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## **PRADA S.p.A.**

*Via A. Fogazzaro n. 28, Milan, Italy  
Registry of Companies of Milan, Italy: No. 10115350158  
(Incorporated under the laws of Italy as a joint-stock company)  
(Stock Code: 1913)*

### **Continuing Connected Transactions**

The Company is entering into two continuing connected transactions in connection with the grant by the Municipality of Milan of a concession to use the Galleria Property in Milan, Italy for 18 years.

The Company entered into the PPA Business Combination Agreement on 29 January 2013 and the Company will enter into the Fratelli Prada Business Management Agreement in the second half of 2013. The Business Agreements are in connection with and relate to the satisfaction of the terms of the Concession Agreement.

Under mandatory provisions imposed by the Municipality of Milan, the duration of the Concession Agreement will be for a term of 18 years. In order to protect the interests of the Company, the PPA Business Combination Agreement will also be for a term of 18 years (or earlier if the Concession Agreement is terminated). The Fratelli Prada Business Management Agreement will be for a term of 11 years to align it with the current termination date of the Franchise Agreement. The Fratelli Prada Business Management Agreement will be automatically extended until the expiration of the Concession Agreement, upon the renewal of the Franchise Agreement.

PPA is indirectly controlled by Ms. Miuccia Prada Bianchi and Mr. Patrizio Bertelli (both Executive Directors and substantial shareholders of the Company) and Fratelli Prada is indirectly controlled by Ms. Miuccia Prada Bianchi. PPA and Fratelli Prada are therefore connected persons of the Company. As such, the Business Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the relevant applicable percentage ratios for the Business Agreements in aggregate exceed 0.1% but are less than 5%, the continuing connected transactions contemplated under the Business Agreements are subject to the reporting and announcement requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.35(1) of the Listing Rules, an independent financial adviser has been engaged by the Company and has opined that the duration of the Business Agreements, being in excess of three years, is necessary and it is the normal business practice for contracts of this type to be of such duration.

## **Introduction**

The Municipality of Milan announced in January 2012 that the Company would be granted a concession to use the Galleria Property. The concession was granted after a successful bid by the Company and PPA. PPA was a party to the bid because the Municipality of Milan stipulated that the use of the Galleria Property would be for cultural purposes as well as retail purposes (including dining). The Company's corporate objects under its By-laws do not allow it to carry on business for cultural purposes. In contrast, the corporate objects of PPA include, amongst other things, promoting, organising and managing cultural events.

On 20 December 2012, the Municipality of Milan confirmed that the Concession Agreement would be granted to the Company in its own capacity, as well as in its capacity as the representative of PPA, so that the Municipality of Milan would only have to deal directly with the Company. The Municipality of Milan also required that, before the concession would be granted, the Company and PPA should enter into the PPA Business Combination Agreement under which PPA shall appoint the Company as its representative in all aspects relating to the Concession Agreement.

The terms of the concession to be granted will be governed by two related agreements which together constitute the Concession Agreement. The Concession Agreement is expected to be entered into on the following principal terms:

**Expected Dates:** (i) 30 January 2013 (the "**Concession Agreement Date**"), for the first agreement relating to the use of the entire Galleria Property except for the third floor (the "**First Agreement**")

(ii) Not later than 1 July 2013, for the second agreement relating to the use of the third floor of the Galleria Property (the "**Second Agreement**")

**Parties:** (i) the Municipality of Milan; and  
(ii) the Company (acting for itself and on behalf of PPA)

**Term:** (i) First Agreement: for a term commencing on the Concession Agreement Date and ending 18 years thereafter (the "**Concession Expiration Date**")

(ii) Second Agreement: for a term commencing on the

date of execution of the Second Agreement and ending on the Concession Expiration Date

- Annual Concession Fee:**
- (i) Euro 5,295,775.00 for each year of the first five years from the Concession Agreement Date
  - (iii) Euro 9,037,667.50 for each of the 13 years thereafter

Until the Second Agreement is executed, the Annual Concession Fee will be reduced by an amount proportionate to the overall floor area of the Galleria Property less the floor area of the third floor

The Annual Concession Fee will be settled in cash

The Concession Agreement will grant the Company and PPA the concession to use the Galleria Property, or to permit other entities associated with the Company or entities associated with the main shareholders of the Company to manage the Galleria Property, where such entities have particular expertise in the activities required to be carried out in the Galleria Property.

