

XINGQUAN INTERNATIONAL SPORTS HOLDINGS LIMITED (“XINGQUAN” OR THE “COMPANY”)

- I. PROPOSED CAPITAL REORGANISATION (INCLUDING PAR VALUE REDUCTION); AND
II. PROPOSED RIGHTS ISSUE WITH WARRANTS**

(COLLECTIVELY REFERRED TO AS THE “PROPOSALS”)

1. INTRODUCTION

On behalf of the Board of Directors of Xingquan (“**Board**”), RHB Investment Bank Berhad (“**RHBIB**”) wishes to announce that the Company proposes to undertake the following corporate proposals:-

- I. Proposed reorganisation of the share capital of the Company which involves, among other things, the reduction of the issued and paid-up share capital of Xingquan via the cancellation of United States Dollar (“**US\$**”) 0.09 on each of the existing ordinary issued and fully paid-up shares of US\$0.10 in Xingquan pursuant to Section 46 of the Companies Act 1981 of Bermuda (“**Act**”) (“**Proposed Par Value Reduction**”), to be effective on such date as may be determined by the Board (“**Par Value Reduction Effective Date**”); and
- II. Proposed renounceable rights issue of up to 253,547,250 new ordinary shares of US\$0.01 in the Company (“**Rights Shares**”) on the basis of one (1) Rights Share for every two (2) existing shares held in Xingquan after the Proposed Par Value Reduction Effective Date, together with up to 84,515,750 free detachable warrants (“**Warrant(s) B**”) on the basis of one (1) Warrant B for every three (3) Rights Shares subscribed, on an entitlement date to be determined later by the Board (“**Entitlement Date**”) (“**Proposed Rights Issue with Warrants**”).

Further details on the Proposals are set out in the ensuing sections of this announcement.

2. DETAILS OF THE PROPOSALS

2.1 Proposed Capital Reorganisation (including Proposed Par Value Reduction)

As at 8 September 2015, being the latest practicable date (“**LPD**”) of this announcement, the authorised share capital of the Company is US\$100,000,000 divided into 1,000,000,000 ordinary shares of US\$0.10 par value each, out of which 338,063,000 ordinary shares of US\$0.10 par value each have been issued and fully paid-up.

The Board has proposed to undertake a reorganisation of the share capital of the Company which involves the following:-

- (i) the reduction of the issued and paid-up share capital of the Company from US\$33,806,300 to US\$3,380,630 by cancelling the paid-up capital of the Company to the extent of US\$0.09 on each of the existing issued and fully paid-up ordinary share of US\$0.10 par value so that each issued ordinary share of US\$0.10 par value shall be treated as a fully paid-up share of US\$0.01 par value (“**Shares**”) as at the Par Value Reduction Effective Date and any liability of the holder of such Shares to make any further contribution to the capital of the Company on each such Share shall be treated as satisfied;
- (ii) subject to and forthwith upon the Proposed Par Value Reduction taking effect, the cancellation of all the authorised but unissued shares of US\$0.10 par value each (which shall include the authorised but unissued share capital resulting from the Proposed Par Value Reduction) and the diminution of the authorised share capital of the Company of US\$100,000,000 by US\$96,619,370, representing the amount of ordinary shares so cancelled and forthwith upon such cancellation, the authorised

share capital of the Company be increased to US\$100,000,000 by the creation of 9,661,937,000 ordinary shares of US\$0.01 par value each (representing the difference between 10,000,000,000 Shares of US\$0.01 par value each and the number of Shares of US\$0.01 par value each in issue after the Proposed Par Value Reduction); and

- (iii) subject to and forthwith upon the Proposed Par Value Reduction taking effect, the transfer of the credit amount arising from the Proposed Par Value Reduction to the contribution surplus account of the Company to be utilised in such manner as may be determined by the Board and permitted by the applicable law, including but not limited to capitalisation of such reserve (or any part thereof) for future corporate exercises of the Company.

((i), (ii) and (iii) above are collectively referred to as the “**Proposed Capital Reorganisation**”)

Upon the abovementioned taking effect:-

- (i) the par value of each issued and unissued share of the Company will be reduced from US\$0.10 to US\$0.01;
- (ii) the authorised share capital of the Company will remain intact at US\$100,000,000 but will be divided into 10,000,000,000 shares of par value of US\$0.01 each; and
- (iii) the total number of issued and paid-up shares will remain intact at 338,063,000 shares, but will comprise shares of US\$0.01 par value each.

For avoidance of doubt, the Proposed Capital Reorganisation:-

- (i) will not result in any adjustment to the share price of the Company or the number of shares held by the shareholders; and
- (ii) will not result in any adjustment to the exercise price or the number of existing outstanding warrants 2014/2019 of the Company (“**Warrant A**”).

Upon completion of the Proposed Par Value Reduction, warrant holders who exercise their Warrants A will be receiving Shares of US\$0.01 par value each as opposed to ordinary shares of US\$0.10 par value each.

The effects of the Proposed Capital Reorganisation on the share capital of the Company upon its completion are illustrated in **Section 5.1** below.

