

Subscription of a Convertible Note Issued by REI

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

4 September, 1998

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold all your shares in Esprit Holdings Limited, you should at once hand this circular to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

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ESPRIT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

CONNECTED TRANSACTION

Subscription of a Convertible Note Issued by
Red Earth International Holdings Limited

Financial Adviser to the Shareholders

CEF Capital Limited

[A letter from the Chairman of Esprit Holdings Limited](#)

[A letter from CEF Capital Limited](#)

September 4, 1998

To the shareholders of the Company

Dear Sir or Madam,

CONNECTED TRANSACTION

Subscription of a Convertible Note Issued by REI

1. INTRODUCTION

On August 15, 1998, the Directors announced, inter alia, that Red Earth Investment proposed to subscribe for the Note for an amount of HK\$22,013,100 payable to REI immediately upon subscription and issue of the Note.

On August 27, 1998, Red Earth Investment subscribed for the Note. As the Note has only been subscribed by Red Earth Investment and REI is a connected person because it is controlled as to approximately 39.21 per cent. by Mr. Ko who is a director of REI, the subscription of the Note constituted a connected transaction for the purposes of the Listing Rules requiring approval by the independent shareholders of the Company. The purpose of this circular is to provide you with further information relating to the subscription of the Note.

CEF Capital has been appointed as independent financial adviser to advise the shareholders of the Company on the fairness and reasonableness of the subscription of the Note as far as the shareholders of the Company are concerned. A copy of its letter is set out on pages 8 to 12 of this circular.

2. INFORMATION ON REI

REI, a private company incorporated in the British Virgin Islands, was founded in 1992 by Mr. Ying, Mr. Ko and Mr. Chadwick. It is the holding company of a group of companies which are engaged in the sourcing, licensing and distribution of cosmetics and personal care products under the RED EARTH brand name, with principal operations in Hong Kong, Australia, New Zealand, Taiwan and Singapore. RED EARTH products are principally sold in RED EARTH retail outlets as well as RED EARTH counters in certain ESPRIT stores. As at July 31, 1998, there were 29, 45, 5, 10 and 15 directly managed RED EARTH stores and counters in Hong Kong, Australia, New Zealand, Taiwan and Singapore respectively.

On May 7, 1998, the Company, through its wholly-owned subsidiary, Red Earth Investment, completed the acquisition of 1,013,800 REI Shares and Red Earth Investment currently holds 60.78 per cent. of the entire issued share capital of REI. As at the Latest Practicable Date, the shareholding structure of REI was as follows:

3. SUBSCRIPTION OF THE NOTE

As described above, the subscription of the Note by Red Earth Investment requires approval by the independent shareholders of the Company. WTL, which is held by Mr. Ying, a Director and the Chairman of the Company, as to approximately 77.39 per cent. and by Mr. Jürgen Friedrich, a non-executive Director, as to the remaining approximately 22.61 per cent., currently holds approximately 59.34 per cent. of the issued share capital of the Company. WTL is entitled to vote on the subscription of the Note as the interests of WTL, Mr. Ying and Mr. Jürgen Friedrich (both themselves and through their respective associates) in the subscription of the Note are the same as those of the other shareholders of the Company. WTL had given its written approval to such subscription and the Company had made an application to the Stock Exchange in relation to the acceptance of such written approval by WTL of the subscription of the Note in lieu of a resolution passed at a shareholders' meeting of the Company approving such subscription. On August 20, 1998, the Stock Exchange granted a waiver to the Company in respect of the requirement for holding a shareholders' meeting of the Company to approve the subscription of the Note.

On August 27, 1998, Red Earth Investment subscribed for the Note for an amount of HK\$22,013,100 which was paid to REI upon subscription and issue of the Note. The subscription was financed by internal resources of the Group. The Note bears interest, payable quarterly in arrear, at the prime rate for lending in Hong Kong dollars as announced or applied by The Hongkong and Shanghai Banking Corporation Limited and is repayable on demand.