To the best of the directors' knowledge, information and belief having made all reasonable enquiries, the Municipality of Milan is a third party independent of the Company and connected persons of the Company.

#### **PPA Business Combination Agreement**

Before the Concession Agreement could be signed, and in order to satisfy the requirements imposed by the Municipality of Milan, the Company entered into the PPA Business Combination Agreement on the following principal terms:

**Date:** 29 January 2013

**Parties:**

- (i) the Company; and
- (ii) PPA

**Scope:**

- (i) To grant the Company the right to represent on an exclusive basis the business cooperation between the Company and PPA vis-à-vis the Municipality of Milan in all aspects relating to the Concession Agreement
- (ii) To bind PPA to pay to the Company the portion of the Annual Concession Fee allocated to PPA, based on the portion of the Galleria Property used by PPA to carry on the activities, particularly the cultural activities, which are required under the Concession Agreement

**Term:** For a term commencing on 29 January 2013 and ending on

the Concession Expiration Date or the earlier termination of the Concession Agreement

- Annual Business Combination Fee payable to the Company:**
- (i) an amount not exceeding Euro 1,100,000.00 for each year of the first five years from the Concession Agreement Date
  - (ii) an amount not exceeding Euro 2,250,000.00 for each of the 13 years thereafter

Until the Second Agreement is executed, the Annual Business Combination Fee will be reduced to an amount proportionate to the overall floor area of the Galleria Property used by PPA, less the floor area of the third floor

The Annual Business Combination Fee will be settled in cash

The Annual Business Combination Fee payable by PPA to the Company has been calculated according to the actual portion of the Galleria Property that PPA will occupy, calculated on a weighted basis, reflecting the fact that PPA will occupy the upper, windowless portion of the Galleria Property. Such Annual Business Combination Fee has also been index-linked to ISTAT and will therefore be subject to annual upward adjustment.

Under the PPA Business Combination Agreement, PPA will also contribute to the restructuring costs borne by the Company. The contribution will reflect the total cost of the restructuring relating to the actual portion of the Galleria Property that PPA will use. This amount will be reimbursed to the Company through annual payments made over the term (i.e. 18 years) of the PPA Business Combination Agreement (the “**PPA Restructuring Costs**”). The PPA Restructuring Costs will be subject to value added tax (“**VAT**”) and will bear interest at a rate of 2.5 percent per year.

As required by the Municipality of Milan, the appointment of the Company as PPA’s representative in all aspects relating to the Concession Agreement (which appointment is made under the PPA Business Combination Agreement) is free-of-charge. The Company is protected by an indemnity granted by PPA of eight percent per year on any amount due to and incurred by the Company on behalf of PPA, arising out of the Concession Agreement. PPA will also contribute to the cost of the bank guarantee which will be issued in favour of the Municipality of Milan to secure the Company’s obligations arising out the Concession Agreement, which contribution will be an amount proportionate to the actual portion of the Annual Concession Fee that PPA will pay. The indemnity and the cost of the bank guarantee for PPA have been included in the Annual Caps.

#### **Fratelli Prada Business Management Agreement**

Pursuant to the terms of the franchise agreement dated 28 January 2009 between the Company and Fratelli Prada, the right to operate the Prada brand retail business in Milan has been licensed to Fratelli Prada (the “**Franchise Agreement**”). Further details of the Franchise Agreement and the related annual caps are contained on page 145 of the prospectus of the Company dated 13 June 2011. Fratelli Prada is regarded as an entity having particular expertise in the retail activity to be conducted in the Galleria Property.

The relationship between the Company (as manager of the Galleria Property under the Concession Agreement) and Fratelli Prada (as the licensed franchisee operator of the retail business in Milan) in relation to the Galleria Property will be governed by the Fratelli Prada Business Management Agreement. This agreement is expected to be entered into in the second half of 2013, following completion of the refurbishment work on the Galleria Property. It will contain the following principal terms:

<b>Expected Date:</b>	In the second half of 2013 (the “ <b>Fratelli Prada Business Management Agreement Date</b> ”)
<b>Parties:</b>	(i) the Company; and (ii) Fratelli Prada
<b>Scope:</b>	To allow Fratelli Prada to manage the commercial retail activity in the Galleria Property relating to the sale of luxury apparel, footwear, leather goods and accessories under the Prada brand
<b>Term:</b>	For a term commencing on the Fratelli Prada Business Management Agreement Date and ending on 29 January 2024, provided that, upon the renewal of the Franchise Agreement, the Fratelli Prada Business Management Agreement will be automatically extended until the Concession Expiration Date. The Fratelli Prada Business Management Agreement will be terminated early if the Concession Agreement is terminated
<b>Annual Business Management Fee payable to the Company:</b>	(i) an amount not exceeding Euro 3,350,000.00 plus VAT of an amount not exceeding Euro 740,000.00, for the period commencing on the Fratelli Prada Business Management Agreement Date and ending on 29 January 2014 and for each of the four years thereafter  (ii) an amount not exceeding Euro 5,146,746.00 plus VAT of an amount not exceeding Euro 1,540,000.00, for each of the 13 years thereafter

The Annual Business Management Fee will be settled in cash. VAT is currently 21%.

The Annual Business Management Fee payable by Fratelli Prada has been calculated based on the actual portion of the Galleria Property that Fratelli Prada will manage, calculated on a weighted basis, reflecting the fact that Fratelli Prada will manage the ground, the basement and the first floors of the Galleria Property for commercial purposes. Such Annual Business Management Fee has also been index-linked to ISTAT and will therefore be subject to annual upward adjustment.

Under the Fratelli Prada Business Management Agreement, Fratelli Prada will also contribute to the costs of ancillary services to be provided by the Company, charged at cost with a five percent mark up (the “**Ancillary Services Costs**”). These ancillary services are: (i) telephone, fax and internet connection; (ii) electricity; (iii) heating and air conditioning; and (iv) cleaning services. The Ancillary Services Costs will be subject to annual upward adjustment at a rate of three percent per year.

Under the Fratelli Prada Business Management Agreement, Fratelli Prada will also contribute to the restructuring and refurbishment costs borne by the Company. The contribution will reflect the total cost of the restructuring and fit out relating to the actual portion of the Galleria Property that Fratelli Prada will manage. This amount will be reimbursed to the Company through annual payments during the entire duration (i.e. 18 years) of the Fratelli Prada Business Management Agreement (the “**Fratelli Prada Restructuring Costs**”). The Fratelli Prada Restructuring Costs will bear interest at a rate of 2.5 percent per year.

#### **Annual Caps for the continuing connected transactions**

	Annual Cap for the year ending 31 January 2014 (including VAT)	Annual Cap for each of the years ending 31 January 2015 to 2018 (including VAT)	Annual Cap for each of the years ending 31 January 2019 to 2031 (including VAT)
<b>PPA Business Combination Agreement</b>	Euro 1.1 million	Euro 1.6 million	Euro 2.9 million
<b>Fratelli Prada Business Management Agreement</b>	Euro 3.3 million	Euro 5.5 million	Euro 10.5 million  (after 29 January 2024, subject to

				the renewal of the Franchise Agreement)
<b>Total</b>	Euro 4.4 million	Euro 7.1 million	Euro 13.4 million	

Each of the Annual Caps set out above was determined after taking into consideration the Annual Business Combination Fee and the Annual Business Management Combination Fee, in both cases index-linked to ISTAT (and, as a consequence, subject to an annual upward adjustment in the range of 2.5 percent per year).

In addition, each of the Annual Caps for the PPA Business Combination Agreement set out above was determined after taking into consideration: (i) the PPA Restructuring Costs, bearing interest at a rate of 2.5 percent per year; (ii) the portion of the cost of the bank guarantee which PPA will be liable to reimburse to the Company; (iii) the indemnity payment that PPA may be required to make to the Company under the terms of the PPA Business Combination Agreement; and (iv) the overall amount of VAT payable in connection with the PPA Business Combination Agreement.

Each of the Annual Caps for Fratelli Prada Business Management Agreement set out above was determined after taking into consideration: (i) the Fratelli Prada Restructuring Costs bearing interest at a rate of 2.5 percent per year; and (ii) the Ancillary Services Costs, subject to annual upward adjustments at a rate of three percent per year; and (iii) the overall amount of VAT payable in connection with the Fratelli Prada Business Management Agreement.

