Announcing the Acquisition of Esprit Worldwide Companies

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

11 December, 1996

THE ACQUISITION

The directors (the "Directors") of Esprit Asia Holdings Limited(the "Company") announce that on 11th December, 1996, the Company entered into a conditional agreement with Worldwide Thousand Limited("WTL"), a company controlled by Mr. Ying Lee Yuen, Michael ("Mr.Ying") ("Acquisition Agreement 1"), for the Company to acquire or procure the acquisition from WTL of the entire issued share capital of Esprit Far East Limited ("EFE") ("Sale Shares 1") and a conditional agreement with, inter alia, Mr. Jürgen Friedrich("Mr. Friedrich") ("Acquisition Agreement 2") for the acquisition from Mr. Friedrich of shares representing a 12.5 per cent.interest in Esprit de Corp GmbH ("Esprit Europe") ("Sale Shares 2"), being the balance of the interest in Esprit Europe not currently owned by EFE (together the "Acquisition Agreements" or"Acquisition"). The Acquisition Agreements are inter-conditional.EFE is the holding company of a group of companies (the "EFE Group") which is principally engaged, through Esprit Europe, in the design and sourcing of a wide range of apparel and other products which are marketed and distributed under the ESPRIT brand name principally to wholesalers, and also through its chain of ESPRIT retail outlets, in Europe. In addition, the EFE Group, through Esprit International, is involved in the licensing, management and development of a range of ESPRIT trademarks internationally. The EFE Group through its sourcing division ("Esprit Sourcing") is also involved in the provision of sourcing services to licensees of the ESPRIT trademarks, including the Company and its subsidiaries (the "Group"). The EFE Group also holds shares representing approximately a 5 per cent. interest in Esprit Holdings Inc. ("Esprit US"), which designs, sources, markets and distributes a range of apparel and other ESPRIT products, principally to wholesalers in the United States of America ("US").In addition, the EFE Group holds shares representing approximately a 10per cent. interest in Esprit Japan (Distribution) Limited ("Esprit Japan"), being the balance of the interest in Esprit Japan not currently owned by the Group. The aggregate consideration for the Sale Shares 1 and Sale Shares 2 is HK$1,839.74 million, to be satisfied by payment of HK$1,531.91 million in cash and the allotment and issuance of 91,889,579 new shares of HK$0.10 each in the capital of the Company ("Shares") ("Consideration Shares") at HK$3.35 per Share.

WTL owns approximately 68 per cent. of the issued share capital of the Company. As EFE is a wholly-owned subsidiary of WTL, which is itself owned as to approximately 87 per cent. by Mr. Ying, the Chairman and Chief Executive of the Company, and as to approximately 13 per cent. by Mr. Friedrich, a founding shareholder of Esprit Europe, the Acquisition is a connected transaction for the purposes of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").The Acquisition also constitutes a very substantial acquisition for the purposes of the Listing Rules. Accordingly, the Acquisition may only proceed with the approval of the shareholders of the Company other than WTL and its associates (the "Independent Shareholders"). Such approval will be sought at a special general meeting of the Company ("Special General Meeting").

BACKGROUND

The Directors previously announced on 15th October, 1996 that they had been advised by Mr. Ying that the shareholders of EFE, Esprit Europe and Esprit US (together with Esprit International, Esprit Sourcing and Esprit Japan, the "Esprit Worldwide Companies") other than Mr. Ying(the

"Selling Shareholders") had entered into a conditional stock sale and purchase agreement (the "Agreement") with companies controlled by Mr. Ying for the sale of the Selling Shareholders' entire shareholding interests in the Esprit Worldwide Companies. The Agreement was subsequently amended such that the sale of shares representing a12.5 per cent. interest in Esprit Europe held by Mr. Friedrich was effectively replaced by Acquisition Agreement 2. The Agreement and the amended agreement (the "Amended Agreement") were conditional, inter alia, on financing being obtained by Mr. Ying. As the Company was then a subsidiary of EFE, it was not technically feasible for the Company to enter into such agreement with the Selling Shareholders. The shareholding structure of the Esprit Worldwide Companies as at 15th October, 1996 was as follows:

On 6th November, 1996 a syndicate of the then creditors of Esprit US, being third parties independent of any member of the Esprit Worldwide Companies, exercised their rights to convert their then existing debts into equity of Esprit US pursuant to their loan agreements with Esprit US. As a result, these independent third parties became holders of a 95 per cent. interest in Esprit US. Mr. Ying's and the Selling Shareholders' entire interests in Esprit US were diluted from 100 per cent. to a total interest of approximately 5 per cent.