As a term of the Note, Red Earth Investment has an option to convert the outstanding amount of the Note or any part thereof at any time into REI Shares at the conversion price of US\$1.80 (which shall be taken to be equivalent to HK\$13.95) per REI Share subject to adjustment in relation to any relevant changes in the share capital of REI, including any sub-division or consolidation of shares, in accordance with the detailed terms and conditions of the Note. The terms and conditions of the Note including the conversion price have been determined as a result of arm's length negotiations between the parties and the conversion price has been agreed having regard to the Company's shareholding in REI, the potential dilution effect of the conversion option of Red Earth Investment under the Note on the other shareholders of REI, the provisions of the Note concerning interest payment and that the Note is repayable on demand and/or convertible at any time and other relevant factors such as the goodwill and the earning potentials of REI. The Directors consider that the subscription of the Note is in the interests of the Company and its shareholders.

On the basis of the existing issued share capital of REI, if the entire amount of the Note is converted into REI Shares, Red Earth Investment will increase its shareholding in REI from approximately 60.78 per cent. (1,013,800 REI Shares) to approximately 79.85 per cent. (2,591,800 REI Shares). Mr. Ko's and Mr. Chadwick's holdings of 654,100 REI Shares and 100 REI Shares respectively will in that case be reduced from approximately 39.21 per cent. and 0.006 per cent. to approximately 20.15 per cent. and 0.003 per cent. respectively. The shareholding structure of REI immediately upon such conversion is summarised as follows:

Approximately HK\$10.08 million of the proceeds of the issue of the Note has been applied by REI to repay all sums owing to Esprit Distribution Limited, a wholly owned subsidiary of the Company, by REI pursuant to certain temporary facilities granted by Esprit Distribution Limited to REI as disclosed in the announcement of the Company dated July 23, 1998 and the balance of such proceeds in the sum of approximately HK\$11.93 million will be used for general working capital purposes of REI. The subscription of the Note has replaced the proposed capital calls of REI on its shareholders as disclosed in the announcement of the Company dated July 23, 1998, which REI has decided not to proceed with. Based on the consolidated management accounts of the Red Earth Group for the years ended June 30, 1996 and June 30, 1997 respectively, REI made a consolidated profit before tax of approximately HK\$327,000 and a consolidated profit after tax of approximately HK\$247,000 for the year ended June 30, 1996 and suffered a consolidated loss both before and after tax of approximately HK\$11 million for the year ended June 30, 1997. Based on the consolidated management accounts of the Red Earth Group as at April 30, 1998, the Red Earth Group had net liabilities of approximately HK\$8 million.

The Directors, including the independent non-executive Director who was present at the Board meeting approving the subscription of the Note, consider that the subscription of the Note was on normal commercial terms and in the ordinary and usual course of business of the Company.

4. FUTURE PLANS FOR AND PROSPECTS OF RED EARTH

The Group's long-term strategy is to develop the brand awareness of RED EARTH as a brand of high quality cosmetics and personal care products in different territories, including the Asia Pacific region, Europe and Canada.

The Directors believe that the experienced management team of the Group can improve the business of the Red Earth Group by various measures such as streamlining and rationalising the operations of the Red Earth Group. The Directors intend to focus on building upon the Red Earth Group's established business by continuing to expand its network of retail outlets in established markets such as Hong Kong, Australia, New Zealand, Taiwan and Singapore. The Directors consider that there is considerable potential in expanding into newly developed or untapped markets, particularly Japan, the People's Republic of China, Europe and Canada. It is anticipated that the Group will strengthen the distribution networks in these territories by establishing RED EARTH counters within ESPRIT stores, stand alone RED EARTH shops in prime shopping

locations or franchise operations. The Group's target is to focus on cosmetics business which the Directors believe represents a major market with considerable potential for the Red Earth Group. The latest successful repositioning of the RED EARTH products at colour cosmetics at medium to low prices has received increasing popularity from customers. The Group will continue to systematically introduce new colours and products to the colour cosmetic range of RED EARTH. The Directors believe that there is considerable synergy between the ESPRIT fashion products and the RED EARTH cosmetics and personal care products. RED EARTH counters operating in ESPRIT stores will benefit from the strategic locations of ESPRIT stores with heavy shoppers' traffic and considerable savings from economies of scales. As at July 31, 1998 there were 407 ESPRIT stores covering Hong Kong, the People's Republic of China, Australia, Taiwan, Singapore, Japan, South Korea, Malaysia, Canada and many European countries, excluding outlets under licence or franchise arrangements. The Directors believe that, based on these plans and the synergy which they expect to achieve, the Red Earth Group has excellent prospects for growth.

