



21 August 2015

ASX Announcement – For immediate release

AGREEMENT TO ACQUIRE E-COMMERCE BUSINESS

Esperance Minerals Limited (**ESM** or the **Company**) is pleased to announce it has entered into a share purchase agreement (**Agreement**) to acquire 51% of the issued capital of eDutyFree Pty Ltd (**eDutyFree**). eDutyFree is an expanding global e-commerce platform and distributor of popular Australian health, beauty and baby care products into the global marketplace.

The acquisition will allow ESM to tap into China's \$445 billion e-commerce market, and strategically position the Company to supply the Asia Pacific region, in particular China, with the most highly sought-after Australian natural health supplements, vitamins, baby care, skincare and beauty brands, including Blackmores, Swisse, Nature's Care, Jurlique, Karicare, Bellamy's and many more.

Highlights:

- **eDutyFree is a growing Australian company that exports, distributes and retails Australian natural health, wellness and beauty products into the global marketplace, particularly China.**
- **Key brands include Blackmores, Swisse, Nature's Care, Jurlique, Karicare, Bellamy's, Lucas PawPaw, Nature's Own, GAIA, Comvita, Careline and many other popular names.**
- **eDutyFree also owns and operates an advanced B2B2C e-commerce platform called *E-TU* that allows merchants to easily create and manage their online stores and e-tailing operations.**
- **eDutyFree's strong partnerships with Australian manufacturers and wholesalers guarantee seamless supply capability of the most popular products for its global customer base.**
- **eDutyFree has strong distribution networks across China and local partnerships within free trade zones in China that will facilitate high volumes of exports.**



Business Background and Revenue Model

eDutyFree has six key business functions that drive its revenues:



Business Background

eDutyFree has been trading since July 2013. The business was created to facilitate the sale of Australian-made natural health supplements, skin-care, food products and baby care products into retail (consumers) and wholesale (retailers) networks in Australia and China.

The products sold by eDutyFree target the requirements of the large Chinese population to look to health food and supplements to support their busy lifestyles. Quality Australian and New Zealand-based brands are in high demand in the Asia Pacific region, particularly in China. In particular, Australian baby care products are highly sought after.

To date, eDutyFree's trade has been undertaken primarily via the physical 'flagship' shopfront based in Ashfield and its warehouse in Yagoona, New South Wales.

The flagship shopfront has been upgraded to an all-round Flagship Store, catering to both wholesale and retail clients, and leverages eDutyFree's proprietary eCommerce platform targeting the Asian market with a principal focus on China. The Flagship Store also serves as a window to demonstrate diverse brands and quality services to clients.

eDutyFree has entered into distribution agreements with, among others, Guangzhou Zhuohong Biotechnology Limited (ZHBT) in China, thereby creating export networks with Chinese distributors and retailers.

eDutyFree's key strength is its supplier networks. It is able to seamlessly source commercial volumes of high-demand products from quality Australian suppliers.

Revenue Model

eCommerce

eDutyFree's E-TU ecommerce platform has become a one-stop solution for Australian online retailers seeking to initiate, grow, or strengthen their presence in the China online market. eDutyFree makes running an online gift store easy, simple and efficient. Store owners can create and manage their online

storefront as a sub-domain of eDutyFree, with eDutyFree managing the complete back-end process: processing payments, generating invoices, warehousing the products, and delivering the products to the purchaser. The merchant can run their store remotely without ever touching the products or getting involved in the supply chain.

eMarketing

The various social media platforms in China such as Weibo, WeChat, QQ, and Baidu have proven to be a powerful mechanism for eTailers to promote their products. eDutyFree is developing a SMMS (Social Media Management System) to manage customers' social media activities on all social media platforms.

eFulfilment

Through relationships with numerous logistics providers, eDutyFree is able to offer its wholesale customers an integrated supply chain solution for both online and offline operations.

eCustomerCare

eDutyFree offers all customers access to high level reporting and analysis, a regular newsletter about industry and product trends, and access to special promotions. eDutyFree's IT department assists retailers with online store creation and maintenance, and provides ongoing care and support to ensure smooth operation of retailer business.

Export & Cross-border

eDutyFree supplies Australian natural health, food and beauty products to established retailers and distributors in China at attractive wholesale prices.

Flagship Store

The Flagship Store in Ashfield NSW is an all-round superstore, servicing both wholesale and retail customers. It serves as the physical 'face' of an ecommerce company, allowing eDutyFree to demonstrate its extensive product range, introduce new brands and build credibility for our online clients.

eDuty Free has traded since 2013 with revenue of \$1.083m for the 30 June 2014 year and \$1.623 for the 30 June 2015 year. The Company recorded a loss of \$37,566 for 2014 and a net profit before tax of \$104,524 for 2015.