2.2 Proposed Rights Issue with Warrants

The Proposed Rights Issue with Warrants entails an issuance of up to 253,547,250 Rights Shares on a renounceable basis of one (1) Rights Share for every two (2) existing Shares held, together with up to 84,515,750 Warrants B on the basis of one (1) Warrant B for every three (3) Rights Shares subscribed for by the entitled shareholders of Xingquan whose names appear in the Records of Depositors of the Company as at the close of business, being 5.00 pm (Malaysia time) (“**Entitled Shareholders**”), on the Entitlement Date. It is intended that the Proposed Rights Issue with Warrants will be carried out after the Par Value Reduction Effective Date once the Proposed Capital Reorganisation has been completed.

The actual number of Rights Shares and Warrants B to be issued pursuant to the Proposed Rights Issue with Warrants will depend on the total number of issued and paid-up Shares as at the Entitlement Date after taking into consideration the number of existing outstanding Warrants A being exercised during the period up to the Entitlement Date.

Based on the issued and paid-up share capital of the Company of US\$3,380,630 comprising 338,063,000 Shares after the Proposed Capital Reorganisation and assuming all of the existing 169,031,500 outstanding Warrants A of the Company are exercised, the maximum Rights Shares and Warrants B to be issued pursuant to the Proposed Rights Issue with Warrants are 253,547,250 Rights Shares and 84,515,750 Warrants B. However, the Board does not envisage any Warrants A to be exercised at the current exercise price of RM1.00 prior to the Entitlement Date as the closing market price of Xingquan's shares as at the LPD is RM0.50 which is "out-of-the-money".

The Proposed Rights Issue with Warrants will be implemented on a minimum subscription basis to raise minimum gross proceeds of approximately RM26.94 million. The minimum subscription basis has been determined by the Board after taking into consideration, amongst others, the shareholding position of the substantial shareholders of Xingquan and the minimum level of funds that the Company wishes to raise from the Proposed Rights Issue with Warrants. Under the minimum subscription basis, the Proposed Rights Issue with Warrants would entail the issuance of 89,804,205 Rights Shares and 29,934,735 free Warrants B.

The Rights Shares will be provisionally allotted to the Entitled Shareholders after the close of business on the Entitlement Date after obtaining all the relevant approvals in respect of the Proposed Rights Issue with Warrants.

The Proposed Rights Issue with Warrants is renounceable in full or in part. However, the free Warrants B shall only be issued to the Entitled Shareholders of the Company (or their renounees), who subscribe for the Rights Shares pursuant to the Proposed Rights Issue with Warrants. The Rights Shares and the Warrants B are not separately renounceable. Accordingly, the Entitled Shareholders who renounce their entitlements to the Rights Shares in full or in part will simultaneously relinquish the accompanying entitlements to the Warrants B.

The Warrants B will be immediately detached from the Rights Shares upon issuance and will be separately traded. The Warrants B will be issued in registered form and constituted by a deed poll to be executed by the Company ("**Deed Poll**").

Fractional entitlements of the Rights Shares and Warrants B under the Proposed Rights Issue with Warrants shall be dealt with in such manner as the Board in their absolute discretion deemed fit and expedient (including but not limited to disregarding fractional entitlements in their entirety), and to be in the best interest of the Company.

The Rights Shares with Warrants B which are not taken up or validly taken up shall be made available for excess applications by the Entitled Shareholders and/or their renounee(s) (if applicable). It is the intention of the Board to allocate the excess Rights Shares with Warrants B in a fair and equitable manner on a basis to be determined by the Board and announced later by the Company.

For illustrative purposes, throughout the body of this announcement, the effects of the Proposed Rights Issue with Warrants shall be illustrated based on the following three (3) scenarios:-

- Minimum Scenario**
- Assuming none of the outstanding Warrants A are exercised prior to the Par Value Reduction Effective Date and the Entitlement Date and none of the Entitled Shareholders subscribed for their respective Rights Shares entitlements (other than Tai Zhen Xiang Holding Limited ("**TZX**"), the major shareholder who has given its Entitlement Undertaking (as defined below) to subscribe for its Rights Shares entitlement). Under this scenario, TZX will subscribe for an aggregate 89,804,205 Rights Shares based on the minimum subscription basis.

Maximum Scenario 1 - Assuming none of the outstanding Warrants A is exercised prior to the Par Value Reduction Effective Date and the Entitlement Date and all Entitled Shareholders subscribe for their respective Rights Shares entitlement.

Maximum Scenario 2 - Assuming all of the outstanding Warrants A are exercised prior to the Par Value Reduction Effective Date and the Entitlement Date and all Entitled Shareholders subscribe for their respective Rights Shares entitlement.

2.2.1 Basis of arriving at the Issue Price of the Rights Shares

The final issue price of the Rights Shares ("**Issue Price**") will be determined by the Board at a later date, based on a discount that is deemed appropriate after taking into consideration, amongst others, the new par value, the minimum amount to be raised from the Proposed Rights Issue with Warrants, the theoretical ex-rights price of the Shares based on the five (5)-day volume weighted average price ("**VWAP**") of the Shares immediately preceding the price-fixing date and the prevailing market conditions.

For illustrative purposes, the indicative Issue Price is assumed to be RM0.30 for each Rights Share which represents a discount of approximately 30.23% or RM0.13 to the theoretical ex-rights price of RM0.43 based on the five (5)-day VWAP of shares up to and including 23 September 2015, being the last market day prior to the date of this announcement of RM0.50.

2.2.2 Basis of determining the exercise price of the Warrants B

The Warrants B attached to the Rights Shares will be issued free to the Entitled Shareholders who subscribe for the Rights Shares.

