IMPORTANT

This circular is being distributed to the shareholders of Esprit Holdings Limited for their information and may not be reproduced or redistributed to any other person. This circular does not constitute an offer or invitation to subscribe for or purchase any shares in Esprit Wholesale AG (to be renamed as Esprit Europe AG) to be issued under the Spin-Off Proposal contained in this circular nor is it calculated to invite any such offer or invitation.

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

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

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

ESPRIT HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

PROPOSED MAJOR TRANSACTION
in relation to a

PROPOSED SPIN-OFF AND SEPARATE LISTING OF
ESPRIT WHOLESALe AG (TO BE RENAMED AS
ESPRIT EUROPE AG) ON
THE FRANKFURT STOCK EXCHANGE

Financial Adviser to the Company
Goldman Sachs (Asia) L.L.C.

Independent Financial Adviser to the Independent Board Committee
DBS ASIA CAPITAL LIMITED

A letter from the Independent Board Committee of Esprit Holdings Limited is set out on pages 20 to 21 of this circular. A letter from DBS Asia Capital Ltd. containing its advice to the Independent Board Committee is set out on pages 22 to 26 of this circular.

A notice dated May 24, 2000 convening a Special General Meeting of the Company to be held at 9:45 a.m. on June 9, 2000 at Pearl Rooms 1–2, 3rd Floor, Furama Hotel, One Connaught Road Central, Hong Kong is set out on pages 43 to 44 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon as soon as practicable and, in any event, by not later than 48 hours before the time scheduled for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish.

May 24, 2000
CONTENTS

Definitions ................................................................. 1

Letter from the Chairman

1. Introduction ............................................................ 4

2. The Spin-Off Proposal ................................................ 6

3. Business of Esprit Europe .......................................... 10

4. Reasons for and benefits from the Spin-Off Proposal .......... 11

5. Use of Proceeds ......................................................... 12

6. Reasons for not providing Assured Entitlements to Shareholders .. 12

7. Relationship between Esprit Holdings Group and Esprit Europe
   Group after the Spin-Off ............................................. 14

8. Conditions of the Spin-Off Proposal ............................... 16


10. Stock Option Plan ...................................................... 18

11. Special General Meeting ........................................... 19

12. Recommendation ...................................................... 19

13. Further information ................................................ 19

Letter from the Independent Board Committee ......................... 20

Letter from DBS Asia ...................................................... 22

Appendix I — Financial information ................................... 27

Appendix II — General information .................................... 33

Appendix III — Summary of the Stock Option Plan .................. 37

Notice of the Special General Meeting ................................. 43

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DEFINITIONS

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

“Associate” has the meaning ascribed thereto under the Listing Rules

“Assured Entitlements” the entitlements of Qualifying Shareholders to Esprit Europe Shares on an assured basis, either by way of a distribution in specie of Esprit Europe Shares or by way of a preferred application in any offering of Esprit Europe Shares as part of the Spin-off Proposal, in compliance with Practice Note 15 of the Listing Rules

“Board” or “Director(s)” the board of directors or the director(s) of the Company respectively

“Company” Esprit Holdings Limited, a company incorporated in Bermuda which shares are listed on the Stock Exchange

“DBS” DBS Asia Capital Ltd, a registered investment adviser and independent financial adviser to the Independent Board Committee

“€” the Euro

“Esprit Europe” Esprit Wholesale AG, which name is proposed to be changed to Esprit Europe AG, a company incorporated in Germany and which has been established as part of the Restructuring, the entire issued share capital of which is proposed to be listed on the FSE pursuant to the Spin-Off Proposal

“Esprit Europe Group” Esprit Europe and its subsidiaries immediately following completion of the Restructuring

“Esprit Europe Share(s)” ordinary share(s) of €1.00 each in the share capital of Esprit Europe

“Esprit Holdings Group” the Company and its subsidiaries, other than the Esprit Europe Group, immediately following completion of the Restructuring

“Esprit Trading” Esprit Trading GmbH, a company incorporated in Germany and which will, immediately following completion of the Restructuring, hold all the wholesale operations in Europe currently held by Esprit de Corp. GmbH

“FSE” Frankfurt Stock Exchange

“Germany” the Federal Republic of Germany

“Goldman Sachs” Goldman Sachs (Asia) L.L.C., a registered investment adviser and the financial adviser to the Company in respect of the Spin-Off Proposal
DEFINITIONS

“Global Offering” the proposed global offering of new Esprit Europe Shares, comprising a public offering in Germany and an offering to institutional investors in certain jurisdictions outside of Germany within six months from the approval of the Spin-Off Proposal by the Shareholders at the Special General Meeting

“Group” the Company and its subsidiaries, including the Esprit Europe Group, prior to the Restructuring

“Hong Kong” the Hong Kong Special Administrative Region of the People’s Republic of China

“HKS” Hong Kong dollars, the lawful currency of Hong Kong

“Independent Board Committee” the independent committee of the Board of Directors comprising Alexander Reid Hamilton, an independent non-executive Director, for the purposes of this transaction

“Independent Shareholders” Shareholders other than Michael Ying, Jürgen Friedrich and their respective Associates

“Latest Practicable Date” May 18, 2000, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

“Listing” the listing of the entire issued share capital of Esprit Europe on the FSE in the official market (“Amtlicher Handel”)

“Listing Rules” the Rules Governing the Listing of Securities on the Stock Exchange

“Qualifying Shareholders” the holders of Shares, excluding (unless otherwise resolved by the Board) any Shareholders whose addresses, as shown in the register of members of the Company, as at the close of business on the record date for ascertaining the Assured Entitlements, are outside of Hong Kong

“Restructuring” the proposed restructuring of the existing businesses and operations of the Group in Europe for the purposes of the Spin-Off Proposal, details of which are set out in the section headed “Letter from the Chairman” under the paragraph headed “The Spin-Off Proposal”

“SDI Ordinance” the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)

“Share(s)” ordinary share(s) of HK$0.10 each in the share capital of the Company

“Shareholder(s)” the shareholder(s) of the Company

“Special General Meeting” the special general meeting of the Company to be convened on June 9, 2000, notice of which is set out on pages 43 to 44 of this circular, including any adjournment thereof
DEFINITIONS

“Spin-Off Proposal” the proposed spin-off and separate listing of the interests in those businesses and operations of the Group in Europe which will be held by Esprit Europe immediately following the Restructuring as referred to in the section headed “Letter from the Chairman” under the paragraph headed “The Spin-Off Proposal”

