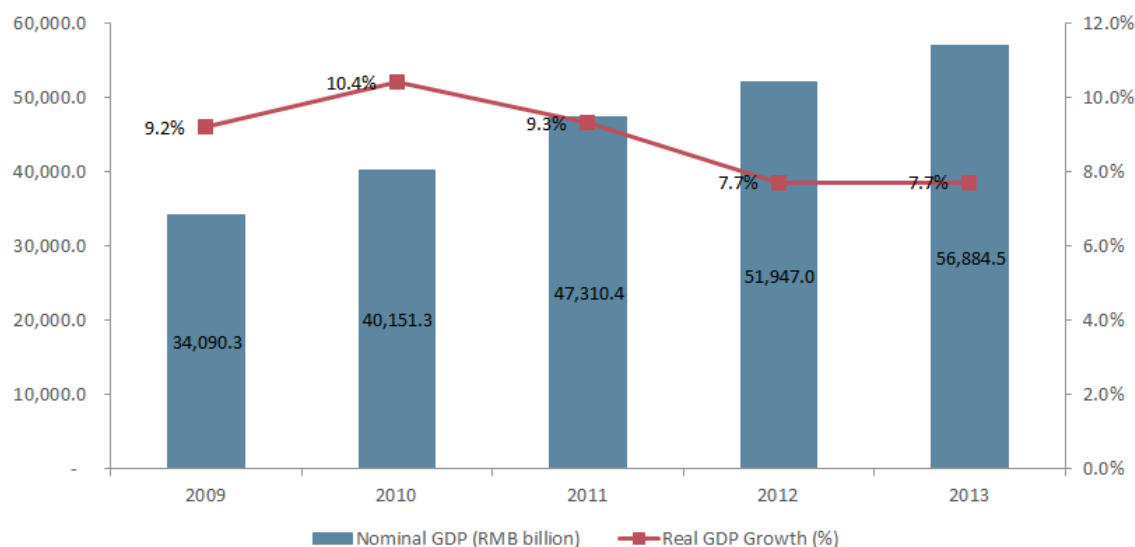
#### 3.2.1 CHINESE ECONOMY CONTINUES TO GROW

Due in large part to the challenging global macroeconomic environment, the growth of the Chinese economy has been slowing down in recent years. Chinese real GDP growth slowed to 9.3% in 2011 and further to 7.7% in 2012 and 2013, which was the first two consecutive years of less than 8% growth in the past decade. China's GDP totalled approximately RMB5.6 trillion (approximately \$1.2 trillion) in 2013<sup>1</sup>.

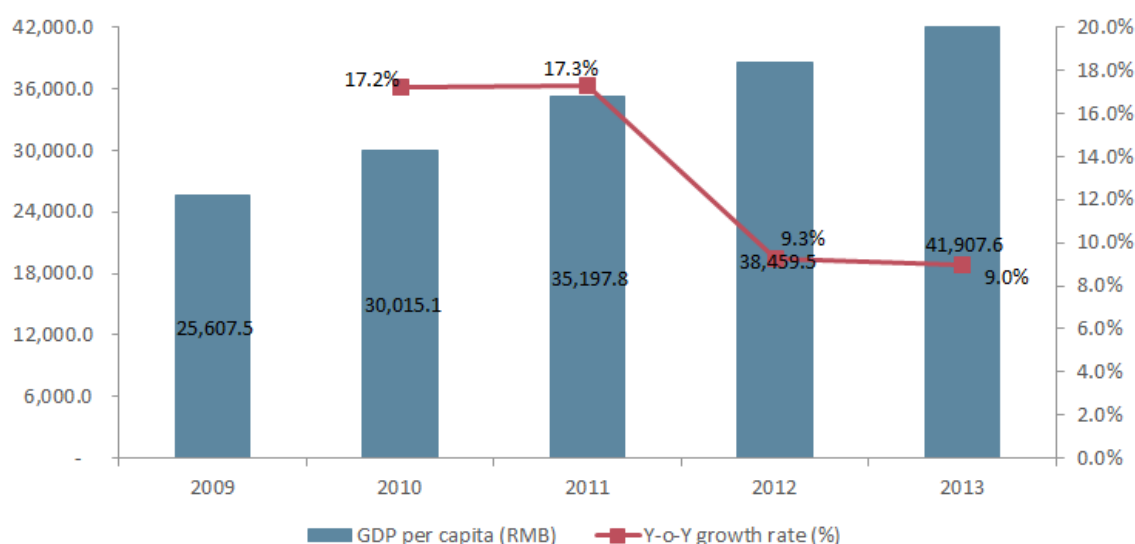
However Chinese GDP per capita has grown continuously from 2009 to 2013, with a Compound Annual Growth Rate (CAGR) of 13.1% to reach approximately RMB41,907 (approximately \$8,612) in 2013, leading to increasingly stronger consumer purchasing power<sup>2</sup>.

<sup>1</sup> National Statistics Bureau of China

<sup>2</sup> National Statistics Bureau of China

**Chart 1 Nominal GDP and Real GDP growth, historic 2009-2013**

Source: National Statistics Bureau of China

**Chart 2 GDP per capita, historic 2009-2013**

Source: National Statistics Bureau of China

### 3.2.2 ACCELERATED URBANISATION TREND

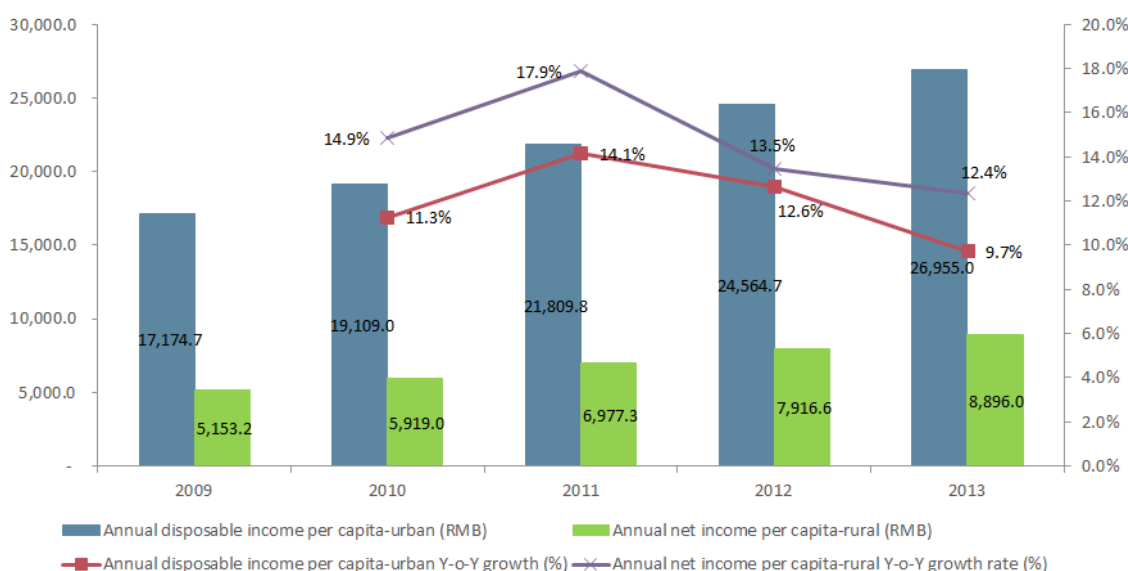
Due to rapid economic development of China and the influx of migrant workers from rural areas to cities, the Chinese urban population has been increasing steadily and recent years have seen China's urbanisation progress accelerating. According to the National Bureau of Statistics of China, China's urban population surpassed its rural population for the first time in history in 2011 and urban population accounted for 53.7% of China's total population in 2013. The urban population increased from approximately 645.1 million in 2009 to 731.1 million in 2013, representing a CAGR of 3.2%. An expanding urban population has given rise to an urbanised lifestyle and increased consumption pattern.

**Chart 3 Urban vs. Rural population in China, historic 2009-2013**

Source: National Statistics Bureau of China

### 3.2.3 GROWTH IN PER CAPITA DISPOSABLE INCOME

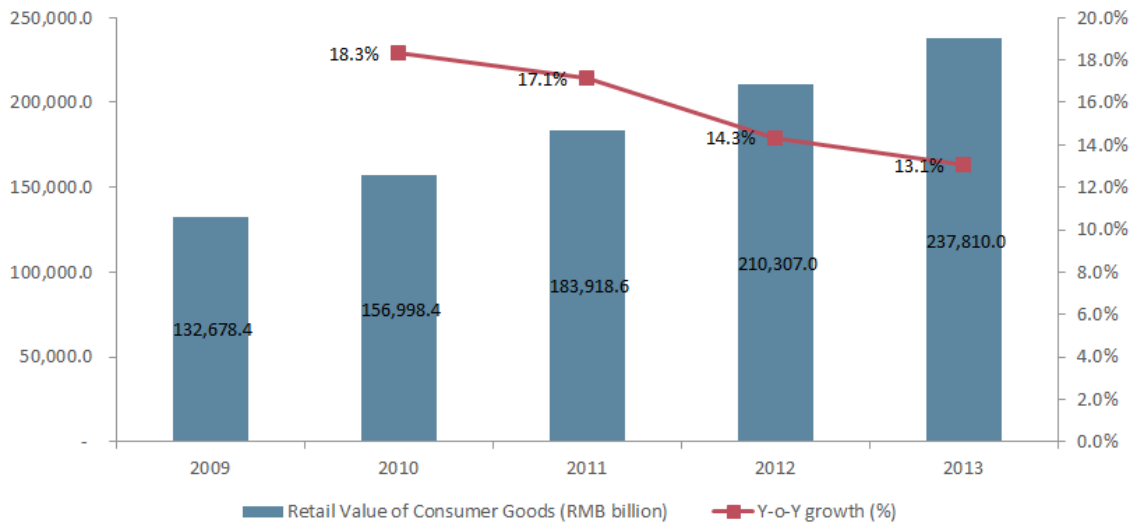
Continuing growth in China's economy and urbanisation has driven strong growth in per capita disposable income for urban households. The per capita disposable income for urban households in China increased from approximately RMB17,175 (approximately \$3,529) in 2009 to approximately RMB26,955 (approximately \$5,539) in 2013, representing a CAGR of 11.9%.

**Chart 4 Annual disposable/net income per capita urban vs. rural, historic 2009-2013**

Source: National Statistics Bureau of China

### 3.2.4 STRONG GROWTH IN THE RETAIL MARKET

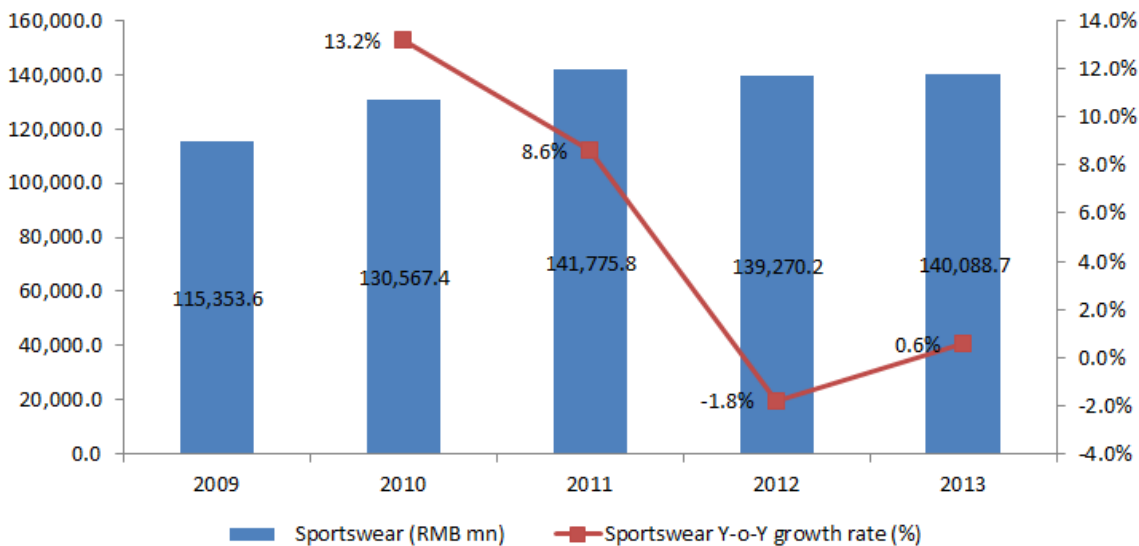
From 2009 to 2013, retail sales of consumer goods in China experienced rapid growth as a result of GDP growth, accelerating urbanisation and increasing disposable income of urban households. Total retail sales of consumer goods in China increased from RMB132,678 billion (approximately \$27,265 billion) in 2009 to RMB237,810 billion (approximately \$48,869 billion) in 2013, representing a CAGR of approximately 15.7%.

**Chart 5 Retail sales value of consumer goods, historic 2009-2013**

Source: National Statistics Bureau of China

### 3.3 SPORTSWEAR MARKET IN CHINA

An increasing number of people are participating in sports as its popularity of sports grows and people become more conscious of fitness. According to the National General Administration of Sport, the sports participation rate of Chinese people from 10 selected provinces aged 20 to 69 was 49.2% in 2013. The China's sportswear market increased from approximately RMB115 billion (approximately \$23.6 billion) in 2009 to approximately RMB140 billion (approximately \$28.8 billion) in 2013, representing a CAGR of 5.0% in terms of retail sales value despite a recent slowdown caused by high inventory levels.

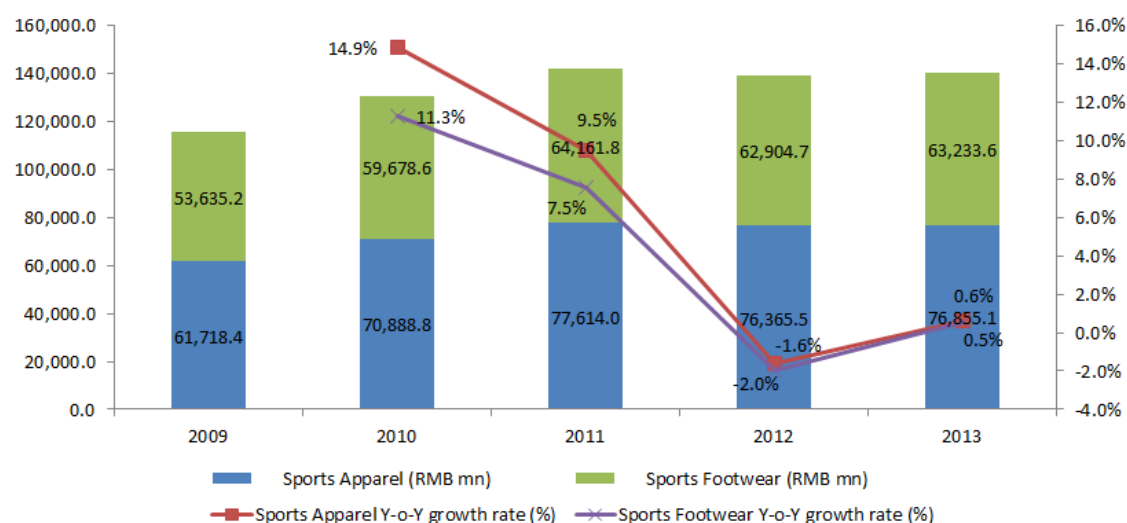
**Chart 6 Market size by retail sales value for sportswear in China, historic 2009-2013**

Source: Euromonitor



Sports apparel includes performance apparel, such as soccer apparel, basketball apparel, etc., outdoor apparel and sports-inspired apparel. Sports apparel has consistently gained market share from sports footwear from 53.5% in 2009 to 54.9% in 2013.

**Chart 7 Market size for sports apparel vs. sports footwear in China, historic 2009-2013**



Source: Euromonitor

Key drivers of growth in the Chinese sportswear market include:

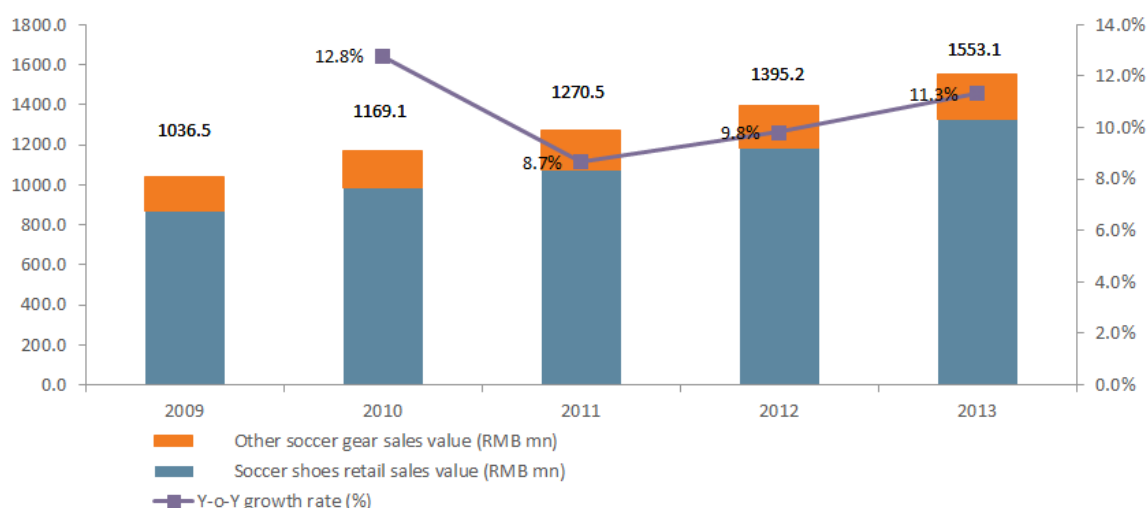
- Increasing consciousness of the benefits of fitness in China. With rising incomes, Chinese people are pursuing better life quality and a healthier lifestyle. Physical fitness is gaining more attention among the population at large.
- Government's support. The Chinese Government has announced plans to develop the country's sports industry and raise the sector's annual output to RMB 5 trillion (approximately \$1 trillion) by 2025. Promoting fitness has become one of the Government's national strategies. China is also encouraging private capital to invest in the sports industry, including construction of sports facilities and providing related products and services.
- Increasing disposable income. Disposable income will continue to increase with growth of Chinese economy and Chinese economy reforms.
- Sporting events. China's hosting of international sporting events such as the 2014 Youth Olympic Games in Nanjing, Shanghai International marathon, and the 2015 IAAF World Championships in Beijing.

### 3.4 SOCCER GEAR MARKET IN CHINA

#### 3.4.1 MARKET OVERVIEW

Soccer has become one of the most popular sports in China. According to the Football Association of China (FAC), more than 5 million soccer fans went to the field to watch the Chinese Super League (CSL) in 2013, reaching an average of approximately 18,000 spectators per match. This development of soccer has driven growth in demand for soccer gear. China's soccer wear market size grew from RMB1036.5 million (approximately \$213 million) in 2009 to RMB1553.1 million (approximately \$319.2 million) in 2013, representing a CAGR of 10.6%. The Chinese soccer gear market has been greatly influenced by high profile soccer events, such as the FIFA World Cup, which for example led to a higher annual growth rate of 12.8% in 2010. Soccer footwear is the largest segment of the Chinese soccer gear market, accounting for approximately 85% of the Chinese soccer gear market by revenue in 2013<sup>3</sup>.

**Chart 8 Market size for soccer gear, in terms of retail sales value, historic 2009-2013**

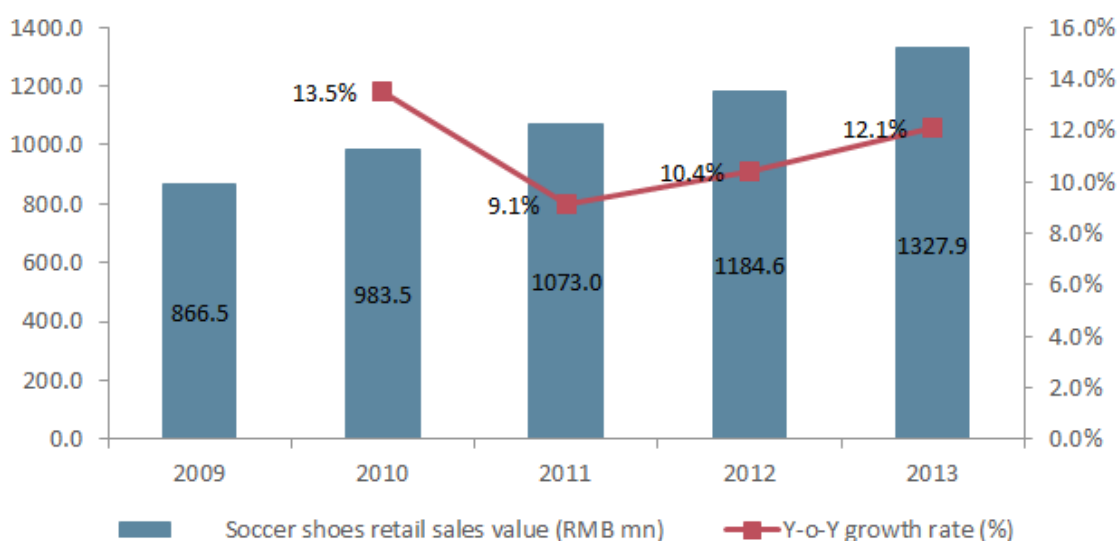


Source: Euromonitor

##### 3.4.1.1 SOCCER FOOTWEAR

The market size of soccer footwear in terms of retail sales value grew from RMB866.5 million (approximately \$178.1 million) in 2009 to RMB1327.9 million (approximately \$272.9 million) in 2013, representing a CAGR of 11.3%.

**Chart 9 Market size for soccer footwear in terms of retail sales value, historic 2009-2013**



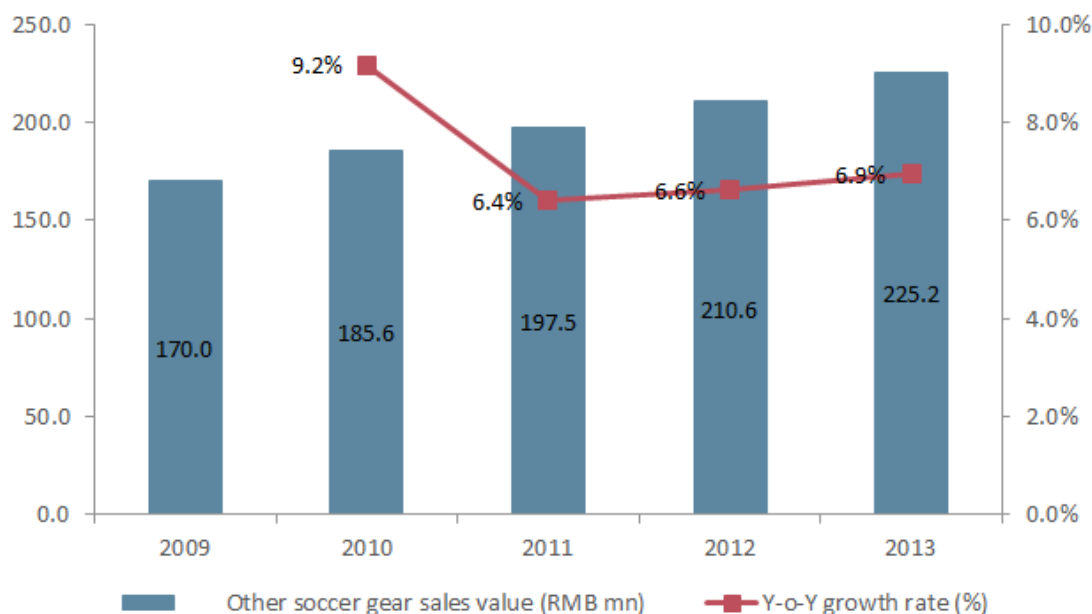
Source: Euromonitor

<sup>3</sup> Euromonitor

### 3.4.1.2 OTHER SOCCER WEAR

Other soccer wear achieved a total market size of RMB225.2 million (approximately \$46.3 million) in 2013, representing a CAGR of 7.3% from 2009 to 2013. As consumers became more sophisticated and increasingly acknowledged the necessity of soccer gear, the market saw continuous healthy growth.

**Chart 10 Market size for other soccer gear in terms of retail sales value, historic 2009-2013**



Source: Euromonitor

Key growth drivers

### 3.4.1.3 FAVOURABLE GOVERNMENT POLICY ENCOURAGES THE HEALTHY DEVELOPMENT OF SOCCER

Whilst soccer has long been supported by the Chinese Government, in recent years the Chinese Government has given further impetus by supporting the further development of soccer as a major sports for the younger generation. According to the Football Association of China (FAC), since the start of the national “Campus Soccer” campaign, a total of 5,084 schools from 131 cities have participated in the campaign and the total number of registered student soccer players reached 190,000 at the end of 2013.

In January 2014, the FAC launched “China Soccer Plan (2014-2023)”. The plan includes further increasing participation in soccer by offering soccer courses on campuses and cultivating teenage soccer players. The plan also requires more systematic soccer leagues to be established at primary schools, secondary schools and universities.

In late July 2014, the Minister of Education of PRC announced the country’s future strategy for promoting campus soccer. It includes increasing the number of soccer featured schools to 20,000 by 2017 and gradually establishing campus soccer league matches in the near future.

To implement the strategy, Guangzhou and Shanghai have already developed soccer as a compulsory curriculum for some primary and secondary schools in late 2014. The city of Beijing also plans to add soccer as one of the sports examination options for high school entrance examinations starting from 2016. Numerous schools in China have put soccer in their course curriculum and have established school soccer teams.

With the encouragement of the State and local governments, it is foreseeable that increasing number of teenagers will participate in soccer activities, which will in turn may result in the growth of the soccer sportswear.

#### **3.4.1.4 THE POPULARITY OF SOCCER IN CHINA**

Factors contributing to soccer's popularity in China include the development of the Chinese Soccer League(CSL) and significant media coverage and promotion.

The professional soccer league, CSL, started in China in 1994. Since then, China has established different tiers of the league including the Chinese Super League, A League and B League. The historic winning of AFC Champions League title by Guangzhou Evergrande in 2013 is likely to have contributed to the growth of the Chinese people's interest in soccer.

Extensive media coverage and promotion have further enhanced the popularity of soccer in China. Aside from the FIFA World Cup every four years, Chinese audiences have access to other soccer matches via television or internet streaming, such as UK Premier League, European Champions League, Asian Champions League, La Liga, etc. Domestic soccer leagues are also available on TV and online.

The Company expects that interest of Chinese people in soccer is likely to increase which will lead to growth in the demand for soccer sportswear.

#### **3.4.1.5 THE EMERGENCE OF INTERNET RETAILING BRINGS NEW VITALITY TO THE SOCCER MARKET**

Internet retailing, such as Tmall, JD and Amazon, has become increasingly popular for soccer gear in China. For consumers who live in first tier cities, purchasing soccer gear online saves time and cost. For consumers who live in lower tiered cities, there are usually limited product lines for them to choose from with store-based retailers. However, the emergence of internet retailing provides them with an opportunity to access the latest products despite the geographic boundaries.