5. FURTHER INFORMATION

Your attention is drawn to the letter from CEF Capital in respect of the subscription of the Note and to the information set out in the appendix to this circular.

Yours faithfully,

Michael Ying Lee Yuen
Chairman

September 4, 1998
To the shareholders
of *Esprit Holdings Limited*

Dear Sir or Madam,

Connected Transaction Subscription of a Convertible Note issued by REI

We refer to our engagement to advise the shareholders of the Company (the "Shareholders") as to whether the subscription of the Note by Red Earth Investment is fair and reasonable insofar as the Shareholders are concerned. Information in relation to the subscription of the Note is contained in the Letter from the Chairman in the circular to the Shareholders dated September 4, 1998 (the "Circular") of which this letter forms a part. The terms used in this letter shall have the same meanings as defined elsewhere in the Circular unless the context otherwise requires.

By virtue of the fact that the Note has only been subscribed by Red Earth Investment and REI is a connected person because it is controlled as to approximately 39.21 per cent. by Mr. Ko, a director of REI, the subscription of the Note constituted a connected transaction for the purposes of the Listing Rules requiring approval of the independent Shareholders. WTL which is held by Mr. Ying, a Director and the Chairman of the Company, as to approximately 77.39 per cent. and by Mr. Jürgen Friedrich, a non-executive Director, as to approximately 22.61 per cent., currently holds approximately 59.34 per cent. of the issued share capital of the Company. As the interests of WTL, Mr. Ying and Mr. Jürgen Friedrich (both themselves and through their respective associates) in the subscription of the Note are the same as those of the other Shareholders, WTL is entitled to vote on the subscription of the Note.

In this connection, WTL has given its written approval to such subscription and the Company has made an application to the Stock Exchange in relation to the acceptance of such written approval by WTL in lieu of a resolution to be passed at a shareholders' meeting of the Company approving the subscription. On August 20, 1998, such waiver was granted by the Stock Exchange to the

Company to dispense with the requirement for holding a shareholders' meeting of the Company to approve the subscription of the Note. In formulating our opinion, we have relied upon the information and facts supplied to us by the Company and the opinions expressed by the Directors and we have assumed that all information, opinions, representations and facts contained or referred to in the Circular are true and accurate and may be relied upon. The Directors have collectively and individually accepted full responsibility for the accuracy of the information and facts contained in the Circular and confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statements or opinions in the Circular misleading.

We are not aware of any facts or circumstances which would render the information contained in the Circular untrue, inaccurate or misleading. We consider that we have reviewed sufficient information which has enabled us to reach an informed view regarding the subscription of the Note and has provided us with a reasonable basis for our opinion. We have no reason to suspect that such information is inaccurate or that any material facts have been omitted or withheld from the information supplied to us nor to doubt the truthfulness and the accuracy of the information provided to us. However, we have not conducted any in-depth investigation into the business, affairs, financial positions and projections of the Group or the Red Earth Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion with regard to the subscription of the Note, we have taken into consideration the following principal factors and reasons:

Business and consolidated financial information of REI

REI, a private company incorporated in the British Virgin Islands, is the holding company of a group of companies which are engaged in the sourcing, licensing and distribution of cosmetics and personal care products under the RED EARTH brand name in Hong Kong, Australia, New Zealand, Taiwan and Singapore. RED EARTH products are principally sold in RED EARTH retail outlets as well as RED EARTH counters in certain "esprit" stores. As at July 31, 1998, there were 29, 45, 5, 10 and 15 directly managed RED EARTH stores and counters in Hong Kong, Australia, New Zealand, Taiwan and Singapore respectively. Based on the consolidated management accounts of the Red Earth Group, it made a consolidated profit before tax of approximately HK\$327,000 and a consolidated profit after tax of approximately HK\$247,000 for the year ended June 30, 1996 and suffered a consolidated loss (both before and after tax) of approximately HK\$11 million for the year ended June 30, 1997. Based on the consolidated management accounts as at April 30, 1998, the Red Earth Group had net liabilities of approximately HK\$8 million.