“Stock Exchange” The Stock Exchange of Hong Kong Limited

“Stock Option Plan” a stock option plan in relation to Esprit Europe Shares proposed to be adopted by Esprit Europe for the management board and employees of Esprit Europe and enterprises dependent on Esprit Europe within the meaning of the German Stock Corporation Act, which is proposed to be approved by the Shareholders, other than those Shareholders to whom or for whose benefit Esprit Europe Shares may be issued under the stock option plan, at the Special General Meeting, a summary of the principal terms of which is set out in Appendix III to this circular

“Underwriters” the prospective syndicate of underwriters of the Global Offering

For the purpose of this circular, unless otherwise indicated, an exchange rate of HK$7: €1 has been used, where applicable, for the purpose of illustration only and no representation is made that any amount have been, could have been or may be exchanged, at such or any other rate, or at all.
LETTER FROM THE CHAIRMAN

ESPRIT HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

Executive Directors:
Michael Ying Lee Yuen (Chairman)
John Poon Cho Ming
Heinz Jürgen Krogner-Kornalik
Surinder Chhibber
Connie Wong Chin Tzi

Non-Executive Directors:
Jürgen Alfred Rudolf Friedrich
Alexander Reid Hamilton
Raymond Or Ching Fai
Simon Lai Sau Cheong

Registered Office:
Clarendon House
Church Street, Hamilton
Bermuda HM 11

Principal Office:
10/F., 11 Yuk Yat Street
Tokwawan
Kowloon
Hong Kong

May 24, 2000

To the Shareholders

Dear Sir or Madam,

PROPOSED MAJOR TRANSACTION

in relation to a

PROPOSED SPIN-OFF AND SEPARATE LISTING OF
ESPRIT WHOLESALe AG (TO BE RENAMED AS
ESPRIT EUROPE AG) ON
THE FRANKFURT STOCK EXCHANGE

1. INTRODUCTION

On May 23, 2000, the Directors announced the Spin-Off Proposal for Esprit Europe, by way of the Global Offering and the Listing of Esprit Europe Shares. As explained in this circular, the Board considers that the Spin-Off Proposal is in the interests of the Company and the Shareholders.

The Company will continue to be listed on the Stock Exchange and Esprit Europe will continue to be a subsidiary of the Company following implementation of the Spin-Off Proposal.

The Spin-Off Proposal, if proceeded with, is expected to constitute a major transaction of the Company for the purpose of the Listing Rules in which case it will require the approval of the Shareholders. In addition, as the unaudited pro-forma consolidated operating profit before taxation for the year ended June 30, 1999 of Esprit Europe represented more than 15 per cent. of the audited consolidated operating profit before taxation (for the same period) of the Group, Esprit Europe is a
LETTER FROM THE CHAIRMAN

“major subsidiary” of the Group for the purposes of the Listing Rules. It is expected that the proposed issue of Esprit Europe Shares pursuant to the Global Offering will materially dilute the percentage equity interest held by the Group in Esprit Europe within the meaning of the Listing Rules. For this reason, the approval of the Shareholders of the Spin-Off Proposal is also required.

Approval of the Shareholders of the Spin-Off Proposal will be obtained at the Special General Meeting. The Board has been informed that Mr. Michael Ying and Mr. Jürgen Friedrich and their respective Associates who together control 650,855,579 Shares, representing about 58.29 per cent. of the existing issued share capital of the Company and who are entitled to vote on the Spin-Off Proposal, will vote in favour of the Spin-Off Proposal.

In addition, since it is the intention of the Company not to offer Assured Entitlements to Qualifying Shareholders, the Independent Shareholders will need to approve the dispensation with the requirement to offer Assured Entitlements at the Special General Meeting at which Mr. Michael Ying, Mr. Jürgen Friedrich and their respective Associates will abstain from voting.

The Stock Option Plan also requires the approval of the Shareholders at the Special General Meeting. The Board has been informed that Mr. Michael Ying and Mr. Jürgen Friedrich and their respective Associates as aforementioned who are not entitled to any Esprit Europe Shares under such Stock Option Plan are entitled to vote on approving the Stock Option Plan, will vote in favour of the Stock Option Plan.

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the Spin-Off Proposal, the proposed dispensation with the requirement to offer Assured Entitlements and the Stock Option Plan. The letter from and containing the recommendation of the Independent Board Committee to the Independent Shareholders is set out on pages 20 to 21 of this circular. DBS has been appointed as the independent financial adviser to the Independent Board Committee and a copy of its letter of advice to the Independent Board Committee is set out on pages 22 to 26 of this circular.

Goldman Sachs is the financial adviser to the Company in respect of the Spin-Off Proposal and an affiliate company of Goldman Sachs is proposed to be the global coordinator of the Global Offering.

The purpose of this circular is to give you details of, and the reasons for and benefits from, the Spin-Off Proposal, the dispensation with the requirement to offer Assured Entitlements and information on the Stock Option Plan, and to seek your approval by the ordinary resolutions (which relate respectively to the Spin-Off Proposal, dispensation with the requirement to offer Assured Entitlements and the Stock Option Plan) set out in the notice of the Special General Meeting at the end of this circular.

SHAREHOLDERS SHOULD NOTE THAT THE SPIN-OFF PROPOSAL AND THE GLOBAL OFFERING ARE POSSIBILITIES ONLY.

It is intended that Esprit Europe Shares will be listed on FSE and the Spin-Off Proposal is dependent on a number of factors including, without limitation, the approval of the FSE of the Listing which includes an approval of the offering documents to be used in the Global Offering, the entering into of a definitive underwriting agreement and other pertinent legal documentation (including a price determination agreement in respect of the proposed issue price per Esprit Europe Share and the fulfillment of all conditions contained in the definitive underwriting agreement) in respect of the Global Offering as well as market conditions at the relevant time.
LETTER FROM THE CHAIRMAN

Shareholders should note, in particular, that no underwriting agreement has been signed. It is further expected that any such underwriting agreement will be conditional on various matters including, without limitation, agreement being reached between the Company, Esprit Europe and the Underwriters in respect of the issue price per Esprit Europe Share.

AS THE ISSUE PRICE FOR ESPRIT EUROPE SHARES HAS NOT BEEN DETERMINED, SHAREHOLDERS SHOULD ALSO NOTE THAT THE CALCULATIONS AND EXAMPLES APPEARING IN THIS CIRCULAR RELATING TO THE POTENTIAL FINANCIAL EFFECTS OF THE SPIN-OFF PROPOSAL ARE BASED ON CERTAIN ASSUMPTIONS WHICH MAY OR MAY NOT MATERIALISE AND ARE INCLUDED FOR ILLUSTRATION PURPOSES ONLY.

In addition, the Board reserves the right not to proceed with the Spin-Off Proposal if the Board considers, for any reason including, without limitation, the proposed issue price per Esprit Europe Share and/or the market conditions at the relevant time, that the Spin-Off Proposal should not be proceeded with.