The Directors were advised by Mr. Ying that all the conditions attached to the Agreement and the Amended Agreement were satisfied and that the Agreement and the Amended Agreement were completed on 11th December, 1996. As a result, WTL currently holds the entire issued share capital of EFE and Mr. Ying is the Chairman and Chief Executive Officer of EFE.He is also the Chairman and Chief Executive Officer of the Company.

Pursuant to a reorganisation of the Esprit Worldwide Companies, on 11th December, 1996, all of Mr. Ying's interests in the Esprit Worldwide Companies became held through WTL, a company controlled by Mr. Ying in which Mr. Friedrich has an interest of approximately 13 per cent. On 11th December, 1996 EFE effected a distribution in specie of its entire interest in the Company and WTL became the holder of 550,374,000 Shares representing approximately 68 per cent of the issued share capital of the Company.

The current shareholding structure of the Esprit Worldwide Companies is as follows:

THE ACQUISITION AGREEMENTS AND THE CONSIDERATION

Pursuant to Acquisition Agreement 1 and subject to the adjustment provisions contained therein, the total consideration payable by the Company for the Sale Shares 1 under Acquisition Agreement 1 is HK$1,625.80 million, to be satisfied as to HK$1,317.97 million in cash and as to HK$307.83 million by the allotment and issuance, credited as fully paid, to WTL of the Consideration Shares at HK$3.35 per Share.The total consideration payable by the Company for the Sale Shares 2under Acquisition Agreement 2 is HK$213.94 million, to be satisfied in cash. The aggregate cash consideration of HK$1,531.91 million will be financed by a secured bank loan of HK$1,314.10 million and the balance from internal resources of the Group. The Consideration Shares to be issued to WTL represent approximately 11.3 per cent. of the existing issued share capital of the Company and approximately 10.2 per cent. of the issued share capital of the Company immediately following completion of the Acquisition ("Completion") (the "Enlarged Share Capital"). The issue price for the Consideration Shares is the same as the closing price of the Shares on the Stock Exchange on 10thDecember, 1996 (being the last trading day of the Shares on the Stock Exchange prior to the formal announcement of the terms of the Acquisition and the latest practicable date prior to this announcement for determining the issue price of the Consideration Shares). The Consideration Shares will rank pari passu in all respects with the existing Shares, including the right to receive all dividends and distributions declared, paid or made after their allotment and issuance. Upon Completion, WTL will own approximately 71 per cent. of the Enlarged Share Capital.

The total consideration payable by the Company under the Acquisition Agreements of HK$1,839.74 million has been determined on an arm's length basis and on normal commercial terms and has been calculated based on a prospective price earnings multiple of approximately 9.83times the pro forma forecast profit after taxation and minority interests but before extraordinary items of the EFE Group for the year ending 30th June, 1997. The directors of EFE have forecast that, on the assumption that the EFE Group structure immediately following Completion had been in effect throughout that year, the pro forma profit after taxation and minority interests but before extraordinary items of the EFE Group for that year will not be less than HK$187.07 million.

The total consideration payable to WTL pursuant to the Acquisition Agreement 1 of HK$1,625.80 million is subject to adjustment such that if the audited net profit after taxation and minority interests but before extraordinary items of the EFE Group for the year ending 30thJune, 1997 after making adjustments, inter alia, to eliminate the effect of certain exchange rate fluctuations and to standardise the accounting policy for the amortisation of trademarks within the EFE Group and the Group, is less than HK$187.07 million, then the shortfall will be multiplied by 9.83 times and the resulting sum will be repaid in cash jointly and severally by WTL and Mr. Ying to the Company. The total consideration payable to Mr. Friedrich pursuant to Acquisition Agreement 2 is not subject to any adjustment.

It is expected that the Acquisition Agreements, subject to the fulfilment of the conditions set out therein, will be completed on or about 7th January, 1997, and will not be completed after 28th February, 1997, being the latest date by which the conditions of the Acquisition Agreements must be satisfied unless otherwise agreed between WTL, Mr.Friedrich and the Company.

The shareholding structure of the Esprit Worldwide Companies immediately after Completion would be as follows:

The percentage of public shareholding in the Company will be reduced from approximately 32 per cent. prior to Completion to approximately 29 per cent. immediately upon Completion.