The exercise price of the Warrants B shall be determined by the Board after receipt of all relevant approvals but before the Entitlement Date, after taking into consideration the new par value of the Shares and the theoretical ex-rights price of the Shares based on the five (5)-day VWAP of the Shares immediately preceding the price-fixing date for the Warrants B. In any event, the exercise price of the Warrants B will not be lower than the par value of the Shares of US\$0.01 each (approximately RM0.04 based on the BNM exchange rate of US\$1.00:RM4.3385 as at the LPD).

For illustrative purposes, the exercise price for each Warrant B is assumed to be RM0.40 which represents a discount of approximately 6.98% to the theoretical ex-rights price of RM0.43, based on the five (5)-day VWAP of shares up to and including 23 September 2015 of RM0.50.

2.2.3 Ranking of the Rights Shares and the new Shares arising from the exercise of the Warrants B

The Rights Shares will, upon allotment and issuance, rank *pari passu* in all respects with the then existing Shares, save and except that the Rights Shares will not be entitled to any dividends, rights, allotments and/or other distribution that may be declared, made or paid prior to the relevant date of allotment and issuance of the Rights Shares.

The new Shares arising from the exercise of the Warrants B will, upon allotment and issue, rank *pari passu* in all respects with the then existing issued and paid-up Shares, save and except that the new Shares will not be entitled to any dividends, rights, allotment and/or other distributions that may be declared, made or paid prior to the relevant date of allotment and issue of the said new Shares.

2.2.4 Listing of and quotation for the Rights Shares, Warrants B, the Additional Warrants A (as defined herein) and the new Shares arising from the exercise of the Warrants B and Additional Warrants A

An application will be made for the admission of the Warrants B on the Official List of Bursa Malaysia Securities Berhad (“**Bursa Securities**”) as well as the listing of and quotation for the Rights Shares, Warrants B and the additional number of Warrants A (consequential securities to be issued pursuant to the Proposed Rights Issue with Warrants) (“**Additional Warrants A**”) and the new Shares to be issued pursuant to the exercise of the Warrants B and Additional Warrants A, on the Main Market of Bursa Securities.

2.2.5 Indicative principal terms of the Warrants B

The Warrants B will be separately traded from the existing Shares. The Warrants B will be issued in registered form and constituted by a Deed Poll to be executed by the Company.

The indicative salient terms of Warrants B are set out in **Appendix I** to this announcement.

2.2.6 Substantial shareholders’ undertakings and underwriting arrangement

On 25 September 2015, the Company has procured a written irrevocable undertaking from TZX, the major shareholder of Xingquan to subscribe in full for its entitlement under the Proposed Rights Issue with Warrants (“**Entitlement Undertaking**”).

The details of the Entitlement Undertaking are set out below:

	As at the LPD		Entitlement Undertaking
	No. of shares	%	No. of Shares
TZX	179,608,411	53.13	89,804,205

For illustrative purposes only, based on the indicative Issue Price of RM0.30 per Rights Share, the funding requirement for TZX pursuant to its Entitlement Undertaking is approximately RM26.94 million. TZX also had in its letter dated 25 September 2015 provided confirmation that it has sufficient financial resources to subscribe for its entitlement.

Based on the above Entitlement Undertaking, there will be no take-over implications pursuant to Part III of the Malaysia Code on Take-Overs and Mergers, 2010 (“**Code**”).

As the Proposed Rights Issue with Warrants will be implemented based on a minimum subscription basis, no underwriting arrangement will be made for the remaining Rights Shares not subscribed by TZX.

3. UTILISATION OF PROCEEDS

Based on the indicative Issue Price of RM0.30, the minimum gross proceeds to be raised from the Proposed Rights Issue with Warrants pursuant to the Entitlement Undertaking are approximately RM26.94 million (“**Minimum Gross Proceeds**”). Assuming the Proposed Rights Issue with Warrants is fully subscribed under the Maximum Scenario 1, the total estimated gross proceeds to be raised is approximately RM50.71 million (“**Maximum Gross Proceeds**”). In the event all the outstanding Warrants A are exercised prior to the Entitlement Date, the Proposed Rights Issue with Warrants under Maximum Scenario 2 is expected to raise approximately RM76.06 million. However, the Board does not envisage any Warrants A being exercised prior to the Entitlement Date as the Warrants A with an exercise price of RM1.00 are currently “out-of-the-money” and hence, the possibility of Maximum Scenario 2 occurring is remote.

The Company intends to use the Minimum Gross Proceeds and the Maximum Gross Proceeds as follows:-

Details of utilisation	Minimum Gross Proceeds (RM)	Maximum Gross Proceeds (RM)	Timeframe for the utilisation of proceeds
Purchase of machineries ⁽¹⁾	25,941,262	49,709,450	Within 12 months
Estimated expenses for the Proposals ⁽²⁾	1,000,000	1,000,000	Within 1 month
	26,941,262	50,709,450	

Notes:-

⁽¹⁾ The Group is principally involved in the manufacturing of shoe soles and shoes as well as the sales of an array of products ranging from shoe soles, shoes, apparel to accessories.

In order to keep up with rapid changes in the sports shoes segment as well as the ever evolving fashion trend, it is vital that the Group continues to react promptly with new designs and adopt materials that would appeal to the target markets. As such, the proceeds of up to approximately RM49.7 million will be applied to further expand the Group’s manufacturing capabilities. In particular, the Group intends to expand their existing upstream activities by producing knit fabric, which is one of the common raw materials used in the production of shoes and apparels.