Further announcements will be made by the Company as and when appropriate to keep Shareholders informed of material developments in relation to the Spin-Off Proposal.

SHAREHOLDERS SHOULD EXERCISE CAUTION WHEN DEALING IN THE SHARES OF THE COMPANY. THERE IS NO CERTAINTY THAT THE SPIN-OFF PROPOSAL WILL BE COMPLETED SUCCESSFULLY OR AT ALL.

2. THE SPIN-OFF PROPOSAL

The Spin-Off Proposal is for the Group’s businesses and operations in Europe, which will be held through Esprit Europe immediately after the Restructuring, to be spun-off and separately listed on the FSE.

Esprit Europe is a stock corporation (“Aktiengesellschaft”: AG) incorporated with limited liability under the laws of Germany and, subject to obtaining Shareholders’ approval to the resolutions to be proposed at the Special General Meeting, it is currently expected that Esprit Europe Shares will be listed on the FSE on or before the end of June this year. It is currently envisaged that, upon completion of the Global Offering, Esprit Europe will remain a subsidiary of the Company. The net proceeds of the Global Offering targeted to be raised would be approximately €200 million (equivalent to approximately HK$1,400 million). Based on the current timetable, an indicative price range regarding the issue price per Esprit Europe Share is currently expected to be available only on or about June 16, 2000 and the final issue price per Esprit Europe Share is currently expected to be determined after completion of an international roadshow and bookbuilding exercise on or about June 27, 2000.
LETTER FROM THE CHAIRMAN

Prior to completion of the Global Offering, it is proposed that the existing businesses and operations of the Group in Europe will be restructured pursuant to the Restructuring which is expected to include the following principal steps:

(i) the existing wholesale businesses and operations of the Group in Europe which are currently being conducted by Esprit de Corp. GmbH, a wholly owned subsidiary of the Group, and the rights held by Esprit de Corp. GmbH for use of the Espirit brandname in Germany will be dropped down from Esprit de Corp. GmbH into Espirit Trading;

(ii) Esprit de Corp. GmbH will then be merged, in accordance with German law, with its immediate holding company, Esprit Holdings GmbH, as a result of which Esprit de Corp. GmbH will cease to exist and all of its assets and operations (other than those dropped down in the previous step) will be held by Espirit Holdings GmbH; and

(iii) Esprit Holdings GmbH will then transfer or contribute certain of its operating subsidiaries as well as its business operations in relation to holding company functions and certain administrative services to Espirit Europe, which will, together with Espirit Trading, constitute the Espirit Europe Group.

The Espirit Europe Group to be established as a result of the Restructuring will comprise of the wholesale and retail distribution operations of Espirit products in Europe. It will also continue to own the relevant Espirit trademark rights for use in Germany and maintain and operate its own products design division.

Operations and assets which are of significance to the Group as a whole will, however, not form part of the Espirit Europe Group. In particular, Esprit Holdings GmbH, which is a wholly owned subsidiary of the Company, will become the 30 per cent. general partner of Espirit International, a limited partnership organized under the laws of California which holds all global intellectual property rights in respect of the Espirit brandname, except certain rights principally for use within the United States of America which are held outside of the Group by Esprit Holdings Inc. in which the Esprit Holdings Group holds approximately 5 per cent. and certain rights which will be held by the Espirit Europe Group for use in Germany. Together with another 33 per cent. general partnership held by Espirit (Holdings II) BV, a wholly owned subsidiary of the Company, the Company indirectly holds 63 per cent. of Espirit International. The Espirit Holdings Group will also, through Esprit Holdings GmbH, continue to hold Espirit Image and Product Development Limited which is the company responsible for the global image of the Espirit brandname and its products for the Group.
LETTER FROM THE CHAIRMAN

Set out below is an outline of the simplified corporate structure of the Esprit Europe Group including its ultimate holding company immediately prior to completion of the Restructuring and the Spin-Off Proposal:

![Diagram of corporate structure]

Notes:

1. This company is responsible for the image of all Esprit products for the Group and manages the overall image or theme of the Esprit brandname rather than individual product design.

2. This company holds, inter alia, most of the existing wholesale and retail businesses and operations of the Group in Europe and it also holds certain rights in respect of the Esprit brandname in Germany.

3. Esprit de Corp. GmbH is an indirect wholly owned subsidiary of the Group and a 30 per cent. general partner of Esprit International. The Company indirectly holds 63 per cent. of Esprit International. Esprit Holdings Inc., a company incorporated in the State of Delaware in which the Group holds approximately 5 per cent., holds the remaining 37 per cent. of Esprit International. Esprit International holds all the global intellectual property rights in respect of the Esprit brandname, except certain rights principally for use within the United States of America held by Esprit Holdings Inc. and certain rights held by Esprit de Corp. GmbH for use in Germany.

4. Not all subsidiaries have been listed in the diagram. The ovals are only intended to show the major lines of operations. The three major lines of operation as shown are currently held by both Esprit Holdings GmbH and Esprit de Corp. GmbH.

5. Esprit de Corp. GmbH owns certain rights to use the Esprit brandname in Germany.
LETTER FROM THE CHAIRMAN

Set out below is an outline of the simplified corporate structure of the Esprit Europe Group including its ultimate holding company immediately following completion of the Restructuring and the Spin-Off Proposal:

![Diagram of corporate structure]

Notes:

1. The Group will continue to hold 63 per cent. of Esprit International. This will be achieved by merging Esprit de Corp. GmbH into Esprit Holdings GmbH as part of the Restructuring. Esprit de Corp. GmbH will cease to exist as a result of such a merger. None of the Group’s interests in Esprit International will form part of the Esprit Europe Group to which the Spin-Off Proposal relates.

2. This company which is responsible for the image of the Group and manages the overall image or theme of the Esprit brand rather than individual product design, will continue to be held by Esprit Holdings GmbH. It will not therefore form part of the Esprit Europe Group to which the Spin-Off Proposal relates.

3. It is currently assumed that the Global Offering will comprise approximately 25 per cent. of the enlarged issued share capital of Esprit Europe. The exact percentage has not been determined as at the date of this circular.

4. Not all subsidiaries have been listed in the diagram. The ovals are only intended to show the major lines of operations. The three lines of operation as shown will be rationalized pursuant to the Restructuring so that they will all be held by Esprit Europe.