### **3.5 COMPETITION**

International brands, such as Adidas and Nike, occupy larger market share in value terms in first tier cities than in lower tiered cities, while domestic and local brands such as XPD and Double Star perform relatively well and take higher value share in second and third tier cities than in first tier cities.

<sup>4</sup> Euromonitor

# 4. Business Overview



## 4 BUSINESS OVERVIEW

### 4.1 OVERVIEW

XPD Group is a fast growing sportswear business operating in China. XPD Group has been focused on growing its line of soccer gear within its sportswear products and has achieved a leading market position in soccer footwear. XPD Group operates a vertically integrated business model where it designs, develops, manufactures, markets and distributes sportswear products under its XPD brand in China.

XPD Group's operation began in 1992 as a manufacturer of sports footwear for international sports brands. The XPD brand sportswear products were officially launched in 2004 in China. Since then, XPD Group has placed a strong emphasis on building and marketing its XPD brand and products, in particular, soccer footwear, through traditional advertising media, social media, sports marketing and other promotional activities. XPD Group believes that the XPD brand has achieved a reputation for quality, performance and value. The XPD brand has received a Fujian Famous Brand award by the Fujian Provincial Administration of Industry and Commerce and is well-recognised among consumers in China.

XPD Group offers a broad range of products, consisting of sports footwear, sports apparel and accessories. The main product line is soccer gear, including soccer footwear, soccer kits and soccer accessories.

XPD Group sells its XPD brand products to independent third-party distributors on a wholesale basis. The distributors sell products to end consumers through retail outlets operated either by themselves or by third party retailers with whom distributors subcontract. Through distributors, XPD Group's distribution network reaches approximately 1,900 retail outlets throughout China. These retail outlets are either specialty stores, such as shoe stores and sporting goods stores, or concessions in department stores and shopping malls. The XPD brand products are also sold through online platforms.

XPD Group designs and develops the XPD brand products through its in-house product design and development team. The team has significant prior industry experience and work closely with marketing and sales team and operation team to identify product trends and determine market needs. XPD Group also engages third-party product design companies that are specialised in sportswear design and development from time to time to supplement in-house product design capability and to gain additional market information and expert knowledge.

The broadening consumer demand for the XPD brand products is evidenced by XPD Group's rapid revenues growth from \$13.6 million for the year ended 31 December 2011 to \$21.2 million for the year ended 31 December 2012 and to \$55.1 million for the year ended 31 December 2013. Six month revenue to 30 June 2013 was \$17.1 million compared to \$29.8 million for the same period in 2014. XPD Group's NPAT has increased from \$1.7 million for the year ended 31 December 2011 to \$3.1 million for the year ended 31 December 2012 and to \$11.9 million for the year ended 31 December 2013. NPAT of \$3.1 million for the six months ended 30 June 2013 compares with \$5.9 million for the six months ended 30 June 2014.

XPD Group also manufactures sports footwear on an OEM or ODM basis, primarily for international footwear brands such as Joma, Kinetix and Yonex. Revenues from the OEM/ODM business have decreased gradually, reflecting XPD Group's strategic shift to focus on the XPD brand products which offer greater business potential and higher profit margin than the OEM/ODM business.

XPD Group owns and operates a manufacturing facility located at the Huzhong Industrial park, Chendai Town, JinJiang City, Fujian Province, China. The facility comprises four production lines with an annual capacity of approximately 4 million pairs of footwear. XPD Group outsources the entire production of apparel and accessories to independent contract manufacturers.

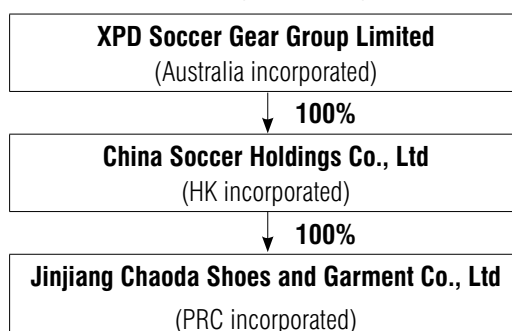
## 4.2 KEY MILESTONES TO DATE

Key milestones in the history of XPD Group include:

Year	Event
1992	XPD Group was founded by the Non-executive Chairman, Mr Shui-Chiao Chang, a Taiwanese entrepreneur, to undertake manufacturing of sports footwear in China for international sports brands.
1995	XPD Group established in-house design and development capability.
2001	XPD Group registered the XPD trademark in China.
2004	The XPD brand sports footwear was launched in China. XPD Group started to shift its focus from OEM/ODM to the XPD brand products.
2005	XPD Group adopted a differentiation strategy with focus on developing and marketing soccer footwear.
2006	XPD broadened product offering to include sports apparel and accessories under the XPD brand.
2006	XPD Group was awarded ISO 14001:2004 Environmental Management System Certification and ISO 9001:2000 Quality Management System Certification.
2009	XPD brand was awarded as the Fujian Famous Brand by the Fujian Provincial Administration of Industry and Commerce
2014	The XPD brand products are offered at approximately 1,900 retail outlets through distributors.

## 4.3 CORPORATE STRUCTURE

The following diagram shows the corporate structure of XPD Group at the Prospectus Date



XPD Soccer Gear Group Limited was incorporated in Victoria Australia on 22 May 2014. It became the ultimate parent company of the XPD Group pursuant to a Share Sale Deed dated 16 February 2015.

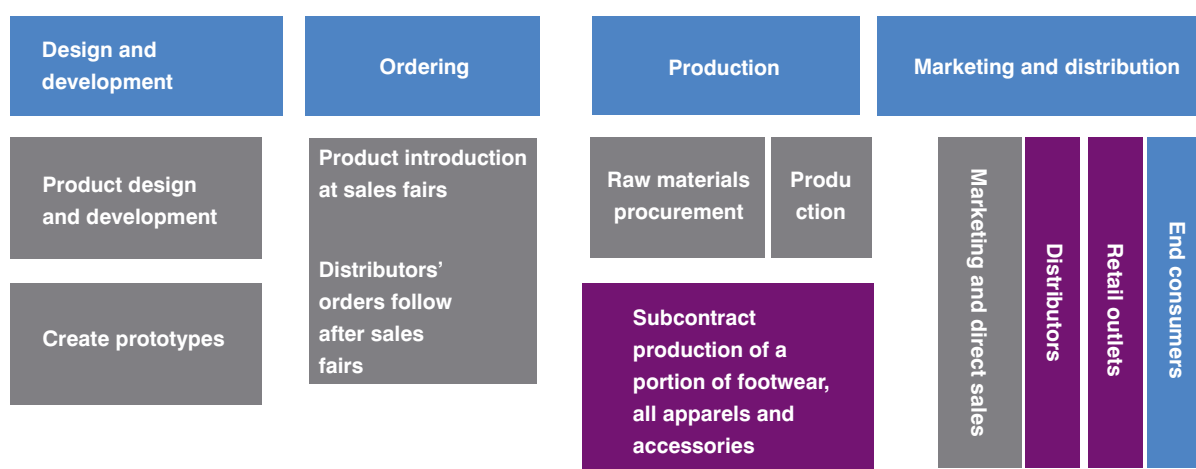
China Soccer Holdings Co., Ltd is an investment holding company incorporated in Hong Kong and holds 100% of the issued capital in Jinjiang Chaoda Shoes and Garment Co., Ltd.

Jinjiang Chaoda Shoes and Garment Co., Ltd (Chaoda), a company incorporated in the PRC, is engaged in the design, development, manufacture, marketing and distribution of sportswear products in China.



## 4.4 BUSINESS MODEL

The following diagram illustrates the XPD brand business model



Note: Purple shaded components of the XPD brand business model diagram represent those aspects of the value chain not controlled by XPD Group

## 4.5 THE XPD BRAND

The XPD brand is at the core of XPD Group's business and is well recognised in China. The XPD brand has been recognised as a "Fujian Provincial Famous Brand" by the Fujian Provincial Administration of Industry and Commerce since 2009. The XPD brand represents quality sportswear products with technical competence at great value. To distinguish from other sportswear brands, XPD Group has placed a strong emphasis on building and marketing the XPD brand in soccer footwear and aims to become a leader in the soccer gear market.

## 4.6 PRODUCTS

### 4.6.1 THE XPD BRAND PRODUCTS

XPD Group offers a broad range of sportswear products under the XPD brand in three categories: sports footwear, sports apparel and accessories. Footwear has been the cornerstone of XPD Group's business and includes mainly soccer shoes, badminton shoes, table tennis shoes, tennis shoes, training shoes and running shoes. Approximately 54% and 51% of XPD Group's sales were derived from XPD branded soccer footwear in 2013 and the first six months of 2014 respectively. Sports apparel and accessories are mainly related to soccer, including soccer jersey, soccer shorts, soccer socks, soccer balls and gloves. The XPD brand products are available for men, women and the youth market.

XPD Group launches theme-based collections of soccer footwear under the XPD brand. For example, XPD Group has offered 2010 and 2014 FIFA World Cup series and 2015 AFC Asian Cup series of soccer footwear. Customised soccer footwear is also available to consumers online where they can customise their traction, colors and marks.

Many of the XPD brand products are designed to complement one another, encourage purchases of related products and increase brand awareness and loyalty.

### 4.6.2 OEM/ODM PRODUCTS

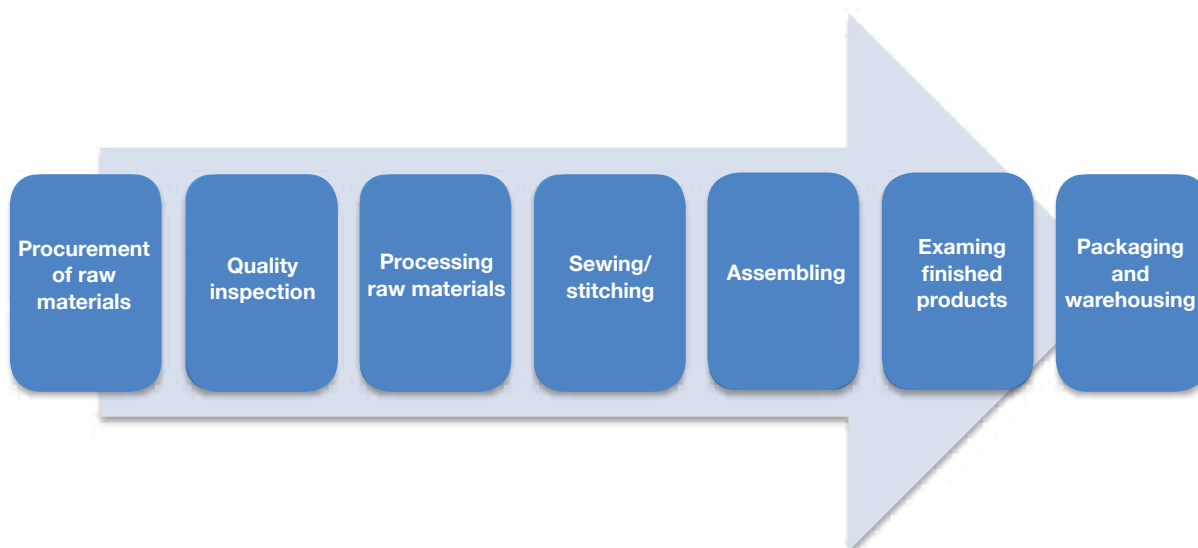
In addition to the XPD brand products, XPD Group manufactures sports footwear on an OEM or ODM basis for international footwear brands. In the first six months of 2014, OEM/ODM sales contributed approximately 4.90% to XPD Group's total revenue whereas in 2013, 2012 and 2011, that accounted for approximately 5.72%, 3.78% and 19.98% of its total revenue, respectively.

## 4.7 PRODUCTION

XPD Group owns and operates a footwear production facility strategically located in Huzhong Industrial Park, Chendai Town, Jinjiang City, Fujian Province, China, which has convenient access to sea ports, airports and expressways. The production facility has a gross floor area of approximately 13,686 square meters (sqm) and has 4 production lines with aggregate production capacity of approximately 4 million pairs of footwear per year.

### 4.7.1 PRODUCTION PROCESS

XPD Group standardises its production process with a view to achieving a high level of efficiency. The production lead time is approximately 7 to 8 weeks. The following flowchart outlines the footwear production process



### 4.7.2 PRODUCTION AND OUTSOURCING

With increasing demand for its products, XPD Group outsources part of footwear production to unaffiliated contract manufacturers. Approximately 40% of footwear production was outsourced in 2013. The production of apparel and accessories has been entirely outsourced to contract manufacturers.

The production department of XPD Group prepares production schedules and allocates production between internal production and outsourcing according to production capacity and delivery requirements.

XPD Group does not enter into long-term agreements with contract manufacturers but instead maintains flexibility by entering into one-year framework contracts. XPD Group places individual purchase orders, which set out the terms regarding, among other things, quantity, quality, price and specifications. Contract manufacturers are obliged to deliver the ordered products at a certain date at the agreed price. The products must have the same quality as the sample products provided by XPD Group.

All contract manufacturers are evaluated for quality systems, timeliness of product delivery and financial strength prior to being selected and on an ongoing basis.

### 4.7.3 QUALITY CONTROL

XPD Group places considerable emphasis on its product quality, and has adopted a strict quality control system. This system includes the following:

- Raw materials such as shoe soles and fabric undergo testing and quality checks. Raw materials that fail to meet XPD's standards are returned to the suppliers for replacement.
- Pilot production runs are carried out prior to mass production of new designs.
- Each step of the production process undergoes a stringent checking process for quality assurance.
- Each batch of final products undergoes various testing and inspections to ensure it meets specifications.
- Feedback is obtained from consumers in relation to the quality and design of the products;
- Strict inspections are conducted on contract manufacturers' operations before approving and entering into a business relationship with them.
- Quality control is carried out on products produced by contract manufacturers.

XPD Group is also awarded ISO 9001:2000 Quality Management System Certificate.

## 4.8 PRODUCT DESIGN AND DEVELOPMENT

Product design and development is of key importance to maintain XPD Group's competitive advantages. A key strategy for product design and development is to improve the functionality, comfort and quality of products. XPD Group has invested significant resources in its products design and development, and has continuously introduced new styles and new materials, to meet the demands of XPD Group's customers.

The XPD brand products are designed by XPD Group's in-house product design and development team. As at the Prospectus Date, the team comprises of 37 staff with industry experience. The team regularly attends sportswear industry conferences to collect market intelligence. This team works closely with marketing and sales team and operation team to identify product trends and determine market needs. XPD Group also engages third-party product design companies that are specialised in sportswear design and development from time to time to supplement in-house product design capability and to gain additional market information and expert knowledge.

As part of product design and development, XPD Group provides new products to university soccer teams for testing. Such testing serves as an important basis for product improvement.

A key component of ongoing sales growth is the continual introduction of innovative products. XPD Group has recently applied 3D printing technology into its soccer footwear development and production on a small scale. Compared to traditional footwear production, 3D printing technology is expected to reduce costs of production by one fourth through less raw materials wastage and the number of employees on production lines.

## 4.9 SALES AND DISTRIBUTION

### 4.9.1 DISTRIBUTION OF THE XPD BRAND PRODUCTS

XPD Group sells its XPD brand products to distributors on a wholesale basis. Distributors sell products to end consumers through retail outlets operated either by themselves or by third party retailers with whom distributors subcontract. XPD Group does not own or operate any of these retail outlets and does not enter into any contractual relationship with the third party retail outlet operators except contracts with distributors. Through distributors, XPD Group's distribution network reaches approximately 1,900 retail outlets throughout China. These retail outlets are either specialty stores, such as shoe stores and sporting goods stores, or concessions in department stores and shopping malls. Generally, the XPD brand products are displayed in designated areas within the stores which are marked with the XPD logo.

XPD also sells its products directly to consumers through online platforms such as [www.tmall.com](http://www.tmall.com), [www.jd.com](http://www.jd.com), [www.paixie.net](http://www.paixie.net)

#### 4.9.1.1 DISTRIBUTORS

XPD Group leverages local knowledge and resources of its distributors to

- (i) expand its product geographical coverage and increase market share at lower costs and a faster growth rate; and
- (ii) enhance XPD brand recognition throughout China.

XPD Group believes that its wholesale business model has enabled it to achieve rapid growth in sales by leveraging distributors' sales networks. By selling directly to distributors, XPD Group can earn revenue on a wholesale basis and leave the responsibility of distributing its products to distributors and their third party retail outlet operators,

XPD Group strategically selects its distributors based on the following important criteria:

- operation and management experience in the sportswear retail industry;
- number and quality of sales channels, local recognition and social resources; and
- financial strength.

XPD Group expects its distributors to maintain a consistent XPD brand image. XPD Group also works closely with its distributors on in-store fixtures, inventory management and staff training to ensure that XPD products are properly displayed and well presented.

#### **4.9.1.2 DISTRIBUTORSHIP AGREEMENTS**

XPD Group enters into distributorship agreements with each of its distributors. Under the agreements, distributors purchase the XPD brand products from XPD Group and are authorised to sell them on to the end consumers on their own account. If a distributor fails to comply with a distributorship agreement, XPD Group has the right to terminate the agreement.

Distributorship agreements contain the following principal terms:

Term – Generally the agreement is one year and is subject to annual renewal by the agreement of the parties.

Distribution restriction – Each distributor is authorised to sell the XPD brand products within a designated geographical area. Without XPD Group's prior written approval, distributors are not allowed to sell products online.

Minimum purchase targets – The distributor is required to purchase a minimum amount of products each year. The minimum amount varies for each distributor.

Payment – XPD Group grants its distributors credit limits and payment periods of up to 90 days.

Return policy – XPD Group only accepts product return from its distributors for defective and improperly shipped products.

Undertakings – Distributors undertake to comply with XPD Group's pricing and discount policies

#### **4.9.1.3 PAYMENT TERMS AND CREDIT POLICY**

XPD Group recognises sales revenue when distributors take possession of its products. Distributors and retailers receive invoices within one month after products are delivered. XPD Group generally grants distributors credit limits and payment periods of no longer than 90 days based on their annual purchase targets, credit history and prior year's purchase. Distributors are required to comply with XPD Group's credit policy and the finance and sales teams carry out regular reconciliations of outstanding balances. The management team monitors receivable balances on an ongoing basis and will make appropriate assessment on a timely basis as to whether or not a bad debt provision will need to be made.

Credit is generally not granted to OEM/ODM customers. They are required to pay a deposit after their orders are placed and pay the balance immediately before the products are delivered.

#### **4.9.1.4 SALES FAIRS**

XPD Group organises a major and a supplementary sales fair each year in Jinjiang City, China. Existing and potential distributors are invited to attend the sales fairs and place their orders. XPD Group uses the sales fairs to present new products, provide training and interact with distributors.

#### **4.9.2 OEM/ODM SALES**

OEM/ODM footwear products are sold to PRC trading companies for resale to overseas brand owners. XPD Group does not have an export licence. Trading companies are responsible for the export and the delivery of the products to overseas customers. This is currently achieved using a related party trading company (see Section 11.5.1). XPD Group does not have long-term purchase commitments with its OEM/ODM customers, and sales are made on the basis of individual purchase orders. This business segment keeps XPD Group up-to-date with latest trends in sportswear and production technologies globally as well as providing XPD Group opportunities to improve its management efficiency and product quality.

#### **4.9.3 CUSTOMER SERVICE**

In order to foster customer loyalty and maintain connection with consumers, XPD Group has a national hotline by which it can collect feedback from customers. XPD Group also includes a customer survey form in its shoeboxes to collect product feedback from customers. Through a lottery, consumers who participate in surveys may be awarded a prize.

## 4.10 MARKETING AND PROMOTION

One of XPD Group's main strategic objectives is to increase the XPD brand awareness and drive consumer demand for its products by building brand identity and awareness. XPD Group maintains strict control over its brand image with an in-house marketing and promotion team that manages all of its advertising campaigns. XPD Group promotes its brand through multi-channel marketing campaigns.

### 4.10.1 SPORTS MARKETING

XPD Group adopts a strategy of sponsoring sporting events in particular soccer at different levels including the collegiate, professional and grassroots levels to market and promote its brand. For example, XPD Group has sponsored Pearl River Delta Super League, Guangdong Super League and Huaqiao University league. As a result, XPD branded products are often worn by players on the field in XPD Group's sponsored events giving XPD products exposure to various consumer audiences. This exposure helps XPD Group to establish the public awareness of its products as consumers can see the products being worn in sporting events. XPD Group also sponsors individual young talented soccer players to support development of youth soccer. Following its listing on the ASX, XPD Group plans to engage a professional and reputable soccer player as the XPD brand ambassador.

### 4.10.2 MEDIA ADVERTISING

XPD Group makes use of traditional print and broadcast advertising such as advertising in the Soccer World Magazine and in selected television programs such as CCTV-5, a Chinese national sports channel. XPD Group also uses social media to market and promote its products. The emergence of social media allows XPD Group to communicate more closely with its customers more easily and frequently.

### 4.10.3 WEBSITE

XPD Group's website is part of its marketing and promotion strategy, providing direct messaging to a growing database of consumers. XPD Group is constantly reviewing and enhancing its website to make it easier for users to find information about the XPD brand and its product offerings. XPD Group uses the website to foster brand allegiance.

### 4.10.4 PRODUCT CATALOGUES AND BROCHURES

XPD Group prepares product catalogues and brochures and gives them to distributors to hand out to consumers.

## 4.11 RAW MATERIALS AND SUPPLIERS

The principal raw materials used in footwear production are leather, fabrics, soles and other materials such as packaging materials and adhesives. XPD Group does not manufacture shoe soles as the manufacture of shoe soles is a specialised function and is commonly done by shoe sole manufacturers. XPD Group sources its raw materials from suppliers located in Fujian province. The proximity of these suppliers to its production facility helps to reduce procurement costs.

XPD Group selects its raw material suppliers based on a number of criteria including their track record, experience and reputation, and generally enters into annual framework supply contracts with each supplier once selected. The specifications, quantity and price for each delivery are to be specified in each order placed by XPD Group. XPD Group has developed stable relationships with many of its suppliers and has not experienced any material disruptions to its business as a result of raw materials shortage.

Payment terms granted by suppliers vary from supplier to supplier and are also dependent, among other things, on XPD Group's relationship with the respective supplier and the size of the transaction. Typical credit terms range from 30 to 90 days.

## 4.12 INVENTORY MANAGEMENT





Inventory management is important to XPD Group's financial condition and operating results. XPD Group manages its inventory levels based on existing order backlogs, anticipated sales and the rapid-delivery requirements of customers. XPD Group usually procures raw materials and commences production after it receives and confirms orders. For certain top sale products, XPD Group normally produces approximately 25% more than the amount ordered to maintain an effective level of inventory to ensure swift response to demand.

#### 4.13 INTELLECTUAL PROPERTY

Pursuant to the Trademark Law of the People's Republic of China, XPD Group has registered its trademarks and patents in the PRC.

##### 4.13.1 TRADEMARKS

XPD Group has various trademarks registered across the PRC. Pursuant to the Trademark Law of the People's Republic of China, this entitles the XPD Group's Chinese subsidiary, Jinjiang Chaoda Shoes & Garment Co., Ltd (Chaoda) to exclusive rights to use the registered trademarks, as protected by law in the PRC. The main trademarks currently used in XPD Group's operations include the following:

No.	Trademark	Class and products/services covered	Registration No.	Issuing Authority	Duration of right (including expiry date)	Owner
1		18 leather, wallet, bag, suitcase, travelling bag, handbag, animal skin, umbrella, cane, harness straps	9422294	Trademark Bureau of State Administration of Industry and Commerce (Trademark Bureau of SAIC)	From 21 May 2012 to 20 May 2022	Chaoda
2		25 Clothing, shoes, football shoes, shoe sole, hats, socks, scarf, gloves(garment), belts (for wearing)	9422349	Trademark Bureau of SAIC	From 14 July 2012 to 13 July 2022	Chaoda
3		28 Game machine, toys, chess, sport balls, fitness equipment, sport equipment, gloves for games, fishing tackle, bows, Christmas ornament(except light and candy)	9422446	Trademark Bureau of SAIC	From 21 May 2012 to 20 May 2022	Chaoda
No	Trademark application	Class and products/services covered	Application number	Authority	Application date	Applicant
4		25 Clothing, T-shirt, pants, shoes(foot wearing), sport shoes, climbing shoes, hats, socks, gloves(garment), tie	13038665	Trademark Bureau of SAIC	6 August 2013	Chaoda

Each trademark is valid for a period of 10 years, commencing on the date of approval of the registration of the trademark. Following this 10 year period, the registration of the trademarks may be renewed by Chaoda for another 10 years in each case. Trademarks in the PRC are freely assignable, subject to the approval of the Trademark Office in the PRC.

In the PRC, any of the following acts will be deemed to be an infringement of the XPD Group's exclusive rights to use its registered trademarks:

- the use by a third party of a trademark that is the same as or similar to a registered trademark for identical or similar goods without the permission of Chaoda;
- the sale of any goods that have infringed on the XPD Group's exclusive rights to use any registered trademarks;
- any counterfeit or unauthorised production of the label of the XPD Group's registered trademarks, or the sale of any such label that is counterfeited or produced without authorisation;
- the change of any of the XPD Group's trademarks without Chaoda's consent;
- the selling of any such goods or any other acts that have caused damage to the XPD Group's exclusive rights to use its registered trademarks.

In the event of any infringement by a third party on the XPD Group's exclusive rights to use its registered trademarks, Chaoda may seek redress by filing a law suit in the PRC, or requesting an administrative department for industry and commerce in the PRC to investigate and potentially order the cessation of such infringement or confiscate or destroy the infringing goods or impose a fine, or the XPD Group may seek an injunction in the PRC to enforce the cessation of a potential or continuing infringement where this would cause irreparable damage to the XPD Group's lawful rights and interests.

The XPD Group takes the following steps to protect and prevent infringement of its intellectual property rights:

- strict supervision over the XPD Group's proprietary designs to minimise leakages of product designs;
- obtain various intellectual property registrations; and
- prohibit the XPD Group's distributors from selling counterfeit products and require them to report instances of counterfeit products in the market.

Although the XPD Group has not experienced any instances of counterfeit products, it views this seriously and will not hesitate to report such instances to the relevant authorities for them to take appropriate administrative actions against the infringing parties.

XPD Group also registered the trademark in other countries including Thailand, South Africa, Indonesia, USA, Mexico, Taiwan and Hong Kong, as well as under the Madrid Protocol.

#### **4.13.2 PATENTS**

XPD Group focuses its efforts on obtaining patent protection for what it believes to be new product applications in the marketplace. XPD Group has filed a number of patent applications with the State Intellectual Property Office of China in connection with certain of its products that XPD Group believes offer a unique utility, function or design. XPD Group will continue to file patent applications where warranted to protect its inventions and designs.

According to Article 42 of the Patent Law of the People's Republic of China, 'The duration of patent right for inventions shall be twenty years, the duration of patent right for utility models and patent right for designs shall be ten years, counted from the date of filing'. XPD Group has not acquired any patent right for inventions, and has acquired only one patent right for utility model. As at the Prospectus Date, 3 patent right for utility models, 2 patent right for industry designs and one patent right for invention are going through the application procedure.