The Group plans to acquire 60 units of new circular knitting machines and 20 units of new warp knitting machines which are able to handle complex knitting patterns. The estimated cost for each unit of Circular Knitting Machine and Warp Knitting Machine are approximately RMB450,000 and RMB2,800,000 respectively (equivalent to RM306,630 and RM1,907,920 based on BNM’s exchange rate of RMB1.00: RM0.6814 as at the LPD). The total estimated cost for the knitting machines is approximately RM56.6 million or RMB83.0 million, of which RM25.9 million (under Minimum Gross Proceeds) and RM49.7 million (under Maximum Gross Proceeds) will be financed via the proceeds from the Proposed Rights Issue with Warrants with the balance funded through internally generated funds.

The capacity for each knit machine is approximately 400 yards of fabric per day. The new knitting machines are expected to be purchased and fully installed at the Group’s existing factory in Hui’an in the Fujian Province, People’s Republic of China (“**PRC**”) by mid of 2016. This would provide up to a total production capacity of 32,000 yards of fabric per day. A proportion of the fabric is expected to be used for apparels and in-house production of its shoes whilst the remaining fabric is targeted to be sold to other apparel and shoe manufacturers in the PRC.

Presently, the Group purchases knit fabric required for the production of its shoes and apparels from external suppliers. By manufacturing the knit fabric themselves, the Group is able to lower its costs in procuring raw materials, have better control over the quality of its products as well as have the flexibility and capability to design and produce different types of knit fabric in-house. Further, the purchase of the new knitting machines will expand the Group’s product range which will serve as an additional income stream to the Group.

Under the Minimum Scenario, the shortfall will be funded through internally generated funds. Under the Maximum Scenario 1, in the event that the actual expenses are higher than budgeted, the deficit will be funded from internally generated funds. Conversely, if the actual expenses are lower than budgeted, the excess will be utilised as working capital of the Group.

⁽¹⁾ *Proceeds earmarked for estimated expenses related to the Proposals comprise professional fees (i.e. principal adviser, reporting accountant and solicitors), regulatory fees and other related expenses. Any deficit allocated for the estimated expenses will be funded from internally generated funds whilst any excess will be used as working capital of the Group.*

The actual proceeds to be raised from the Proposed Rights Issue with Warrants are dependent on the issue price and actual number of Rights Shares to be issued.

Pending utilisation of the proceeds from the Proposed Rights Issue with Warrants for the above purposes, the proceeds will be placed in deposits with financial institutions or short term money market instruments. The interest derived from the deposits with financial institutions or any gains arising from the short term money market instruments will be used as additional working capital of the Group.

Any proceeds arising from any exercise of the Warrants B in the future are dependent on the total number of Warrants B exercised during the tenure of the Warrants B as well as the exercise price of the Warrants B, which will be determined at a later date. Based on the exercise price of RM0.40 per Warrant B, the proceeds expected to be raised from the exercise of Warrants B is approximately up to RM33.81 million based on the Maximum Scenario 2. Such proceeds will be utilised for the working capital requirements of the Group.

For information purposes, the Company had completed a 10% private placement on 16 May 2014. Following the completion of the private placement, the Company had raised an immediate gross proceeds of approximately RM30.7 million based on the issue price of RM1.00 per placement share. As at 30 June 2015, the gross proceeds have been fully utilised mainly for the expansion of the Group's sales and distribution network, in particular its self-operated Point-of-Sale ("POS") in department stores across China which include the Northern, North Eastern, Eastern, South Western and Southern region of China. The self-operated POS is a concession counter/ concept store located in department stores which is set-up and operated by the Group.

4. RATIONALE FOR THE PROPOSALS

4.1 Proposed Capital Reorganisation (including Proposed Par Value Reduction)

Under the Proposed Rights Issue with Warrants, the Rights Shares are assumed to be issued at an indicative Issue Price of RM0.30, which represents 30.23% discount to the VWAP to the theoretical ex-rights price of RM0.43 based on the five (5)-day VWAP of shares of RM0.50 up to and including 23 September 2015. Under the Bermuda law, a share in a company shall not be issued for a consideration that is below its par value.

Given the indicative issue price of RM0.30 which is equivalent to US\$0.07 (based on BNM's exchange rate of US\$1.00:RM4.3385 as at the LPD) is below the par value of US\$0.10, the Company therefore proposes to undertake the Proposed Capital Reorganisation prior to the Proposed Rights Issue with Warrants which will enable the Company to issue the Rights Shares at a discount or close to its market price but not below the par value of its shares. In addition, the Proposed Capital Reorganisation will provide the Company with greater flexibility to implement future corporate exercises which entail the issuance of equity and equity-related securities including, amongst others, ordinary shares and convertibles, at a more attractive price.

The credit arising from the Proposed Par Value Reduction will be transferred to the Company's contribution surplus account to be utilised in such manner as may be determined by the Board and permitted by applicable law, including but not limited to the capitalisation of such reserve (or any part thereof) for future corporate exercises to be undertaken by the Company.

In undertaking the Proposed Capital Reorganisation, the Xingquan Group has also taken into consideration that the reduction of par value would not result in any change to its net asset position.