5. The rights owned by Esprit de Corp. GmbH in the Esprit brand name for use in Germany will be held by Esprit Trading, a wholly-owned subsidiary of Esprit Europe.
3. BUSINESS OF ESPRIT EUROPE

The Esprit Europe Group is an international lifestyle company which sells its products under the internationally well established ESPRIT brandname in various European countries. Through its two distribution channels, wholesale and own retail, the Esprit Europe Group sells an extensive range of ESPRIT branded products of its eight product divisions: Women Casual, Women Collection, etc, Men, Kids, Accessories, Shoes and Bodywear. All products of the eight divisions are designed by the Esprit Europe Group. Other ESPRIT branded products, ranging from time wear, eyewear, jewelry and socks, to home, bath & bed products, are designed and produced by third parties under licence and sold mainly through the licensees’ own distribution channels. The Esprit Europe Group also offers licensed products in its retail outlets.

The business concept of Esprit Europe is characterised by the design, marketing and sale of high quality products at reasonable prices which fit the ESPRIT lifestyle image, a market driven organisation and market driven merchandise and distribution channels which concentrate on the sale of ESPRIT branded products in controlled space and own retail stores. The target customers of Esprit Europe are people with a young attitude in the middle income bracket who live and dress in a modern and contemporary way while looking for high quality products offered at a reasonable price.

Esprit Europe intends to build on its key strengths and to make use of the growth opportunities for the Esprit Europe Group in its markets by developing its successful business concept further. Esprit Europe will continue to communicate and enhance its internationally well-established ESPRIT brandname in its markets and seeks to increase sales of all its divisions with emphasis on edc, Men, Bodywear and Shoes.

Esprit Europe operates a multi-channel distribution network which combines wholesale and own retail. The multi-channel approach offers the Esprit Europe Group the advantages of both retail and wholesale. Esprit Europe’s wholesale channel which accounted for approximately 71 per cent. of the turnover of its two distribution channels in the nine months ended March 31, 2000 while its own retail generated the remainder of the turnover in the same period. Esprit Europe has a local sales presence in Germany, the Benelux, Scandinavia, France and Austria. In the nine months period ending March 31, 2000, the Esprit Europe Group sold the majority of its products to approximately 7,300 wholesale customers. As at March 31, 2000, the Esprit Europe Group’s wholesale network comprised 57 partnership-stores, 675 shop-in-stores and 1,074 concept corners. Other wholesale customers include multilabel retailers and specialty retailers (in particular for Accessories and Shoes).

Esprit Europe also sells its products in its own retail stores and in independently managed concession stores. As at March 31, 2000, Esprit Europe operated its own chain of approximately 96 retail outlets which comprised Mega Flagship Store, Flagship Stores, Satellite Stores, Town Stores, concession stores and a factory outlet.

Following the implementation of the Spin-Off Proposal and the Global Offering, Esprit Europe will continue to be a subsidiary of the Esprit Holdings Group. There will also be a continuing relationship and a number of recurring transactions between the Esprit Europe Group on the one hand and members of the Esprit Holdings Group on the other. These transactions are or will be governed by contractual arrangements on arms’ length terms and will be in the ordinary course of business.
4. REASONS FOR AND BENEFITS FROM THE SPIN-OFF PROPOSAL

The Spin-Off Proposal and the Listing will enable Esprit Europe to exploit its listing status on a major stock exchange in Europe. At present, the primary listing of the Company is in Hong Kong. While the Company has a secondary listing on the London Stock Exchange, there is currently little trading on the London Stock Exchange.

The following are the primary reasons for the Spin-Off Proposal:

(i) the Listing will allow Esprit Europe to raise funds more readily through access to international capital markets thereby injecting additional financial power to boost and strengthen growth in Europe as well as relieving the Company from its funding commitments to the Group’s business in Europe;

(ii) the Spin-Off Proposal will also enable Esprit Europe to develop organisational focus and clarity when pursuing growth and development of the Esprit global brandname in Europe;

(iii) the Spin-Off Proposal will benefit all Shareholders as it will allow the value contributed by the Group’s European operations to be crystallised. At present, the full value of the European operations have not been realised by Shareholders. The Company is listed in Hong Kong and its Shares have historically traded at a discount to its European comparables. The Company’s share price is also affected by the volatility of the Hong Kong stock market;

(iv) the Listing will enable Esprit Europe Shares to be used, where appropriate, as an additional acquisition currency in any global expansion plans of the Company and/or Esprit Europe;

(v) some institutional investors still perceive the Company’s shares as an “emerging market” investment despite the fact that the Company’s European operations constitute a major and mature proportion of the Company’s overall business and the Esprit brandname is particularly strong in Germany and the Benelux countries;

(vi) intra-group loans owing to the Esprit Holdings Group in the amount of approximately €113 million (equivalent to approximately HK$791 million) will be repaid by the Esprit Europe Group following the Global Offering and the Listing of Esprit Europe;

(vii) the Listing will enable investors to invest directly in Esprit Europe and to assess the value of the businesses of Esprit Europe separately from the other operations of the Group; and

(viii) as Esprit Europe will remain a subsidiary of the Company immediately following completion of the Global Offering and the Listing, the Company and its Shareholders will continue to benefit from the growth of the European operations of Esprit Europe as facilitated by the Global Offering and the Listing.
5. USE OF PROCEEDS

The net proceeds from the Global Offering targeted to be raised would be approximately €200 million (equivalent to approximately HK$1,400 million) although the actual amount raised will be subject to, inter alia, market conditions at the time of the Global Offering. The Esprit Europe Group will use the net proceeds from the Global Offering as follows:

(i) to repay intra-group indebtedness due to the Esprit Holdings Group in the amount of approximately €113 million (equivalent to approximately HK$791 million) which will be used by the Esprit Holdings Group for general corporate purposes which may include the reduction of its borrowings from banks and financial institutions; and

(ii) as to the balance of approximately €87 million (equivalent to approximately HK$609 million), to finance further expansion of the Esprit Europe Group’s operations, which may comprise general retail store expansions or the acquisition of additional store locations, and other general corporate purposes.

6. REASONS FOR NOT PROVIDING ASSURED ENTITLEMENTS TO SHAREHOLDERS

As part of the Global Offering, Esprit Europe Shares will be listed on the FSE in the official market (“Amtlicher Handel”) by way of the Listing. Under paragraph 3(f) of Practice Note 15 to the Listing Rules, the Company is required to pay due regard to the interests of the Shareholders by providing Qualifying Shareholders with Assured Entitlements to Esprit Europe Shares as part of the Spin-Off Proposal.

The Company considers that it will be impractical and costly, and not in the interests of the Company and the Shareholders to offer Assured Entitlements to Qualifying Shareholders. Accordingly, the Board proposes to put forward a resolution at the Special General Meeting for the Independent Shareholders to dispense with the requirement to offer Assured Entitlements.