The Transaction

The material terms of the transaction are as follows:

- ESM will, subject to certain conditions precedent, acquire 5,100 shares comprising 51% of the entire issued capital of eDutyFree from the majority shareholder of eDutyFree (Vendor); and
- in consideration, ESM will:
 - issue 1,000,000 ESM shares at 5c each along with 1,000,000 attaching options with 10c exercise price and 18 months expiry, to the Vendor on the date of signing the Agreement ('Initial Securities'). The Initial Securities will be escrowed for a period determined by the ASX; and
 - issue 8,200,000 ESM shares at 5c each along with 8,200,000 attaching options with a 10c exercise price and 18 months expiry, to the Vendor on completion of the acquisition ('Completion Securities'). The Completion Securities will be escrowed for a period determined by the ASX.

Securities on issue

| | Shares | Options | Convertible Notes |
|---|-------------|--------------|-------------------|
| Current securities on issue | 114,039,679 | 10,000,000 * | \$600,000 |
| Approval of series C Convertible Notes | | | \$540,000 |
| Issued to secure option to acquire eDutyFree | 1,000,000 | 1,000,000** | |
| Acquisition of 51% of eDutyFree | 8,000,000 | 8,000,000** | |
| Prospectus issue of securities to raise \$3m | | | |
| Share issue at low range of 5 cents per share | 60,000,000 | 60,000,000* | |
| Share issue at low range of 10 cents per share | 30,000,000 | 30,000,000* | |
| Securities on issue post acquisition of eDutyFree & Prospectus | | | \$1,140,000 |
| Total Securities at Prospectus issue price of 5 cents | 183,039,679 | 79,000,000 | |
| Total Securities at Prospectus issue price of 10 cents | 153,039,679 | 49,000,000 | |

**Current options have been issued on the conversion of convertible notes and their terms are - they are exercisable on or before 31 August 2018 at an exercise price of 10 cents per Company share. Options issued to Prospectus subscribers will be under the same terms.*

***eDutyFree options will be exercisable within 18 months of issue at an exercise price of 10 cents per Company share.*

The table above shows the effect of the option to acquire eDutyFree and the acquisition of 51% by the issue of shares at 5 cents with free attaching options to subscribe for an additional ordinary share in the Company exercisable within 18 months of issue at an exercise price of 10 cents per Company share.

The key terms of the current Convertible Notes on issue are as follows:

- conversion price of the lesser of 5 cents per ordinary share, or the 5 day volume weighted average price ("VWAP") of the Company's ordinary shares on the ASX immediately prior to the issue of a conversion notice by the Noteholder to the Company;
- for each share issued on conversion, the Noteholder will be issued with 1 free option to subscribe for an additional ordinary share in the Company exercisable on or before 31 August 2018 at an exercise price of 10 cents per Company share (Options);
- the Notes will accrue interest at a rate of 8% per annum; and
- the Notes are unsecured.

The key terms of the new Series C Convertible Notes are as follows:

- conversion price of the lesser of 2 cents per ordinary share, or the 5 day volume weighted average price ("VWAP") of the Company's ordinary shares on the ASX immediately prior to the issue of a conversion notice by the Noteholder to the Company;
- for each share issued on conversion, the Noteholder will be issued with 1 free option to subscribe for an additional ordinary share in the Company exercisable on or before 31 August 2018 at an exercise price of 10 cents per Company share (Options);
- the Notes will accrue interest at a rate of 8% per annum;
- the Notes are unsecured; and
- the issue of the Series C Convertible Notes requires Shareholder approval which will be sort at the upcoming EGM.

| Pro forma Balance Sheet | Audited as at 31 Dec 2014 \$ (1) | Pro forma as at 30 June 2015 \$ |
|----------------------------------|---|--|
| CURRENT ASSETS | | |
| Cash and cash equivalents | 513 | 3,796,062 |
| Trade and other receivables | 6,771 | 233,284 |
| Inventory | - | 100,087 |
| Other current assets | - | 21,000 |
| TOTAL CURRENT ASSETS | 7,284 | 4,150,433 |
| NON CURRENT ASSETS | | |
| Goodwill | - | 290,877 |
| TOTAL NON CURRENT ASSETS | - | 290,877 |
| TOTAL ASSETS | 7,284 | 4,441,310 |
| CURRENT LIABILITIES | | |
| Trade and other payables | 224,027 | 292,062 |
| Borrowings | 716,624 | 1,092,069 |
| Provisions | | 15,910 |
| TOTAL CURRENT LIABILITIES | 940,651 | 1,400,041 |
| TOTAL LIABILITIES | 940,651 | 1,400,041 |
| NET ASSETS | (933,367) | 3,041,269 |
| EQUITY | | |
| Issued capital | 10,163,083 | 14,223,083 |
| Reserves | 239,726 | 239,726 |
| Accumulated losses | (11,336,182) | (11,535,997) |
| PARENT ENTITY INTEREST | (933,373) | 2,926,812 |
| Minority interests | 6 | 114,457 |
| TOTAL EQUITY | (933,367) | 3,041,269 |

(1) Audited Esperance half year accounts

The Pro forma is post the acquisition of 51% of eDutyFree and the Prospectus raising.