4.2 Proposed Rights Issue with Warrants

As at 30 June 2015, Xingquan Group has cash and cash equivalents of approximately RM886.55 million. Management believes in maintaining a healthy level of cash balances at all times given the nature of its business which requires a high level of working capital and liquidity to fund its day-to-day operations. This includes payment to original equipment manufacturers ("OEM") suppliers, raw material suppliers, labour cost and other expenditures. Xingquan outsources the manufacture of its apparels and accessories to a few reputable OEM suppliers (who generally manufacture for international brands) to ensure high level of quality. These OEM suppliers usually request for payment in advance or substantial payments prior to delivery while Xingquan's customers are given a credit period of 60 to 90 days. Given the long working capital cycle, it would be prudent for Xingquan to have sufficient cash buffer to avoid any potential disruption to its operations. In addition, the worsening credit conditions and the nature of Xingquan's industry is such that it is difficult for manufacturers to secure credit facilities from the financial institutions in China.

In view of the above, the Board believes that the Proposed Rights Issue with Warrants is the most appropriate avenue of raising funds for Xingquan's capital expenditure requirements as set out in **Section 3** of this announcement.

The Proposed Rights Issue with Warrants also achieves the following:-

- (i) provide all existing shareholders with an equal opportunity to further increase their participation in Xingquan;
- (ii) increase the size and strength of Xingquan's balance sheet as well as to potentially increase the market capitalisation of Xingquan;
- (iii) the free Warrants B are expected to provide the shareholders of the Company with an incentive to subscribe for the Rights Shares as well as an option to further increase their equity participation in the Company, upon exercising the Warrants B at a pre-determined price over the tenure of Warrants B; and
- (iv) enhance the future cash flow of the Company with the proceeds of up to approximately RM33.81 million as and when the Warrants B are exercised.

5. EFFECTS OF THE PROPOSALS

The effects of the Proposals on Xingquan's issued and paid-up ordinary share capital, net asset ("NA") per share and gearing, earnings per share ("EPS"), substantial shareholders' shareholdings and existing convertible securities are illustrated based on the Minimum Scenario, Maximum Scenario 1 and Maximum Scenario 2.

5.1 Issued and paid-up ordinary share capital

The pro forma effects of the Proposals on the issued and paid-up ordinary share capital of Xingquan are as follows:-

	Par Value US\$	Minimum Scenario		Maximum Scenario 1		Maximum Scenario 2	
		No. of Shares	US\$	No. of Shares	US\$	No. of Shares	US\$
Existing as at LPD	0.10	338,063,000	33,806,300	338,063,000	33,806,300	338,063,000	33,806,300
<i>Assuming full exercise of Warrants A</i>	0.10	-	-	-	-	169,031,500	16,903,150
After the Proposed Capital Reorganisation	0.01	338,063,000	3,380,630	338,063,000	3,380,630	507,094,500	5,070,945
	0.01	338,063,000	3,380,630	338,063,000	3,380,630	507,094,500	5,070,945
<i>To be issued pursuant to the Proposed Rights Issue with Warrants</i>	0.01	89,804,205	898,042	169,031,500	1,690,315	253,547,250	2,535,473
		427,867,205	4,278,672	507,094,500	5,070,945	760,641,750	7,606,418
<i>To be issued assuming full exercise of the Warrants B</i>	0.01	29,934,735	299,347	56,343,833	563,438	84,515,750	845,158
Enlarged issued and paid-up share capital	0.01	457,801,940	4,578,019	563,438,333	5,634,383	845,157,500	8,451,576

5.2 NA per Share and gearing

Based on the audited consolidated statements of financial position of Xingquan as at 30 June 2015, the pro forma effects of the Proposals on the NA and gearing of Xingquan are as follows:-

Minimum Scenario

	Audited as at 30 June 2015 (1) RM'000	Pro forma I After the Proposed Par Value Reduction RM'000	Pro forma II After Pro forma I and the Proposed Rights Issue with Warrants RM'000	Pro forma III After Pro forma II and assuming full exercise of the Warrants B RM'000
Share capital	140,494	12,755	16,143	17,272
Share premium	166,638	166,638	(2)189,191	200,036
Contribution surplus account	-	127,739	127,739	127,739
Foreign currency translation reserves	(10,430)	(10,430)	(10,430)	(10,430)
Warrant reserves	43,765	43,765	(3)51,847	43,765
Merger deficit	(49,534)	(49,534)	(49,534)	(49,534)
Statutory Reserve	89,290	89,290	89,290	89,290
Discount on Shares	(43,765)	(43,765)	(3)(51,847)	(43,765)
Retained earnings	832,719	832,719	832,719	832,719
Shareholders' equity / NA	1,169,177	1,169,177	1,195,118	1,207,092
No. of shares ('000)	338,063	338,063	427,867	457,802
NA per share (RM)	3.46	3.46	2.79	2.64
Total borrowings	10,953	10,953	10,953	10,953
Gearing (times) (4)	0.01	0.01	0.01	0.01

Notes:-

(1) Translation exchange rate for illustrative purposes is based on BNM's exchange rate of RMB1.00:RM0.6085 as at 30 June 2015.

(2) Based on the indicative Issue Price of RM0.30 and after deducting the estimated expenses of RM1,000,000 relating to the Proposals.

(3) Computed based on the theoretical fair value of RM0.27 per Warrant B, which was arrived at using the Black-Scholes option pricing model.

(4) Gearing was computed based on total borrowings divided by shareholders' equity.