The Abstract of the patent 'Medium-adsorbing antiskid sole and antiskid shoe': The utility model relates to a medium-adsorbing antiskid sole and an antiskid shoe. The antiskid sole comprises a skid resisting layer at the bottom of the sole and is characterized in that a medium layer capable of absorbing overflowed liquid is arranged on the skid resisting layer on the bottom of the sole; the medium layer capable of absorbing overflowed liquid is made of elastic porous material or crude fibre material which can adsorb liquid; a liquid medium isolating layer made of waterproof material is arranged on the medium layer; pores are distributed on the front part and the paw of the sole of the skid resisting layer at the bottom of the sole; and the sole of the antiskid shoe adopts such antiskid sole. The antiskid sole and the antiskid shoe have the advantages that the antiskid sole has good skid resistance, and the antiskid shoe with such antiskid sole can help people reduce injuries, sprains and the like.

The patent was invented by Yaokun Yang, he granted the patent right to Chaoda on 10 March 2010. On 15 October 2014, he transferred the right of the patent to Chaoda.

#### 4.14 EMPLOYEES

As at the Prospectus Date, XPD Group had 676 full-time employees in China. Of the 676 employees, 35 were employed in sales and marketing, 567 were employed in purchasing and production, 37 were employed in R&D and the remaining 37 performed general and administrative functions, including executive, finance, and administration.

It's XPD Group's policy to develop and train employees to improve their skill sets and professionalism in order to enhance productivity and operational efficiencies. All new employees are required to undergo orientation programs to familiarise themselves with XPD Group's corporate culture, the working environment, products, operations and safety procedures. XPD Group also provides on-going internal training to its employees according to their roles, and encourages its employees to take advanced courses and obtain professional certifications.

XPD Group has maintained a good working relationship with its employees, and has not experienced any significant labour disputes.

#### 4.15 INVESTMENT IN HENAN YUANLONG INDUSTRIAL CO.,LTD

XPD Group incorporated Henan Yuanlong Industrial Co., Ltd (Yuanlong) with other independent third parties in 2013, and owns 26% of the equity interest in Yuanlong. Yuanlong is registered in Shangqiu City of Henan Province, China. Yuanlong has been given the right to purchase a land of 486 mu (approximately 324,002 sqm) and obtained the land use right for 168 mu (approximately 112,000 sqm).

Yuanlong is constructing a production facility and a footwear raw material wholesale centre in Sui County of Shangqiu City. As at 31 December 2014, XPD Group has invested approximately \$14.9 million into Yuanlong and the investment has been recorded as a long-term investment at its original cost by the XPD Group.

It is expected that the production facility will be complete in mid 2015. XPD Group plans to lease the production facility from Yuanlong to set up a new manufacturing centre (see Section 9.3 for a summary of the offer to lease). This new manufacturing centre will install five production lines in phases and employ approximately 1,500 staff. This centre will provide XPD Group with an additional production capacity of five million pairs of shoes.

As labour costs in Henan province which is in central China are lower than eastern coastal areas such as Fujian Province where XPD Group's current manufacturing facility is located, XPD expects manufacturing costs to decrease through lower labour costs after the new manufacturing centre is operational.

#### 4.16 COMPETITIVE STRENGTH

XPD Group believes its competitive strengths are as follows:

- **Established and differentiated soccer footwear brand in China**

XPD Group is a fast growing sportswear business operating in China. It has been focused on growing soccer gear within its sportswear products and has achieved a leading market position in soccer footwear. Within this market segment, XPD Group has developed a clear and distinct brand image and its series of soccer footwear have allowed XPD Group to differentiate the XPD brand from those of its competitors and have helped to increase its brand recognition. XPD Group aims to penetrate the mass population in China, primarily in lower-tier cities, which is experiencing rapid expansion combined with rapid urbanisation and rising disposable income.

The XPD brand has already become an established brand through a combination of what XPD Group believes are quality products and affordable prices, as well as through the rapid expansion of a national distribution network that promotes the XPD brand image. Through various marketing and promotion strategies, XPD Group has increased its brand exposure particularly in the soccer footwear market in China. By maintaining and improving its brand image, XPD Group believes that it is well positioned to further capitalise on China's growing soccer gear market.

- **Extensive distribution network**

XPD Group sells its XPD brand products to distributors on a wholesale basis. The distributors sell products to end consumers through retail outlets operated either by themselves or by third party retailers with whom distributors subcontract. Through distributors, XPD Group's distribution network reaches approximately 1,900 retail outlets throughout China. The extensive distribution network provides XPD Group with strong coverage of the XPD brand in China, particularly in second and third-tier cities where there has been significant economic growth due to population increases and rising household income, as well as a strong position to capitalise on increasing consumer spending in China.

- **Vertically integrated business model**

XPD Group operates a vertically integrated business model, whereby it controls each stage of a product's lifecycle, from product design and development to manufacturing to marketing and distribution. XPD Group initially develops its products through its in-house design and development team as well as external designers. XPD Group then manufactures its products either at its own production facility or through selective outsourcing to contract manufacturers. The marketing and promotion team manages all of XPD Group's advertising campaigns and the sales and distribution team is responsible for product distribution. This vertically integrated business model has enabled XPD Group to better control its production costs and quality assurance, increase its management efficiency and produce large quantities of high quality goods at competitive prices.



- **Effective and focused marketing and promotion strategy**

XPD Group believes that effective and focused marketing and promotion are crucial to success in the sporting goods industry. XPD Group employs a focused marketing strategy where it promotes the XPD brand as a professional soccer gear brand. XPD Group sponsors sporting events at various levels and XPD's products are often worn by players on the field in such events. XPD Group also employs various means of advertising including traditional print and broadcast advertising, and new digital and social media advertising to promote the XPD brand. XPD Group believes that these marketing and promotional activities have effectively raised awareness and recognition of the XPD brand among its target consumers.

- **Experienced management team with a proven track record**

XPD Group's management team has extensive experience and knowledge in the Chinese sportswear industry. It is led by the CEO, Mr Jiameng Zhang, who has 15 years of experience in the Chinese sportswear industry and has successfully developed the XPD brand to a leading position in soccer footwear market. He is assisted by the Chief Operation Officer, Mr Jiashun Zhang, who has 14 years of experience in the sportswear industry. They are supported by a dynamic and energetic management team with substantial experiences in the sportswear industry in China.

#### 4.17 GROWTH STRATEGY

XPD Group intends to drive sales growth through the following strategies:

- **Strengthen and expand distribution network**

XPD Group will continue to work closely with existing and potential distributors so as to establish greater geographical presence and to reach out to more consumers in China. XPD Group plans to provide a new generation of display racks, lighting fixtures and marketing materials (such as posters and billboards) for retail outlets where XPD brand products are sold. These display racks, lighting fixtures and marketing materials will be paid for by XPD Group and delivered to retail outlets. To further enhance the brand image, XPD Group intends to open 5 flagship stores jointly with local distributors in the next two years. XPD Group has identified a number of locations for flagship stores after assessing a set of factors including local economic environment and development, local soccer atmosphere, and population size. XPD Group will showcase its latest products at its flagship stores.

XPD Group also plans to increase direct sales by selling its products directly to organisations such as soccer clubs, schools, and universities. XPD Group will increase the number of sales staff dedicated to facilitate and boost such sales.

Although online sales currently account for a small portion of its total revenue, XPD Group has implemented an online growth strategy designed to drive traffic and sales from online. XPD Group intends to increase its online sales through establishing relationships with more e-commerce platforms in China, developing and marketing its own online sales platform following its listing on the ASX, and improving traffic and conversion rates.

- **Further promote the XPD brand and enhance marketing efforts to increase brand awareness**

XPD Group believes that brand image is a key factor that affects its target consumers' purchasing decisions. XPD Group will continue its efforts to build the XPD brand image as a high quality and technology competent sportswear at great value by increasing spending on commercial advertisements through broadcast and print media, and by sponsoring more high profile sporting events in particular soccer matches. XPD Group intends to engage a well-known professional soccer player as the XPD brand ambassador.

- **Continue to grow soccer gear segment while increasing market share in the Chinese sportswear industry**

XPD Group will continue to grow its core business of soccer gear and strengthen its leading market position in soccer footwear. XPD Group has the scope to further improve the breadth and the depth of product range, offering more product categories and more options within each category to better suit its customers. Specifically, XPD Group plans to broaden products offerings for soccer apparel, accessories and equipment and increase their sales, and plans to develop related products for soccer fans. XPD Group also plans to leverage on its success in building a recognised soccer footwear brand to further expand its other sportswear product lines such as badminton, table tennis and tennis sportswear lines.

- **Continue to strengthen product design and development capabilities**

XPD Group believes that further enhancing its market position and reputation for quality, functionality and value will require increased research, design and development efforts. To enhance its in-house design and development capabilities, XPD Group plans to recruit additional highly qualified design and development personnel and provide systematic design training to its designers. XPD Group also plans to establish a Soccer Sportswear Research Centre to enhance its research capability. To supplement its in-house R&D capability and to provide an additional source of expertise and market intelligence, XPD will maintain and establish cooperative relationships with more external design studios and research institutions.

- **Increase production capacity to benefit from greater economies of scale**

XPD Group believes that increasing its own production capabilities will enable the XPD Group to have better control of its production process and provide the XPD Group with the flexibility and ability to quickly respond to market changes. To benefit from greater economies of scale as well as to meet the increasing demand for its products, XPD Group plans to lease the Sui County Property from Yuanlong, a company XPD Group owns 26% of equity interest, and to establish a manufacturing centre in 2015. XPD Group will install 5 production lines gradually at the new centre and increase its production capacities to approximately 9 million pairs per annum.

# 5. Financial Information



## 5 FINANCIAL INFORMATION

### 5.1 OVERVIEW

This section contains a summary of the Historical Financial Information and Pro Forma Historical Financial Information (collectively referred to as the Financial Information) in relation to the XPD Soccer Gear Group Limited (XPD) which the Directors consider relevant to investors.

Investors are referred to section 4.3 of the Prospectus for an overview of XPD's corporate structure. Investors should note that XPD's financial year ends on 31 December.

#### (1) Historical Financial Information

The Historical Financial Information comprises the following:

- Audited Historical Statement of Profit or Loss and Other Comprehensive Income for Jinjiang Chaoda Shoes and Garment Co., Limited ("Chaoda") a company incorporated in the PRC for the years ended 31 December 2011, 31 December 2012 and 31 December 2013 as set out in section 5.3.1;
- Reviewed Historical Statement of Profit or Loss and Other Comprehensive Income for Chaoda for the period ended 30 June 2014 as set out in section 5.3.1;
- Audited Historical Statement of Cash flows for Chaoda for the years ended 31 December 2012 and 31 December 2013 as set out in Section 5.3.2;
- Reviewed Historical Statement of Cash flows for Chaoda the period ended 30 June 2014 as set out in Section 5.3.2; and
- Reviewed Statement of Financial Position of Chaoda as at 30 June 2014 as set out in section 5.5.

The Historical Financial information of Chaoda has been provided as agreements dated 16 February 2015 has resulted in the company becoming part of the XPD Group as set out in Note 2 of Section 5.5.

A qualified audit report was issued on the financial statements of Chaoda for the years ended 31 December 2011 and 31 December 2012. Details of the qualifications are set out in Section 6 Investigating Accountant's Report included in this prospectus.

XPD Soccer Gear Group Limited (XPD) was registered in Australia on 22 May 2014 and has not traded. Financial information for the period from registration to 30 June 2014 has been reviewed as part of the pro forma Historical Financial Information as set out in Section 5.5.

#### (2) Pro Forma Historical Financial Information

The pro forma Historical Financial Information comprises the following:

- Pro Forma Consolidated Historical Statement of Financial Position of XPD as at 30 June 2014 as set out in section 5.5, including the Financial Information of Chaoda as at 30 June 2014 which assumes the pro forma transactions set out in Note 2 of section 5.5 had occurred on 30 June 2014; and
- Pro Forma Consolidated Historical Statement of Changes in Equity of XPD as at 30 June 2014 as set out in section 5.5 including the Financial Information of Chaoda as at 30 June 2014 which assumes the pro forma transactions set out in Note 2 of section 5.5 had occurred at 30 June 2014.

The Pro Forma transactions have been included in the Proforma consolidated statement of financial position as at 30 June 2014 to provide potential shareholders with a view of the XPD Group's financial position.

The Financial Information contained in this section of the Prospectus is presented in an abbreviated form and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with Australian equivalents to International Financial Reporting Standards ("AIFRS") and the Corporations Act. In the view of the Directors of XPD, the omitted disclosures would provide no further relevant information to potential investors.

The Financial Information should be read in conjunction with the risk factors associated with an investment in XPD set out in Section 8, the Investigating Accountant's Report in Section 6 and the other information contained in this Prospectus.

Investors should note the scope and limitations of the Investigating Accountant's Report.

## 5.2 BASIS OF PREPARATION OF THE FINANCIAL INFORMATION

### **(3) Historical Financial Information**

The Historical Financial Information has been compiled from the financial statements of Chaoda as at 31 December 2011, 31 December 2012, 31 December 2013 and 30 June 2014. Financial statements of Chaoda as at 31 December 2011, 31 December 2012, 31 December 2013 have been audited by Grant Thornton Audit Pty Ltd. The interim Financial statements of Chaoda as at 30 June 2014 have been reviewed by Grant Thornton Audit Pty Ltd.

A qualified audit report was issued on the financial statements of Chaoda for the years ended 31 December 2011 and 31 December 2012. Details of the qualifications are set out in Section 6 Investigating Accountant's Report included in this prospectus.

### **(4) Pro Forma Historical Financial Information**

The Pro Forma Historical Financial Information of XPD has been compiled from the reviewed financial information of XPD and the Financial Information of Chaoda and China Soccer Holdings Co., Ltd for the period ending 30 June 2014.

The financial statements of Chaoda were reviewed in accordance with International Financial Reporting Standards. Grant Thornton Audit Pty Ltd has not provided a review report on Chaoda's financial statements in the context of complying with the relevant accounting, statutory and regulatory requirements in China.

The financial statements of Chaoda for the period ending 30 June 2014 are converted into XPD's presentation currency, Australian Dollars for the purposes of inclusion of financial information for this Prospectus as opposed to the financial statements of Chaoda which are presented in Chinese Renminbi.

### **Foreign Currency Translation**

In accordance with the requirements of Australian Accounting Standards, XPD has adopted the foreign currency translation accounting policy set out in section 5.5 in which assets and liabilities of the Company and its controlled entities are translated at exchange rates in effect at reporting date. Revenue and expenses are translated at the exchange rates in effect at the date of the transaction. Exchange differences arising are recognised directly to the XPD Group's foreign currency translation reserve in the Statement of Financial Position.

### 5.3 SUMMARY OF HISTORICAL FINANCIAL PERFORMANCE AND CASH FLOWS

Set out below is the Historical Financial Information for Chaoda.

The basis of preparation of the Historical Financial Information is set out in section 5.2. The accounting policies are set out in Note 1 of section 5.5.

Statement of Profit or Loss and Other Comprehensive Income

	Historical <sup>(1)</sup> Year Ended	Historical <sup>(2)</sup> Year Ended	Historical <sup>(3)</sup> Year Ended	Historical <sup>(4)</sup> Period Ended
	31 December 2011 \$'000	31 December 2012 \$'000	31 December 2013 \$'000	30 June 2014 \$'000
Revenue	13,620	21,157	55,080	29,794
Cost of sales	(10,257)	(15,230)	(36,667)	(20,551)
Gross profit	3,363	5,927	18,412	9,243
Other revenues	41	50	42	21
Operating expenses	(491)	(625)	(1,326)	(852)
Administration expenses	(451)	(577)	(687)	(312)
Finance costs	(309)	(616)	(622)	(294)
<b>Profit before income tax expense</b>	<b>2,151</b>	<b>4,159</b>	<b>15,821</b>	<b>7,806</b>
Income tax expense	(477)	(1,093)	(3,944)	(1,919)
<b>Profit after income tax expense</b>	<b>1,674</b>	<b>3,067</b>	<b>11,877</b>	<b>5,887</b>

(1) The above Statement of Profit or Loss and Other Comprehensive Income of Chaoda for the 12 months ending 31 December 2011 has been translated from RMB to \$AUD at average exchange rate RMB 1 : AUD\$0.1497.

(2) The above Statement of Profit or Loss and Other Comprehensive Income of Chaoda for the 12 months ending 31 December 2012 has been translated from RMB to \$AUD at average exchange rate RMB 1 : AUD\$0.1528.

(3) The above Statement of Profit or Loss and Other Comprehensive Income of Chaoda for the 12 months ending 31 December 2013 has been translated from RMB to \$AUD at average exchange rate RMB 1 : AUD\$0.1673.

(4) The above Statement of Profit or Loss and Other Comprehensive Income of Chaoda for the 6 months ending 30 June 2014 has been translated from RMB to \$AUD at average exchange rate RMB 1 : AUD\$0.1780

## Statement of Cash flows

	Historical <sup>(1)</sup> Year Ended	Historical <sup>(2)</sup> Year Ended	Historical <sup>(3)</sup> Period Ended
	31 December 2012 \$'000	31 December 2013 \$'000	30 June 2014 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers	19,431	48,812	30,413
Payments to suppliers and employees	(18,070)	(37,834)	(25,279)
Government grant received	23	11	4
Interest received	26	31	17
Finance costs	(616)	(622)	(294)
Income tax paid	(849)	(138)	(2,577)
VAT received / (paid) and other taxes	(102)	(2,996)	(321)
Net cash provided by/(used in) operating activities	(158)	7,265	1,964
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(97)	(613)	(11)
Land use right refund received from the local government	115	-	-
Long-term investment	-	(3,346)	(4,450)
Net cash provided by/(used in) investing activities	18	(3,959)	(4,461)
<b>Cash flows from financing activities</b>			
Cash received / (paid) to non-related parties	141	(146)	167
Capital contribution received			3
Proceeds / (repayment) of short-term borrowing	3,531	(2,612)	534
Cash received / (paid) to related parties	(1,023)	443	228
Net cash provided by/(used in) financing activities	2,649	(2,315)	933
Net change in cash and cash equivalents held	2,509	991	(1,564)
Cash and cash equivalents at beginning of financial year	1,455	3,944	5,854
Effect of exchange rates on cash holdings in foreign currencies	(20)	919	(339)
Cash and cash equivalents at end of financial year	3,944	5,854	3,951

(1) Items within the cash flows from operating activities, cash flows from investing activities and cash flows from financing activities sections of the Statement of Cash flows of Chaoda for the 12 months ending 31 December 2012 have been translated from RMB to \$AUD at average exchange rate of RMB 1: AUD\$0.1528. Cash and cash equivalents at the beginning and the end of the financial year has been translated at the spot rate RMB 1: AUD\$0.1544 and RMB 1: AUD\$0.1526 respectively.

(2) Items within the cash flows from operating activities, cash flows from investing activities and cash flows from financing activities sections of the Statement of Cash flows of Chaoda for the 12 months ending 31 December 2013 have been translated from RMB to \$AUD at average exchange rate of RMB 1: AUD\$0.1673. Cash and cash equivalents at the beginning and the end of the financial year has been translated at the spot rate RMB 1: AUD\$0.1526 and RMB 1: AUD\$0.1843 respectively.

(3) Items within the cash flows from operating activities, cash flows from investing activities and cash flows from financing activities sections of the Statement of Cash flows of Chaoda for the 6 months ending 30 June 2014 have been translated from RMB to \$AUD at average exchange rate of RMB 1: AUD\$0.1780. Cash and cash equivalents at the beginning and the end of the financial year has been translated at the spot rate RMB 1: AUD\$0.1843 and RMB 1: AUD\$0.1720 respectively.

## 5.4 MANAGEMENT DISCUSSION ON 31 DECEMBER 2011, 31 DECEMBER 2012, 31 DECEMBER 2013 AND 30 JUNE 2014

### 1) Financial Performance

The commentary below has been provided in order to give investors an understanding of the Historical Financial Information of Chaoda set out above. This section should be read in conjunction with the Basis of Preparation of the Financial Information set out in section 5.2.

### 2) Revenue

A revenue breakdown is shown as follows:

Category	2011 \$'000	2012 \$'000	2013 \$'000	January to June 2014 \$'000
Sale of own-brand products	10,899	20,357	51,931	28,334
Cost of sales	(8,238)	(14,620)	(34,447)	(19,396)
Gross profit	2,661	5,737	17,484	8,938
Gross margin	24.42%	28.18%	33.67%	31.55%
Contracted third-party sales	2,721	800	3,149	1,460
Cost of sales	(2,020)	(610)	(2,221)	(1,155)
Gross profit	701	190	928	305
Gross margin	25.76%	23.75%	29.47%	20.89%
Total revenues	13,620	21,157	55,080	29,794
Total cost of sales	(10,257)	(15,230)	(36,667)	(20,551)
Overall gross profit	3,363	5,927	18,413	9,243
Overall gross margin	24.69%	28.01%	33.43%	31.02%

Operating revenues are generated through sales of sports footwear, sports apparel and accessories through the operating entity Chaoda.

Sale of own-brand products relate to the sale of products relating to the Company's own-brand, XPD.

Contracted third-party sales relate to the manufacture of products on behalf of third-parties.

The increase in overall sales from 2011 to 2013 is the result of continuous expansion of distribution network, effective distribution management, increased market recognition of the XPD brand as a result of XPD's brand promotion and marketing activities and the broadening of the XPD brand footwear and apparel product offerings. Sales from January to June 2014 (based on annualised sales compared to 2013) have remained relatively consistent with 2013 sales.

### Customer concentration risk

There is a concentration of sales to a number of key and large customers over the historical period. During 2011, 2012, 2013 and the half-year ended 30 June 2014 revenue from top 10 customers amount to 64% (\$8.6 million), 60% (\$12.8 million), 54% (\$29.7 million) and 53% (\$15.9 million) of total sales respectively.

### 3) Gross profit

Gross margins have increased from 2011 to 2013 and remained relatively steady for the period from January to June 2014 as a result of an increase in the sales percentage of XPD brand products with higher margins compared to contracted third-party sales compared to contracted third-party sales.



#### 4) Operating expenses

Major operating expense line items are shown below:

	Year Ended 31 December 2011 \$'000	Year Ended 31 December 2012 \$'000	Year Ended 31 December 2013 \$'000	Period Ended 30 June 2014 \$'000
Salary expenses	40	55	80	61
Transportation expense	59	64	92	42
Advertising expense	283	363	730	336
Exhibition expense	37	59	379	350
Depreciation and amortisation	2	3	5	2

Operating expenses are costs directly related to sales activities. Overall increases in operating costs over the historical period reflect a general expansion in operating activities.

The increase in advertising and exhibition expense from 2011 to 2013 is due to increases in promotional activities to increase the brand awareness of the XPD brand.

#### (5) Administration expense

Major administration expense line items are shown below:

	Year Ended 31 December 2011 \$'000	Year Ended 31 December 2012 \$'000	Year Ended 31 December 2013 \$'000	Period Ended 30 June 2014 \$'000
Salary expenses	103	133	198	136
Depreciation and amortisation	106	141	154	79
R&D expenses	32	58	41	-
Office expenses	22	13	15	6

Administration expenses are those not directly related to sales. Overall increases in administration costs over the historical period reflect a general expansion in operating activities.

#### (6) Finance costs

Major finance costs line items are shown below:

	Year Ended 31 December 2011 \$'000	Year Ended 31 December 2012 \$'000	Year Ended 31 December 2013 \$'000	Period Ended 30 June 2014 \$'000
Interest expense for short term borrowings	255	552	547	284

Interest expense represents amounts incurred on short-term borrowings held by Chaoda.

#### (7) Income tax expense

Chaoda is a resident PRC company and pays tax in the PRC in accordance with the income tax law of the PRC. The income tax rate applicable is 25% (standard tax rate) in 2011, 2012, 2013 the period ended 30 June 2014.

## 5.5 PRO FORMA FINANCIAL INFORMATION

### XPD Soccer Gear Group Limited

ACN 169 695 283

### REVIEWED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FROM REGISTRATION TO 30 JUNE 2014

	Reviewed \$
Revenue	-
Cost of sales	-
Gross profit	-
Other revenues	-
Operating expenses	-
Administration expenses	-
Finance costs	-
<b>Profit/(loss) from ordinary activities before income tax expense</b>	-
Income tax expense relating to ordinary activities	-
<b>Profit/(loss) from ordinary activities after income tax expense</b>	-
Other comprehensive income	-
<b>Total comprehensive income for the period</b>	-

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

**XPD Soccer Gear Group Limited****ACN 169 695 283****STATEMENT OF FINANCIAL POSITION AND CONSOLIDATED PRO FORMA STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014**

	<b>Note</b>	<b>Reviewed XPD<sup>(1)</sup>  \$'000</b>	<b>Reviewed 30 June 2014 Chaoda<sup>(2)</sup>  \$'000</b>	<b>Reviewed Pro Forma Minimum Subscription \$'000</b>	<b>Reviewed Pro Forma Maximum Subscription \$'000</b>
<b>CURRENT ASSETS</b>					
Cash and cash equivalents		-	3,951	7,730	17,124
Trade and other receivables	<b>4</b>	-	11,653	11,653	11,653
Inventory	<b>5</b>	-	8,426	8,426	8,426
Prepayments	<b>6</b>	-	2,783	2,783	2,783
<b>TOTAL CURRENT ASSETS</b>		-	26,813	30,592	39,986
<b>NON CURRENT ASSETS</b>					
Property, plant and equipment	<b>7</b>	-	6,414	6,414	6,414
Land-use rights	<b>8</b>	-	517	517	517
Investment	<b>9</b>	-	7,740	7,740	7,740
<b>TOTAL NON CURRENT ASSETS</b>		-	14,671	14,671	14,671
<b>TOTAL ASSETS</b>		-	41,484	45,263	54,657
<b>CURRENT LIABILITIES</b>					
Trade and other payables	<b>10</b>	-	3,003	3,003	3,003
Notes payable	<b>11</b>	-	4,833	4,833	4,833
Financial liabilities	<b>12</b>	-	6,708	6,708	6,708
Current tax liabilities	<b>13</b>	-	820	820	820
<b>TOTAL CURRENT LIABILITIES</b>		-	15,364	15,364	15,364
<b>TOTAL LIABILITIES</b>		-	15,364	15,364	15,364
<b>NET ASSETS</b>		-	26,120	29,899	39,293
<b>SHAREHOLDERS EQUITY</b>					
Issued capital	<b>14</b>	-	2,316(3)	7,019	16,551
Foreign currency translation reserve	<b>15</b>	-	(7)	(7)	(7)
Reserves	<b>15</b>	-	1,290	1,290	1,290
Retained earnings		-	22,521	21,547	21,309
Share options reserve	<b>16</b>	-	-	50	150
<b>TOTAL SHAREHOLDERS EQUITY</b>		-	26,120	29,899	39,293

(1) XPD was registered on the 22 May 2014 with 10 shares. Amount of capital paid was AUD\$2.00.

