

## **Announcing the Acquisition of Red Earth Group**

**Esprit Holdings Limited**  
*(Incorporated in Bermuda with limited liability)*  
**Hong Kong**

**5 January, 1998**

### **Connected transaction: Acquisition of shares from a connected person and related option arrangements involving connected persons**

Red Earth International Holdings Limited ("Red Earth") is the holding company of a group of companies which are engaged in the licensing and distribution of cosmetic and personal care products under the Red Earth brand name. Some of these products are currently sold in Esprit stores.

Red Earth is currently owned by three individuals, namely, Michael Ying, Chairman of Esprit and who controls about 59.45 per cent. of Esprit, Ko Soon How and Nicholas Everard Chadwick. Pursuant to the agreements dated 31st December, 1997, Esprit will acquire about 60.78 per cent. of Red Earth by purchasing all the shares held by Mr. Ying in Red Earth and subscribing for further new shares in Red Earth. Subject to the matters disclosed below, Esprit will also be entitled to subscribe for further shares and increase its holdings to about 66.67 per cent. of Red Earth. The agreements have been negotiated on an arms length basis and are on normal commercial terms.

The main reason for the agreements is for Esprit to acquire a majority controlling interest in Red Earth. It is the intention of Esprit to expand its business into cosmetic and personal care products and the acquisition will enable Esprit to control the business as well as the trademark of "Red Earth". There is significant value in the operations, network, goodwill and trademark of Red Earth and despite the loss making status of Red Earth, the directors of Esprit consider that the proposed acquisition is in the commercial interest of Esprit.

As Mr. Ying is the Chairman of Esprit and the option arrangements detailed below involve the other directors and existing shareholders of Red Earth, the agreements are connected transactions for Esprit under the listing rules. However, no independent shareholders approval is required pursuant to Rule 14.25(1) of the Listing Rules. Esprit will include details of the transactions in its next published annual reports and accounts for the year ended 30th June, 1998.

### **Memorandum of Agreement and Addendum No. 1 Both Dated 31st December, 1997**

#### **Parties**

Esprit Holdings Limited, Red Earth, Michael Ying, Chairman of Esprit, Ko Soon How, Chief Executive Officer of Red Earth and Nicholas Everard Chadwick, director of Red Earth.

#### **Acquisition of Red Earth Shares by Esprit**

Esprit (or its nominee) shall acquire 654,100 shares held by Mr. Ying in Red Earth (the "Acquisition") representing about 50 per cent. of Red Earth at the price of US\$654,100 (about HK\$5,056,173). This consideration is based on Mr. Ying's cost of investment and is arrived at arms length. For this purpose, Mr. Ying and Esprit shall agree on and enter into a Sale and Purchase Agreement.

#### **Subscription of Red Earth Shares by Esprit**

Simultaneously with the Acquisition, Esprit (or its nominee) shall subscribe for 359,700 new shares in Red Earth at the subscription price of US\$1.00 per share payable in full in cash upon

allotment (the "Subscription") and upon completion of the Acquisition and Subscription, it will then hold about 60.78 per cent. of Red Earth. Esprit shall have the right to increase its holding to about 66.67 per cent. of Red Earth by subscribing for an additional 294,400 new shares in Red Earth at the aggregate subscription price of A\$450,000 (about HK\$2,250,000) payable in full in cash upon allotment provided that the Mr. Chadwick's Option (as defined below) has expired without any prior exercise. Further details of Mr. Chadwick's Option are disclosed below.

#### **Relationship with the Other Shareholders of Red Earth**

The agreements provide, inter alia, that a Shareholders' Agreement will be concluded to regulate the management and shareholdings in Red Earth. In addition, following completion of the Acquisition and Subscription, relevant option deeds will be concluded to reflect the option arrangements disclosed below.

Mr. Ko, the Chief Executive Officer of Red Earth, and Esprit have agreed that Esprit shall have a call option and Mr. Ko shall have a put option over the shares held in Red Earth by Mr. Ko on the following terms:

- (a) Number of Shares: All shares held by Mr. Ko in Red Earth at the time when the option is exercised.
- (b) Consideration: The consideration shall be determined by applying a price earning multiple to the earnings of Red Earth for a 12 month period as shown in the accounts of Red Earth and included in the latest published consolidated annual or interim results of Esprit. The price earning multiple shall be 75 per cent. of the average price earning ratio of Esprit by reference to the closing price of Esprit shares in each of the 10 trading days before the exercise of the option.
- (c) Exercise Period: Commencing from the fourth year and expiring at the end of the fifth year from the date on which the relevant option deed is concluded between the parties.

Mr. Chadwick currently holds 100 shares in Red Earth which will represent a nominal interest in Red Earth upon completion of the Acquisition and the Subscription. Pursuant to the agreements, Mr. Chadwick has an option ("**Mr. Chadwick's Option**") to acquire 294,300 shares at the aggregate subscription price of A\$450,000 (about HK\$2,250,000) in Red Earth which will increase his total holdings to about 15 per cent. of Red Earth whereupon Esprit's holdings in Red Earth will be diluted to about 51.67 per cent. Mr. Chadwick's Option may be exercised within and will expire after 9months from the date of the conclusion of the relevant option deed between Red Earth and Mr. Chadwick.

Esprit and Mr. Chadwick have agreed that, assuming Mr. Chadwick's Option has been exercised, Esprit shall have a call option and Mr. Chadwick shall have a put option in respect of Mr. Chadwick's shares in Red Earth on the following terms:

- (a) Number of Shares: All shares held by Mr. Chadwick in Red Earth at the time when the option is exercised.
- (b) Consideration: The consideration shall be determined by applying a price earning multiple to the earnings of Red Earth for a 12 month period as shown in the accounts of Red Earth and included in the latest published consolidated annual or interim results of Esprit. The price earning multiple shall be 75 per cent. of the average price earning ratio of Esprit by reference to the closing price of Esprit shares in each of the 10 trading days before the exercise of the option.
- (c) Exercise Period: Commencing from the fourth year and expiring at the end of the fifth year from the date on which the relevant option deed is concluded between the parties.

### **Summary of Esprit's Shareholdings in Red Earth**

For ease of reference, Esprit's holdings in Red Earth as contemplated in the agreements are summarised as follows:

<b>Description of Event</b>	<b>Percentage of Red Earth held by Esprit</b>
1. Upon completion of the Acquisition and the Subscription	60.78 (Note 1)
2. Exercise of Mr.Chadwick's Option which must be within 9 months from the execution of the relevant option agreement	51.67 (Note 2)
3. Exercise by Esprit of its right to subscribe for 294,400 new Red Earth shares if Mr. Chadwick's Option expires without any prior exercise	66.67 (Note 3)

#### *Notes:*

1. Mr. Ko will hold about 39.22 per cent.
2. Mr. Chadwick will hold about 15 per cent. and Mr. Ko will hold about 33.33 per cent.
3. Mr. Ko will hold about 33.33 per cent.

It should be noted that the agreements contemplate that Esprit will hold a majority interest in Red Earth and that this will not be affected by the option arrangements disclosed above.

### **Execution of Further Agreements**

Although the agreements contemplate further agreements to be executed, the agreements are legally binding. The agreements provide that if any terms are held to be illegal or unenforceable (including because the parties have not agreed on the further agreements), the enforceability of the remaining provisions of the agreements shall not be affected. It is intended that the further agreements will be executed as soon as practicable.

By Order of the Board  
**Esprit Holdings Limited**  
**Alva Chan Wai Mo**  
*Director*

Hong Kong, 5th January, 1998