Based on the following considerations, the Board believes it would be impractical and costly to offer Assured Entitlements to Qualifying Shareholders:

(i) **Investment difficult for Qualifying Shareholders to follow and trade**

The entire issued share capital of Esprit Europe will be listed on the FSE. This potentially poses difficulties for Qualifying Shareholders to follow and trade in Esprit Europe Shares for the reasons below:

(a) the significant difference in time zone between Hong Kong and Frankfurt poses difficulties for retail Qualifying Shareholders to follow and trade in Esprit Europe Shares; and

(b) the high entry level requirements of opening and maintaining a private banking account will mean that while certain leading financial institutions and banks do offer selected private clients the capacity to trade in FSE listed shares, such services will be denied to the ordinary retail investors.
LETTER FROM THE CHAIRMAN

(ii) Cumbersome procedures for Qualifying Shareholders to apply in Hong Kong

The procedures for the lodgement of applications for Assured Entitlements are cumbersome and unattractive. They include, *inter alia*, the following:

(a) the necessity for the application funds to be denominated in Euros; and

(b) as no physical share certificates can be dispatched to Qualifying Shareholders who have been offered and accepted Assured Entitlements, all Esprit Europe Shares comprised in the Assured Entitlements have to be lodged with the local clearing house and be traded through the FSE’s scripless book-entry system. Any claim by individual shareholders of Esprit Europe to have stock certificates issued to them has been excluded in Esprit Europe’s articles of association in line with standard practice for German companies listed on a stock exchange.

(iii) Cost and effort to the Company would be disproportionate to the amount of proceeds that can be raised from the Assured Entitlements

The Assured Entitlements only relate to a comparatively small amount of Esprit Europe Shares (which are likely to be less than one per cent. of the total number of Esprit Europe Shares to be offered in the Global Offering) but the Company will have to undertake the following additional work at potential significant expense:

(a) preparing and issuing a Hong Kong prospectus and having it translated into Chinese would be time consuming and costly; and

(b) the prospectus prepared in connection with the Global Offering has to be amended with, where appropriate, waivers obtained in advance from relevant regulatory authorities in order to comply with certain additional contents requirements laid down in the Third Schedule of the Companies Ordinance (Chapter 32 of the laws of Hong Kong).

(iv) Delay in timetable

The Assured Entitlements requirement, unless waived, will have major implications in terms of timing. It will not be in the interest of the Company or the Esprit Europe Group, on account of having to comply with the Assured Entitlements requirement (i.e. a prospectus complying with all relevant Hong Kong legal requirements is required to be issued to offer Esprit Europe Shares to the Shareholders), to suffer any delay in its proposed timetable. *The Company has been advised that if the Assured Entitlements requirement is to be complied with, the proposed Global Offering will not be completed by end of June and may be postponed until the fourth quarter of the year when market conditions cannot be anticipated.*

Based on the above reasons and the recommendation of DBS, the independent financial adviser, as set out in the “Letter from the Independent Board Committee”, it is considered that the offering of Assured Entitlements to Qualifying Shareholders will not be for the benefit of the Company and its Shareholders. For this reason, the Company proposes to put forward a resolution at the Special General Meeting for the Independent Shareholders to dispense with the requirement to offer Assured Entitlements.
7. RELATIONSHIP BETWEEN ESPRIT HOLDINGS GROUP AND ESPRIT EUROPE GROUP AFTER THE SPIN-OFF

Following the Global Offering, Esprit Europe will continue to be a subsidiary of the Group. The management of the Company and that of Esprit Europe will be clearly delineated. The governing bodies of Esprit Europe are the Management Board (Vorstand), the Supervisory Board (Aufsichtsrat) and the general meeting (Hauptversammlung). The power of each body is determined in the Stock Corporation Act of Germany and Esprit Europe’s articles of association.

In performing their duties, the members of both the Management Board and the Supervisory Board are required to meet the standard of care expected of a diligent and conscientious manager. To meet this standard, the members of the boards must take into account a broad range of interests, including those of Esprit Europe and its shareholders, its employees and creditors. The members of the Management Board and the Supervisory Board are jointly and severally liable to Esprit Europe for damages caused by the breach of their duties. According to current German stock corporation law, a shareholder may not sue members of the Management Board or the Supervisory Board for breach of duty. Only Esprit Europe has the right to claim compensation for damages from the members of the boards. However, Esprit Europe may neither waive nor settle such claim to damages until three years have elapsed after the claim arises and then (subject to certain exceptions) only if approved by the general meeting.

Under German law, shareholders and other persons are prohibited from using their influence on Esprit Europe to induce any member of the Management Board or the Supervisory Board to act in a way that is detrimental to the interest of Esprit Europe. In particular, the Company, as the controlling shareholder of Esprit Europe, may not use its influence to cause Esprit Europe to act against its own interests.

Under the Stock Corporation Act of Germany, the Management Board is obligated to take all suitable action, and particularly set up a monitoring system, in order to recognize at an early stage developments which could threaten the existence of Esprit Europe.

Under the articles of association of Esprit Europe, the number of members of the Management Board is decided by the Supervisory Board. The Supervisory Board is authorized to appoint a chairman. The Supervisory Board may revoke the appointment of a member of the Management Board prior to the expiration of his term for an important cause.

The Supervisory Board of Esprit Europe will be elected in a shareholders’ meeting in accordance with the provisions of the Stock Corporation Act of Germany. The members appointed by the shareholders may be dismissed by a simple majority of the votes cast in the shareholders’ meeting.

A general shareholders’ meeting may, among other things, formally resolve on the discharge of responsibility of members of the Management Board and the Supervisory Board. Major corporate transactions such as mergers or the conclusion of inter-company agreements (Unternehmensverträge) require the vote of three-quarters of the share capital represented at the meeting.
LETTER FROM THE CHAIRMAN

There will be continuing relationship and a number of recurring transactions between members of the Esprit Europe Group on the one hand and members of the Esprit Holdings Group on the other. These transactions will be governed by contractual arrangements on arms’ length terms and will be in the ordinary course of business. The transactions are summarised as follows:

(i) **Sourcing of goods.** The sourcing operations of the Esprit Holdings Group and the Esprit Europe Group are regulated by an agreement concluded in October 1998. Sourcing of Esprit Europe in the Far East is handled by Esprit Distribution Limited, a wholly-owned subsidiary within the Esprit Holdings Group, and sourcing by the Esprit Holdings Group in Europe is conducted through Esprit Europe Services GmbH, a wholly-owned subsidiary within the Esprit Europe Group. Sourcing is conducted on a cost plus basis and the terms of the agreement, including the remuneration payable for the sourcing services, are applicable to both parties with no preferential terms given to any parties. Esprit Europe is not allowed, pursuant to the agreement, to place orders directly with manufacturers in a number of countries in the Far East and in some countries in other regions outside Europe, and Esprit Distribution Limited, which is the sourcing arm of the Esprit Holdings Group, is similarly not allowed to place orders directly with manufacturers in a number of countries in Europe and in some countries in other regions outside Europe. It is not currently anticipated that the practice for the sourcing of goods between the Esprit Holdings Group and the Esprit Europe Group will change in the near future.