(2) Reviewed Chaoda financial information has been extracted from the reviewed financial statements of Chaoda for the period ended 30 June 2014 for the purposes of the preparation of the pro forma consolidated statement of financial position as at 30 June 2014 to provide potential shareholders with a view of the XPD Group's financial position. The interposed Hong Kong Holding Company, China Soccer Holding Co., Ltd has been eliminated in the pro-forma financial information.

(3) Amount of capital paid was RMB15,000,000. RMB14,983,000 has been translated from RMB to AUD\$ at an exchange rate 1 RMB: AUD\$0.1544. RMB17,000 has been translated from RMB to AUD\$ at an exchange rate 1 RMB: AUD\$0.1720.

**The above statement of financial position and consolidated pro forma statement of financial position should be read in conjunction with the accompanying notes**

**XPD Soccer Gear Group Limited****ACN 169 695 283****REVIEWED STATEMENT OF CASH FLOWS****FOR THE PERIOD FROM REGISTRATION TO 30 JUNE 2014**

	<b>Reviewed \$</b>
<b>Operating activities</b>	
Receipts from customers	-
Payments to suppliers	-
Interest received	-
	<hr/>
<b>Cash inflows/(outflows) from operating activities</b>	<hr/> - <hr/>
<b>Investing activities</b>	
Payments for property, plant and equipment	-
	<hr/>
<b>Cash inflows/(outflows) from investing activities</b>	<hr/> - <hr/>
<b>Financing activities</b>	
Proceeds from share issues	2
Payments for capital raising costs	-
	<hr/>
<b>Cash inflows/(outflows) from financing activities</b>	<hr/> <b>2</b> <hr/>
Net increase/(decrease) in cash	<hr/> 2 <hr/>
Cash at registration	<hr/> - <hr/>
<b>Cash at period end</b>	<hr/> <b>2</b> <hr/>

**The above statement of cash flows should be read in conjunction with the accompanying notes**

**XPD Soccer Gear Group Limited****ACN 169 695 283****REVIEWED STATEMENT OF CHANGES IN EQUITY AND CONSOLIDATED PRO FORMA STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM REGISTRATION TO 30 JUNE 2014**

	Consolidated Entity				
	Issued Capital	Foreign currency translation reserve	Reserves	Retained Earnings	Share options reserve
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at registration</b>	-	-	-	-	-
Shares issued on incorporation – 10 ordinary shares <sup>(1)</sup>	-	-	-	-	-
<b>Balance at 30 June 2014 (Reviewed)</b>	-	-	-	-	-
<b>Pro forma transactions</b>					
Amounts recognised as a consequence of a common control transaction – Refer Note 3	2,316	(7)	1,290	22,521	-
Issue of 25,000,000 Offer Shares in the Company pursuant to this Prospectus – Minimum Subscription	5,000	-	-	-	-
Expenses of the offer— Refer Note 2	(425)	-	-	(796)	-
Deferred tax assets associated with capital raising costs not recognised	128	-	-	(128)	-
Issue of 625,000 Options to Lead Manager on successful IPO pursuant to an Equity Capital Markets Mandate dated 25 August 2014	-	-	-	(50)	50
<b>Pro forma balance - Minimum Subscription</b>	<b>7,019</b>	<b>(7)</b>	<b>1,290</b>	<b>21,547</b>	<b>50</b>
Issue of an additional 50,000,000 Offer Shares in the Company pursuant to this Prospectus – Maximum Subscription	10,000	-	-	-	-
Additional expenses of the offer – Refer Note 2	(669)	-	-	63	-
Deferred tax assets associated with capital raising costs not recognised	201	-	-	(201)	-
Issue of additional 1,250,000 Options to Lead Manager on successful IPO pursuant to an Equity Capital Markets Mandate dated 25 August 2014	-	-	-	(100)	100
<b>Pro forma balance - Maximum Subscription</b>	<b>16,551</b>	<b>(7)</b>	<b>1,290</b>	<b>21,309</b>	<b>150</b>

(1) XPD was registered on the 22 May 2014 with 10 shares. Amount of capital paid was AUD\$2.00.

**The above statement of changes in equity and consolidated pro forma statement of changes in equity should be read in conjunction with the accompanying notes**

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2014

## NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated Financial Information has been prepared in accordance with Australian Accounting Standards.

### Accounting Policies

#### (a) New Accounting Standards and Interpretations

Certain new accounting standards and IFRIC interpretations have been published that are not mandatory for current reporting periods. The XPD Group's assessment of the impact of these new standards and interpretations is that there would be no material impact on the historical or reported pro forma financial information.

#### (b) Principles of Consolidation

A controlled entity is any entity that XPD controls. The consolidated entity controls an entity when it is exposed to, or has rights to variable returns from its investment with the entity and has the ability to affect those returns through its power to direct the activities of that entity.

As at a reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the period then ended. Where controlled entities have entered (left) the XPD Group during the period, their operating results have been included (excluded) from the date control was obtained (ceased).

Common control transactions are transactions in which the shareholders of the XPD Group are the same party or parties before and after the transaction.

The share transfer agreements detailed above represent a common control acquisition transaction. XPD has elected to account for these transactions using the predecessor values method. The method requires financial statements to be prepared using predecessor book values. Predecessor book values represent the carrying amount of net assets before the common control transaction.

All intercompany balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

#### (c) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the reporting date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the Statement of Profit or Loss and Other Comprehensive Income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the XPD Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

#### (d) Registration

The Company was registered on 22 May 2014.

## **(e) Foreign currency translation**

### *(i) Functional and presentation currency*

The functional currency of each of the XPD Group's entities is measured using the currency of the primary economic environment in which that entity operates.

The presentational currency and the functional currency of its main operating subsidiary, Jinjiang Chaoda Shoes and Garment Co., Limited is Chinese Renminbi, and the consolidated financial statements are presented in Australian Dollars, the presentational and functional currency of XPD.

### *(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction(s). Foreign exchange gains and losses resulting from the settlement of such transaction(s) and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Profit or Loss and Other Comprehensive Income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale financial assets are included in the fair value reserve in equity.

### *(iii) Group entities*

Financial results and position of foreign operations whose functional currency is different from the XPD Group's presentation currency are translated as follows:

- assets and liabilities are translated at year end exchange rates;
- income and expenses are translated at average rates for the period; and
- retained earnings are translated at historical rates.

Exchange differences arising on the translation of foreign operations are recognised directly to the XPD Group's foreign currency translation reserve in the Statement of Financial Position.

## **(f) Revenue Recognition**

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Revenue is stated net of the amount of value added tax (VAT)/goods and services tax (GST).

## **(g) Inventories**

Inventories are measured at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis on normal operating capacity. Costs are assigned on the basis of weighted average costs.

## **(h) Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Profit or Loss and Other Comprehensive Income on a straight line basis over the period of the lease.



**(i) Business Combination**

Common control acquisitions, where the cost of the business combination is deemed to have been incurred by the legal subsidiary (ie the acquirer for accounting purposes) in the form of equity instruments issued to the owners of the legal parent (ie the acquiree for accounting purposes), are accounted for using AASB 3 Business Combinations. The method calculates the fair value of the instruments issued by the legal parent on the basis of the fair value of existing instruments in the legal subsidiary.

The XPD Group has elected to account for these transactions using the predecessor values method.

**(j) Impairment of Assets**

At each reporting date, the XPD Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Any excess of the asset's carrying value over its recoverable amount is expensed to the Statement of Profit or Loss and Other Comprehensive Income.

Impairment testing is performed annually for intangible assets with indefinite lives and intangible assets not yet available for use. Where it is not possible to estimate the recoverable amount of an individual asset, the XPD Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

**(k) Cash and Cash Equivalents**

For statement of cash flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

**(l) Trade and Other Receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established where there is objective evidence that the XPD Group will not be able to collect all amounts due according to the original terms of receivables.

**(m) Financial Instruments:***(i) Recognition*

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

*(ii) Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

*(iii) Financial Liabilities*

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

*(iv) Fair Value*

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

*(v) Impairment*

At each reporting date, the XPD Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

## **(n) Property, Plant & Equipment**

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

### *(i) Plant and Equipment*

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

### *(ii) Amortisation and depreciation*

The depreciable amount of all fixed assets including buildings is depreciated on a straight-line basis over the asset's useful life to the combined group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Office equipment	20%
Manufacturing equipment	10%
Motor vehicles	20%
Buildings	5%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

## **(o) Provisions**

Provisions are recognised when the XPD Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of amounts required to settle the obligation at the end of the reporting period.

## **(p) Employee Benefits**

Provision is made for the XPD Group's liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

## **(q) Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares and options are shown in equity as a deduction, net of tax, from the proceeds.

## **(r) Chinese VAT / Australian GST**

Revenues, expenses and assets are recognised net of the amount of VAT / GST, except where the amount of VAT / GST incurred is not recoverable from the local tax office. In these circumstances the VAT / GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of VAT / GST. Cash flows are presented in the statement of cash flows on a gross basis, except for the VAT / GST component of investing and financing activities, which are disclosed as operating cash flows.

**(s) Land-use Rights**

Land use rights have a finite useful life and are carried at cost less accumulated amortisation and impairment losses.

Amortisation of land-use rights is calculated using the straight line method to allocate the cost of land use-rights over their estimated useful lives, which is 50 years.

The carrying amount of land-use rights is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

**(t) Finance Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use of sale.

All other borrowing costs are recognised in the Statement of Profit or Loss and Other Comprehensive Income in the period in which they are incurred.

**(u) Critical Accounting Estimates and Judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

**Critical accounting estimates and assumptions**

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities with the next financial year are discussed below.

**Significant judgments — Impairment of non-financial assets**

The Company assesses impairment at each reporting date by evaluating conditions and events specific to the Company that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

**Exchange Rates**

The following exchange rates used in the preparation of the financial information section is as follows:

	<b>RMB:AUD</b>	
	<b>Average</b>	<b>Spot</b>
FY2011	0.1497	0.1544
FY2012	0.1528	0.1526
FY2013	0.1673	0.1843
HY2014	0.1780	0.1720
FY2014	0.1805	0.1992

## NOTE 2 - BASIS OF PREPARATION OF THE CONSOLIDATED PRO FORMA STATEMENT OF FINANCIAL POSITION

The consolidated pro forma Statement of Financial Position has been prepared from the Audited Statement of Financial Position of Chaoda adjusted for the following transactions as if they had taken place on 30 June 2014:

### (a) Group restructure agreements subsequent to 30 June 2014:

- Pursuant to a Share Transfer Agreement dated 29 December 2014, China Soccer Holdings Co., Limited (China Soccer) acquired 100% of the registered capital contributed in Chaoda. When combined with the transaction below the company will become an intermediate holding company for the group.
- Pursuant to a Share Sale Deed dated 16 February 2015 the Company has issued 349,999,990 Ordinary Shares to the existing shareholders of China Soccer Holdings Co., Limited as purchase consideration for 100% of the share capital of that entity. This transaction is one referred to as a common control acquisition transaction.
- Details of the transactions are set out in Note 3.

### (b) Assuming Minimum Subscription

- The issue of 25,000,000 Offer Shares at an issue price of \$0.20 per share to raise \$5,000,000, less associated capital raising costs estimated to be \$1,221,000. \$425,000 has been directly off-set against raised capital (\$297,000 net of tax), and \$796,000 has been expensed in accordance with Australian Accounting Standards.

### (c) Assuming Maximum Subscription

- The issue of an additional 50,000,000 Offer Shares upon Maximum Subscription at an issue price of \$0.20 per share to raise an additional \$10,000,000, less additional capital raising costs estimated to be \$606,000. Total capital raising costs associated with Maximum Subscription are estimated to be \$1,827,000 of which \$1,094,000 has been directly off-set against raised capital (\$765,000 net of tax), and \$733,000 has been expensed in accordance with Australian Accounting Standards.

### (d) Issue of Options to Lead Manager

- Pursuant to an Equity Capital Markets Mandate dated 25 August 2015, as a Capital Raising Success Fee, the Company will issue in consideration for a successful IPO on the ASX, options to the Lead Manager to acquire 2.5% of the IPO issued capital of XPD exercisable at a 25% premium to the IPO issue price with a 3 year term.
- Assuming minimum subscription, 625,000 options will be issued to the Lead Manager. Assuming maximum subscription, an additional 1,250,000 options will be issued to the Lead Manager (total of 1,875,000 options).
- Refer to Note 16 for further details.

### NOTE 3 – COMMON CONTROL TRANSACTION

The pro forma statement of financial position has been prepared on the basis that XPD has acquired China Soccer's assets and liabilities as noted below.

The pro forma statement of financial position has then been adjusted to reflect transactions in the agreements as discussed in Note 2.

Through this transaction effective control of China Soccer passed to the shareholders of XPD. The transaction is one referred to in AASB 3 Business Combinations as a common control acquisition, where following the reconstruction XPD took control of China Soccer with no change in underlying control.

As XPD was incorporated specifically for the purpose of this transaction and the subsequent equity raising, the fair value of the equity instruments issued has been estimated by reference to the value of historical (China Soccer's) net assets.

The following has been extracted from the audited financial information of China Soccer as at 30 June 2014, converted from Chinese Renmimbi to Australian Dollars using an exchange rate outlined in Note 1.

	<b>30 June 2014 \$'000</b>
The assets and liabilities of China Soccer as at 30 June 2014 were:	
Cash and cash equivalents	3,951
Trade and other receivables	11,653
Inventory	8,426
Prepayments	2,783
Property, plant and equipment	6,414
Land-use rights	517
Investment	7,740
Trade and other payables	(3,003)
Notes payable	(4,833)
Financial liabilities	(6,708)
Current tax liabilities	(820)
Total net assets acquired	<b>26,120</b>
Accounted for as:	
Issued capital*	2,316
Foreign currency translation reserve	(7)
Reserves	1,290
Retained earnings	22,521
	<b>26,120</b>

\*Amount of capital paid was RMB15,000,000. RMB14,983,000 has been translated from RMB to AUD\$ at an exchange rate 1 RMB: AUD\$0.1544. RMB17,000 has been translated from RMB to AUD\$ at an exchange rate 1 RMB: AUD\$0.1720.

**NOTE 4 – TRADE AND OTHER RECEIVABLES**

	<b>Reviewed</b>	<b>Pro Forma Minimum Subscription</b>	<b>Pro Forma Maximum Subscription</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Trade receivables <sup>(1)</sup>	-	11,260	11,260
Other receivables	-	393	393
<b>Total trade and other receivables</b>	<b>-</b>	<b>11,653</b>	<b>11,653</b>

(1) Included in trade receivables include a balance to related party, Jinjiang XPD Import and Export Limited, amounting to \$2,644,000.

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable in the financial statements. The company does not hold any collateral as security over any receivable balance, nor does it hold any restrictions of title.

The average credit period on sales of goods is 90 days. Extended credit terms may be provided through negotiation with customers. An analysis of the top 10 customers over the historical period shows concentration of sales to key and large customers with 64%, 60%, 54% and 53% in the financial years ending 2011, 2012, 2013 and the half-year ended 30 June 2014 respectively. No interest is charged on the trade receivables.

Some of the unimpaired trade receivables are past due as at the reporting date. These relate to customers who have a good credit history with the Company and are expected to be recovered in full.

The age of trade receivables past due but not impaired is as follows:

	<b>\$'000</b>
90-180 days	368
<b>Total</b>	<b>368</b>

**NOTE 5 – INVENTORY**

	<b>Reviewed</b>	<b>Pro Forma Minimum Subscription</b>	<b>Pro Forma Maximum Subscription</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Raw material	-	2,897	2,897
Finished good	-	1,568	1,568
Work in progress	-	3,961	3,961
<b>Net inventory</b>	<b>-</b>	<b>8,426</b>	<b>8,426</b>

Inventory includes raw materials used in the manufacturing of sport shoes and soccer related products, work in progress at reporting date and finished good products. Inventory has been determined to be valued at the lower of cost and net realisable value at reporting date.

**NOTE 6 – PREPAYMENTS**

	<b>Reviewed</b>	<b>Pro Forma Minimum Subscription</b>	<b>Pro Forma Maximum Subscription</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Prepayments	-	2,783	2,783
<b>Total</b>	<b>-</b>	<b>2,783</b>	<b>2,783</b>

Prepayments represent advances/security deposits to suppliers for inventory purchases.

**NOTE 7 – PROPERTY, PLANT AND EQUIPMENT**

	<b>Reviewed</b>	<b>Pro Forma Minimum Subscription</b>	<b>Pro Forma Maximum Subscription</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Machinery and Office Equipment	-	1,533	1,533
Less accumulated depreciation	-	(613)	(613)
	-	920	920
Buildings	-	7,131	7,131
Less accumulated depreciation	-	(1,665)	(1,665)
	-	5,466	5,466
Motor Vehicles	-	49	49
Less accumulated depreciation	-	(23)	(23)
	-	26	26
Accounting Software	-	5	5
Less accumulated depreciation	-	(3)	(3)
	-	2	2
<b>Total property, plant and equipment</b>	<b>-</b>	<b>6,414</b>	<b>6,414</b>



**NOTE 8 – LAND-USE RIGHTS**

	<b>Reviewed</b>	<b>Pro Forma Minimum Subscription</b>	<b>Pro Forma Maximum Subscription</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Cost	-	557	557
Accumulated amortisation	-	(40)	(40)
<b>Net land-use rights</b>	<b>-</b>	<b>517</b>	<b>517</b>

**NOTE 9 – INVESTMENT**

	<b>Reviewed</b>	<b>Pro Forma Minimum Subscription</b>	<b>Pro Forma Maximum Subscription</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Investment in Henan Yuanlong Limited (Yuanlong)	-	7,740	7,740
<b>Total</b>	<b>-</b>	<b>7,740</b>	<b>7,740</b>

Investment balances represent investment by the Company and other business partners during 2013 in Yuanlong located in Henan Province, China.

The investment is recorded at its original cost which represents 26% of equity interest in Yuanlong and fund advances to the group for land acquisition and initial construction purposes. On the basis of the percentage of interest in Yuanlong held by the Company, the investee was assessed to not be controlled by the Company yet elements of a significant influence are present. As a result the investment is recognised as a joint venture entity and equity accounting of Chaoda's share of profit and loss will be accounted for once the investee commences operations.

Subsequent to 30 June 2014, an additional investment of RMB29.8 million to Yuanlong has been made by the Company. The total investment is approximately AUD\$14.9 million as at 31 December 2014.

**NOTE 10 – TRADE AND OTHER PAYABLES**

	<b>Reviewed</b>	<b>Pro Forma Minimum Subscription</b>	<b>Pro Forma Maximum Subscription</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Trade payables	-	1,615	1,615
Revenue received in advance	-	4	4
Other tax payable	-	577	577
Salary payable	-	483	483
Other payables	-	324	324
<b>Total trade and other payables</b>	<b>-</b>	<b>3,003</b>	<b>3,003</b>

**NOTE 11 – NOTES PAYABLE**

	<b>Reviewed</b>	<b>Pro Forma Minimum Subscription</b>	<b>Pro Forma Maximum Subscription</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Notes payable	-	4,833	4,833
<b>Total notes payable</b>	<b>-</b>	<b>4,833</b>	<b>4,833</b>

Notes payable represent short-term liability obligations through financial institutions in the PRC with maturity dates within 12 months. The notes payable are guaranteed by interest bearing short-term bank deposit amounting to RMB 6,136,000 (\$1,055,392).

**NOTE 12 – FINANCIAL LIABILITIES**

	<b>Reviewed</b>	<b>Pro Forma Minimum Subscription</b>	<b>Pro Forma Maximum Subscription</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Short-term borrowings	-	6,708	6,708
<b>Total financial liabilities</b>	<b>-</b>	<b>6,708</b>	<b>6,708</b>

Short-term borrowings represent borrowings with financial institutions in the PRC with maturity dates within 12 months.

**NOTE 13 – CURRENT TAX LIABILITIES**

	<b>Reviewed</b>	<b>Pro Forma Minimum Subscription</b>	<b>Pro Forma Maximum Subscription</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Income tax payable	-	820	820
<b>Total current tax liabilities</b>	<b>-</b>	<b>820</b>	<b>820</b>

Income tax payable represents current income tax obligations to the Chinese taxation authorities at 30 June 2014.

**NOTE 14 – ISSUED CAPITAL**

	<b>Number of shares issued</b>	<b>\$'000</b>
<b>Shares on issue at 30 June 2014 – 10 ordinary share</b>	<b>10</b>	<b>-</b>
<b>Pro forma transactions</b>		
- Issue of 349,999,990 Ordinary Shares for the acquisition of China Soccer	349,999,990	2,316
- Issue of 25,000,000 Offer Shares in the Company pursuant to this Prospectus	25,000,000	5,000
Less capital raising costs (net of tax effect)	-	(297)
<b>Pro forma issued capital - Minimum Subscription</b>	<b>375,000,000</b>	<b>7,019</b>
- Issue of additional 50,000,000 Offer Shares in the Company pursuant to this Prospectus	50,000,000	10,000
Less capital raising costs (net of tax effect)	-	(468)
<b>Pro forma issued capital - Maximum Subscription</b>	<b>425,000,000</b>	<b>16,551</b>

**NOTE 15 – RESERVES**

	<b>Reviewed</b>	<b>Pro Forma Minimum Subscription</b>	<b>Pro Forma Maximum Subscription</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Foreign currency translation reserve	-	(7)	(7)
Statutory reserve	-	1,290	1,290
<b>Total reserves</b>	<b>-</b>	<b>1,283</b>	<b>1,283</b>

**Statutory Reserve**

Pursuant to the current People's Republic of China Company Law, the Company is required to transfer between 5% to 10% of its profit after taxation to a statutory reserve until the surplus reserve balance reaches minimal 50% of the registered capital. For the purposes of calculating the transfer to this reserve, the profit after taxation shall be the amount determined under the People's Republic of China accounting standards. The transfer to this reserve must be made before the distribution of dividends to the shareholders.

**Foreign translation reserve**

The foreign currency translation reserve represents exchange differences arising from translation of the subsidiaries' functional currency (Chinese Renminbi) into presentational currency of the group (Australian Dollars).

**NOTE 16 – SHARE OPTIONS RESERVE**

	<b>Reviewed</b>	<b>Pro Forma Minimum Subscription</b>	<b>Pro Forma Maximum Subscription</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Share options reserve	-	50	150
<b>Total share options reserve</b>	<b>-</b>	<b>50</b>	<b>150</b>

Pursuant to an Equity Capital Markets Mandate dated 25 August 2014 in consideration as consideration for a successful IPO on the ASX, the Company will issue options to the Lead Manager to acquire 2.5% of the IPO issued capital of XPD exercisable at a 25% premium to the IPO issue price with a 3 year term.

Assuming minimum subscription, 625,000 options will be issued to the Lead Manager. Assuming maximum subscription, an additional 1,250,000 options will be issued to the Lead Manager (total of 1,875,000 options).

The value of options has been calculated using the Black-Scholes options pricing model based on the following assumptions: exercise price of \$0.25, stock price of \$0.20 (IPO share price), 1095 days (3 year duration), volatility of 68% and a risk free rate of 2.28%.

**NOTE 17 – CONTROLLED ENTITIES**

The pro forma financial statements incorporate assets, liabilities, results and equity of the following entities in accordance with Note 2 – Pro Forma Transactions, Note 3 – Business Combination and Note 1(b) Principles of Consolidation.

<b>Name of Entity</b>	<b>Registration date</b>	<b>Country of incorporation</b>	<b>Pro-forma equity holding</b>
<b>Ultimate Holdings Company</b>			
XPD Soccer Gear Group Limited	22 May 2014	Australia	
<b>Subsidiaries of XPD Soccer Gear Group Limited</b>			
China Soccer Holdings Co., Limited	10 November 2014	Hong Kong	100%
<b>Subsidiary of China Soccer Holdings Co., Limited</b>			
Jinjiang Chaoda Shoes and Garment Co., Limited	22 July 1992	People's Republic of China	100%

**NOTE 18 – COMMITMENTS**

As at 30 June 2014, the XPD Group is not aware of any commitments that should be disclosed.

**NOTE 19 – CONTINGENT ASSETS AND LIABILITIES**

As at 30 June 2014, the XPD Group is not aware of any other contingent assets or liabilities that should be disclosed in accordance with AASB 137.

**NOTE 20 – SUBSEQUENT EVENTS**

Subsequent to 30 June 2014, an additional investment of RMB29.8 million to Henan Yuanlong has been made and the investment has been recorded as a long-term investment by the Company. Total investment is approximately AUD\$14.9 million as at 31 December 2014.

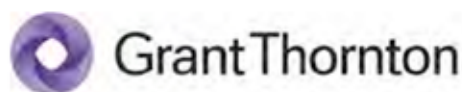
The Directors of XPD are aware of no subsequent events, other than those noted above and the pro forma transactions set out in Note 2 of Section 5.5 of the Prospectus.

# 6.

## Investigating Accountant's Report



## 6 INVESTIGATING ACCOUNTANT'S REPORT



Board of Directors  
XPD Soccer Gear Group Limited  
Level 1, Exchange Tower  
530 Little Collins Street  
MELBOURNE VIC 3000

25 February 2015  
**PRIVATE AND CONFIDENTIAL**

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Dear Directors

### **INVESTIGATING ACCOUNTANT'S REPORT ON THE HISTORICAL AND PRO FORMA FINANCIAL INFORMATION**

#### **Introduction**

We have prepared this Investigating Accountant's Report at the request of the Directors of XPD Soccer Gear Group Limited ("XPD" or the "Company") for inclusion in a Prospectus ("Prospectus") to be dated on or about 25 February 2015, to be issued by XPD, in respect of the planned initial public offering on the Australian Securities Exchange Ltd.

Expressions defined in the Prospectus have the same meaning in this report, unless otherwise specified.

#### **Scope**

Grant Thornton Audit Pty Ltd ("Grant Thornton Audit") has been requested to prepare this report on the following financial information:

#### **Historical Financial Information**

The Historical Financial Information, as set out in **Section 5.5** of the Prospectus comprises:

- XPD's historical consolidated statement of profit or loss and other comprehensive income for the financial period ended 30 June 2014;
- historical consolidated statement of financial position as at 30 June 2014.

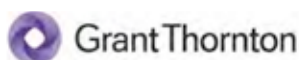
(hereafter, 'Historical Financial Information').

Grant Thornton Audit Pty Ltd ACN 130 913 594  
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

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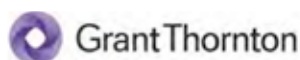
The historical financial information for the years ended 31 December 2011, 31 December 2012 and 31 December 2013 and the period ended 30 June 2014 has been extracted from the audited financial statements of Jinjiang Chaoda Shoes and Garment Co., Limited ("Chaoda") for the years ended 31 December 2011, 31 December 2012 and 31 December 2013 and the reviewed financial statements of Chaoda for the period ended 30 June 2014, upon which Grant Thornton Audit issued an unqualified audit report for the year ended 31 December 2013 and an unqualified review report for the period ended 30 June 2014.