FINANCIAL INFORMATION ON THE EFE GROUP

A summary of the combined audited results of the EFE Group for the three financial years ended 30th June, 1996 (which has been prepared on the assumption that the EFE Group structure immediately following Completion had been in effect throughout the period under review) is set out below:

	Year ended 30th June,		
	1994	**1995**	**1996**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	3,449,714	3,532,318	3,437,001
Profit before taxation	363,840	257,540	318,908
Taxation	(114,632)	(70,040)	(107,388)

Profit after taxation	249,208	187,500	211,520
Minority interests	(22,526)	(32,332)	(40,227)
Profit attributable to shareholders	226,682	155,168	171,293

As at 30th June, 1996 the net assets of the EFE Group (prepared as if the EFE Group structure immediately following Completion had been in effect on that date) were approximately HK$741.96 million.

REASONS FOR THE ACQUISITION

The Directors believe that the Acquisition represents an excellent opportunity for the Group to significantly expand its operations internationally and to become the listed flagship of the Esprit Worldwide Companies. The Esprit Worldwide Companies, which includes the Group, are a group of companies engaged in the design, sourcing and manufacturing, and retail and wholesale distribution, of a range of ESPRIT products. The Esprit Worldwide Companies are linked operationally by licensing arrangements principally between Esprit International and other companies in the network, including the Group and the EFE Group. Furthermore, as part of the Esprit Worldwide Companies, the Group already has access to product lines designed by the EFE Group and uses its services for the sourcing of raw materials and finished products.

The Directors believe that the Acquisition will enable the Group to capitalise more extensively upon being a member of the Esprit Worldwide Companies and will enable further development of the ESPRIT image, particularly in the established markets of Asia and Europe. The Acquisition will streamline and rationalise the worldwide operations of the Esprit Worldwide Companies. Upon completion of the Acquisition, the Company will gain direct control of all of the design, sourcing and manufacturing activities of the Esprit Worldwide Companies in Asia and Europe. As a result, the enlarged Group ("Enlarged Group") is expected to benefit from cost savings and operational synergies generated in activities such as product design, sampling, sourcing and licensing. The Directors believe that in particular the Enlarged Group will benefit substantially from the sourcing capabilities of the EFE Group in achieving competitive purchase and manufacturing rates.

The Acquisition will also give the Group control of Esprit International, which holds the majority of the trademark rights of ESPRIT. The Directors are confident that the Enlarged Group will benefit fully from the services of Esprit International. In particular, it is intended that Esprit International will identify new markets and new product categories for the Group and the EFE Group in due course, which may include fragrances and cosmetics, fashion jewellery and intimate apparel. The Directors intend that the minority interest in Esprit US will be retained as a long term investment. The Acquisition will also substantially reduce the Company's potential for future connected transactions for the purposes of the Listing Rules.

The Directors are confident in the future of the EFE Group 's wholesale and retail business in Europe. In Germany, the EFE Group's largest wholesale and retail market, a recent independent survey indicated that the ESPRIT brand is one of the most well known fashion brands. In Belgium and the Netherlands, which altogether represent the second principal wholesale and retail market of the EFE Group, the ESPRIT brand name enjoys brand recognition comparable to that in Germany. With the high brand awareness of ESPRIT in Europe, the Directors are of the strong view that the EFE Group should benefit substantially when the retail market in Europe improves, and believe that it is now the optimal time to implement the Acquisition. In addition, the Directors intend that Esprit Europe should capitalise on the ESPRIT brand's high awareness in Europe and expand into the mass men's apparel market in Europe where the main focus of Esprit Europe at present is on the women's apparel market. The Directors, based on discussions with management of the EFE Group, believe that the strengths of the EFE Group include the following principal factors:

- the successful establishment and development by the EFE Group of the ESPRIT brand and image which has generated a high degree of awareness of the ESPRIT brand name in the principal markets in which the EFE Group operates;
- its wide range of high quality products which make up cohesive collections with fashionable designs appropriate to the markets in which the EFE Group operates;
- its highly experienced management team that has an extensive knowledge of the European apparel market;
- its long established and extensive wholesale distribution networks with a particular focus on shop-in-stores, together with its established retail operations;
- the international experience of the design teams based in Germany and the Netherlands, which have also supplied the majority of the design requirements of the Company;
- the sourcing ability of the EFE Group to achieve competitive and flexible terms for production resulting in competitively priced ESPRIT products; and
- the successful management and development by Esprit International of the ESPRIT trademarks, which has ensured a strong and unified global image of ESPRIT.