(ii) **Payment of royalties by the Esprit Europe Group for the use of the Esprit trademark.** Esprit International holds the rights to the Esprit trademarks in the markets where the Esprit Europe Group carries on business, other than certain trademarks in Germany which will, following completion of the Restructuring, be owned by Esprit Trading, a wholly-owned subsidiary of Esprit Europe. The Esprit Europe Group uses the trademarks (other than those owned by Esprit Trading for use in Germany) under license agreements with Esprit International and pays royalties based on net sales for the use of the Esprit trademark. Esprit International manages the Esprit trademarks internationally and maintains relationships with international licensees of the trademarks which include the Esprit Europe Group. Esprit International manages brand consistency in terms of product design and marketing to ensure a uniform global Esprit brand image.

(iii) **Sharing of image functions by the Esprit Holdings Group and the Esprit Europe Group.** Esprit Image and Product Development Limited in London runs the image department for the Group. The image department is the provider of creative and other related services including advertising, public relations, corporate image, store architecture and visual merchandising. The staff based in London works closely together with Esprit Europe’s merchandisers and public relations representatives located in Germany and other European countries to ensure consistency of brand image. Esprit Europe pays fees to Esprit Image and Product Development Limited based on actual costs plus a mark-up.

(iv) **Sale of design by the Esprit Europe Group to the Esprit Holdings Group.** A subsidiary of the Esprit Europe Group owns all the designs developed by the Esprit Europe Group and sells a large number of designs to the Esprit Holdings Group.
LETTER FROM THE CHAIRMAN

8. CONDITIONS OF THE SPIN-OFF PROPOSAL

The Spin-Off Proposal is subject to, *inter alia*, the following conditions being fulfilled:

(i) completion of the Restructuring and the filing and registration of all documents in relation to the Restructuring as required by law in Germany;

(ii) the Zulassungsstelle (or “listing department”) of the FSE having approved the Listing and the Global Offering (to the extent that it will be conducted in Germany);

(iii) the Spin-Off Proposal being approved by the Shareholders of the Company at the Special General Meeting;

(iv) the execution of an underwriting agreement in relation to the Global Offering and a price determination agreement with respect to the issue price per Esprit Europe Share, and (where applicable) all conditions which make the underwriting obligation binding for the Underwriters having been fulfilled; and

(v) the filing and registration of all documents in relation to the Listing or the Global Offering and the corporate steps associated therewith as required by law in Germany.

Shareholders should also note that, as disclosed in the earlier part of this circular, the Board reserves the right not to proceed with the Spin-Off Proposal if the Board considers, for any reason including, without limitation, the proposed issue price per Esprit Europe Share and/or the market conditions at the relevant time, that the Company should not proceed with the Spin-Off Proposal.

9. FINANCIAL EFFECTS OF THE SPIN-OFF PROPOSAL

The actual amount to be raised pursuant to the Global Offering is dependent to a large extent on the market conditions at the relevant time.

The issue price per Esprit Europe Share to be offered under the Global Offering has yet to be agreed between the Company, Esprit Europe and the Underwriters based on a number of factors including the result of the bookbuilding exercise. No underwriting agreement has been signed at this stage. Accordingly, it is not possible to state precisely the financial effects of the Spin-Off Proposal on the Group.

For illustration purpose only, the following section on the possible financial effects on the Group immediately following the completion of the Spin-Off Proposal is based on the assumption that the net proceeds to be raised by the Global Offering will be approximately €200 million (equivalent to approximately HK$1,400 million) and that the Global Offering will comprise approximately 25 per cent. of the enlarged issued share capital of Esprit Europe. There can be no assurance that the actual amount of the Global Offering will fall under these assumptions.

(i) Net tangible assets and net assets

The unaudited adjusted consolidated net tangible assets and unaudited adjusted consolidated net assets of the Group before the Global Offering and the Listing based on the Group’s audited accounts as at June 30, 1999 and the unaudited financial statements as at
LETTER FROM THE CHAIRMAN

December 31, 1999 were approximately HK$875 million and HK$1,628 million respectively (equivalent to HK$0.78 per Share and HK$1.46 per Share respectively) as set out in section B (1) of Appendix I to this circular.

For illustration purpose, assuming that the Global Offering and the Listing had taken place as at December 31, 1999 and that the estimated net proceeds to be raised from the Global Offering and the Listing were approximately €200 million (equivalent to approximately HK$1,400 million), the unaudited pro-forma consolidated net tangible assets and unaudited pro-forma consolidated net assets of the Group would have been approximately HK$2,018 million and HK$2,698 million respectively (equivalent to HK$1.81 per Share and HK$2.42 per Share respectively) as set out in section B(1) of Appendix I to this circular.

(ii) Earnings

At present, the Company holds 100 per cent. of the European businesses and operations. Assuming the completion of the Spin-Off Proposal and the Listing of Esprit Europe on or before the end of June 2000 and that the Global Offering will only comprise 25 per cent. of the enlarged issued share capital of Esprit Europe, the Group’s interest in the Esprit Europe Group will be reduced to 75 per cent. Accordingly, the consolidated profit of the Group for the year ending June 30, 2000 (less minority interests), assuming completion of the Spin-Off Proposal and Listing of Esprit Europe Group, should include a 100 per cent. attributable interest in Esprit Europe Group for the period from July 1, 1999 to the date of completion of the Spin-Off Proposal and the Listing of Esprit Europe Group and a 75 per cent. interest in Esprit Europe Group for the period from the date of completion of the Spin-Off Proposal and Listing of Esprit Europe Group to June 30, 2000.

Based on the unaudited pro-forma results of the Esprit Europe Group and the Group for the financial years ended June 30, 1998 and 1999 as set out in Section A(1) and Section B(3) of Appendix I to this circular and assuming that the Global Offering had been completed before July 1, 1997 and the structure of the Esprit Europe Group as envisaged by the Restructuring had been in existence before July 1, 1997, the profit before taxation of the Esprit Europe Group would have been approximately HK$310 million and HK$331 million respectively, representing 57 per cent. and 48 per cent. of the profit before tax and exceptional items of the Group and the profit after taxation of the Esprit Europe Group would have been approximately HK$130 million and HK$122 million respectively, representing 37 per cent. and 28 per cent. of the profit after tax and before exceptional item of the Group for the same period.