A qualified audit report was issued for the years ended 31 December 2011 in relation to the following matters:

- As Grant Thornton Audit was appointed auditors of Chaoda during 2014, we were not in a position to and do not express an opinion on the opening balances of the Company as at 1 January 2011, which impacts on the financial performance and statement of cash flows for the year then ended; and
- As Grant Thornton Audit was appointed auditors of Chaoda during 2014, we were not able to observe the counting of the physical inventories at the beginning of the financial year or satisfy ourselves concerning those inventory quantities by alternative means. Since opening inventories affect the determination of the results of operations, we were unable to determine whether adjustments to the results of operations and opening retained earnings might be necessary for 2011. Our audit opinion on the financial report for the year ended 31 December 2011 was modified accordingly.

A qualified audit report was issued for the years ended 31 December 2012 in relation to the following matters:

- As Grant Thornton Audit was appointed auditor of Chaoda during 2014, we were not in a position to and do not express an opinion on the opening balances as at 1 January 2011, which impact on the financial performance and statement of cash flows for the comparative period; and
- As Grant Thornton Audit was appointed auditors of Chaoda during 2014, we were not able to observe the counting of the physical inventories at the beginning of the financial year or satisfy ourselves concerning those inventory quantities by alternative means. Since opening inventories affect the determination of the results of operations, we were unable to determine whether adjustments to the results of operations and opening retained earnings might be necessary for 2011. Our audit opinion on the financial report for the year ended 31 December 2012 is also modified because of the possible effect of this matter on the comparative figures.



### **Pro forma Financial Information**

The Pro forma Financial Information as set out in **Section 5** of the Prospectus comprises the pro forma consolidated statement of financial position at 30 June 2014 and includes the Pro forma Adjustments ("Pro forma Adjustments") as at that date as disclosed in Note 2 and Note 3 of **Section 5.5**.

(hereafter, the 'Pro forma Financial Information' and collectively the 'Financial Information').

This report has been prepared for inclusion in the Prospectus. Grant Thornton Audit disclaim any assumption of responsibility for any reliance on this report or on the Financial Information to which this report relates for any purpose other than the purposes for which it was prepared. This report should be read in conjunction with the Prospectus.

### **Directors Responsibility for the Historical and Pro Forma Financial Information**

The Directors have prepared and are responsible for the preparation and presentation of the Financial Information. The Directors are also responsible for the determination of the Pro forma Adjustments as set out in **Section 5.5** of the Prospectus.

This responsibility also includes compliance with applicable laws and regulations and for such internal controls as the directors determine necessary to enable the preparation of the Pro Forma Historical Financial Information that is free from material misstatement.

The Financial Information is presented in an abbreviated form insofar as it does not include all of the presentation and disclosures required by the Australian equivalents to International Financial Reporting Standards and other mandatory professional reporting requirements.

### **Our Responsibility**

Our responsibility is to express a conclusion on the Historical and Pro forma Financial Information based on our review. We have conducted an independent review of the Financial Information in order to state whether on the basis of the procedures described, anything has come to our attention that would cause us to believe that:

- a The Historical Financial Information does not present fairly the consolidated statement of financial position in accordance with the measurement and recognition (but not all of the presentation and disclosure requirements ) of applicable Accounting Standards;
- b The Pro forma Adjustments do not provide a reasonable basis for the Pro Forma Financial Information;
- c The Pro forma Financial Information has not been prepared on the basis of the assumptions set out in **Section 5** of the Prospectus; and





- d The Pro forma Financial Information does not present fairly the pro forma consolidated statement of financial position at 30 June 2014 in accordance with the measurement and recognition (but not all of the presentation and disclosure requirements) of applicable Accounting Standards in Australia as if the Pro forma Adjustments set out in **Section 5.5** of the Prospectus had occurred at 30 June 2014.

Our independent review of the Financial Information has been conducted in accordance with Australian Auditing Standards applicable to review engagements. Our procedures consist of reading relevant Board minutes, reading of relevant contracts and other legal documents, inquiries of management personnel and the Directors and analytical and other procedures applied to XPD's accounting records in support of the Financial Information.

These procedures are substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Financial Information.

#### **Subsequent events**

Since 30 June 2014 and to the date of the Report, the Company has:

- executed a Share Transfer Agreement date 16 February 2015 to issue 349,999,990 Offer Shares to the existing shareholders of China Soccer as purchase consideration for 100% of the shares in China Soccer (China Soccer is the holding company of Chaoda);
- incurred costs associated with the production of the Prospectus and managing of the Company's assets.

These transactions have been included in the pro forma financial information as adjustments as outlined in **Section 5.5** of the Prospectus.

In addition, the Company has further invested RMB29.8 million as at 31 December 2014 into Henan Yuanlong. Total investment in Henan Yuanlong by the Company as at 31 December 2014 amounted to RMB 74.8 million.

Apart from the matters dealt with in this report and having regard to the scope of our review, to the best of our knowledge and belief, no additional material transactions or events outside the ordinary business of the Company have come to our attention that require comment on or adjustment to the information referred to in our report or that would cause such information to be misleading or deceptive.

## Conclusion Statements

### *Review Conclusion on the Financial Information*

Based on our independent review, which is not an audit, nothing has come to our attention which causes us to believe that:

- a The Historical Financial Information does not present fairly the consolidated statement of financial position at 30 June 2014 in accordance with the measurement and recognition (but not all of the presentation and disclosure requirements) of applicable Accounting Standards in Australia;
- b The Pro forma Adjustments do not provide a reasonable basis for the Pro Forma Financial Information;
- c The Pro Forma Financial Information has not been prepared on the basis of the assumptions set out in **Section 5.5** of the Prospectus; and
- d The Pro forma Financial Information does not present fairly the pro forma consolidated statement of financial position at 30 June 2014 in accordance with the measurement and recognition (but not all of the presentation and disclosure requirements) of applicable Accounting Standards in Australia as if the Pro forma Adjustments set out in **Section 5.5** of the Prospectus had occurred at 30 June 2014.

## Restriction on Use

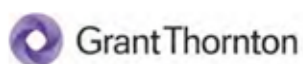
Without modifying our conclusions, we draw attention to **Section 5.1** of the Prospectus, which describes the purpose of the Financial Information, being for inclusion in the Prospectus. As a result, the Financial Information may not be suitable for use for another purpose.

## Consent

Grant Thornton Audit has consented to the inclusion of the Investigating Accountants Report in the Prospectus in the form and context in which it is included.

## Liability

The liability of Grant Thornton Audit is limited to the inclusion of this report in the Prospectus. Grant Thornton Audit makes no representation regarding, and has no liability, for any other statements or other material in, or omissions from the Prospectus.

**Independence and Disclosure of Interest**

Grant Thornton Audit does not have any pecuniary interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased conclusion in this matter. Grant Thornton Audit will receive a professional fee for the preparation of this report.

Yours faithfully  
GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants

A handwritten signature in blue ink, appearing to read "SJ Gray", with a long horizontal flourish extending to the right.

SJ Gray  
Partner – Audit & Assurance

7.

# Key People, Interests and Benefits



## 7 KEY PEOPLE, INTERESTS AND BENEFITS

### 7.1 BOARD OF DIRECTORS

The Board consists of five members, of which three are Non-Executive directors. The Directors bring to the Board relevant experience and skills including industry and business knowledge, financial management and corporate governance experience.

Directors	Expertise, experience and qualifications
<b>Shui-Chiao Chang</b> Non-Executive Chairman	<ul style="list-style-type: none"> <li>Mr Chang is the founder of XPD Group and has played a vital role in the early development of XPD Group's business. Mr Chang is an experienced entrepreneur and has approximately 24 years of experience in the sportswear industry in China.</li> <li>Mr Chang was appointed to the Board on 9 February 2015.</li> <li>Mr Chang was appointed as the consultant to Macau Fujian United Sports Association in 1995.</li> <li>Mr Chang is the father of the Chief Executive Officer Mr Jiameng Zhang and the Chief Operations Officer Mr Jiashun Zhang. He is a resident of Taiwan and Macau.</li> </ul>
<b>Jiameng Zhang</b> Managing Director and Chief Executive Officer	<ul style="list-style-type: none"> <li>Mr Zhang joined XPD Group as a sales manager in 2000 and was appointed the Chief Executive Officer of XPD Group since 2005.</li> <li>Mr Zhang was appointed to the Board on 6 November 2014.</li> <li>Mr Zhang is responsible for XPD Group's overall strategic planning, sales and marketing, and management of XPD Group's business.</li> <li>Mr Zhang has over 15 years of experience in the sportswear industry and has successfully built the XPD brand as a well-recognised sportswear brand in particular soccer footwear brand in China.</li> <li>Mr Zhang holds an Executive Master of Business Administration from Huaqiao University China.</li> <li>Mr Zhang is the deputy Chairman of Fujian Provincial Football Association and the Chairman of Jinjiang City Football Association.</li> <li>Mr Zhang is the son of the Chairman Mr Shui-Chiao Chang and the brother of the Chief Operations Officer Jiashun Zhang. He is a resident of Macau.</li> </ul>
<b>Jiashun Zhang</b> Executive Director and Chief Operations Officer	<ul style="list-style-type: none"> <li>Mr Zhang joined XPD Group in 2001 as an assistant to the general manager and was appointed deputy general manager of XPD Group in 2007.</li> <li>Mr Zhang was appointed to the Board on 9 February 2015.</li> <li>Mr Zhang is responsible for XPD Group's purchase and production.</li> <li>Mr Zhang has over 14 years of experience in the sportswear industry in China.</li> <li>Mr Zhang holds a Bachelor of Commerce from Xiamen University.</li> <li>Mr Zhang is the son of the Chairman Mr Shui-Chiao Chang and the brother of the Chief Executive Officer Mr Jiameng Zhang.</li> <li>Mr Zhang is a resident of Macau.</li> </ul>
<b>Andrew Smith</b> Independent Non-Executive Director	<ul style="list-style-type: none"> <li>Andrew was appointed to the Board on 31 January 2015 as a non-executive Director.</li> <li>Andrew has extensive work experience in financial services and financial markets in the Asia Pacific.</li> <li>Andrew was Executive Chairman of Sedgwick Asia Pacific Pty Ltd from 1995 – 2000.</li> <li>Andrew was Managing Director of Intersuisse Ltd (Phillip Capital) from 2000 to 2010.</li> <li>Andrew was Executive Director and then Chairman of Zheng He Global Capital Ltd from 2010 to 2012.</li> <li>Andrew is currently a non-executive director of Gyrostat Capital Management Pty Ltd, Reliance Holdings Pty Ltd and is a Consultant to Goal Property Group Pty Ltd.</li> <li>Andrew holds a bachelor of Economics and Politics from Monash University.</li> <li>Andrew is an Australian citizen and lives in Melbourne.</li> </ul>

<b>Directors</b>	<b>Expertise, experience and qualifications</b>
<b>Ben Meikle</b> Independent Non-Executive Director	<ul style="list-style-type: none"> <li>• Ben was appointed to the Board on 6 February 2015 as a non-executive Director.</li> <li>• Ben has extensive work experience in financial services and capital markets in Australia and China.</li> <li>• Ben has been a member of the core BBY group since 2007 focusing on capital market activities including corporate work, capital raising and more recently the development of the BBY China operations. Prior to BBY Group, Ben worked at the Commonwealth Bank of Australia in Australian Equities and Derivatives from 2005-2007.</li> <li>• Ben holds a Commerce degree majoring in Economics and Management from Canterbury University, New Zealand.</li> </ul>
<b>Andrew Plympton</b> Independent Non-Executive Director	<ul style="list-style-type: none"> <li>• Andrew was appointed to the Board on 20 February 2015 as a non-executive Director.</li> <li>• Andrew is an active entrepreneur with extensive experience in the financial services sectors, sports administration and listed companies, including being the CEO of two global insurance broking firms and the successful long term President of the St Kilda Football Club and Yachting Australia Inc.</li> <li>• Andrew is an executive member and director of the Australian Olympic Committee, Commissioner of the Australian Sports Commission, and is non-executive director of several ASX listed companies.</li> <li>• Andrew is an Australian citizen and lives in Melbourne.</li> </ul>

## 7.2 KEY MANAGEMENT

<b>Executive</b>	<b>Expertise, experience and qualifications</b>
<b>Jiameng Zhang</b> Managing Director and CEO	Refer to Section 7.1
<b>Jiashun Zhang</b> Executive Director and COO	Refer to Section 7.1
<b>Renfeng Xiu</b> Chief Financial Officer, Chaoda	<ul style="list-style-type: none"> <li>• Mr Xiu has been Chief Financial Officer of XPD Group since January 2013.</li> <li>• Mr Xiu has over 15 years of experience in financial accounting having previously worked as the CFO of Guanke Electronics and as a finance manager of HK-listed company, Heng'an International.</li> <li>• Mr Xiu is responsible for the management of finance functions across XPD Group.</li> <li>• Mr Xiu holds a Bachelor of Accountancy from Jiangxi Institute of Economic Administrators.</li> </ul>
<b>Dehe Yang</b> Chief Brand Officer, Chaoda	<ul style="list-style-type: none"> <li>• Mr Yang brings over 14 years of experience in strategic marketing and brand management.</li> <li>• Mr Yang joined XPD Group in 2011 and he is in charge of managing the XPD brand promotion and all advertising and promotion activities undertaken by XPD Group.</li> <li>• Prior to joining XPD Group, Mr Yang was the chief business representative of Sibao Group and the marketing director of Fujian Guiwei Sportswear Co.,Ltd.</li> <li>• Mr Yang holds a Diploma of Business Administration from Hubei University China.</li> </ul>
<b>Jianhong Huang</b> Production Manager, Chaoda	<ul style="list-style-type: none"> <li>• Mr Huang has over 16 years of experience in production management and planning.</li> <li>• Mr Huang joined XPD Group in 2012 and he is responsible for managing production.</li> <li>• Prior to joining XPD Group, Mr Huang was the production manager of Ren Cheng He Co.,Ltd and deputy general manager in production of Wenzhou Wangda Group Limited.</li> <li>• Mr Huang holds a Diploma of Production Management from Sichuan University China.</li> </ul>
<b>Yapei Zhuang</b> Chief Sales Officer, Chaoda	<ul style="list-style-type: none"> <li>• Ms Zhuang has 10 years of experience in sales in the PRC footwear sector.</li> <li>• Ms Zhuang joined XPD Group in 2005 as a sales representative. She was promoted to the chief sales officer in 2010 and she is in charge of XPD Group's existing sales channels and distributors and expansion into new markets.</li> <li>• Ms Zhuang holds a diploma of Footwear Design from Quanzhou Huaguang College.</li> </ul>

### 7.3 INTERESTS AND BENEFITS

This Section 7.3 sets out the extent of the interests and fees of certain persons involved in the Offer. Other than as set out below or elsewhere in this Prospectus, no:

- Director or proposed Director of the Company;
- person named in this Prospectus and who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- financial services licensee involved in the Offer and identified in this Prospectus; or
- promoter of the Company,

holds at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of the Company;
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion, or in connection with the Offer; or
- the Offer,

and no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given to any such persons for services in connection with the formation or promotion of the Company or the Offer or to any Director or proposed Director to induce them to become, or qualify as, a Director of the Company.

#### 7.3.1 INTERESTS OF ADVISERS

The nature and extent of the interests and fees of professional advisers engaged by the Company is set out in Section 11.8

#### 7.3.2 EXECUTIVE DIRECTORS' REMUNERATION

Jiameng Zhang is employed by the Company in the position of Managing Director and Chief Executive Officer. Refer to Section 7.3.5 for further details

Jiashun Zhang is employed by the Company in the position of Executive Director and Chief Operations Officer. Refer to Section 7.3.5 for further details.

#### 7.3.3 NON-EXECUTIVE DIRECTOR REMUNERATION

Under the Constitution, the Board may decide the remuneration that each Director is entitled for his or her services as a Director.

However the total amount provided to all Directors for their services as Directors must not exceed in aggregate in any financial year the amount fixed by the Company in general meeting. This amount has been fixed at \$500,000. The annual Directors' fees currently agreed to be paid by the Company are \$50,000 to the Chairman and \$48,000 to Andrew Smith, Ben Meikle and Andrew Plympton. The remuneration of a Director (who is not an Executive Director) must not include a commission on, or a percentage of, profits or operating revenue.

The Non-Executive Directors are also entitled to be reimbursed for reasonable travel and other expenses incurred in connection with the affairs of the Company. There are no retirement benefit schemes for the Non-Executive Directors.

### 7.3.4 DIRECTORS' RELEVANT INTERESTS IN SECURITIES

Directors are not required under the Constitution to hold any Shares in the Company. The relevant interests of the Directors in the Company's securities as at the Prospectus Date and their percentage interests in the Company are as follows:

Director	Shares	Other securities	% of issued Shares (assuming Minimum Subscription)	% of issued Shares (assuming Maximum Subscription)
Shui-Chiao Chang	263,787,962 <sup>1</sup>	Nil	70.3%	62.1%
Jiameng Zhang	263,787,962 <sup>1</sup>	Nil	70.3%	62.1%
Jiashun Zhang	263,787,962 <sup>1</sup>	Nil	70.3%	62.1%
Andrew Smith	Nil	Nil	Nil	Nil
Ben Meikle	Nil	Nil	Nil	Nil
Andrew Plympton	Nil	Nil	Nil	Nil

1. Shui-Chiao Chang holds a direct 40% interest in Chou Qin International Co., Ltd, and Jiameng Zhang holds a direct 60% interest in Chou Qin International Co., Ltd. Chou Qin International Co., Ltd holds 234,804,834 Shares. Jiashun Zhang holds a direct 100% interest in Meng Shun Da Group Co., Ltd, which in turn holds 15,321,477 Shares. Chia-Ta Chang holds a direct 100% interest in Wanjia Global Limited which in turn holds 13,661,651 Shares. As stated in Section 2.1.7, Mr Chang, Mr Shui-Chiao Chang, Mr Jiameng Zhang, Mr Jiashun Zhang and Mr Chia-Ta Chang are associates of one another as they propose to act in concert with each other with respect to the Company's affairs. Accordingly, Mr Shui-Chiao Chang, Mr Jiameng Zhang, Mr Jiashun Zhang and Mr Chia-Ta Chang are deemed to have a relevant interest in each other's Shares for the purposes of the Corporations Act.

### 7.3.5 DIRECTORS' EMPLOYMENT AGREEMENTS

The Company has entered into an employment agreement with Jiameng Zhang under which Mr Zhang is appointed as Managing Director and Chief Executive Officer (CEO) of the Company. The appointment took effect on 9 February 2015 and is terminable on six months' notice by either party. On termination Mr Zhang is subject to a restraint restricting him from being directly or indirectly concerned with a competing business of the Company for a period of 12 months and from soliciting any of the Company's clients, suppliers or customers or engaging or employing any employees, also for a period of 12 months. All intellectual property created while employed with the Company is expressed to be the property of the Company and Mr Zhang assigns any such intellectual property to the Company. Under the agreement Mr Zhang is entitled to a salary of \$60,000 per annum to be reviewed annually. In addition, Mr Zhang is entitled to be reimbursed for expenses reasonably incurred by him in the course of his employment. As a result of Mr Jiameng Zhang's appointment as Executive Director pursuant to clause 13.19 of the constitution, Mr Zhang will not be subject to the usual requirement of directors to stand for re-election in accordance with the rotation of directors requirements. The employment agreement is otherwise on standard terms.

The Company has entered into an employment agreement with Jiashun Zhang under which Mr Zhang is appointed as Chief Operations Officer (COO) of the Company. The appointment took effect on 9 February 2015 and is terminable on six months' notice by either party. On termination Mr Zhang is subject to a restraint restricting him from being directly or indirectly concerned with a competing business of the Company for a period of 12 months and from soliciting any of the Company's clients, suppliers or customers or engaging or employing any employees, also for a period of 12 months. All intellectual property created while employed with the Company is expressed to be the property of the Company and Mr Zhang assigns any such intellectual property to the Company. Under the agreement Mr Zhang is entitled to a salary of \$55,000 per annum to be reviewed annually. In addition, Mr Zhang is entitled to be reimbursed for expenses reasonably incurred by him in the course of his employment. As a result of Mr Jiashun Zhang's appointment as Executive Director pursuant to clause 13.19 of the constitution, Mr Zhang will not be subject to the usual requirement of directors to stand for re-election in accordance with the rotation of directors requirements. The employment agreement is otherwise on standard terms.

Each other member of the XPD Group's key management is employed under individual employment agreements on terms considered standard in the PRC.



## 7.4 CORPORATE GOVERNANCE

This Section 7.4 summarises the key corporate governance policies and practices adopted by the Company, and outlines how the Board will oversee the management of the Company's business. Details of the Company's key policies and practices and the charters for the Board and each of its committees are available at [www.xpdsoccer.com.au](http://www.xpdsoccer.com.au). The Board monitors the operational and financial position and performance of the Company and oversees its business strategy, including approving the strategic goals of the Company. The Board is committed to maximising performance, generating appropriate levels of Shareholder value and financial return, and sustaining the growth and success of the Company.

In conducting business with these objectives, the Board is committed to ensuring that the Company is properly managed to protect and enhance Shareholder interests, and that the Company, its Directors, officers and employees operate in an appropriate environment of corporate governance. Accordingly, the Board has created a framework for managing the Company, including adopting relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for the Company's business and which are designed to promote the responsible management and conduct of the Company. Details of the Company's corporate governance policies are set out below.

### 7.4.1 BOARD COMPOSITION

#### 7.4.1.1 BACKGROUND

The Board of Directors comprises four non-executive Directors, including the Chairman, and two executive Directors. Detailed biographies of the Directors are provided in 7.1.

The Board of the Company (the Board) considers a non-executive Director to be an independent Director who is independent of Management and free of any business or other relationship that could materially interfere with or reasonably be perceived to interfere with the exercise of their independent and unfettered judgement. The Board will consider the materiality of any given relationship on a case by case basis. The Board regularly reviews the independence of each Director in light of information disclosed by each Director to the Board.

The Board considers that Andrew Smith, Ben Meikle and Andrew Plympton are free from any business or any other relationship that could materially interfere with, or reasonably be perceived to interfere with, the independent exercise of their judgement and are all able to fulfill the role of an independent Director for the purposes of the ASX Recommendations. With respect to Ben Meikle, the Directors have noted his employment relationship with BBY Limited (the Lead Manager). Under the agreement with BBY Limited summarised in Section 9.1, BBY Limited will receive up to 1.875 million Broker Options and various other payments for its services in relation to the Offer. The Company understands, however, that Mr Meikle does not, and will not, have any direct or indirect interest in these Broker Options or payments. Further, the agreement provides that BBY Limited may provide further services to the Company following its listing. Notwithstanding this, and following consultation with Mr Meikle and BBY Limited, the Directors do not consider that Mr Meikle's relationship with BBY Limited will materially affect his independence as a Director.

### 7.4.2 BOARD CHARTER

The Board has adopted a written charter to provide a framework for the effective operation of the Board, which sets out:

- the Board's composition and process;
- the Board's roles and responsibilities;
- the relationship and interaction between the Board and Management; and
- the authority delegated by the Board to Management and Board Committees.

The Board's role is to:

- represent and serve the interests of Shareholders by overseeing and appraising the Company's strategies, policies and performance. This includes overseeing the financial and human resources the Company has in place to meet its objectives and reviewing management performance;
- protect and optimise the Company performance and build sustainable value for Shareholders in accordance with any duties and obligations imposed on the Board by law and the Company's Constitution and within a framework of prudent and effective controls that enable risk to be assessed and managed;
- set, review and ensure compliance with the Company's values and governance framework (including establishing and observing high ethical standards); and
- ensure Shareholders are kept informed of the Company's performance and major developments affecting its state of affairs.

The management function is conducted by, or under the supervision of, the CEO as directed by the Board (and by other officers to whom the management function is properly delegated by the CEO). Management must supply the Board with information in a form, timeframe and quality that will enable the Board to discharge its duties effectively.

Review of the performance of the Board is delegated to the Nomination Committee. The Board has established formal practices to evaluate the performance of the Board, committees, non-executive directors, the Chief Executive Officer, the Chief Financial Officer, and senior management. Details of these practices are described in the Corporate Governance Plan available on the Company's website. No formal performance evaluation of the Board, individual directors of senior management took place during the year.

### **7.4.3 BOARD COMMITTEES**

The Board may from time to time establish appropriate committees to assist in the discharge of its responsibilities. The Board has established the Audit and Risk Management Committee, and the Remuneration and Nomination Committee.

Other committees may be established by the Board as and when required. Membership of Board committees will be based on the needs of the Company, relevant legislative and other requirements and the skills and experience of individual Directors.

#### **7.4.3.1 AUDIT AND RISK MANAGEMENT COMMITTEE**

Under its charter, this committee must have at least three members, a majority of whom must be independent and all of whom must be Non-Executive Directors. The Committee must also have an independent Chairman who is not the Chairman of the Board. The Audit and Risk Management Committee is to assist the Board in carrying out its accounting, auditing and financial reporting responsibilities, including:

- overseeing the Company's relationship with the external auditor and the external audit function generally;
- overseeing the preparation of the financial statements and reports;
- overseeing the Company's financial controls and systems; and
- managing the process of identification and management of financial risk.

Currently, the members of the Audit and Risk Management Committee are Andrew Smith, Ben Meikle and Andrew Plympton, with Andrew Smith being the Chair of the Committee.

#### **7.4.3.2 REMUNERATION AND NOMINATION COMMITTEE**

Under its charter, the Remuneration and Nomination Committee must have at least three members, a majority of whom (including the Chairman) must be independent Directors and all of whom must be nonexecutive Directors. Currently, the members of the Remuneration and Nomination Committee are Andrew Smith, Ben Meikle and Andrew Plympton, with Ben Meikle being the Chair of the Committee.

The role of the Remuneration and Nomination Committee is to, among other things, support and advise the Board in fulfilling its responsibilities to shareholders by:

- (a) reviewing and approving the executive remuneration policy to enable the Company to attract and retain executives and Directors who will create value for shareholders;
- (b) ensuring that the executive remuneration policy demonstrates a clear relationship between key executive performance and remuneration;
- (c) maintaining a Board that has an appropriate mix of skills and experience to be an effective decision-making body; and
- (d) ensuring that the Board is comprised of Directors who contribute to the successful management of the Company and discharge their duties having regard to the law and the highest standards of corporate governance..

## **7.4.4 CORPORATE GOVERNANCE POLICIES**

### **7.4.4.1 CONTINUOUS DISCLOSURE POLICY**

Once listed on ASX, the Company will be required to comply with the continuous disclosure requirements of the ASX Listing Rules and the Corporations Act. This policy sets out information disclosures and relevant procedures to ensure compliance with these obligations. Continuous disclosure announcements will be made available on the ASX website and the Company's website at [www.xpdsoccer.com.au](http://www.xpdsoccer.com.au).

### **7.4.4.2 SECURITIES TRADING POLICY**

The Company has adopted a policy for the sale and purchase of its securities. This policy details and explains the relevant Corporation Act provisions applicable to inside trading and imposes constraints on directors and senior executives of the Company dealing in securities of the Company. It also imposes disclosure requirements on Directors.