Maximum Scenario 1

	Audited as at 30 June 2015 (¹) RM'000	Pro forma I After the Proposed Capital Reorganisation RM'000	Pro forma II After Pro forma I and the Proposed Rights Issue with Warrants RM'000	Pro forma III After Pro forma II and assuming full exercise of the Warrants B RM'000
Share capital	140,494	12,755	19,133	21,259
Share premium	166,638	166,638	⁽²⁾ 209,969	230,381
Contribution surplus account	-	127,739	127,739	127,739
Foreign currency translation reserves	(10,430)	(10,430)	(10,430)	(10,430)
Warrant reserves	43,765	43,765	⁽³⁾ 58,978	43,765
Merger deficit	(49,534)	(49,534)	(49,534)	(49,534)
Statutory Reserve	89,290	89,290	89,290	89,290
Discount on Shares	(43,765)	(43,765)	⁽³⁾ (58,978)	(43,765)
Retained earnings	832,719	832,719	832,719	832,719
Shareholders' equity / NA	1,169,177	1,169,177	1,218,886	1,241,424
No. of shares ('000)	338,063	338,063	507,095	563,439
NA per share (RM)	3.46	3.46	2.40	2.20
Total borrowings	10,953	10,953	10,953	10,953
Gearing (times) ⁽⁴⁾	0.01	0.01	0.01	0.01

Notes:-

⁽¹⁾ Translation exchange rate for illustrative purposes is based on BNM's exchange rate of RMB1.00:RM0.6085 as at 30 June 2015.

⁽²⁾ Based on the indicative Issue Price of RM0.30 and after deducting the estimated expenses of RM1,000,000 relating to the Proposals.

⁽³⁾ Computed based on the theoretical fair value of RM0.27 per Warrant B, which was arrived at using the Black-Scholes option pricing model.

⁽⁴⁾ Gearing was computed based on total borrowings divided by shareholders' equity.

Maximum Scenario 2

	Audited as at 30 June 2015 (1) RM'000	Pro forma I Assuming all of the outstanding Warrants A are exercised RM'000	Pro forma II After Pro forma I and the Proposed Capital Reorganisation RM'000	Pro forma III After Pro forma II, the Proposed Rights Issue with Warrants RM'000	Pro forma IV After Pro forma III and assuming full exercise of the Warrants B RM'000
Share capital	140,494	204,270	19,133	28,699	31,888
Share premium	166,638	271,894	271,894	(2) 337,392	368,009
Contribution surplus account	-	-	185,137	185,137	185,137
Foreign currency translation reserves	(10,430)	(10,430)	(10,430)	(10,430)	(10,430)
Warrant reserves	43,765	-	-	(3) 22,819	-
Merger deficit	(49,534)	(49,534)	(49,534)	(49,534)	(49,534)
Statutory Reserve	89,290	89,290	89,290	89,290	89,290
Discount on Shares	(43,765)	-	-	(3) (22,819)	-
Retained earnings	832,719	832,719	832,719	832,719	832,719
Shareholders' equity / NA	1,169,177	1,338,209	1,338,209	1,413,273	1,447,079
No. of shares ('000)	338,063	507,095	507,095	760,642	845,158
NA per share (RM)	3.46	2.64	2.64	1.86	1.71
Total borrowings	10,953	10,953	10,953	10,953	10,953
Gearing (times) (4)	0.01	0.01	0.01	0.01	0.01

Notes:-

(1) Translation exchange rate for illustrative purposes is based on BNM's exchange rate of RMB1.00:RM0.6085 as at 30 June 2015.

(2) Based on the indicative Issue Price of RM0.30 and after deducting the estimated expenses of RM1,000,000 relating to the Proposals.

(3) Computed based on the theoretical fair value of RM0.27 per Warrant B, which was arrived at using the Black-Scholes option pricing model.

(4) Gearing was computed based on total borrowings divided by shareholders' equity.

5.3 EPS

The Proposed Capital Reorganisation will not have any effect on the earnings and EPS of Xingquan.

The Proposed Rights Issue with Warrants will not have any material effect on the earnings of the Group for the financial year ending (“FYE”) 30 June 2016. However, the Rights Shares to be issued pursuant to the Proposed Rights Issue with Warrants may serve to dilute the Company’s EPS for the FYE 30 June 2016 as a result of the increase in the number of Shares in issue upon the completion of the Proposed Rights Issue with Warrants and as and when the Warrants B are exercised into new Shares.

Notwithstanding the above, the proceeds from the Proposed Rights Issue with Warrants are expected to contribute positively to the future earnings of the Group when the benefits of the utilisation of proceeds, as described in **Section 3** of this announcement, are realised.

5.4 Substantial shareholders' shareholdings

The Proposed Capital Reorganisation will not have any effect on the substantial shareholders’ shareholdings of the Company.