Assuming the Spin-Off Proposal had become effective on July 1, 1997, the Group’s unaudited pro-forma profit after taxation and minority interests for the year ended June 30, 1999 would have been approximately HK$431 million, after taking into account interests earned from net proceeds raised from the exercise at the notional rate of approximately 4 per cent. per annum. In this respect, there would be no dilution to the Group’s reported after tax earnings of HK$430 million for the year ended June 30, 1999. However, the Spin-Off Proposal, if implemented, will result in a dilution of the Group’s interests in the Esprit Europe Group and, therefore, a corresponding decrease in the attributable profits of the Esprit Europe Group that can be consolidated into the account of the Group in the future. However, this dilution has to be balanced against the various benefits of the Spin-Off Proposal which have already been outlined in the section headed “Reasons for and benefits from the Spin-Off Proposal”.

— 17 —
LETTER FROM THE CHAIRMAN

The effect of the dilution arising as a result of the implementation of the Spin-Off Proposal will depend on various factors including the percentage of Esprit Europe Shares to be issued pursuant to the Global Offering, the issue price per Esprit Europe Share, the relative performance of Esprit Europe Group as against the Esprit Holdings Group as well as returns which will be earned on the proceeds to be raised from the Global Offering, out of which approximately €113 million (equivalent to approximately HK$791 million) will be used to repay loans made by the Esprit Holdings Group.

While it would not be possible to make any accurate quantification of the above factors, taking into account the various benefits of the Spin-Off Proposal, the Directors are of the view that the Spin-Off Proposal should be proceeded with and that the decrease in the attributable profits of Esprit Europe Group that can be consolidated into the accounts of the Group would be adequately compensated for on account of the positive impact which the Spin-Off Proposal is expected to have on both the Esprit Holdings Group and the Esprit Europe Group. It should be noted that the Company will continue to benefit from any growth in the Esprit Europe Group for so long as Esprit Europe continues to be a subsidiary of the Esprit Holdings Group.

(iii) Net cash

As at December 31, 1999, the Group had net cash (cash less total bank loans and overdrafts) of approximately HK$168 million. Based on the unaudited management accounts of the Group as at December 31, 1999, following completion of the Spin-Off Proposal and assuming that the net proceeds to be raised from the Global Offering will be approximately €200 million (equivalent to approximately HK$1,400 million) and the repayment by Esprit Europe of the intra-group indebtedness due to the Esprit Holdings Group of approximately €113 million (equivalent to approximately HK$791 million), the Group’s net cash will increase to approximately HK$1,600 million with approximately HK$900 million in the Esprit Europe Group.

10. STOCK OPTION PLAN

In accordance with the listing rules of the FSE, Esprit Europe proposes to adopt the Stock Option Plan that will take effect, inter alia, upon the Listing of Esprit Europe Shares on the FSE. The purpose of the Stock Option Plan is to provide incentive to the management personnel of Esprit Europe. Neither Mr. Michael Ying and Mr. Jürgen Friedrich nor any other Directors of the Company (with the exception of Mr. Heinz Jürgen Krogner-Koralnik) are entitled to participate in the Stock Option Plan. It is proposed that on completion of the Spin-Off Proposal including the Listing, Mr. Heinz Jürgen Krogner-Koralnik will become the Chairman of the Management Board of Esprit Europe and he will change his position from being an executive Director to a non-executive Director of the Company.

Details of the Stock Option Plan have been summarized in Appendix III of this circular.

The Stock Option Plan will be in compliance with German corporate, labour and tax laws and regulations. The Stock Option Plan will also be in compliance with all the requirements of the Listing Rules. The Listing Rules further require approval from the Shareholders of the Company to be obtained before Esprit Europe may adopt the Stock Option Plan. A resolution will therefore be put forward to the Shareholders to approve the Stock Option Plan at the Special General Meeting. Shareholders should note that Mr. Michael Ying and Mr. Jürgen Friedrich and their respective Associates are entitled to, and will vote in favour of the Stock Option Plan, at the Special General Meeting.
11. SPECIAL GENERAL MEETING

You will find on pages 43 to 44 of this circular a notice of the Special General Meeting to be held at Pearl Rooms 1–2, 3rd Floor, Furama Hotel, One Connaught Road Central, Hong Kong at 9:45 a.m. on June 9, 2000 for the purpose of considering and, if thought fit, passing the relevant ordinary resolutions to approve the Spin-Off Proposal, the non-provision of the Assured Entitlements and the Stock Option Plan.

A form of proxy for use at the Special General Meeting is enclosed. Whether or not you intend to attend the Special General Meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions thereon as soon as possible and in any event so as to arrive at the principal office of the Company in Hong Kong at 10/F., 11 Yuk Yat Street, Tokwawan, Kowloon, Hong Kong not less than 48 hours before the time scheduled for the holding of the Special General Meeting. Completion and delivery of the form of proxy will not prevent you from attending and voting at the meeting if you so wish.

12. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 20 to 21 of this circular which contains its opinion as regards the Spin-Off Proposal, the non-provision of the Assured Entitlements and the Stock Option Plan. The Independent Board Committee, having been advised by DBS, considers that the Spin-Off Proposal is beneficial to the Group and its Shareholder, the non-provision of the Assured Entitlements are fair and reasonable so far as the Independent Shareholders are concerned and that the Stock Option Plan will be to the benefit of the Group.

Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the Special General Meeting to approve the Spin-Off Proposal, the non-provision of the Assured Entitlements and the Stock Option Plan.

13. FURTHER INFORMATION

Your attention is drawn to the further information relating to the Company set out in the appendices to this circular.

By Order of the Board
Esprit Holdings Limited
Michael Ying Lee Yuen
Chairman
LETTER FROM THE INDEPENDENT BOARD COMMITTEE

ESPRIT HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

Executive Directors:
Michael Ying Lee Yuen (Chairman)
John Poon Cho Ming
Heinz Jürgen Krogner-Kornalik
Surinder Chhibber
Connie Wong Chin Tzi

Non-Executive Directors:
Jürgen Alfred Rudolf Friedrich
Alexander Reid Hamilton
Raymond Or Ching Fai
Simon Lai Sau Cheong

Registered Office:
Clarendon House
Church Street, Hamilton
Bermuda HM 11

Principal Office:
10/F., 11 Yuk Yat Street
Tokwawan
Kowloon
Hong Kong

May 24, 2000

To the Independent Shareholders

Dear Sir or Madam,

Re: Proposed spin-off of Esprit Europe for a separate listing on the Frankfurt Stock Exchange, the non-provision of Assured Entitlements of Esprit Europe Shares to Qualifying Shareholders and proposed adoption of the Stock Option Plan by Esprit Europe

I refer to the circular of the Company addressed to the Independent Shareholders dated May 24, 2000 (the “Circular”) of which this letter forms part. Terms used in the Circular shall have the same meanings herein unless the context otherwise requires.