Under the Company's Securities Trading Policy, a Director, executive or other employee must not trade in any securities of the Company at any time when they are in possession of unpublished, price-sensitive information in relation to those securities.

In addition, Directors and senior executives may not trade in securities during designated "Blackout Periods" without the prior written consent from the Board or Chairman in the circumstances of "severe financial hardship" or other exceptional circumstances. The "Blackout Periods" are:

- within the period of one (1) month prior to the release of annual or half yearly results; and
- if there is in existence price sensitive information that has not been disclosed because of an ASX exception.

Before commencing to trade, a Director or senior executive must obtain the approval of the Chairman (in the case of a Director) or the Chief Executive Officer, Chief Financial Officer or Chairman (in the case of a senior executive) of their intention to do so.

As required by the ASX Listing Rules, the Company will notify the ASX of any transaction conducted by a Director in the securities of the Company and will follow the same requirements for the ASX, when applicable.

### **7.4.4.3 CODE OF CONDUCT**

The Company has in place a code of conduct which aims to encourage appropriate standards of behaviour for directors, officers, employees and contractors. All are expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. The Directors are subject to additional code of conduct requirements.

### **7.4.4.4 COMMUNICATION WITH SHAREHOLDERS**

The Company has adopted a shareholder communication strategy to set out the Company's policy for communicating with its shareholders. The purpose of the policy is to ensure the Company deals fairly, transparently and promptly with its current and prospective shareholders, encourages and facilitates active participation by shareholders at shareholder meetings and deals promptly with shareholder enquiries. Information will be communicated to Shareholders through the lodgement of all relevant financial and other information with ASX and publishing information on the Company's website [www.xpdsoccer.com.au](http://www.xpdsoccer.com.au).

### **7.4.4.5 RISK MANAGEMENT PROGRAMME**

The Company's primary objective in relation to risk management is to ensure that risks facing the business are appropriately managed.

The Board and senior management are committed to managing risks in order to both minimise uncertainty and to maximise its business opportunities. The function and responsibility for maintaining the Company's risk management systems is delegated to the Company's Audit and Risk Committee.

Further information regarding the risk management programme can be found in the Corporate Governance Plan available on XPD's website [www.xpdsoccer.com.au](http://www.xpdsoccer.com.au).

### 7.4.5 ASX CORPORATE GOVERNANCE PRINCIPLES

The Board has evaluated XPD's current corporate governance policies and practices in light of the ASX Corporate Governance Principles. The Board considers that the Company generally complies with the ASX Corporate Governance Principles and, where the Company does not comply, this is primarily due to the current relative size and nature of the Company. Comments on compliance and departures are set out below. The Company acknowledges that it is required to provide a statement in future annual reports disclosing the extent to which the Company has followed the ASX Corporate Governance Principles.

Principal No.	Recommendation	Compliance	Particulars of non-compliance & if not why not
<b>1. Lay a solid foundation for management and oversight</b>			
1.1	Companies should disclose: <ul style="list-style-type: none"> <li>the respective roles and responsibilities of its board and management; and</li> <li>those matters expressly reserved to the board and those delegated to management.</li> </ul>	Complies	The Board's responsibilities are set out in the Company's Board Charter. XPD's Board Charter is set out in the Corporate Governance Policy. The Board Charter discloses the specific responsibilities of the Board and provides that the Board shall delegate responsibility for the day-to-day operations and administration of XPD to the Executive Director.
1.2	Companies should: <ul style="list-style-type: none"> <li>undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and</li> <li>provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.</li> </ul>	Complies	The Board's responsibilities in relation to director appointments are set out in the Company's Board Charter. XPD's Board Charter is set out in the Corporate Governance Policy. Appropriate checks, including bankruptcy checks and police checks are part of the listing process. Directors have not yet been elected or re-elected at an Annual General Meeting of the Company.
1.3	Companies should have a written agreement with each director and senior executive setting out the terms of their appointment	Complies	XPD has entered into such agreements with each Director and senior executive
1.4	The Company Secretary must be directly accountable to the Board, through the Chair on all matters to do with the proper functioning of the board	Complies	The Company Secretary is accountable to the Board
1.5	Companies should disclose the entity's Diversity Policy which includes requirements for the Board to set measurable objectives for achieving gender diversity.	Complies	The Board has established a Diversity Policy. The Diversity Policy is set out in the Corporate Governance Policy. Disclosure of the measurable objectives will be provided in the Company's annual report.
1.6	A listed entity should: <ul style="list-style-type: none"> <li>have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and</li> <li>disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</li> </ul>	Complies	The performance evaluation of Board members occurs by way of: <ul style="list-style-type: none"> <li>the Chairperson meeting with each non-executive directors separately to discuss individual performance and ideas for improvement; and</li> <li>the Board as a whole discussing and analysing its own performance during the year including suggestions for change and improvement.</li> </ul>
1.7	A listed entity should: <ul style="list-style-type: none"> <li>have and disclose a process for periodically evaluating the performance of its senior executives; and</li> <li>disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</li> </ul>	Complies	The Board will meet annually to review the performance of executives. The senior executives' performance is assessed against the performance of the Company as a whole.

Principal No.	Recommendation	Compliance	Particulars of non-compliance & if not why not
<b>2. Structure the Board to add value</b>			
2.1	The board of a listed entity should have a nomination committee.	Complies	<p>The Board has established a Nomination and Remuneration Committee. The function of the Nomination and Remuneration Committee is set out in the Nomination and Remuneration Committee Charter. XPD's Nomination and Remuneration Committee Charter is set out in the Corporate Governance Policy. The Nomination and Remuneration Committee is chaired by Ben Meikle, an independent director.</p> <p>The Nomination and Remuneration Committee consists of three independent Non-Executive Directors.</p> <p>The Company has disclosed in this Prospectus the names and relevant qualifications and experience of the members of the Nomination and Remuneration Committee.</p> <p>The Company will disclose in its Annual Report details of the number of times the committee has met during a reporting period and the individual attendances of the members at those meetings.</p>
2.2	A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	Does not comply	<p>The Board currently does not have a skills matrix. The Board will consider completing and disclosing a board skills matrix setting out the mix of skills that the Company seeks.</p> <p>Given the size and nature of the Company, the Board considers that the current Board has the requisition mix of skills required for such a Company.</p>
2.3	A listed entity should disclose the names of the directors considered by the board to be independent directors and the length of service of each director.	Complies	<p>The following are independent Directors of the company:</p> <ul style="list-style-type: none"> <li>• Mr Andrew Smith</li> <li>• Mr Ben Meikle</li> <li>• Mr Andrew Plympton</li> </ul> <p>Each independent Director has recently joined the Board,</p>
2.4	A majority of the board should be independent directors.	Complies	<p>The Board currently has an even split of independent and non-independent Directors. The Board seeks to nominate persons for appointment to the Board who have the qualification, experience and skills to augment the capabilities of the Board.</p> <p>Given the size and nature of the Company, the Board considers the composition of the Board is appropriate at this stage.</p>

Principal No.	Recommendation	Compliance	Particulars of non-compliance & if not why not
2.5	The chair of the Board should be an independent director and should not be the same person as the Chief Executive Officer.	Does not comply	<p>The Chairman Shui-Chiao Chang is not independent as he is the founder of XPD Group's business and holds interests in XPD. But Shui-Chiao Chang is a non-executive Director. The Board believes that Shui-Chiao Chang is the most appropriate person to act as the Chairman and lead the Board given his extensive experience in the sportswear industry in China. Further, Shui-Chiao Chang has unmatched and extensive knowledge of XPD Group's operations and important business relationships that XPD Group as a whole benefits from.</p> <p>The Chairperson and Chief Executive Officer role are held by different individuals.</p> <p>Given the size and nature of the Company, the Board considers that it is appropriate that the Chairman is not independent.</p>
2.6	Companies should have a program for inducting new directors and providing appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their roles as directors effectively.	Complies	A formal induction is provided to all new directors, including meetings with the Chief Executive Officer, Chairman and information on key corporate and Board policies, and visits to the Company's operations.
<b>3. Act ethically and responsibly</b>			
3.1	<p>A listed entity should:</p> <ul style="list-style-type: none"> <li>• establish a code of conduct for its directors, senior executives and employees; and</li> <li>• disclose the code or a summary of the code or a summary of it.</li> </ul>	Complies	The Board has established a Code of Conduct, which is set out in the Corporate Governance Policy. The Code of Conduct provides that the Directors will act with honesty and integrity, will avoid conflicts of interest, protect confidential and proprietary information and treat others equitably and with professionalism courtesy and respect.

Principal No.	Recommendation	Compliance	Particulars of non-compliance & if not why not
<b>4. Safeguard integrity in financial reporting</b>			
4.1	<p>The board should establish an audit committee which:</p> <ul style="list-style-type: none"> <li>• consists of at least three members all of whom are non-executive directors, the majority of whom are independent directors;</li> <li>• is chaired by an independent director who is not the chairman of the Board.</li> </ul> <p>The board must disclose the charter of the audit committee, the relevant qualifications and experience of the members of the committee and the number of times the committee has met during a reporting period and the individual attendances of the members at those meetings.</p>	Complies	<p>The Board has established an Audit and Risk Management Committee.</p> <p>The function of the Audit and Risk Management Committee is set out in the Audit and Risk Management Committee Charter. XPD's Audit and Risk Management Committee Charter is set out in the Corporate Governance Policy.</p> <p>The Audit and Risk Management Committee is chaired by Andrew Smith, an independent director who is not Chairman of the Board.</p> <p>The Audit and Risk Management Committee consists of three independent Non-Executive Directors.</p> <p>The Company has disclosed in this Prospectus the names and relevant qualifications and experience of the members of the Audit and Risk Management Committee.</p> <p>The Company will disclose in its Annual Report details of the number of times the committee has met during a reporting period and the individual attendances of the members at those meetings.</p>
4.2	<p>Before approving a company's financials, the Board must receive declarations from the Company's Chief Executive Officer and Chief Financial Officer that in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.</p>	Will comply	<p>Prior to approving the Annual Accounts and Half Yearly Accounts, the Board must receive the necessary declaration from the Chief Executive Officer and Chief Financial Officer.</p>
4.3	<p>Companies must ensure that its external auditor attends its Annual General Meeting and is available to answer questions from security holders relevant to the audit.</p>	Will comply	<p>XPD's auditor will attend its Annual General Meeting to answer questions.</p>

Principal No.	Recommendation	Compliance	Particulars of non-compliance & if not why not
<b>5. Make timely and balanced decisions</b>			
5.1	<p>A listed entity should:</p> <ul style="list-style-type: none"> <li>• have a written policy for complying with its continuous disclosure obligations under the ASX Listing Rules; and</li> <li>• disclose that policy or a summary of it.</li> </ul>	Complies	The Board has adopted a Continuous Disclosure Policy which is set out in the Corporate Governance Policy. XPD respects the rights of its shareholders and to facilitate the exercise of those rights, the Company is committed to communicating effectively with shareholders, providing shareholders with ready access to balanced and understandable information about the Company and corporate proposals and making it easier for shareholders to participate in general meetings of the Company.
<b>6. Respect the rights of shareholders</b>			
6.1	A listed entity should provide information about itself and its governance to investors via its website.	Complies	XPD has established on its website <a href="http://www.xpdsoccer.com.au">www.xpdsoccer.com.au</a> , a corporate governance landing page from where all relevant corporate governance material can be accessed.
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	Complies	The Company's Shareholders Communications Policy aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs.
6.3	A listed entity should disclose the policies it has in place to facilitate and encourage participation at meetings of shareholders.	Complies	The Company's Shareholders Communication Policy is designed to ensure that shareholders are informed of all relevant developments. XPD intends to establish on its website a facility for all shareholder communications.
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	Complies	Through the Company's registry services provider, shareholders will be able to communicate with the Company electronically with respect to matters affecting their shareholding.



Principal No.	Recommendation	Compliance	Particulars of non-compliance & if not why not
<b>7. Recognise and manage risk</b>			
7.1	<p>The board should establish a risk management committee which:</p> <ul style="list-style-type: none"> <li>• has at least 3 members, the majority of whom are independent directors;</li> <li>• is chaired by an independent director.</li> </ul> <p>The board must disclose the charter of the risk management committee, members of the risk management committee, the number of times the committee has met during a reporting period and the individual attendances of the members at those meetings.</p>	Complies	<p>The Board has established an Audit and Risk Management Committee. The function of the Audit and Risk Management Committee is set out in the Audit and Risk Management Committee Charter.</p> <p>XPD's Audit and Risk Management Committee Charter is set out in the Corporate Governance Policy.</p> <p>The Audit and Risk Management Committee is chaired by Andrew Smith, an independent director who is not Chairman of the Board.</p> <p>The Audit and Risk Management Committee consists of three independent Non-Executive Directors.</p> <p>The Company has disclosed in this Prospectus the names and relevant qualifications and experience of the members of the Audit and Risk Management Committee.</p> <p>The Company will disclose in its Annual Report details of the number of times the committee has met during a reporting period and the individual attendances of the members at those meetings.</p>
7.2	<p>The board should:</p> <ul style="list-style-type: none"> <li>• review the company's risk management framework at least annually; and</li> <li>• disclose whether such review has taken place.</li> </ul>	Will comply	<p>The Board will review the Risk Management Policy at least annually and disclose whether such a review has been undertaken.</p>
7.3	<p>A listed entity should disclose;</p> <ul style="list-style-type: none"> <li>• their internal audit function, how the function is structured and what role it performs; or</li> <li>• if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.</li> </ul>	Will comply	<p>The Company will disclose its internal audit function.</p>
7.4	<p>A listed entity should disclose whether they have any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.</p>	Complies	<p>The Company intends to disclose the relevant information in the future annual reports.</p>

Principal No.	Recommendation	Compliance	Particulars of non-compliance & if not why not
<b>8. Remunerate fairly and responsibly</b>			
8.1	<p>The board should establish a remuneration committee which:</p> <ul style="list-style-type: none"> <li>• has at least 3 members, the majority of whom are independent directors;</li> <li>• is chaired by an independent director.</li> </ul> <p>The board must disclose the charter of the remuneration committee, members of the remuneration committee, the number of times the committee has met during a reporting period and the individual attendances of the members at those meetings.</p>	Complies	<p>The Board has established a Nomination and Remuneration Committee.</p> <p>The function of the Nomination and Remuneration Committee is set out in the Nomination and Remuneration Committee Charter set out in the Corporate Governance Policy.</p> <p>The Nomination and Remuneration Committee is chaired by Ben Meikle, an independent director.</p> <p>The Nomination and Remuneration Committee consists of three independent Non-Executive Directors.</p> <p>The Company has disclosed in this Prospectus the names and relevant qualifications and experience of the members of the Nomination and Remuneration Committee.</p> <p>The Company will disclose in its Annual Report details of the number of times the committee has met during a reporting period and the individual attendances of the members at those meetings.</p>
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors from that of executive directors and other senior executives.	Will comply	<p>The Company will distinguish the structure of Non-Executive Directors' remuneration from that of Executive Directors and senior executives in compliance with this recommendation in future annual reports.</p>
8.3	Companies which have equity-based remuneration schemes should have and disclose a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme.	Complies	<p>The Company does not have an equity-based remuneration scheme.</p>

# 8. Risks



## 8 RISKS

As with any share investment, there are risks involved. This section identifies the major areas of risk associated with an investment in the Company, but should not be taken as an exhaustive list of the risk factors to which the Company and its shareholders are exposed. Potential investors should read the entire Prospectus and consult their professional advisor before deciding whether to apply for Shares.

### 8.1 SPECIFIC COMPANY RISKS

#### 8.1.1 DISTRIBUTORSHIP MODEL

XPD Group sells its XPD brand products to independent third-party distributors on a wholesale basis. The distributors sell products to end consumers through retail outlets operated either by themselves or by third party retailers with whom distributors subcontract. XPD Group does not own or operate any retail outlets and does not enter into any contractual relationship with the third party retail outlet operators except contracts with distributors. XPD Group expects to continually rely on distributors for a substantial portion of its sales in the near future. As such, the sales performance of its distributors and the ability of its distributors to expand their business and sales networks are crucial to the future growth of XPD Group's business. Furthermore, XPD Group generally enters into distribution agreements with distributors for a term of one year, renewable annually upon mutual agreement. If XPD Group fails to retain existing distributors or to attract new distributors, the Group's sales network and its business, results of operations and financial performance may be materially and adversely affected.

#### 8.1.2 CUSTOMER CONCENTRATION RISK

There is a concentration of sales to a number of key and large customers over the historical period. During 2011, 2012, 2013 and the half-year ended 30 June 2014, revenue from top 10 customers amount to 64% (\$8.6 million), 60% (\$12.8 million), 54% (\$29.7 million) and 53% (\$15.9 million) of total sales respectively. If XPD Group were to lose certain key customers without replacing them with new key customers then this may have a negative impact on XPD Group's sales and, therefore, profitability.

#### 8.1.3 COMPLETION OF THE PRODUCTION FACILITY

As discussed in Section 4.15, XPD Group has a 26% equity interest in Yuanlong which, at the Prospectus Date, is nearing completion of a production facility at the Yuanlong Property. The facility is expected to be completed in the middle of 2015. XPD Group has entered into an offer to lease with Yuanlong under which XPD Group will lease a portion of the premises which will enable XPD Group to increase its production.

If completion of the production facility is significantly delayed, or does not occur at all, then this may limit XPD Group's ability to increase its production capacity and therefore its potential sales. In addition, a significant delay to completion, or failure to complete, is likely to have a negative impact on the value of XPD Group's equity interest in Yuanlong. The Directors note, however, that they are not aware of any circumstances which may lead to a significant delay to, or failure of, completion occurring.

#### 8.1.4 OPERATIONS IN CHINA

XPD Group's business is substantially operated in China, such that its operations and financial performance will be subject to:

- economic, political and social conditions or Government policies in China
- the risk of political instability in China;
- the risk of economy slowdown in China;
- uncertainties with respect to the China legal system;
- the possible imposition of restrictive trade regulations and tariffs;
- unexpected changes in regulatory requirements in China; and
- unexpected changes in monetary policy in China.

#### 8.1.5 FOREIGN EXCHANGE

XPD Group has revenues, costs, and expenses denominated in RMB. The Company reports its consolidated financial results in Australian dollars. Accordingly, the Company's reported financial performance may be influenced by fluctuations in exchange rates between the Australian dollar and RMB.

### **8.1.6 CREDIT RISK**

XPD Group has offered revolving credit to its distributors. This revolving credit provides for a maximum credit limit that may be outstanding at any one time. If one or more major distributors were to default on payments for their purchases in a timely manner or at all, XPD Group's operation and financial condition may be adversely affected.

### **8.1.7 RELIANCE ON MANAGEMENT TEAM**

Executive Directors play a key role in setting the XPD Group's strategic direction and managing its business. The XPD Group is dependent on the continued service and performance of its Executive Directors. The XPD Group may be unable to attract or retain suitable replacements if an unexpected departure or loss of either of its Executive Directors occurred. To recruit and retain suitable replacements, the XPD Group may also incur significant additional costs. This could have a material adverse effect on the business, its financial performance and operations.

### **8.1.8 MANAGING GROWTH**

XPD Group has experienced significant growth over the past few years. XPD Group intends to expand its operations, which include, among other things, expanding retail networks and increasing production capacities. This expansion plan may result in an increased level of responsibility for management personnel and require additional operational and financial resources to support it. If XPD Group is unable to manage its expected growth successfully, it may not be able to take advantage of market opportunities, satisfy customer requirements, execute its business plan or respond to competitive pressures. If XPD Group is unable to manage the demands placed onto management, its business, operations, and financial performance may be materially adversely affected.

### **8.1.9 DAMAGE TO THE BRAND**

The XPD brand is important to XPD Group's business. The perception of the brand could be adversely impacted by a number of factors, including:

- excessive use of price reductions;
- product quality issues;
- injury caused by XPD products;
- negative press;
- poor customer services;
- breach of any applicable laws and regulation; and
- high profile employee-related issues.

Significant deterioration of the XPD brand could have a material adverse effect on the XPD Group's business, its financial performance and operations.

### **8.1.10 COMPETITION**

The Chinese sportswear industry in which XPD Group operates is subject to increasing domestic and global competition. Industry players compete with one another based on, among other things, brand loyalty, product variety, product design, product quality and price. There is no assurance that XPD Group will be able to compete with others in the future in light of the changing and competitive market environment. Increased competition in the industry may pose challenges to XPD Group's market share and reduce its sales, prices and margins and materially and adversely affect its business, operation and financial performance.

### **8.1.11 CONTRACT MANUFACTURER**

XPD Group relies on contract manufacturers to manufacture a portion of its products. XPD Group generally does not require its contract manufacturers to allocate a fixed amount of production capacity to it, and XPD Group does not have any long-term agreements with any contract manufacturers. It is possible that other customers of contract manufacturers are of a larger scale and are better financed than XPD Group is, or have long-term agreements with them. Accordingly, contract manufacturers may allocate their production capacities to these customers during times of production capacity shortages. Any shortfall in such available production capacity could significantly affect XPD Group's ability to deliver its products in a timely fashion, which may result in a loss of turnover and may damage its relationships with customers. In addition, if the cost of contract manufacturing increases and XPD Group is unable to pass on such higher costs to its customers, its profit margins may be significantly reduced, thereby adversely affecting its financial condition and operation.

### 8.1.12 BORROWING RISK

As at the date of this Prospectus, XPD Group has bank loans totalling RMB 36.2 million (approximately \$7.4 million) with each having terms of approximately 12 months and expiring on various dates. XPD Group is not in default of any of these loans and it has no reason to believe that these loans will not be renewed when they expire. However, there are no assurances that these loans will be renewed on terms favourable to XPD Group or at all.

The loans are also secured by guarantees given by the Company's Non-Executive Chairman (and founder of Chaoda), Shui-Chiao Chang, as well as Mr Chang's brother, Shaohua Zhang, Mr Chang's wife, Yanyan Cai, and other third parties (see Section 8.5 for further details of the third party guarantees). XPD Group intends to seek a renewal of these loans when they expire and at the same time seek a release of the guarantees given by Mr Chang and others. It is likely that in order for the existing guarantees to be released, the Group will be required to provide some form of replacement security. There are no assurances that these loans will be renewed on this basis, or on terms that are favourable to XPS Group (if at all), including with respect to any replacement security.

Additionally, if a guarantor becomes insolvent or bankrupt, then the Group will likely be required to provide a replacement security. There is no assurance that the Group will be able to provide such a replacement security on favourable terms to the Group or at all. If the Group is required to provide any replacement securities (including to facilitate the release of the existing guarantors) then this will likely have a negative impact on the terms on which the Group is able to obtain further debt finance, if such finance can be obtained.

### 8.1.13 UNEXPECTED CHANGE IN CONSUMER SPENDING PATTERNS

In the sportswear industry, consumer spending patterns are affected by various factors, including local economic conditions, uncertainties about future economic prospects, interest rates, taxation, and shifts in discretionary spending towards other goods and services. Unexpected changes in consumer spending patterns may adversely affect XPD Group's business, its operation and financial performance.

### 8.1.14 FUTURE CAPITAL NEEDS

Further funding of projects may be required to support XPD Group's ongoing activities and operations. There can be no assurance that such funding will be available on satisfactory terms or at all. Any inability to obtain funding will adversely affect XPD Group's business, its operation and financial performance.

### 8.1.15 UNEXPECTED INCREASE IN OPERATING AND OTHER EXPENSES

XPD Group's operating and other expenses could increase without a corresponding increase in revenue. A number of factors which could increase operating and other expenses include unforeseen increases in:

- distribution costs;
- advertising and promotion costs;
- costs associated with XPD being listed;
- costs of production including raw materials costs and labor costs which cannot be fully passed through to customers;
- property taxes and other statutory charges;
- tax charges; and
- the rate of general inflation.

XPD Group's profitability will be reduced if there are increases in operating and other expenses that exceed or are not in line with increases in XPD Group's revenue. This would have a material adverse effect on XPD Group's business, its financial performance and operation.

### 8.1.16 PRODUCT LIABILITY

XPD Group may be exposed to product liability claims, if its product is determined to cause harm to consumers. As a result, XPD Group may have to expend significant financial and managerial resources to defend against such claims. Such product liability claim risks will increase as legal concepts in product liability begin to develop and mature in China. If a claim is successfully made against XPD Group, it may be fined or sanctioned and its reputation and brand may be negatively impacted. That could materially and adversely affect XPD Group's business, its financial performance and operation.

### 8.1.17 INSURANCE COVERAGE

XPD Group faces various risks in connection with its business and may lack adequate insurance coverage or may not have the relevant insurance coverage. XPD Group maintains certain types of insurance coverage for its operation. However, as is typical in China, XPD Group does not maintain product liability insurance, business interruption insurance or third-party liability insurance against claims for property damage, personal injury and environmental liabilities. If XPD Group incurs substantial losses or liabilities and its insurance coverage is unavailable or inadequate to cover such losses or liabilities, its operation and financial performance may be adversely affected.

### **8.1.18 CHANGES IN CONSUMER PREFERENCES**

The success and popularity of XPD brand sportswear products depend, in part, upon its ability to identify consumer preferences and design products that appeal to the mass market. Fashion trends and consumer preferences, however, change frequently. There is no assurance that XPD Group can anticipate and respond in a timely manner to changes in fashion trends and consumer preferences. Any failure by XPD Group to correctly judge customer preferences, or convert market trends into appealing products offerings on a timely basis, may result in lower revenue and margins and could adversely impact its financial performance.

### **8.1.19 ADVERTISING, MARKETING OR SALES PROMOTION FAILURE**

XPD Group has been successful in marketing and promoting its brands. However, there is a risk that one or more marketing or advertising campaigns may be unsuccessful, which may adversely impact margins, reduce profitability and have an adverse effect on XPD Group's future financial condition.

### **8.1.20 SUPPLY OF RAW MATERIALS**

XPD Group relies on third-party suppliers to provide raw materials for production. XPD Group has no long-term contracts with its suppliers. There is no assurance that there will not be a significant disruption in the supply of raw materials from current suppliers or, in the event of a disruption, that XPD Group would be able to locate alternative suppliers of materials of comparable quality at an acceptable price, or at all. Any disruption in supply of raw materials from suppliers may materially and adversely affect XPD Group's business, results of operations and financial condition.

### **8.1.21 CONCENTRATION OF OWNERSHIP SHARES**

Immediately after the Offer, the Chou Qin International Co.,Ltd and Meng Shun Da Group Co.,Ltd will collectively beneficially own approximately 58.8% of the Company's issued capital assuming that the Maximum Subscription is raised. Mr Shui-Chiao Chang and Mr Jiameng Zhang are shareholders and directors in Chou Qin International Co.,Ltd. Mr Jiashun Zhang is the sole shareholder and director of Meng Shun Da Group Co.,Ltd. They are deemed to be persons acting in concert because of their family relationships among Shui-Chiao Chang, Jiameng Zhang and Jiashun Zhang. As a result, if they act together, they would exert substantial influence over matters required approvals by the Company's Shareholders, including electing directors, and in doing so they may not act in the best interest of other minority Shareholders. This concentration of ownership may also discourage, delay or prevent a change in control of the Company, which would deprive the Company's Shareholders of an opportunity to receive a premium for their Shares as part of a sale of the Company and might reduce the price for the Company's Shares.