The pro forma effects of the Proposed Rights Issue with Warrants on the substantial shareholders’ shareholdings in the Company are set out below:-

Minimum Scenario

Substantial shareholders	Shareholdings as at LPD				Pro forma I After the Proposed Rights Issue with Warrants				Pro forma II After Pro forma I and assuming full exercise of the Warrants B			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
TZX	179,608,411	53.13	-	-	269,412,617	62.97	-	-	299,347,352	65.39	-	-
Ng Sio Peng	-	-	⁽¹⁾ 179,608,411	53.13	-	-	⁽¹⁾ 269,412,617	62.97	-	-	⁽¹⁾ 299,347,352	65.39
lao leok Chon	-	-	⁽²⁾ 179,608,411	53.13	-	-	⁽²⁾ 269,412,617	62.97	-	-	⁽²⁾ 299,347,352	65.39

Maximum Scenario 1

Substantial shareholders	Shareholdings as at LPD				Pro forma I After the Proposed Rights Issue with Warrants				Pro forma II After Pro forma I and assuming full exercise of the Warrants B			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
TZX	179,608,411	53.13	-	-	269,412,617	53.13	-	-	299,347,352	53.13	-	-
Ng Sio Peng	-	-	⁽¹⁾ 179,608,411	53.13	-	-	⁽¹⁾ 269,412,617	53.13	-	-	⁽¹⁾ 299,347,352	53.13
lao leok Chon	-	-	⁽²⁾ 179,608,411	53.13	-	-	⁽²⁾ 269,412,617	53.13	-	-	⁽²⁾ 299,347,352	53.13

Maximum Scenario 2

	Shareholdings as at LPD				Pro forma I Assuming all of the outstanding Warrants A are exercised				Pro forma II After the Proposed Rights Issue with Warrants			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Substantial shareholders												
TZX	179,608,411	53.13	-	-	179,706,016	35.44	-	-	269,559,024	35.44	-	-
Ng Sio Peng	-	-	⁽¹⁾ 179,608,411	53.13	-	-	⁽¹⁾ 179,706,016	35.44	-	-	⁽¹⁾ 269,559,024	35.44
lao leok Chon	-	-	⁽²⁾ 179,608,411	53.13	-	-	⁽²⁾ 179,706,016	35.44	-	-	⁽²⁾ 269,559,024	35.44

	Pro forma III Shareholdings as at LPD			
	Direct		Indirect	
	No. of Shares	%	No. of Shares	%
Substantial shareholders				
TZX	299,510,027	35.44	-	-
Ng Sio Peng	-	-	⁽¹⁾ 299,510,027	35.44
lao leok Chon	-	-	⁽²⁾ 299,510,027	35.44

Notes:-

⁽¹⁾ Deemed interested by virtue of her interest in TZX.

⁽²⁾ Deemed interested by virtue of his interest in TZX.

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5.5 Convertible securities

The Proposed Capital Reorganisation will not give rise in any adjustment to the exercise price and number of outstanding Warrants A.

However, the implementation of the Proposed Rights Issue with Warrants may give rise to adjustments to the exercise price and/or the number of existing Warrants A (if applicable) in accordance with the provisions of the deed poll governing the Warrants A. This is to ensure that the status of the holders of the existing Warrants A is not prejudiced due to the Proposed Rights Issue with Warrants.

Any necessary adjustments arising from the Proposed Rights Issue with Warrants (if applicable) will only be finalised by the Board on the Entitlement Date. The rights and obligations of the holders of the existing Warrants A will remain unchanged, save for the adjustment to the exercise price and/or the number of existing Warrants A (if applicable). The holders of the existing Warrants A will be notified in due course.

Save for the existing Warrants A, as at the LPD, the Company does not have any other outstanding existing convertible securities.

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

None of the Directors, major shareholders and/or persons connected to them has any interest, direct or indirect, in the Proposals apart from their respective entitlements under the Proposed Rights Issue with Warrants which are available to all Entitled Shareholders.

7 APPROVALS REQUIRED

The Proposals are subject to the approvals being obtained from the following:-

- (i) Bursa Securities for the following:-
 - (a) the listing of and quotation for the Rights Shares, Warrants B and the Additional Warrants A to be issued to holders of existing Warrants A pursuant to the adjustments made in accordance with the deed poll dated 10 June 2014;
 - (b) the admission of the Warrants B to be issued pursuant to the Proposed Rights Issue with Warrants to the Official List of Bursa Securities; and
 - (c) the listing of and quotation for the new Shares to be issued pursuant to the exercise of the Warrants B and the Additional Warrants A.
- (ii) the shareholders of Xingquan at a Special General Meeting to be convened for the Proposals; and
- (iii) any other relevant authorities, if required.

The Proposed Rights Issue with Warrants is conditional upon the Proposed Capital Reorganisation.

Save for the above, the Proposals are not conditional upon any other corporate proposals of the Company.

8 STATEMENT BY DIRECTORS

The Board, having considered all aspects of the Proposals is of the opinion that the Proposals are in the best interests of the Company as a whole.

9 ADVISER

RHBIB has been appointed as the Principal Adviser for the Proposals.

10 APPLICATION TO THE RELEVANT AUTHORITIES

Barring any unforeseen circumstances, the applications to the relevant authorities will be made within one (1) month from the date of this announcement.

11 ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to receipt of all required approvals, the Board expects the Proposals to be completed in fourth quarter of calendar year 2015.

This announcement is dated 25 September 2015.