The Group's strategic planning for the Red Earth Group

The Group has been selling RED EARTH cosmetics and personal care products in Hong Kong and other Asian countries since September 1992 in the capacity of a distributor and/or licensee. On May 7, 1998, the Company, through one of its wholly owned subsidiaries, Red Earth Investment, completed the acquisition of approximately 60.78 per cent. of REI. At that time, REI held approximately 20 per cent. of Red Earth Holdings Pty. Ltd. ("REA"), which sells RED EARTH products in Australia and New Zealand, being two of the principal markets of RED EARTH products. REI increased its shareholding in REA from approximately 20 per cent. to approximately 95 per cent. in May and June 1998 by subscribing for new shares in REA.

The Group's long term strategy is to develop the brand awareness of RED EARTH as a brand of high quality cosmetics and personal care products in different territories, including the Asia Pacific region, Europe and Canada. The Directors believe that the experienced management team of the Group can improve the business of the Red Earth Group by various measures such as streamlining and rationalising its operations. The Group further believes that the market of cosmetics business is enormous enabling the Red Earth Group to enjoy considerable potential for further expansion. The latest successful repositioning of the RED EARTH products at colour cosmetics at medium to low prices has received increasing popularity from customers. The Group

will continue to systematically introduce new colours and products to the colour cosmetic range of RED EARTH. Through aggressive marketing campaigns and an expanded choice of its cosmetic items, the Directors are confident that RED EARTH products will develop a niche as modern, trendy, affordable and high quality cosmetic products worldwide.

Synergy between the Group and the Red Earth Group

The Group intends to foster the position of RED EARTH cosmetic products in its existing markets including Hong Kong, Australia, New Zealand, Taiwan and Singapore and to promote the brand name in respect of such products to other new markets including Canada, the People's Republic of China (the "PRC"), Japan and Europe. The Group will strengthen the distribution networks of RED EARTH products in these regions by establishing RED EARTH counters within ESPRIT stores, a shop-in-shop concept to complement the awareness of two popular brand names among shoppers. RED EARTH counters operating in ESPRIT stores will benefit from the strategic locations of ESPRIT stores with heavy shoppers' traffic and considerable savings from economies of scales. As at July 31, 1998, there were 407 ESPRIT stores (excluding outlets under licence or franchise arrangements) covering Hong Kong, the PRC, Australia, Taiwan, Singapore, Japan, South Korea, Malaysia, Canada and many European countries.

The Directors believe that there is considerable synergy between the fashion products of ESPRIT and the cosmetic products of RED EARTH, which appeal to the same age groups. It is expected that the Group's proven record in establishing the fashion and accessories products of ESPRIT would serve as a replica in developing the RED EARTH brand name. Through the Group's expertise in modern brand management, RED EARTH will be able to further enhance its brand awareness in line with the popularity of ESPRIT and its distribution network worldwide.

Reasons for the subscription of the Note

The subscription of the Note has provided REI with proceeds of approximately HK\$22.01 million. REI has applied approximately HK\$10.08 million of the proceeds of the issue of the Note to repay all sums owing by REI to a wholly owned subsidiary of the Group, Esprit Distribution Limited ("Esprit Distribution") pursuant to certain temporary facilities granted by Esprit Distribution in March and June 1998 to REI as stated in the announcement of the Company dated July 23, 1998 and the balance of such proceeds in the sum of approximately HK\$11.93 million will be used for general working capital purposes of REI. Taking into account the Group's current plan to further develop the Red Earth Group, we consider that the subscription of the Note is an appropriate move to provide working capital required by REI for its future development.

Principal terms of the Note

On August 27, 1998, Red Earth Investment subscribed for the Note for an amount of HK\$22,013,100 which was paid to REI upon subscription and issue of the Note. The Note which bears interest, payable quarterly in arrear, at the prime rate for lending in Hong Kong dollars as announced or applied by The Hongkong and Shanghai Banking Corporation Limited ("Hong Kong Dollar Prime Rate") is repayable on demand. For indicative purpose, the Hong Kong Dollar Prime Rate as at 4:00 p.m. on the Latest Practicable Date was 10 per cent. per annum.