### **8.1.22 REGULATORY APPROVALS**

All regulatory approvals for the continual operation of the XPD Group's business in China have been obtained, and the XPD Group is not aware of any circumstances which might give rise to the cancellation or suspension of any of those approvals. If any of those approvals are cancelled or suspended, the XPD Group's business may be adversely affected.

### **8.1.23 GOVERNMENT CONTROL OF CURRENCY CONVERSION**

The PRC Government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. XPD Group receives all of its revenues in RMB. Under XPD Group's current corporate structure, the Company may rely on dividend payments from Chaoda to fund any cash and financing requirements the Company may have. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange (SAFE), by complying with certain procedural requirements. Therefore, Chaoda is able to pay dividends in foreign currencies to the Company without prior approval from SAFE by complying with certain procedural requirements. However approval from or registration with appropriate government authorities is required where RMB are to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC Government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents the Company from obtaining sufficient foreign currencies to satisfy its foreign currency demands, it may not be able to pay dividends in foreign currencies to the Company's shareholders.

#### **8.1.24 CHINESE LEGAL SYSTEM AND LEGAL RISKS**

XPD Group's operations in China are governed by PRC laws and regulations. The legal system in China is based on written statutes. Since the late 1970s, the Chinese Government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation since then has significantly enhanced the protections afforded to various forms of foreign investments in China. XPD Group's Chinese subsidiary, Chaoda, is a foreign-invested enterprise and is subject to laws and regulations applicable to foreign investment in the PRC. However, as the legal system in China continues to evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit the legal protections available to XPD Group. Further, some regulatory requirements issued by certain Chinese Central Government authorities may not be consistently applied. For example, XPD Group may have to resort to administrative and court proceedings to enforce a law or contract. However, since China administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection in China than in other more developed legal systems. These uncertainties may impede XPD Group's ability to enforce the contracts it has, and will have, entered into with its business partners, customers and suppliers.

Such uncertainties, including the inability to enforce contracts, together with any development or interpretation of China law that is adverse to XPD Group, could materially and adversely affect its business and operations. Furthermore, intellectual property rights and confidentiality protections in China may not be as effective as in more developed countries.

XPD Group cannot predict the effect of future developments in the legal system of China, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof. These uncertainties could limit the legal protections available to XPD Group and other foreign investors. In addition, any litigation in China may be protracted and result in substantial costs and diversion of XPD Group's resources and management attention.

#### **8.1.25 PROTECTION OF INTELLECTUAL PROPERTY RIGHTS**

XPD Group's trademarks and other intellectual property rights are important to its success and competitive position. However, there is no absolute guarantee that third parties will not attempt to infringe XPD Group's intellectual property rights. In addition, XPD Group's business is subject to the risk of third parties counterfeiting its products or otherwise infringing its intellectual property rights. XPD Group may not always be successful in securing protection for its intellectual property rights, in preventing the production and sale of counterfeit products and preventing other infringements of its intellectual property rights. Protections offered by the intellectual property laws in China and other jurisdictions where XPD Group has registered its trademarks and the enforcement of these protections may not be effective. XPD Group may need to resort to litigation in the future to enforce its intellectual property rights. Any such litigation could result in substantial costs and a diversion of its resources, and any judgments XPD Group receives in such litigation may not cover the losses it sustains. XPD Group's failure to protect adequately and enforce its intellectual property rights could have a material adverse effect on its business, results of operations and financial condition.

#### **8.1.26 UTILISATION OF PROCEEDS**

To utilise the proceeds from the Offer in the manner described in this Prospectus, as an offshore holding company of Chaoda, XPD may provide loans to Chaoda or make additional capital contributions to them. Any loans to Chaoda are subject to relevant registration under PRC regulations, and capital contributions must be approved by the PRC Ministry of Commerce or its local counterparts. The Company cannot assure investors that it will be able to obtain these government approvals on a timely basis, if at all, with respect to future capital contributions by it to Chaoda. If XPD Group fails to obtain such approvals, the Company's ability to use the proceeds from this offering as intended will be affected, and this could adversely affect XPD Group's ability to carry out its business strategies and expand its operations in China.



### 8.1.27 PRC ENTERPRISE INCOME TAX LAW

Under the PRC *Enterprise Income Tax Law* (the “EIT Law”) and its implementing rules, both effective from 1 January 2008, an enterprise established outside of the PRC with “de facto management bodies” within the PRC is considered a “resident enterprise” and will be subject to enterprise income tax at the rate of 25% on its worldwide income. The implementing rules define the term “de facto management bodies” as “establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise”, which has been further defined under the *Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies dated 22 April 2009 issued by the State Administration of Taxation* (“Circular 82”). XPD Group may be considered as a “resident enterprise” and may therefore be subject to the enterprise income tax at 25% on its worldwide income, which could significantly increase its tax burden in the future. If XPD Group is treated as a PRC “resident enterprise,” although under the EIT Law and its implementing rules, dividends paid to XPD Group from its Chinese subsidiary, Chaoda, would qualify as “tax-exempted income,” the Company cannot assure investors that such dividends will not be subject to a 10% withholding tax, as the State Administration of Taxation, which enforces the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes and also because the dividends of Chaoda are made to the XPD Group’s Hong Kong subsidiary in the first instance.

In addition, it is uncertain whether, if XPD Group were considered a PRC “resident enterprise,” any dividends to be distributed by it to its non-PRC enterprise shareholders would be subject to a 10% PRC withholding tax and whether any sale of Shares would be subject to a 10% PRC withholding tax. If the Company is required under the EIT Law to withhold such withholding tax with respect to dividends, or if sales of its Shares would be subject to PRC tax, Shareholders’ investment in Shares may be materially and adversely affected.

The PRC Individual Income Tax Law, or the PRC Individual Tax Law, imposes tax at the rate of 20% on dividends and gains realized by overseas individuals who are not domiciled or tax resident in the PRC, to the extent that such dividends or gains are sourced within the PRC. Pursuant to the Individual Tax Law, although the matter is unclear, if XPD Group were considered a PRC resident enterprise, dividends or gains realized by our non-PRC individual shareholders may be treated as income derived from sources within the PRC and may be subject to PRC tax (which in the case of dividends may be required to be withheld) at a rate of 20%.

### 8.1.28 TAX TREATY BENEFITS ON DIVIDENDS RECEIVED FROM PRC

Under the applicable PRC tax laws in effect before 1 January 2008, dividend payments to foreign investors made by foreign-invested enterprises in the PRC, such as Chaoda, were exempt from PRC withholding tax. Under the EIT Law, starting from 2008, dividends paid by a PRC foreign-invested enterprise to its immediate parent company outside the PRC are subject to a 10% withholding tax, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with the PRC that provides for a preferential withholding arrangement. Pursuant to a special tax arrangement between Hong Kong and the PRC, such rate may be lowered to 5% if the PRC enterprise is at least 25% held by a Hong Kong enterprise. In October 2009, the State Administration of Taxation further issued the *Circular on How to Interpret and Recognize the “Beneficial Owner” in Tax Agreements* (“Circular 601”), and certain other related rules. According to Circular 601, non-resident enterprises that cannot provide valid supporting documents as “beneficiary owners” may not be approved to enjoy tax treaty benefits and “beneficial owners” refer to individuals, enterprises or other organizations which are normally engaged in substantive operations. These rules also expressly exclude a “conduit company,” or any company established for the purposes of avoiding or reducing tax obligations or transferring or accumulating profits and not engaged in actual operations such as manufacturing, sales or management, from being a “beneficial owner.” As a result, although Chaoda is currently wholly owned by China Soccer, XPD Group may not be able to enjoy the preferential withholding tax rate of 5% under the tax treaty and therefore be subject to withholding tax at a rate of 10% with respect to dividends to be paid by Chaoda to China Soccer because China Soccer may not qualify as a beneficial owner of Chaoda.

## 8.2 GENERAL RISKS

### 8.2.1 SHARE PRICE

Once listed on ASX, Shares in the Company will be subject to general market risk that is inherent in all securities listed on a stock exchange, and may trade at a price higher or lower than the Offer Price. This may result in fluctuations in its Share price that are not explained by the fundamental operations and activities of XPD Group.

The price at which the Shares trade following the listing will be affected by the financial performance of XPD Group and by external factors unrelated to the operating performance of XPD Group, including movements on international share markets, the level of interest rates and exchange rates, general domestic and international economic conditions, inflation rates, consumer sentiment, commodity prices, changes to government fiscal, monetary taxation or regulatory policies, changes in legislation, and other matters. There is no assurance that the price of the Shares will increase following the commencement of quotation on ASX, even if XPD Group’s earnings increase.

### **8.2.2 ECONOMICS CONDITIONS**

The performance of XPD Group may be significantly affected by changes in economic conditions, and particularly conditions which affect the sportswear industry in China. Changes in economic conditions could affect the ability of XPD Group to operate and could increase its operation costs. Adverse economic conditions, including economic recession, may have a negative impact on XPD Group's ability to raise capital. Factors such as inflation, currency fluctuation, and interest rates have an impact on operating costs, media expenditures and stock market prices. XPD Group's future possible profitability and the market price of its Shares can be affected by these factors, which are beyond the control of XPD Group and its Directors.

### **8.2.3 CHANGES IN LEGISLATION OR REGULATION**

XPD Group is subject to laws and regulations in each of the jurisdictions in which it operates. XPD Group's business, financial performance and operations may be materially adversely affected by changes in laws or regulations that may be introduced concerning property, the environment, superannuation, taxation and the regulation of trade practices and competition, Government Grants and incentive schemes, sportswear industry and retail industry.

### **8.2.4 FORCE MAJEURE RISK**

Events may occur within or outside the markets in which XPD Group operates that could impact upon the global, Australian and Chinese economies, the operations of XPD Group and the price of the Shares. These events include but are not limited to acts of terrorism, an outbreak of international hostilities, fires, pandemics, floods, earthquakes, labor strikes, civil wars, natural disasters, outbreaks of disease, and other man-made or natural events or occurrences that can have an adverse effect on the demand for XPD Group's products and its ability to conduct business. Given XPD Group has only a limited ability to insure against some of these risks, its business, financial performance and operations may be materially adversely affected if any or a combination of the events described above occurs.

### **8.2.5 SHAREHOLDER DILUTION**

In the future, the Company may elect to issue Shares or other securities in connection with fundraisings or acquisitions. While the Company will be subject to the constraints of the ASX Listing Rules regarding the issue of Shares or other securities, Shareholdings may be diluted as a result of such issues of Shares or other securities.

### **8.2.6 ACCOUNTING STANDARDS**

Australian Accounting Standards are issued by the Australian Accounting Standards Board and are not within the control of the Company or its Directors. Any changes to the accounting standards or to the interpretation of those standards may have a material adverse effect on the reported financial performance or financial position of XPD Group.

### **8.2.7 TRADING IN SHARES MAY NOT BE LIQUID**

There is currently no public market through which Shares may be sold. On Completion of the Offer, there can be no guarantee that an active market in the Shares will develop. There may be relatively few potential buyers or sellers of the Shares on ASX at any given time. This may increase the volatility of the market price of the Shares and may prevent investors from acquiring more Shares or disposing of Shares they acquire under the Offer. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for their Shares that is more or less than the price that Shareholders paid for their Shares under the Offer.

# 9. Material Contracts



## 9 MATERIAL CONTRACTS

### 9.1 AGREEMENT WITH BBY LIMITED

The Company has entered into a contract with BBY Limited (BBY) for the provision of Lead Manager services for the Offer (BBY Contract). BBY's role is to assist in advising the Company in relation to the Offer, and to facilitate the marketing, distribution and allocation of the Shares of the Company under the Offer (BBY Services). In exchange for the BBY Services rendered, the Company agree to pay BBY:

- a monthly retainer of \$14,000 (plus GST) for six months;
- a management fee of 1% (plus GST) of the total capital raised in the Offer;
- a selling fee of 5% (plus GST) of the total amount raised through BBY's distribution networks;
- such number of Options that represents 2.5% of the number of Shares issued under the Offer, each with an exercise price of \$0.25 and an expiry date 3 years from issue; and
- for BBY's reasonable out-of-pocket expenses incurred in relation to the Offer.

In addition, if BBY raises \$10 million under the Offer then the Company will pay to BBY \$6,000 per month for a minimum of 12 months.

The Company indemnifies BBY from any claim arising directly or indirectly from the provision of the BBY Services by BBY, subject to standard carve-outs in relation to claims or losses arising from a breach of the BBY Contract by BBY, negligence or misconduct.

### 9.2 DEEDS OF ACCESS, INDEMNITY AND INSURANCE

The Company has entered into Deeds of Access, Indemnity and Insurance with each Director and the Company Secretary which confirm each person's right of access to certain books and records of the Company for a period of seven years after the Director ceases to hold office. This seven year period can be extended where certain proceedings or investigations commence before the seven years expires. The Deeds also require the Company to provide an indemnity for liability incurred as an officer of the Company, to the maximum extent permitted by law.

Pursuant to the Deeds of Access, Indemnity and Insurance, the Company shall arrange and maintain Directors' and Officers' Insurance during each Director's and the Company Secretary's period of office and for a period of seven years after a Director or Company Secretary ceases to hold office. This seven year period can be extended where certain proceedings or investigations commence before the seven years expires.

The Deeds of Access, Indemnity and Insurance are otherwise on terms and conditions considered standard for agreements of this nature in Australia.

### 9.3 YUANLONG OFFER TO LEASE

Under an offer to lease dated 25 December 2014, Yuanlong agrees to lease certain premises (approximately 25,000 square meters in area) of the Yuanlong Property (Premises) to Chaoda after completion of the production facility (see Section 4.15 for further information). The Yuanlong Property is located at Industrial Park, Sui County, Shangqiu City, Henan Province, China.

The offer to lease is an agreement for Chaoda to rent the Premises from Yuanlong for the purpose of manufacturing footwear and apparel. The rent is RMB 4 (\$0.82) per square meter per month and the term is 3 years with an option for Chaoda to renew for a further 3 years. Yuanlong and Chaoda agree to enter into a formal lease agreement to be entered into on standard terms upon the completion of the Premises. The offer to lease may be terminated by either party if the formal lease agreement is not entered into by 31 December 2015.

## 9.4 LOAN AGREEMENTS

XPD Group's bank loans have been guaranteed by the Company's Non-Executive Chairman (and founder of Chaoda), Shui-Chiao Chang, as well as Mr Chang's brother, Shaohua Zhang, Mr Chang's wife, Yanyan Cai, and other unrelated third parties. It is the intention of XPD Group to seek the release of these guarantees upon the expiry of the loans.

The guaranteed amount under these loans includes the principal, interest, damages and other fees relating to the loan. Other terms of these guarantees are typical of those expected in such financial arrangements in the PRC. As at the date of this Prospectus, XPD Group has guarantees amounting to RMB 36.2 million (approximately \$7.4 million), details of which are set out below

Lender	Amount RMB/(A\$)	Annual Interest Rate	Term	Secured by
China Everbright Bank (Quanzhou Branch)	RMB7 million (approximately A\$1.43 million)	7.80%	14 March 2014 to 13 March 2015	1. Shaohua Zhang; and 2. Chaoda with a mortgage over Chaoda's property and land.
Industrial and Commercial Bank of China (Jinjiang Sub-Branch)	RMB5 million (approximately A\$1.03 million)	7.56%	25 December 2014 to 18 December 2015	Jinjiang Wuliting Shoes Co., Ltd; <sup>1</sup>
Fujian Jinjiang Rural Commercial Bank (Meiling Sub-Branch)	RMB2 million (A\$0.41 million)	8.50%	6 February 2015 to 5 February 2017	1. Quanzhou Yiyuan Food Industry Co., Ltd; <sup>2</sup> 2. Shui-Chiao Chang; 3. Shaohua Zhang; and 4. Shiyu Chen.
Industrial and Commercial Bank of China (Jinjiang Sub-Branch)	RMB2 million (A\$0.41 million)	6.06%	23 June 2014 to 19 June 2015	1. Jinjiang Wuliting Shoes Co., Ltd; 2. Shui-Chiao Chang; and 3. Yanyan Cai.
Industrial and Commercial Bank of China (Jinjiang Sub-Branch)	RMB2 million (A\$0.41 million)	6.06%	15 July 2014 to 10 July 2015	1. Jinjiang Wuliting Shoes Co., Ltd; 2. Shui-Chiao Chang; and 3. Yanyan Cai.
Industrial and Commercial Bank of China (Jinjiang Sub-Branch)	RMB2.7 million (A\$0.55 million)	8.10%	17 September 2014 to 16 September 2015	1. Jinjiang Wuliting Shoes Co., Ltd; 2. Shui-Chiao Chang; and 3. Yanyan Cai.
Industrial and Commercial Bank of China (Jinjiang Sub-Branch)	RMB2.52 million (A\$0.52 million)	8.10%	15 October 2014 to 14 October 2015	1. Jinjiang Wuliting Shoes Co., Ltd; 2. Shui-Chiao Chang; and 3. Yanyan Cai.
China Everbright Bank (Quanzhou Branch)	RMB4 million (A\$0.82 million)	8.10%	30 July 2014 to 29 July 2015	1. Shaohua Zhang; and 2. Chaoda with a mortgage over Chaoda's property and land.
China Everbright Bank (Quanzhou Branch)	RMB 5 million	8.12%	25 February 2014 to 24 August 2015	1. Shaohua Zhang; and 2. Chaoda with a mortgage over Chaoda's property and land.
China Everbright Bank (Quanzhou Branch)	RMB4 million (A\$0.82 million)	8.10%	4 August 2014 to 3 August 2015	1. Shaohua Zhang; and 2. Chaoda with a mortgage over Chaoda's property and land.

Notes:

1. Jinjiang Wuliting Shoes Co., Ltd is an unrelated third party who supply materials to Chaoda from time to time.

2. Quanzhou Yiyuan Food Industry Co., Ltd is an unrelated third party who has no business relationship with Chaoda.



# 10. Taxation Report



# 10 TAXATION REPORT



The Board of Directors  
XPD Soccer Gear Group Limited  
Level 1  
Exchange Tower  
530 Little Collins Street  
MELBOURNE VIC 3000

25 February 2015

**PRIVATE AND CONFIDENTIAL**

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Dear Sirs

## **TAXATION REPORT XPD SOCCER GEAR GROUP LIMITED**

### **1 Introduction**

At the request of the Directors of XPD Soccer Gear Group Limited, this Taxation Report has been prepared for inclusion in a Prospectus to be dated on or about 25 February 2015 relating to the offer for subscription of up to 75,000,000 ordinary shares at an offer price of \$0.20 each to raise up to a total of \$15,000,000, with a minimum subscription requirement to raise at least \$5,000,000.

### **2 Taxation Implications**

This report considers the Australian income taxation (including Capital Gains Tax (CGT)) implications under the Australian Income Tax Assessment Act 1936 and 1997 (ITAA 1936 and ITAA 1997 respectively) for Australian resident investors of an investment in ordinary shares issued at \$0.20 each in XPD Soccer Gear Group Limited.

The taxation implications for shareholders in XPD Soccer Gear Group Limited relate to the receipt of dividends and potential gains on disposal of the shares.

### **3 General**

We are advised that XPD Soccer Gear Group Limited is incorporated in Australia and owns directly and indirectly a number of subsidiaries located in jurisdictions outside Australia.

### **4 Scope**

The intention of this opinion is to provide a general understanding of the Australian taxation implications for shareholders XPD Soccer Gear Group Limited.

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This report only covers residents of Australia and their Australian taxation obligations. Shareholders who are not residents of Australia should separately seek their own tax advice in respect of their shareholdings in XPD Soccer Gear Group Limited.

This report provides a general outline for shareholders who hold their shares as an investor, rather than as a trader, and are therefore subject to CGT in respect of the sale of their shares.

This report is based on Australian income tax legislation and established interpretations of that legislation at the date of this report – however, it is not intended to be an authoritative or complete statement of the law applicable to the particular circumstances of every investor.

This report does not purport to provide advice to any particular investor, as the taxation position of each investor may vary depending on the specific circumstances of the investor. Investors should obtain professional advice relevant to their specific circumstances.

## 5 Disclaimer

To persons receiving this document in Australia:

The information contained in this document does not constitute “financial product advice” within the meaning of the Corporations Act 2001 (Cth) (Corporations Act). Grant Thornton Australia Ltd is not licensed to provide financial product advice under the Corporations Act.

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## 6 Taxation Treatment of Dividends

The capital raising of XPD Soccer Gear Group Limited involves the issue of shares which will be an equity interest for Australian tax purposes.

XPD Soccer Gear Group Limited may choose to pay a dividend in respect of these shares and may choose to “frank” these shares for Australian taxation purposes to the extent the dividends are paid out of profits and are “frankable” for tax purposes.

To the extent that franked dividends are paid by XPD Soccer Gear Group Limited, the percentage of franking of such dividends will be set by XPD Soccer Gear Group Limited and will depend on the amount of franking credits available to XPD Soccer Gear Group Limited.





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Generally, XPD Soccer Gear Group Limited will be entitled to receive franking credits by the payment of corporate income tax and/or the receipt of franked dividends from another entity.

However, franking credits will not arise in respect of the receipt by XPD Soccer Gear Group Limited of income that is non-assessable or exempt. For example, if XPD Soccer Gear Group Limited were to receive certain foreign sourced dividends from a non-Australian resident company in which XPD Soccer Gear Group Limited holds a shareholdings of at least 10%, this dividend will generally be not assessable in Australia and accordingly will not generate franking credits to XPD Soccer Gear Group Limited.

Furthermore, based on the information contained in the prospectus that the Group's foreign subsidiaries will derive more than 95% of its income as "active" income, the directors are of the opinion there should be no activities conducted by foreign subsidiaries of XPD Soccer Gear Group Limited that would give rise to attribution of income to XPD Soccer Gear Group Limited under the Controlled Foreign Company ("CFC") provisions. However, this is a matter that will require ongoing monitoring and compliance by XPD Soccer Gear Group Limited.

Accordingly, XPD Soccer Gear Group Limited, which we understand is planning to pay dividends to its shareholders primarily out of its group foreign dividend income, is not likely to be subject to any Australian income tax in respect of its profits that will allow it to generate franking credits. Therefore, it is not envisaged that dividends paid by XPD Soccer Gear Group Limited will be franked in the immediate future.

The following comments are applicable to franked and unfranked dividends received by an ordinary shareholder. The tax treatment will vary depending on the nature of the entity owning the ordinary shares:

#### **6.1 Individual Investors**

The calculation of an individual's assessable income will depend on whether the dividend from XPD Soccer Gear Group Limited is franked.

An individual receiving a dividend that is unfranked will include the amount of the dividend in the individual's assessable income, with tax being paid at the individual's marginal rate of tax.

If the dividend is fully or partly franked, the individual's assessable income is grossed up to include the franking credit attaching to the dividend. The individual should be entitled to a tax offset equal to the amount of the franking credit included in the individual's assessable income.

Where an individual's marginal rate of tax is greater than the company tax rate such that the individual's gross tax payable on the dividend exceeds the available franking offset, then further tax will be payable on the grossed up dividend.

Where the individual's marginal rate of tax is less than the company tax rate such that the individual's gross tax payable on the dividend is less than the available franking offset, a refundable tax offset is available to reduce tax payable on other income or alternatively results in a refund of the excess franking credits.

Depending on the personal circumstances of the individual, additional Medicare Levy might be payable as result of receiving the dividends.

## 6.2 Company Investors

The taxation treatment of a company investor is similar to the taxation treatment of individuals in respect of dividends received on their shares.

A company investor receiving an unfranked dividend will pay tax at the applicable company tax rate, currently 30% but proposed to be reduced to 28.5% from income years commencing on or after 1 July 2015.

Where dividends are franked, the company investor will include in the assessable income the amount of dividend received and the amount of any franking credits attached to that dividend. The company tax rate is then applied to the grossed up dividend.

A non-refundable tax offset will arise equivalent to the franking credit. In the event the dividend is fully franked, a company investor will pay no further tax on the dividend.

Company investors will include in their franking account the franking credit attached to the dividend received.

Company investors that have tax losses and receive franked dividends can convert any excess franking offsets to current year losses. Excess franking offsets are generally not refundable to a company.

In limited circumstances, certain corporate entities (for example, exempt institutions and life insurance companies), may be entitled to receive a refund of the franking credit if they satisfy Division 67 of the ITAA 1997. These entities should seek separate tax advice in respect of their particular circumstances.

In all other cases, a company investor cannot receive a refund of excess franking credits.

## 6.3 Trustee Investors

The taxation treatment of an investor who holds shares as trustee for example either under a discretionary trust or under a fixed or unit trust on behalf of other beneficiaries will be subject to specific trust taxation rules and dividend and capital gains streaming rules in respect of their shares.

Ultimately, so long as appropriate taxation compliance steps are undertaken, and so long as the trust has sufficient income to distribute to its presently entitled beneficiaries, franked or unfranked dividends derived by a trust in respect of the shares in XPD Soccer Gear Group Limited will generally “flow through” to the trust’s beneficiaries and will be taxed to those presently entitled beneficiaries in accordance with the tax laws as they apply to those beneficiaries.

Trustees who seek to invest in XPD Soccer Gear Group Limited should seek their own separate tax advice in respect of such investments.

#### 6.4 Complying Superannuation Funds

Complying Superannuation Funds are assessable on the dividend and gross up the franked dividend in the same way as individuals and companies.

The rate of tax payable by complying superannuation entities is 15% on the grossed up amount. The franking credit is available to offset tax payable on other income of the complying superannuation entity or alternatively results in a refund of the excess franking credits.

#### 6.5 Anti Avoidance Measures

Numerous anti avoidance measures are contained in taxation legislation to target dividend streaming and franking credit trading.

Depending on the availability of franking credits generated by XPD Soccer Gear Group Limited, dividends paid on the new shares will be franked equally across all ordinary shares.

Providing the securities are held 'at risk' for a period of 45 days, it is not considered that any of the anti-avoidance measures will have application to the dividends paid on the ordinary shares.

### 7 Taxation Treatment of Disposal of Equity Interests

The ordinary shares will be listed on the Australian Stock Exchange and can be sold separately.

Disposal of the ordinary shares by Australian tax resident individuals will generally constitute a CGT event (in the absence of any available CGT rollover, which is outside the scope of this report).

A capital gain will arise where the disposal proceeds are greater than the cost of acquisition of the shares.

Where the new shares acquired in the initial capital raising are retained for more than twelve months, individuals and complying superannuation funds might be entitled to a discount of the capital gain of 50% for individuals and 33 1/3% for complying superannuation funds when the shares are disposed.

Company taxpayers will receive no discount and will pay tax at the applicable company tax rate on any net capital gain.

Trustee shareholders will typically distribute any capital gains to presently entitled beneficiaries who will include the gains in their assessable income and be taxed according to that beneficiary's own tax circumstances. In certain circumstances, a trustee who fails to distribute capital gains will be taxed on such gains at the applicable trustee tax rates. Trustees who seek to invest in XPD Soccer Gear Group Limited should seek their own separate tax advice in respect of such investments.