EFFECT OF THE ACQUISITION

The effect of the Acquisition on the earnings, borrowings, interest cover and gearing ratio, net assets and public shareholding of the Group is set out in paragraphs (a) to (d) below respectively.

(a) Earnings

The Acquisition will broaden the Group's income base in terms of geographical markets in which the Enlarged Group will operate, and the Directors believe that this will result in a significant addition to the profits of the Group.

The Directors forecast that, without taking into consideration the effect of the Acquisition, the consolidated profit after taxation and minority interests but before extraordinary items of the Group for the year ending 30th June, 1997 will not be less than HK$185.52 million.

The Group's forecast earnings per Share, based on the forecast profit of the Group for the year ending 30th June, 1997 amounting to HK$185.52 million and the weighted average number of 810,045,000 Shares currently expected to be in issue during that year, without taking into consideration the effect of the Acquisition, is 22.9 HK cents. Based on such forecast earnings per Share of the Group for the year ending 30thJune, 1997 and the closing price of the Shares on the Stock Exchange on 10th December, 1996 (being the latest practicable date prior to this announcement for determining the issue price of the Consideration Shares) of HK$3.35 per Share, the implied prospective price earnings multiple is approximately 14.6 times.

The pro forma forecast earnings of the Enlarged Group for the year ending 30th June, 1997, assuming that the EFE Group structure following Completion had been in effect throughout that year and that the Group had in turn held its investment in EFE throughout that year, is 28.2 HK cents per Share. This forecast is calculated based on the forecast profit of the Group and the pro forma forecast profit of the EFE Group for the year ending 30th June, 1997 after making adjustments for the notional interest charge on the cash consideration payable in connection with the Acquisition and the elimination of all material intra-group transactions. Such pro forma forecast is calculated on the basis of the weighted average number of 901,934,579 Shares currently expected to be in issue during that year and on the basis that goodwill arising as a result of the Acquisition is written off against the Company's reserves. No adjustment has been made in calculating such pro forma forecast for any cost savings or operational synergies that are expected to arise as a result of the Acquisition. The pro forma forecast combined earnings per Share for the Enlarged Group for the year ending 30th June, 1997 represents an increase of approximately 23per cent. on the Group's forecast earnings per Share for that year.Based on the above pro forma forecast earnings per Share of the Enlarged Group for the year ending 30th June, 1997 and the closing price of the Shares on the Stock Exchange on 10th December, 1996 of HK$3.35 per Share, the implied pro forma prospective price earnings multiple is approximately 11.9 times.

The pro forma forecast earnings of the Enlarged Group for the year ending 30th June, 1997, assuming that the EFE Group structure following Completion will be in effect from 7th January, 1997, the expected date of Completion (the "Completion Date"), and that the Group will inturn hold its investment in EFE with effect from that date, is 25.0 HK cents per Share. This forecast is calculated based on the forecast profit of the Group for the year ending 30th June, 1997 and the proforma forecast profit of the EFE Group for the period from the Completion Date to 30th June, 1997, after making adjustments for the estimated interest charge for the period from the Completion Date to 30th June, 1997 on the cash consideration payable in connection with the Acquisition and the elimination of all material intra-group transactions. Such pro forma forecast is calculated on the basis of the weighted average number of 854,101,647 Shares currently expected to be in issue during that year and on the basis that goodwill arising as a result of the Acquisition is written off against the Company's reserves. No adjustment has been made in calculating such pro forma forecast for any cost savings or operational synergies that are expected to arise as a result of the Acquisition. The pro forma forecast combined earnings per Share of the Enlarged Group for the year ending 30th June, 1997 prepared as if the Acquisition were completed on the Completion Date represents an increase of approximately 9 per cent.on the Group's forecast earnings per Share for that year. Based on the above pro forma forecast earnings per Share of the Enlarged Group for the year ending 30th June, 1997 and the closing price of the Shares on the Stock Exchange on 10th December, 1996 of HK$3.35 per Share, the implied pro forma prospective price earnings multiple is approximately 13.4 times.

(b) Borrowings, interest cover and gearing ratio

The Group's borrowings as at 31st October, 1996 totalled HK$57.74 million and the EFE Group's borrowings as at that date totalled HK$632.82 million.

The pro forma combined borrowings of the Enlarged Group as at the Completion Date, assuming that the Acquisition had been completed on that date and based on the anticipated borrowings of the Enlarged Group on such date, after making adjustments for the elimination of all material intra-group borrowings on that date, is expected to be HK$1,427.25 million. It is the present intention of the Company to repay the secured bank loan to be obtained for the Acquisition mainly by operating income generated by the Enlarged Group in the future.