Section 1- Indicative salient terms of the Warrants B

The indicative salient terms of the Warrants B are as follows:-

- Issue size : Up to 84,515,750 new Warrants B to be issued to the Entitled Shareholders of Xingquan on the basis of one (1) Warrant for three (3) Rights Shares subscribed.
- Form and denomination : The Warrants B will be separately traded on the Main Market of Bursa Securities and will be issued in registered form and constituted by the Deed Poll to be executed by the Company.
- Exercise Rights : Each Warrant B entitles the registered holder, at any time during the Exercise Period, to subscribe for one (1) new Share at the Exercise Price, subject to adjustments in accordance with the terms and provisions of the Deed Poll.
- Exercise Period : The Warrants B may be exercised any time during the tenure of the Warrants B of five (5) years commencing on and including the date of issuance of the Warrants B and shall end at 5.00 p.m. (Malaysia time) on the date preceding the fifth (5th) anniversary of the date of issuance, or if such date is not a market day, then it shall be the market day immediately preceding the said non-market day. All Warrants B not exercised during the Exercise Period will thereafter lapse and cease to be valid. (A "market day" means any day between Monday to Friday (both days included) on which Bursa Securities is open for the trading of securities.)
- Exercise Price : The Exercise Price of Warrants B will be determined by the Board and announced at a later date, after taking into consideration the theoretical ex-all price of the Shares at a price fixing date to be determined by the Board and subject to the exercise price not being less than the par value of the Shares, subject further to adjustments in accordance with the provisions of the Deed Poll. The Exercise Price and the number of outstanding Warrants B shall however be subject to the adjustments in accordance with the terms and provisions of the Deed Poll during the Exercise Period.
- Mode of exercise : The registered holder of a Warrant B is required to complete and sign the exercise notice and deliver the duly executed exercise notice to the Company's share registrar specified in the exercise notice together with a remittance by way of bankers' draft or cashier's order drawn on a bank operating in Malaysia or a money order or postal order issued by a post office in Malaysia.
- Mode of transfer : The Warrants B are transferable in accordance with the provisions of SI(CD)A and the Depository Rules.
- Board lot : For the purpose of trading on Bursa Securities, a board lot of Warrants B shall comprise 100 Warrants B (or such other multiple thereof as determined or prescribed from time to time by any relevant authorities) carrying the right to subscribe for 100 new Shares at any time during the Exercise Period.
- Listing status : An application will be made to Bursa Securities for the admission of the Warrants B to the Official List of Bursa Securities, and for the listing of and quotation for the Warrants B and new Shares issued pursuant to the exercise of Warrants B on the Main Market of Bursa Securities.
- Ranking of new shares : The new Shares to be issued pursuant to the exercise of the Warrants B, shall upon allotment and issue and payment of the Exercise Price, rank *pari passu* in all respects with the then issued and fully paid-up Shares, save and except that they will not be entitled to any dividends, rights, allotment, and/or other distributions, the entitlement date of which is prior to the allotment date of the said new Shares to be issued upon exercise of the Warrant B.

APPENDIX I

- Rights of warrant holder(s) : Warrant B holders are not entitled to attend and vote in any general meeting of Xingquan or to participate in any distribution and/or offer of further securities in Xingquan in respect of their Warrants B unless and until the Warrant B holder has exercised his/her Warrants B into new Shares and his/her name is entered into the Record of Depositors and Register of Members as the holder of those new Shares which are the subject of such exercise of Warrants B.
- Adjustments in the exercise price and/or number of warrants : The Exercise Price and/or number of unexercised Warrants B may be adjusted by the Board, in consultation with the approved investment bank and certified by the auditors, in the event of alteration to the share capital of Xingquan, capital distribution or issue of shares or any other events in accordance with the terms and provisions of the Deed Poll.
- Rights in the event of winding-up, compromise, consolidation, amalgamation and merger : In the event a notice is given by Xingquan to its members to convene a general meeting for the purpose of considering, and if thought fit, approving a resolution to voluntarily wind-up Xingquan or to approve a compromise or arrangement, or to approve an amalgamation of Xingquan subject always to the terms and provisions of the Deed Poll, the Company shall on the same date or soon after it despatches such notice to each of its members, give notice thereof to all the Warrant B holders. Every Warrant B holder shall thereupon be entitled to elect to exercise his Warrants B at any time not less than fourteen (14) days prior to the proposed general meeting of Xingquan, whereupon Xingquan shall as soon as possible and, in any event, prior to the date of the proposed general meeting referred to above, allot the relevant new Shares to the said Warrant B holder credited as fully paid subject to the prevailing laws.
- Modification : Subject the terms and provisions of the Deed Poll, all of the rights attached to the Warrants B may be altered or abrogated by the Company from time to time (whether or not the Company is being wound up) and the sanction of a special resolution passed at a meeting of the Warrant B holders shall be sufficient to effect such alteration or abrogation.
- The Company, may without the consent of the Warrant B holders but in accordance with the terms of the Deed Poll, effect any modification to the Warrant B or the Deed Poll which, in the opinion of the Board, is to correct a manifest error or to comply with mandatory provisions of Malaysian law, or does not materially prejudicial to the interest of the Warrant B holders, provided always that the Company may appoint an adviser to advise them whether the proposed modification to the Warrants B or the Deed Poll is materially prejudicial to the interest of the Warrant B holders and the Company may rely on such advice of the adviser.
- Any modification to the Deed Poll (including, the form and content of the warrant certificate) may be effected by a deed poll, executed by the Company and expressed to be supplemental to the Deed Poll and subject to the requirements of Schedule 5 of the Deed Poll being complied with. Any such modification shall however be subject to the approval of Bursa Securities and/or any other relevant authorities where required.
- Governing Law : The Warrants B and the Deed Poll shall be governed by and construed in accordance with the laws of Malaysia.