## 8 Quotation of Tax File Number

XPD Soccer Gear Group Limited cannot insist that investors in the XPD Soccer Gear Group Limited ordinary shares provide their Tax File Number (TFN) or Australian Business Number (ABN). However, if investors choose not to provide their TFN or ABN, XPD Soccer Gear Group Limited is required by tax legislation to withhold 47% of the unfranked part of any dividend.

## 9 Goods & Services Tax (GST)

The GST implications for investors are dependent on the specific GST position of the investor. However, the acquisition, holding and disposal of shares in Australia are input taxed supplies for GST purposes.

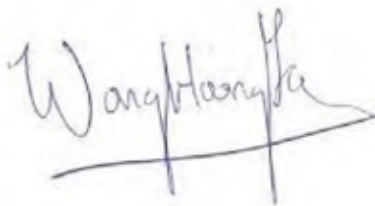
There should therefore be no GST impacts for an investor not registered or required to be registered for GST as there is no GST on the acquisition or disposal of shares.

We trust the above is sufficient for your present purposes.

Please contact the undersigned if you wish to discuss any of the above matters further.

Yours faithfully

GRANT THORNTON AUSTRALIA LIMITED



Yan Wong  
Partner - Tax

email: [yan.wong@au.gt.com](mailto:yan.wong@au.gt.com)



# 11. Additional Information



## 11 ADDITIONAL INFORMATION

### 11.1 COMPANY INFORMATION

XPD Soccer Gear Group Limited (ACN 169 695 283) was incorporated in Victoria Australia on 22 May 2014.

### 11.2 RIGHTS AND LIABILITIES ATTACHING TO SHARES

The rights and liabilities attaching to the ownership of Shares arise from a combination of the Constitution, the ASX Listing Rules and the Corporation Act. All Shares being offered under this Prospectus will rank equally with each other and with Existing Shares. A summary of the significant rights and liabilities attaching to the Shares and a description of other material provisions of the Constitution are set out below. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders.

#### 11.2.1 RANKING OF SHARES

At the date of this Prospectus, all shares are of the same class and rank equally in all respects. Specifically, the Shares issued pursuant to this Prospectus will rank equally with Existing Shares.

#### 11.2.2 VOTING RIGHTS

Subject to any special rights or restrictions (at present there are none), at any meeting each member present in person or by proxy has one vote on a show of hands, and on a poll has one vote for each share held.

#### 11.2.3 DIVIDEND RIGHTS

Subject to any special rights (at present there are none), any dividends that may be declared by the Company are payable on all Shares in proportion to the amount paid up.

#### 11.2.4 VARIATION OF RIGHTS

The rights attaching to the Shares may only be varied by the consent in writing of the holders of three quarters of the Shares, or with the sanction of a special resolution passed at a general meeting.

#### 11.2.5 TRANSFER OF SHARES

Subject to the Company's Constitution, the Corporations Act or any other applicable laws of Australia and the Listing Rules, the Shares are freely transferable. The Directors may refuse to register a transfer of Shares only in limited circumstances, such as where the Listing Rules require or permit the Company to do so.

#### 11.2.6 GENERAL MEETINGS

Each shareholder is entitled to receive notice of, and to attend and vote at, general meetings of the Company and to receive all notices, accounts and other documents required to be furnished to shareholders under the Company's Constitution, the Corporations Act and Listing Rules.

#### 11.2.7 RIGHTS ON WINDING UP

If the Company is wound up, the liquidator may, with the sanction of a special resolution;

- divide among the shareholders the whole or any part of the Company's property; and
- decide how the division is to be carried out between the Shareholders.

Subject to any special rights (at present there are none), any surplus assets on a winding up are to be distributed to Shareholders in proportion to the number of Shares held by them irrespective of the amounts paid or credited as paid.

### 11.3 TERMS AND CONDITIONS OF THE BROKER OPTIONS

The Broker Options entitle the holder to subscribe for Shares on the terms and conditions set out below.

(a) Entitlement

Each Broker Option entitles the holder to subscribe for one Share upon exercise of the Broker Option.

(b) Expiry Date

Each Broker Option will expire at 5.00pm (WST) on the date that is 3 years after the date that the Broker Option is issued (Expiry Date).

(c) Exercise Price

Each Broker Option will have an exercise price equal to \$0.25(Exercise Price).

(d) Exercise period and lapsing

Subject to clause (i), Broker Options may be exercised at any time after the date of issue and prior to the Expiry Date. After this time, any unexercised Broker Options will automatically lapse.

(e) Exercise Notice and payment

Broker Options may be exercised by notice in writing to the Company (Exercise Notice) together with payment of the Exercise Price for each Broker Option being exercised. Any Exercise Notice for a Broker Option received by the Company will be deemed to be a notice of the exercise of that Broker Option as at the date of receipt. Cheques paid in connection with the exercise of Broker Options must be in Australian currency, made payable to the Company and crossed "Not Negotiable".

(f) Shares issued on exercise

Shares issued on exercise of Broker Options will rank equally in all respects with then existing fully paid ordinary shares in the Company.

(g) Quotation of Shares

Provided that the Company is quoted on ASX at the time, application will be made by the Company to ASX for quotation of the Shares issued upon the exercise of the Broker Options.

(h) Timing of issue of Shares

Subject to clause (i), within 5 business days after the later of the following:

(i) receipt of an Exercise Notice given in accordance with these terms and conditions and payment of the Exercise Price for each Broker Option being exercised by the Company if the Company is not in possession of excluded information (as defined in section 708A(7) of the Corporations Act); and

(ii) the date the Company ceases to be in possession of excluded information with respect to the Company (if any) following the receipt of the Notice of Exercise and payment of the Exercise Price for each Broker Option being exercised by the Company, the Company will:

(iii) allot and issue the Shares pursuant to the exercise of the Broker Options;

(iv) give ASX a notice that complies with section 708A(5)(e) of the Corporations Act (to the extent that it is legally able to do so); and

(v) apply for official quotation on the ASX of the Shares issued pursuant to the exercise of the Broker Options.

(i) Shareholder and regulatory approvals

Notwithstanding any other provision of these terms and conditions, exercise of Broker Options into Shares will be subject to the Company obtaining all required (if any) Shareholder and regulatory approvals for the purpose of issuing the Shares to the holder. If exercise of the Broker Options would result in any person being in contravention of section 606(1) of the Corporations Act then the exercise of each Broker Option that would cause the contravention will be deferred until such time or times that the exercise would not result in a contravention of section 606(1) of the Corporations Act. Holders must give notification to the Company in writing if they consider that the exercise of the Broker Options may result in the contravention of section 606(1) of the Corporations Act, failing which the Company will be entitled to assume that the exercise of the Broker Options will not result in any person being in contravention of section 606(1) of the Corporations Act.

(j) Participation in new issues

There are no participation rights or entitlements inherent in the Broker Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Broker Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least four business days after the issue is announced. This is intended to give the holders of Broker Options the opportunity to exercise their Broker Options prior to the announced record date for determining entitlements to participate in any such issue.

(k) Adjustment for bonus issues of Shares

If the Company makes a bonus issue of Shares or other securities to existing Shareholders (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment):

- (i) the number of Shares which must be issued on the exercise of a Broker Option will be increased by the number of Shares which the holder would have received if the holder had exercised the Broker Option before the record date for the bonus issue; and
- (ii) no change will be made to the Exercise Price.

(l) Adjustment for rights issue

If the Company makes an issue of Shares pro rata to existing Shareholders there will be no adjustment to the Exercise Price.

(m) Adjustments for reorganisation

If there is any reconstruction of the issued share capital of the Company, the rights of the holders may be varied to comply with the Listing Rules which apply to the reconstruction at the time of the reconstruction.

(n) Quotation

The Company will not apply for quotation of the Broker Options on ASX.

(o) Transferability

(p) Broker Options can only be transferred with the prior written consent of the Company (which consent may be withheld in the Company's sole discretion).

## 11.4 DIVIDEND POLICY

The Directors cannot and do not give any assurance as to the extent, timing, level of franking or payment of any dividends in any future period as all of the foregoing are dependent upon a number of factors including the level of future earnings, the amount of tax paid, the financial position of XPD Group, future operating conditions and future cash requirements to fund growth.

## 11.5 CONTINUOUS DISCLOSURE

The Company will be a "disclosing entity" for the purposes of Part 1.2A of the Corporations Act. As such, it will be subject to regular reporting and disclosure obligations which will require it to disclose to ASX any information which it is or becomes aware of concerning the Company and which a reasonable person would expect to have a material effect on the price or value of the securities of the Company.

## 11.6 RELATED PARTY TRANSACTIONS

### 11.6.1 BUSINESS TRANSACTIONS BETWEEN CHAODA AND JINJIANG XPD IMPORT AND EXPORT CO., LTD

XPD Group's operating subsidiary Chaoda has entered in the past and continues to conduct business transactions with Jinjiang XPD Import and Export Co.,Ltd. The nature of the business transactions is that Chaoda sells OEM products to Jinjiang XPD Import and Export Co.,Ltd for resale and export to overseas brand owners.

Jinjiang XPD Import and Export Co.,Ltd is a company incorporated in the PRC and owns an export permit which is required in PRC for exporting goods overseas. The scope of business of Jinjiang XPD Import and Export Co.,Ltd is the import and export of goods and technology. In addition to export products of XPD Group, Jinjiang XPD Import and Export Co.,Ltd exports products, mainly footwear and apparel, for other unrelated parties.

Jinjiang XPD Import and Export Co.,Ltd is partly owned by XPD Group's Managing Director and Chief Executive Officer Jiameng Zhang who owns a 20% equity interest. The Board considers that the business transactions are at arms length and will continue to ensure that such transactions are conducted on arm's length terms. The percentage of sales to Jinjiang XPD Import and Export Co.,Ltd in total sales revenue of XPD Group is 27%, 19.3%, 8.1% and 9.6% respectively for FY 2011, FY 2012, FY 2013 and HY 2014. Following the listing of XPD on the ASX, XPD plans to apply for the export permit which will enable XPD to sell and export OEM products to overseas brand owners directly.



## 11.7 POLICY FOR APPROVAL OF RELATED PARTY TRANSACTIONS

XPD's Audit and Risk Management Committee is responsible for reviewing and approving all transactions in which XPD is a participant and in which any parties related to XPD, including its executive officers, Directors, beneficial owners of more than 5% of XPD's Shares, immediate family members of the foregoing persons and any other persons whom the Board determines may be considered related parties of XPD, has or will have a direct or indirect material interest.

The Audit and Risk Management Committee or its chairman, as the case may be, will only approve those related party transactions that are determined to be in, or are not inconsistent with, the best interests of XPD and its Shareholders, after taking into account all available facts and circumstances as the Audit and Risk Management Committee or its chairman determines in good faith to be necessary. Transactions with related parties will also be subject to Shareholder approval to the extent required by the Listing Rules.

## 11.8 INTERESTS OF EXPERTS AND ADVISERS

Other than as set out below or elsewhere in the Prospectus, no expert, promoter, or any other person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus, nor any firm in which any of those persons is or was a partner nor any company in which any of those persons is or was associated with, within two years before lodgement of the Prospectus with ASIC, has:

- had any interest in the formation or promotion of the Company or in any property acquired or proposed to be acquired by the Company in connection with its formation or promotion, or in connection with the Offer, or in the Offer; and
- received any amounts or benefits or has agreed to be paid benefits for services rendered by such persons in connection with the formation or promotion of the Company or the Offer.

BBY acted as Lead Manager to the Offer. Total fees payable to BBY Limited for these services are set out in Section 9.1

Price Sierakowski acted as the Australian legal adviser in relation to the Offer. The Company has paid, or agreed to pay, approximately \$100,000 (excluding disbursements and GST) for work done in relation to these services.

Grant Thornton Audit Pty Ltd has prepared the Investigating Accountant's Report which is included as part of this Prospectus. Total fees payable to Grant Thornton Audit Pty Ltd for work done in relation to this Prospectus are approximately \$45,000 (plus GST).

Grant Thornton Australia Ltd has prepared the Taxation Report which is included as part of this Prospectus. Total fees payable to Grant Thornton Australia Ltd for work done in relation to this Prospectus are approximately \$5,000 (plus GST).

Zhongyin Law Office has acted as the Chinese legal adviser as to PRC Law. Total fees payable for work done in relation this Prospectus are approximately \$180,000.

Euromonitor International Limited has prepared a research report, extracts of which have been used in this Prospectus. Total fees payable for work done in relation to this Prospectus are approximately \$48,000.

## 11.9 CONSENTS

The following written consents have been given in accordance with the Corporations Act with respect to the issue of this Prospectus in both paper and electronic form:

BBY Limited has given and has not before lodgement of this Prospectus withdrawn its written consent to be named in this Prospectus as Lead Manager in the form and context in which it is named. BBY Limited has not authorised or caused the issue of this Prospectus and takes no responsibility for any part of this Prospectus other than references to its name.

Grant Thornton Australia Ltd has given, and has not before lodgement of this Prospectus withdrawn, its written consent to be named in this Prospectus as the author of the Taxation Report and to the inclusion of the Taxation Report in Section 10 of this Prospectus in the form and context in which it is named and the Taxation Report is included, together with all references to its name and that report in this Prospectus. Grant Thornton Australia Ltd has not authorised or caused the issue of this Prospectus and takes no responsibility for any part of this Prospectus other than any references to it and that report.

Price Sierakowski Pty Ltd trading as Price Sierakowski Corporate has given, and has not before lodgement of this Prospectus withdrawn, its written consent to be named in this Prospectus as legal adviser as to Australian Law in the form and context in which it is included. Price Sierakowski Corporate has not authorised or caused the issue of this Prospectus and takes no responsibility for any part of this Prospectus other than any references to it.

Grant Thornton Audit Pty Ltd has given, and has not before lodgement of this Prospectus withdrawn, its written consent to be named in this Prospectus as Investigating Accountant and Auditors and to the inclusion of the Investigating Accountant's Report in Section 6 of this Prospectus in the form and context in which it is named and the Investigating Accountant's Report is included, together with all references to them and to that report in this Prospectus. Grant Thornton Audit Pty Ltd has not authorised or caused the issue of this Prospectus and take no responsibility for any part of this Prospectus other than any references to it and that report.

Zhongyin Law Office has given, and has not before lodgement of this Prospectus withdrawn, its written consent to be named in this Prospectus as legal advisers to PRC Law, in the form and context in which it is included, together with all references to PRC Law in this Prospectus. Zhongyin Law Office has not authorised or caused the issue of this Prospectus and takes no responsibility for any part of this Prospectus other than its report and any references to it and to PRC Law.

The information about the soccer wear market in the PRC in Section 3 is based on information contained in a market research report prepared by Euromonitor International Limited. Euromonitor has given, and has not before lodgement of this Prospectus withdrawn, its written consent to be named in this Prospectus and to the inclusion of all references to it in the form and context in which they are included on condition that, to the maximum extent permitted by law, Euromonitor disclaims and excludes any and all liability (whether arising in contract, tort or otherwise) for any loss of any nature suffered by any party as a direct or indirect result of any error in or omission from the information contained in Section 3, as a direct or indirect result of the use of any of the information or of making any investment decision, or refraining from making any decision, in reliance or based wholly or partly on any data, expression of opinion, statement or other information or data contained in Section 3.

Boardroom Pty Limited has given, and has not before lodgement of this Prospectus withdrawn, its written consent to be named in this Prospectus as the Share Registry in the form and context in which it is named, together with all references to it in this Prospectus. Boardroom Pty Limited has had no involvement in the preparation of any part of this Prospectus other than being named as Share Registry. Boardroom Pty Limited has not authorised or caused the issue of this Prospectus and takes no responsibility for any part of this Prospectus other than the references to it.

There are a number of persons referred to elsewhere in this Prospectus who have not made statements included in this Prospectus and there are no statements made in this Prospectus on the basis of any statements made by those persons. These persons did not consent to being named in this Prospectus and did not authorise or cause the issue of this Prospectus.

#### 11.10 EXPENSES OF THE OFFER

The expenses of the Offer are expected to comprise the following estimated costs and are exclusive of any GST payable by the Company.

Item of Expenditure	Minimum Subscription	Maximum Subscription
ASIC fees	\$2,000	\$2,000
ASX fees <sup>5</sup>	\$114,000	\$120,000
Lead Manager fees	\$384,000	\$984,000
Adviser fees (accounting, legal and other)	\$601,000	\$601,000
Marketing and advertising, printing and other costs	\$120,000	\$120,000
<b>Total</b>	<b>\$1,221,000</b>	<b>\$1,827,000</b>

<sup>5</sup> ASX fees are based on the issue price of the Shares and the estimated issued share capital of the Company after allotment of the Shares

### 11.11 ELECTRONIC PROSPECTUS

Pursuant to Class Order 00/044 the ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an electronic prospectus and electronic application form on the basis of a paper prospectus lodged with ASIC, and the publication of notices referring to an electronic prospectus or electronic application form, subject to compliance with certain conditions.

If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the Application Form. If you have not, please contact the Share Registry on 1300 737 760 within Australia and +61 2 9290 9600 outside Australia. Alternatively, you may obtain a copy of the Prospectus from the Company's website at [www.xpdsoccer.com.au](http://www.xpdsoccer.com.au).

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

### 11.12 LITIGATION

To the Directors knowledge there is no material litigation against the Company or initiated by the Company as at the date of this Prospectus.

### 11.13 TAXATION

It is the responsibility of all persons to satisfy themselves of the particular taxation treatment that applies to them in relation to the Offer, by consulting their own professional tax advisers. Neither the Company nor any of its Directors or officers accepts any liability or responsibility in respect of the taxation consequences of the matters referred to above. Please also see the Taxation Report at Section 10.

#### 11.14 STATEMENT OF DIRECTORS

This Prospectus is authorised by each Director who has consented to its lodgement with ASIC and to its issue in accordance with section 720 of the Corporations Act.

Signed for and on behalf of

XPD Soccer Gear Group Limited by:

A handwritten signature in black ink, appearing to read 'Andrew Smith', written in a cursive style.

Mr Andrew Smith

Director

# 12. Glossary



## 12 GLOSSARY

<b>Term</b>	<b>Meaning</b>
Applicant	a person who submits an Application
Application	an application made to apply for Shares under the Offer
Application Form	the Application Form attached to, and forming part of this Prospectus pursuant to which Applicants apply for Shares
Application Monies	the amount of money accompanying an Application Form submitted by an Applicant
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited (ACN 008 624 691) or the financial market operated by it, as the context requires
ASX Recommendations	the third edition of the Corporate Governance Principles and Recommendations issued by the ASX Corporate Governance Council
Board	the Board of Directors of the Company
Broker Option	an Option on the terms and conditions set out in Section 11.3
CAGR	compound annual growth rate
Chaoda	Jinjiang Chaoda Shoes and Garment Co.Ltd, a company incorporated in the PRC
CHESS	ASX Clearing House Electronic Sub-register System operated in accordance with the Listing Rules and the ASX Settlement and Transfer Corporation Pte Ltd (ACN 008504532)
Closing Date	the date by which Application Form must be lodged for the Offer, being 5pm (Melbourne time) [xx] 2015 (subject to the Closing Date being varied by the Company)
Company or XPD	XPD Soccer Gear Group Limited (ACN 169 695 283)
Constitution	the constitution of the Company
Corporations Act	Corporations Act 2001 (Cth)
Directors	the directors of the Company
EBIT	earnings before interest and tax
Existing Shares	the 350,000,000 Shares in the Company on issue at the date of this Prospectus
Expiry date	the date which is 13 months after the Prospectus Date, after which no Shares will be issued under this Prospectus
Exposure Period	the period of 7 days after the date of lodgement of this prospectus which period may be extended by ASIC by up to a further 7 days pursuant to Section 727(3) of the Corporations Act
Financial Information	has the meaning given in Section 4.1
Financial Year or FY	financial year ending 31 December each year
GDP	Chinese Gross Domestic Product
Group or XPD Group	the Company and its subsidiaries, or, where the context requires, the business described in this Prospectus
Issue	the issue of Shares in accordance with the Offer
Lead Manager	BBY Limited (ABN 80 006 707 777)
Listing Rules	the listing rules of ASX
Minimum Subscription	the raising of \$5,000,000 by the acceptance of 25,000,000 Shares at \$0.20 each pursuant to this Prospectus
Maximum Subscription	the raising of \$15,000,000 by the acceptance of 75,000,000 Shares at \$0.20 each pursuant to this Prospectus
ODM	original design manufacturer
OEM	original equipment manufacturer

Offer	the offer of Shares pursuant to this Prospectus
Offer Period	the period commencing on the Opening Date and ending on the Closing Date
Offer Price	\$0.20 per share
Official List	the official list of ASX
Opening Date	the opening date of the Offer as set out in the “Key Offer Details”
Option	an option to acquire a Share
PRC	the People’s Republic of China
Price Sierakowski Corporate	Price Sierakowski Pty Ltd (ABN 83 662 050 668) trading as Price Sierakowski Corporate
Prospectus	this prospectus dated 27 February 2015.
Share	a fully paid ordinary share in the capital of the Company.
Shareholder	a holder of Shares.
Share Registry	Boardroom Pty Limited (ABN 14003209836).
Sqm	Square meters
Yuanlong	Henan Yuanlong Industrial Co., Ltd, a company incorporated in the PRC
Yuanlong Property	the property at Sui County, Shangqiu City, as described in Section 4.15

## 13 CORPORATE DIRECTORY

### DIRECTORS

Shui-Chiao Chang (Non-Executive Chairman)  
 Jiameng Zhang (Managing Director)  
 Jiashun Zhang (Executive Director)  
 Andrew Smith (Non-Executive Director)  
 Ben Meikle (Non-Executive Director)  
 Andrew Plympton (Non-Executive Director)

### COMPANY SECRETARY

Ting Jiang

### REGISTERED OFFICE

Level 1, Exchange Tower,  
 530 Little Collins Street,  
 Melbourne, VIC, 3000  
 Telephone : (03) 9909 7412  
 Facsimile : (03) 9909 7788

### PRINCIPAL PLACE OF BUSINESS

Huzhong Industrial Zone, Chendai Town,  
 Jinjiang City, Fujian Province, China  
 Telephone : (86)-595-8518 1578  
 Facsimile : (86)-595-8519 2977

### WEBSITE

[www.xpdsoccer.com.au](http://www.xpdsoccer.com.au)

### LEAD MANAGER

BBY Limited  
 Level 17, 60 Margaret Street,  
 Sydney, NSW 2000

### AUDITOR AND INVESTIGATING ACCOUNTANTS

Grant Thornton Audit Pty Ltd  
 Level 1, 67 Greenhill Road,  
 Wayville, SA 5034

### AUTHOR OF THE TAXATION REPORT

Grant Thornton Australia Ltd  
 Level 1, 67 Greenhill Road,  
 Wayville, SA 5034

### LEGAL ADVISERS

Legal Adviser to Australian Law  
 Price Sierakowski Corporate  
 Level 24, 44 St Georges Terrace,  
 Perth, WA 6000

Legal Adviser to PRC Law  
 Zhongyin Lawyers  
 Level 31, Office Building A,  
 Jian Wai SOHO,  
 No. 39 Central Dongsanhuan Road,  
 Chaoyang District,  
 Beijing, China 100022

### SHARE REGISTRY

Boardroom Pty Limited  
 Level 7, 207 Kent Street,  
 Sydney, NSW 2000





## GUIDE TO THE APPLICATION FORM

### YOU SHOULD READ THE PROSPECTUS CAREFULLY BEFORE COMPLETING THIS APPLICATION FORM.

Please complete all relevant sections of the appropriate Application Form using BLOCK LETTERS. These instructions are cross-referenced to each section of the Application Form.

#### Instructions

A. If applying for Shares insert the number of Shares for which you wish to subscribe at Item A (not less than 10,000 and then in multiples of 1,000). Multiply by \$0.20 to calculate the total for Shares and enter the dollar amount at B.	F. Enter your Australian tax file number ("TFN") or ABN or exemption category, if you are an Australian resident. Where applicable, please enter the TFN /ABN of each joint Applicant. Collection of TFN's is authorised by taxation laws. Quotation of your TFN is not compulsory and will not affect your Application Form.
C. Write your full name. Initials are not acceptable for first names.	G. Complete cheque details as requested. Make your cheque payable to "XPD Soccer Gear Group Limited", cross it and mark it "Not negotiable". Cheques must be made in Australian currency, and cheques must be drawn on an Australian Bank.
D. Enter your postal address for all correspondence. All communications to you from the Company will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.	H. Enter your contact details so we may contact you regarding your Application Form or Application Monies.
E. If you are sponsored in CHESS by a stockbroker or other CHESS participant, you may enter your CHESS HIN if you would like the allocation to be directed to your HIN.	I. Enter your email address so we may contact you regarding your Application Form or Application Monies or other correspondence.
<b>NB: your registration details provided must match your CHESS account exactly.</b>	

#### Correct form of Registrable Title

Note that ONLY legal entities can hold Shares. The Application must be in the name of a natural person(s), companies or other legal entities acceptable to the Company. At least one full given name and surname is required for each natural person.

Examples of the correct form of registrable title are set out below:

Type of Investor	Correct form of Registrable Title	Incorrect form of Registrable Title
Individual	Mr John David Smith	J D Smith
Company	ABC Pty Ltd	ABC P/L or ABC Co
Joint Holdings	Mr John David Smith & Mrs Mary Jane Smith	John David & Mary Jane Smith
Trusts	Mr John David Smith	John Smith Family Trust
Deceased Estates	<J D Smith Family A/C>	John Smith (deceased)
Partnerships	Mr Michael Peter Smith	John Smith & Son
Clubs/Unincorporated Bodies	<Est Lte John Smith A/C>	Smith Investment Club
Superannuation Funds	Mr John David Smith & Mr Ian Lee Smith	John Smith Superannuation Fund

#### Lodgement

Mail your completed Application Form with cheque(s) attached to the following address:

##### Mailing address:

XPD Soccer Gear Group Limited  
c/o Boardroom Pty Limited  
Level 7, 207 Kent Street,  
Sydney, NSW 2000

##### Delivery address:

XPD Soccer Gear Group Limited  
c/o Boardroom Pty Limited  
Level 7, 207 Kent Street,  
Sydney, NSW 2000

It is not necessary to sign or otherwise execute the Application Form.

**If you have any questions as to how to complete the Application Form, please contact Boardroom Pty Limited on 1300 737 760 within Australia and +61 2 9290 9600 outside Australia.**

## PRIVACY STATEMENT:

Boardroom Pty Limited advises that Chapter 2C of the *Corporations Act 2001* (Cth) requires information about you as a share holder (including your name, address and details of the shares you hold) to be included in the public register of the entity in which you hold shares. Information is collected to administer your share holding and if some or all of the information is not collected then it might not be possible to administer your share holding. Your personal information may be disclosed to the entity in which you hold shares. You can obtain access to your personal information by contacting Boardroom Pte Limited as shown above.

Our privacy policy is available on our website (<http://www.boardroomlimited.com.au/Privacy.html>).