The Directors anticipate that the interest cover of the Enlarged Group(calculated as profit before taxation and interest divided by net interest charges) for the year ending 30th June, 1997 will not be less than 5 times (based on the forecast profit of the Group and the proforma forecast profit of the EFE Group for that year, as set out above respectively, after making adjustment for the notional interest charge on the cash consideration payable in connection with the Acquisition and the elimination of all material intra-group transactions, assuming that the EFE Group structure following Completion had been in effect throughout that year and that the Group had in turn held its investment in EFE throughout that year). However, the Directors anticipate that the Group, without taking into consideration the effect of the Acquisition, will not incur net interest charges for the year ending 30th June, 1997.

Immediately upon Completion, the gearing ratio of the Enlarged Group before writing off goodwill arising on the Acquisition is expected to be approximately 135 per cent., and the gearing ratio of the Enlarged Group after writing off goodwill arising on the Acquisition is expected to be approximately 298 per cent., both calculated based on the proforma combined borrowings of the Enlarged Group as at the Completion Date above as compared to the pro forma net assets of the Enlarged Group upon Completion after making adjustment for the goodwill arising on the Acquisition where appropriate. The gearing ratio of the Group as at 7th January, 1997 without taking into account the Acquisition is expected to be approximately 8 per cent.

(c) Net assets

The pro forma adjusted net asset value of the Enlarged Group immediately following Completion, and after writing off goodwill arising on the Acquisition, estimated to be approximately HK$580 million, would be HK$479.74 million, equivalent to approximately HK$0.53 per Share, compared to the net asset value of the Group as at 30th June, 1996 of HK$659.59 million, equivalent to approximately HK$0.81 per Share, representing a decrease of approximately 34.6 percent.

(d) Public shareholding

The percentage of public shareholding in the Company will be reduced from approximately 32 per cent. prior to Completion to approximately 29 per cent. immediately upon Completion.

CONDITIONS OF THE ACQUISITION

The Acquisition Agreements are inter-conditional and completion of the Acquisition Agreements is conditional upon, inter alia, the following occurring on or before 28th February, 1997 or such other date as WTL, Mr. Friedrich and the Company may agree:

(i) the passing at the Special General Meeting (at which WTL and its associates will abstain from voting) of an ordinary resolution to approve the Acquisition, the Acquisition Agreements, and the allotment and issuance of the Consideration Shares in connection with the Acquisition; and

(ii) the Listing Committee of the Stock Exchange granting or agreeing to grant listing of and permission to deal in the Consideration Shares.

CHANGES TO THE BOARD

In view of the anticipated contribution of the EFE Group to the Enlarged Group, the board of Directors ("Board") intends to invite Mr. Enrique Arrata, who is currently Chief Operations Officer and Chief Financial Officer of Esprit Europe, and Mr. Heinz Jürgen Krogner-Kornalik, who is currently Managing Director of Esprit Europe, to the Board as Executive Directors effective from the Completion Date. In addition, it is intended that Mr. Friedrich will be appointed as anon Executive Director from the Completion Date.

The Directors regret to announce the resignations of Mr. Donald Stanton Lavigne and Ms. Debra Belisle Ryker as non Executive Directors of the Company. The Directors would like to thank Mr. Lavigne and Ms. Ryker for their valuable contributions to the past success of the Group.

GENERAL

HSBC Investment Bank Asia Limited and Schroders Asia Limited have been appointed to advise the Company in relation to the Acquisition.

An independent board committee (the "Independent Board Committee")comprised two of the non-executive Directors of the Company, Ms. Joyce Elena Ma and Mr. Alexander Reid Hamilton has been formed to advise the Independent Shareholders and N M Rothschild & Sons (Hong Kong) Limited has been appointed to advise the Independent Board Committee on whether the Acquisition is in the best interests of the Company and whether the terms of the Acquisition

Agreements are fair and reasonable so far as the Independent Shareholders of the Company are concerned.

A circular containing further information on the Acquisition, including a notice of the Special General Meeting, an opinion letter from the financial adviser to the Independent Board Committee, an accountants' report on the EFE Group, profit forecasts for the EFE Group and the Group (including the bases and assumptions on which such forecasts are made), and property and trademark valuations for the EFE Group, is expected to be despatched to shareholders of the Company as soon as practicable.

By Order of the Board
Alva Chan Wai Mo
Director
Hong Kong, 11th December, 1996

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable enquiries that, to the best of their knowledge, the opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.