Completion of the acquisition and issue of the Completion Securities is subject to a number of conditions precedent, including:

- the completion of due diligence in respect of eDutyFree and the Vendor to the reasonable satisfaction of ESM;
- the members of ESM having given all necessary approvals to the transactions contemplated by the Agreement as required under the Corporations Act 2001 (Cth) and the ASX Listing Rules;
- the members of ESM having approved the issue and allotment of the Completion Securities under the terms of the Agreement in accordance with ASX Listing Rules 7.1, 11.1.2 and 11.1.3;
- ESM re-complying with the requirements of Chapters 1 and 2 of the ASX Listing Rules;
- ESM providing eDutyFree with a debt facility in the amount of AUD1,040,000 on completion; and
- there being no material adverse change in the financial condition or position of eDutyFree.

On the satisfaction of the above conditions and completion of the acquisition, there will be a significant change in the nature and scale of the activities conducted by ESM.

ESM currently has no active business. Its primary business will become the export, distribution and retail of Australian natural health, wellness and beauty products into the global marketplace, particularly China.

As a result of this change, ESM is required to satisfy the requirements of Chapters 1 and 2 of the ASX Listing Rules as if ESM were applying for admission to the official list for the first time. Re-compliance with Chapters 1 and 2 of the ASX Listing Rules requires, amongst other things, the issue of a prospectus, raising capital and evidence that ESM has satisfied the shareholder spread requirements.

Trading in the shares of ESM will be suspended from the date of the general meeting at which the various ESM shareholder approvals are obtained and will remain suspended until ESM re-complies with the requirements of Chapters 1 and 2 of the ASX Listing Rules.

The parties will proceed, on an exclusive basis, to finalise all documentation and satisfy all conditions precedent, in order to complete the transaction in accordance with the proposed timetable.

No changes to the board or senior management are contemplated in this transaction.

The Board will be:

- Sophie Zhang – Executive Director
- John Rawicki – Executive Director
- Silvi ElKhouri – Non-executive Director
- Robert Lees – Non-executive Chairman & Company Secretary

The Board of eDutyFree will continue with the addition of Sophie Zhang as the representative of ESM. The current executives of eDutyFree will continue post acquisition.

Proposed timetable*

| Date | Event |
|-------------------|--|
| 17 August 2015 | Sign Share Purchase Agreement |
| 21 August 2015 | Announce transaction to the ASX |
| 21 August 2015 | Individual due diligence to satisfaction of the parties commences |
| 25 September 2015 | Notice of meeting, explanatory memorandum and prospectus drafting and collective due diligence finalised |
| 30 September 2015 | Despatch of notice of meeting and explanatory memorandum to ESM shareholders |
| 30 September 2015 | Lodge prospectus |
| 31 October 2015 | ESM shareholders' meeting |
| 31 October 2015 | Close offer under the prospectus |
| 9 November 2015 | Completion of the acquisition |
| 9 November 2015 | Issue ESM shares to the applicants under the prospectus offer |
| 13 November 2015 | Satisfy Chapter 1 and 2 requirements and seek reinstatement of ESM securities to quotation |
| 18 November 2015 | Re-admission of ESM securities to trading |

**Please note that the dates set out above are indicative only and may be subject to change at the discretion of the ESM directors.*

Commenting on the transaction, John Rawicki, director of ESM said:

"I am delighted that ESM has been able to enter into an agreement to acquire a majority interest in eDutyFree. Its E-TU global ecommerce platform will allow it to quickly grow market share with a view to becoming a market leader."

"There is strong demand for high quality Australian health, baby care and beauty products from consumers in Asia, so much so that many manufacturers and retailers are experiencing well-publicised shortages of the most popular products. eDutyFree is well positioned to take advantage of this phenomenon through its strong supply capability and extensive China distribution network."

"We are currently evaluating ways to quickly grow eDutyFree's business, including through further synergistic acquisitions. The Board is confident that integrating eDutyFree with a large Chinese distributor would drive revenue and profitability."

Summary

The Board of ESM is very excited about the proposed acquisition of a majority interest in eDutyFree and the opportunity to further develop its business. The Board believes this acquisition will give ESM the potential to develop a successful integrated 'tech & retail' business in the health and wellness industry for the benefit of all of ESM's shareholders.

The Board looks forward to the support of shareholders in finalising this transaction.

For further information please contact:

John Rawicki

Director

Tel: 0433 725 443