The Annual Caps for the years ending 31 January 2019 to 2031 take into account the increase in the Annual Concession Fee payable by the Company to the Municipality of Milan starting from the sixth year of the Concession Agreement (i.e. 2018 - 2019).

The Annual Caps represent the amounts to be paid to the Company. Under the Business Agreements, it is not expected that the Company will be making payments to either PPA or Fratelli Prada.

**General description of the principal business activities carried out by the parties involved in the continuing connected transactions**

The Company and its subsidiaries (the “**Group**”) form one of the world’s most prestigious fashion luxury goods groups and the Company is the worldwide exclusive licensee of the design, development, manufacture, advertising, promotion and distribution of the PRADA and MIU MIU trademarks.

PPA is a company indirectly controlled by Ms. Miuccia Prada Bianchi and Mr. Patrizio Bertelli, who are the Chairperson and Chief Executive Officer,

respectively, as well as Executive Directors and substantial shareholders (as defined in the Listing Rules) of the Company. The principal business activity of PPA is to promote contemporary art, as well as to publish books and catalogues related to contemporary art and to manage cultural and art events.

Fratelli Prada is a company indirectly controlled by Ms. Miuccia Prada Bianchi. Fratelli Prada operates all the Prada-branded stores based in Milan in accordance with the terms of the Franchise Agreement.

### **Reasons for and benefits of the continuing connecting transactions**

The Directors (including the Independent Non-executive Directors) of the Company are of the view that the continuing connected transactions in the Business Agreements are important to the Group's continuing success and image. The Galleria Property is a prominent part of Galleria Vittorio Emanuele II, the site where Mr. Mario Prada, the grandfather of Ms. Miuccia Prada Bianchi, first opened a Prada store. The Galleria Vittorio Emanuele II remains a key part of the commercial, financial, tourism and cultural centre of the city of Milan. Entering into the Business Agreements allows the Company to satisfy the requirements imposed by the Municipality of Milan in granting the Concession Agreement, given that (i) the Company cannot itself carry on business which is for "cultural purposes" and (ii) the retail operations in Milan must be carried on by Fratelli Prada. The duration of the Business Agreements also ensures that the Company will not be in breach of the requirement relating to the cultural and retail use of the Galleria Property for the full duration of the Concession Agreement.

The Directors (including the Independent Non-executive Directors) consider that the Business Agreements have been entered into in the ordinary course of business of the Group and that the Business Agreements were negotiated on an arm's length basis, on normal commercial terms, which are fair and reasonable, and in the interests of the Group and the Company's shareholders as a whole.

### **Listing Rules implications**

PPA is a company indirectly controlled by Ms. Miuccia Prada Bianchi and Mr. Patrizio Bertelli and Fratelli Prada is a company indirectly controlled by Ms. Miuccia Prada Bianchi. As such, PPA and Fratelli Prada are connected persons (as defined in the Listing Rules) of the Company and the Business Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Ms. Miuccia Prada Bianchi and Mr. Patrizio Bertelli have material interests in the above transactions, are not permitted to vote under the Listing Rules and did not attend the part of the board meeting approving such transactions; therefore each of them did not vote for the relevant resolution.



Mr. Marco Salomoni (a Non-executive Director of the Company) is a shareholder of Fratelli Prada and therefore has a material interest in Fratelli Prada transaction. Accordingly, Mr. Marco Salomoni has abstained from voting on the board resolution approving the Fratelli Prada Business Management Agreement.

Since the relevant applicable percentage ratios for the Business Agreements in aggregate exceed 0.1% but are less than 5%, the continuing connected transactions contemplated under the Business Agreements are subject to the reporting and announcement requirements but are exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Since the duration of the Business Agreements is, or will be, longer than three years, pursuant to Rule 14A.35(1) of the Listing Rules, an independent financial adviser is required to explain why such longer periods for the Business Agreements are required and that it is normal business practice for contracts of this type to be of such duration. For this purpose, the Company engaged Somerley as its independent financial adviser.