Red Earth Investment has an option to convert the outstanding amount of the Note or any part thereof at any time into REI Shares at the conversion price of US\$1.80 (which shall be taken to be equivalent to HK\$13.95) per REI Share subject to usual adjustment in relation to any relevant changes in share capital, including any sub-division or consolidation of shares, or otherwise in accordance with the detailed terms and conditions of the Note. However, such option to convert into REI Shares is not mandatory and the Group may or may not exercise such option.

The terms and conditions of the Note including the conversion price were reached after lengthy negotiations amongst the shareholders of REI on an arm's length basis and the conversion price was arrived at taking into account various factors such as the Company's shareholding in REI, the potential dilution effect of the conversion option on the other shareholders of REI, the provisions of the Note concerning interest, repayment and conversion option, and the goodwill and future earnings potential of REI. The Directors consider that the subscription of the Note has provided the Group with an opportunity to increase its interest in REI and has provided REI with financial resources to develop its operations and distribution networks. In formulating our opinion,

we have considered all the principal terms and conditions of the Note such as the interest rate, repayment term, conversion rights (including but not limited to the conversion price) and the other factors mentioned herein. We consider that the subscription of the Note was on normal commercial terms and the terms and conditions of the Note are fair and reasonable as far as the Shareholders are concerned.

Shareholdings in REI

The following table sets out the shareholdings in REI on the basis of the existing issued share capital of REI and upon the full conversion of the Note into REI Shares.

REI shareholders	Existing shareholding		Shareholding upon full conversion of the Note	
	Number of REI Shares	%	Number of REI Shares	%
Red Earth Investment	1,013,800	60.779	2,591,800	79.846
Mr. Ko	654,100	39.215	654,100	20.151
Mr. Chadwick	100	0.006	100	0.003
	1,668,000	100.000	3,246,000	100.000

Financial resources of the Group

The Group's subscription of the Note for an amount of HK\$22,013,100 paid to REI has been satisfied by the Group's internal financial resources. Based on the information supplied to us, the Group maintained an aggregate amount of short term bank deposits, bank balances and cash of over HK\$440 million as at the end of July 1998 ("Cash Reserves"). As REI has applied approximately HK\$10.08 million raised from the issue of the Note to repay certain sums owed to Esprit Distribution, the net cash outflow from the Group to REI in respect of the subscription of the Note was only approximately HK\$11.93 million, representing less than 2.8 per cent. of the Group's Cash Reserves.

We have also considered the interest rates in respect of REI's current bank borrowings. REI currently has outstanding banking facilities of HK\$5 million bearing interest at the Hong Kong Dollar Prime Rate plus 100 basis points per annum. In this respect, the Note provides REI with capital at a lower funding cost. As the Company holds a majority stake in REI and having regard to the Group's strategic plans for the Red Earth Group, we are of the view that provision of such funding to REI by the issue and subscription of the Note is beneficial to the Company, the Shareholders and REI.

Financial effects on the Group

The principal amount of the Note of HK\$22,013,100 represents approximately 2.0 per cent. of the Group's audited consolidated net assets of approximately HK\$1,121 million as at June 30, 1997. Such subscription would not have any immediate material impact on the Group's earnings and balance sheet. The subscription of the Note has provided REI with additional financial resources to further develop the business of RED EARTH with an objective to improve its future earnings potential. The conversion right attached to the Note enables the Group to increase its shareholding in REI further from approximately 60.78 per cent. to 79.85 per cent. based on the existing issued share capital of REI, hence allowing the Group to capitalise on the future earnings of REI. However, at the option of the Group, the Note is due and repayable upon its demand at any time. We consider that such an arrangement would provide flexibility to the Group in respect of the repayment of the Note and is in the interests of the Shareholders.

OPINION

Having considered the above principal factors and reasons, we consider that the subscription of the Note was on normal commercial terms and in the interests of the Company and the Shareholders and the terms and conditions of the Note are fair and reasonable so far as the Shareholders are concerned.