In assessing the reasons for the duration of each of the PPA Business Combination Agreement and the Fratelli Prada Business Management Agreement to be longer than three years, Somerley has considered, based on the information provided by the management of the Company, the following factors:

- the terms of the Concession Agreement are governed by mandatory provisions stipulated by the Municipality of Milan, having regard to the historical, cultural and commercial significance of the Galleria Property, and, in particular, the fact that the duration is not subject to negotiation;
- as the inclusion of cultural activities is one of the prerequisites for the Company to win the bid for the concession for the use of the Galleria Property, the participation of PPA in connection with the cultural activities to be carried out in the Galleria Property over the period of the Concession Agreement is necessary for the Company to fulfill its obligations in its tender submitted as well as those in the Concession Agreement. Therefore, it is necessary for the term of the PPA Business Combination Agreement to be the same as the Concession Agreement;
- Fratelli Prada is the current exclusive franchisee of the Company for the Prada stores based in Milan pursuant to the Franchise Agreement. Over the period during which the Franchise Agreement is effective, the Company is restricted from operating any Prada mono-brand stores in Milan. As a result, the participation of Fratelli Prada in connection with the management of the retail activities to be carried out in the Galleria Property over the period of the Concession Agreement is necessary for the Company to utilise part of the Galleria Property for commercial use. Therefore, it is reasonable for the Fratelli Prada Business Management Agreement to cover the period from the completion of refurbishment of the

Galleria Property to 29 January 2031, the expected date of expiration of the Concession Agreement;

In considering whether it is normal business practice for agreements of a similar nature to each of the PPA Business Combination Agreement and the Fratelli Prada Business Management Agreement to have a term of such duration, Somerley has reviewed a number of comparable transactions involving the leasing of properties by retail chain store operators and considered the durations of the existing material lease agreements between members of the Group, as lessee, and independent third parties, as lessors, which had durations ranging from eight to 18 years, and is of the view that it is normal for retail chain store operators to enter into lease agreements of terms longer than three years so as to promote long-term business development and maximise the potential return from their investment on the leased properties.

Having considered the above, Somerley is of the opinion that the duration of each of the PPA Business Combination Agreement and the Fratelli Prada Business Management Agreement, both of which being longer than a three-year term, is required and in accordance with normal business practice for contracts of this type.

## **Definitions**

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

“Annual Caps”	the proposed annual cap amounts for the continuing connected transactions under the Business Agreements as set out in the section headed “Annual Caps for the continuing connected transactions” of this announcement and “Annual Cap” means any one of them
“associates”	has the meaning ascribed to it under the Listing Rules and “associated” shall be construed accordingly
“Business Agreements”	the Fratelli Prada Business Management Agreement and the PPA Business Combination Agreement
“Company”	PRADA S.p.A, a company incorporated under the laws of Italy as a joint-stock company, the shares of which are listed on the Stock Exchange
“Concession Agreement”	the concession agreement to be granted by the Municipality of Milan to the Company for the use of the Galleria Property
“Director(s)”	director(s) of the Company

“Fratelli Prada”	Fratelli Prada S.p.A., a company incorporated under the laws of Italy
“Fratelli Prada Business Management Agreement”	the business management agreement to be entered into between the Company and Fratelli Prada the principal terms of which are set out under the section headed “Fratelli Prada Business Management Agreement” of this announcement
“Galleria Property”	the premises in the Galleria Vittorio Emanuele II in Milan, Italy, the use of which is to be granted under the Concession Agreement
“ISTAT”	The National Institute for Statistics
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PPA”	Progetto Prada Arte S.r.l., an entity incorporated under the laws of Italy
“PPA Business Combination Agreement”	the business combination agreement entered into between the Company and PPA the principal terms of which are set out under the section headed “PPA Business Combination Agreement” of this announcement and the related agreement entered into between the same parties on the same date
“Somerley”	Somerley Limited, licensed by the Hong Kong Securities and Futures Commission to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as set out in Schedule 5 to the Securities and Futures Ordinance having CE registration number AAJ067
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By Order of the Board  
PRADA S.p.A.  
Mr. Carlo Mazzi  
*Deputy Chairman*

Milan (Italy), 29 January 2013

*As at the date of this announcement, the Company's Executive Directors are Ms. Miuccia PRADA BIANCHI, Mr. Patrizio BERTELLI, Mr. Carlo MAZZI and Mr. Donatello GALLI; the Company's Non-executive Directors are Mr. Marco SALOMONI and Mr. Gaetano MICCICHÈ and the Company's Independent Non-executive Directors are Mr. Gian Franco Oliviero MATTEI, Mr. Giancarlo FORESTIERI and Mr. Sing Cheong LIU.*