Yours faithfully,
For and on behalf of
CEF Capital Limited
Catherine Wong
Executive Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purposes of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(a) As at the Latest Practicable Date, the beneficial interests of the Directors in the Shares or other securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) which had to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they were taken or deemed to have under section 31 of or Part 1 of the Schedule to the SDI Ordinance) or which were required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Number of Shares			
	Personal Interests	Corporate interests	Family interests	Other interests
Michael Ying Lee Yuen	---	649,531,579*	---	---
Alva Chan Wai Mo	1,016,000	---	---	---
Surinder Chhibber	2,112,000	---	---	---
Connie Wong Chin Tzi	1,440,000	---	---	---
Jürgen Friedrich	---	649,531,579*	---	---

*Such Shares are held by WTL in which Mr. Ying and Mr. Jürgen Friedrich currently hold approximately 77.39 per cent. and approximately 22.61 per cent. respectively.

Save as disclosed above, none of the Directors had any interest in the equity or debt securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) which would have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under section 31 of or Part 1 of the Schedule to the SDI Ordinance) or which are required to be entered in the register kept by the Company pursuant to section 29 of the SDI Ordinance or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

(b) As at the Latest Practicable Date, CEF Capital did not have any interest in any Shares or other securities of the Company or any of its subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for such Shares or securities.

(c) Save as disclosed in this circular, none of the Directors or CEF Capital has any direct or indirect interest in any assets which have, since June 30, 1997, the date to which the latest audited consolidated financial statements of the Group were made up, been acquired or disposed of by or leased to or proposed to be acquired or disposed of by or leased to the Group.

(d) Save as disclosed in this circular, there is no contract or arrangement subsisting as at the date hereof in which any Director is materially interested and which is significant in relation to the business of the Company or any of its subsidiaries.

(e) Esprit de Corp GmbH has entered into a service agreement with Mr. Heinz Jürgen Krogner-Kornalik dated December 20, 1994 as amended by an amendment agreement dated February 17, 1996. The service agreement took effect from January 9, 1995 and continues thereafter until terminated by either party giving to the other not less than 12 months' notice of termination, such notice will only take effect from or after December 31, 2000. Mr. Krogner-Kornalik is entitled to a basic salary payable monthly and is entitled to receive an annual bonus based on the executive bonus system of Esprit de Corp GmbH.

(f) Save as disclosed in paragraph (e) above, there are no existing or proposed service contracts between any member of the Group and any of the Directors (excluding any contracts expiring or determinable by the Group within one year without payment of compensation other than statutory compensation).

3. SUBSTANTIAL SHAREHOLDER

(a) As at the Latest Practicable Date, the following details were recorded in the register kept by the Company under section 16 of the SDI Ordinance for the purposes of sections 3 to 7 of the SDI Ordinance:

Name	Number of Shares	Approximate percentage of issued share capital
WTL	649,531,579	59.34

Note: WTL is currently owned as to approximately 77.39 per cent. by Mr. Ying and as to approximately 22.61 per cent. by Mr. Jürgen Friedrich respectively.

(b) Save as disclosed in this circular, as at the Latest Practicable Date, so far as the Directors were aware, there were no persons who directly or indirectly held or were interested in Shares, or options in respect of such Shares, representing 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial position or trading prospects of the Group since June 30, 1997, the date to which the latest audited consolidated financial statements of the Group were made up.

5. CONSENT

CEF Capital is an investment adviser and dealer registered with the Securities and Futures Commission under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong). CEF Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name and letter in the form and context in which they appear.

6. GENERAL

- (a) The secretary of the Company is Alva Chan Wai Mo, F.H.K.S.A.
- (b) The registered office of the Company is situated at Clarendon House, Church Street, Hamilton HM 11, Bermuda.
- (c) The share registrar of the Company is Secretaries Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text.

7. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Deacons Graham and James, 3rd to 6th and 18th floors, Alexandra House, 16--20 Chater Road, Central, Hong Kong during normal business hours up to and including September 21, 1998:

- (a) the memorandum of association and articles of association of the Company;
- (b) the letter from CEF Capital as set out in this circular;
- (c) the written consent from CEF Capital referred to in this appendix;
- (d) the Note; and
- (e) the service agreement between Esprit de Corp GmbH and Mr. Heinz Jürgen Krogner-Kornalik dated December 20, 1994 as amended by an amendment agreement dated February 17, 1996.