The Spin-Off Proposal, if proceeded with, will constitute a major transaction for the Company and requires the approval of the Shareholders at the Special General Meeting under the Listing Rules. In connection with the Spin-Off Proposal, Esprit Europe is considering to adopt the Stock Option Plan. Consequently, the Stock Option Plan is also subject to the approval of Shareholders at the Special General Meeting. In addition, due to reasons as set out in the letter from the chairman contained in the Circular, the Company is currently seeking dispensation with the requirement to offer Assured Entitlements to Qualifying Shareholders (including any Independent Shareholders who are Qualifying Shareholders). The non-provision of Assured Entitlements will need the approval of the Independent Shareholders at the Special General Meeting.

For the purpose of considering the composition of the Independent Board Committee, two out of the three existing independent Directors of the Company consider that there may be perceived issues concerning their independence in the context of advising Independent Shareholders on the Spin-Off Proposal, the non-provision of Assured Entitlements to Qualifying Shareholders and the proposed adoption of the Stock Option Plan by Esprit Europe. In respect of Mr. Raymond Or Ching Fai, perceived issues concerning independence may arise on account of his office in The Hongkong an
Shanghai Banking Corporation Limited. As disclosed in the letter from the chairman in the section "Use of Proceeds", the Company may use the proceeds received from Esprit Europe to repay existing bank borrowings including any borrowings from The Hongkong and Shanghai Banking Corporation Limited. In the case of Mr. Simon Lai Sau Cheong, he is the partner of Deacons Graham & James who has been advising the Company on the proposed transactions. As a result, I have been appointed as the sole member of the Independent Board Committee to advise the Independent Shareholders on the Spin-Off Proposal, the non-provision of Assured Entitlements and the proposed adoption of the Stock Option Plan by Esprit Europe. DBS has been appointed as the independent financial adviser to advise me in relation to the above matters.

I urge you to read the letter from the Chairman from pages 4 to 19 of the Circular which sets out more information relating to, and the reasons for, the Spin-Off Proposal and the non-provision of Assured Entitlements to Qualifying Shareholders. Your attention is also drawn to Appendix III of this Circular setting out a summary of the principal terms of the Stock Option Plan.

I have discussed with the management of the Company as to the reasons for the Spin-Off Proposal, the non-provision of Assured Entitlements to Qualifying Shareholders and the proposed adoption of the Stock Option Plan by Esprit Europe. In addition, I have considered the key factors and reasons taken into consideration by DBS in arriving at its opinion regarding the Spin-Off Proposal, the non-provision of Assured Entitlements to Qualifying Shareholders and the Stock Option Plan as set out in its letter on pages 22 to 26 of the Circular. I also note that Mr. Michael Ying and Mr. Jürgen Friedrich and their respective Associates are entitled to and will vote in favour of both the Spin-Off Proposal and the adoption of Stock Option Plan by Esprit Europe. As a result, the resolution concerning the Spin-Off Proposal and the adoption of the Stock Option Plan will be passed in any event. I note DBS is of the view that the Spin-Off Proposal is beneficial to the Group and its Shareholders, that the non-provision of the Assured Entitlements is fair and reasonable as far as the Independent Shareholders are concerned, and that the proposed adoption of the Stock Option Plan by Esprit Europe is in the interest of the Group.

After considering all factors and the letter from DBS, I recommend the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Spin-Off Proposal, the non-provision of Assured Entitlements to Qualifying Shareholders and the proposed adoption of the Stock Option Plan by Esprit Europe at the Special General Meeting.

Yours faithfully,
Esprit Holdings Limited
Alexander Reid Hamilton
Director
LETTER FROM DBS ASIA

DBS ASIA CAPITAL LIMITED

May 24, 2000

The Independent Board Committee
Esprit Holdings Limited
10th Floor, 11 Yuk Yat Street
Tokwawan
Kowloon
Hong Kong

Dear Sirs,

Re: Advice in relation to the proposed spin-off of Esprit Europe for a separate listing on the Frankfurt Stock Exchange, the non-provision of Assured Entitlements of Esprit Europe Shares to Qualifying Shareholders and the proposed adoption of the Stock Option Plan by Esprit Europe

We refer to our appointment as the independent financial adviser to the Independent Board Committee in relation to (i) the Spin-Off Proposal, (ii) the non-provision of Assured Entitlements to Qualifying Shareholders and (iii) the Stock Option Plan, details of which are set out in the letter from the chairman contained in the circular dated May 24, 2000 (the “Circular”) to Shareholders. Details of and the benefits relating to the Spin-Off Proposal together with the reasons for the non-provision of Assured Entitlements are set out in the Circular. Our role as independent financial adviser is to give our opinion as to whether the Spin-Off Proposal is beneficial to the Company and its Shareholders, and whether the non-provision of Assured Entitlements are fair and reasonable to the Independent Shareholders and whether the terms of the Stock Option Plan is beneficial to the Group. This letter is prepared for the inclusion in, and forms part of, the Circular. Capitalised terms used in this letter have the same meanings as defined in the Circular.

In putting forth our recommendations, we have relied on the Company to provide us with all relevant information, including the unaudited management accounts of both the Group and that of Esprit Europe for the six months ended December 31, 1999. We consider that we have sufficient information to reach an informed view and to provide a reasonable basis for our recommendations. The Directors have also confirmed to us that no material facts have been omitted from the information supplied and we have no reason to suspect that any material information has been withheld by the Company or is misleading. We have not, however, for the purpose of this exercise, conducted any form of detailed investigation into the businesses or affairs of the Group or that of its European business and operations.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion on the Spin-Off Proposal, the non-provision of Assured Entitlements and the Stock Option Plan, we have taken into consideration the following factors and reasons:

Relating to the Spin-Off Proposal

(a) Valuation of Esprit Europe

At present, the Company owns 100 per cent. of Esprit Europe that contains the Group’s existing operations in Germany, Belgium, the Netherlands, France, Austria and the Scandinavia. Based on the unaudited pro-forma results of Esprit Europe Group and the Group for the year ended June 30, 1999,
LETTER FROM DBS ASIA

the sales and profit before taxation of the European businesses and operations accounted for approximately 64 per cent. and 48 per cent. of the Group’s total turnover and profit before taxation and exceptional item respectively. Although its European operations are substantial and significant compared to the Group as a whole, the Company has traditionally been perceived by the investment community as an emerging market company due to the fact that it is primarily listed on the Stock Exchange. A secondary listing on the London Stock Exchange since December 1998 had not changed that perception as there has been little trading on that exchange. This phenomenon is likely to continue as investors and Shareholders who wish to buy or sell the Shares tend to do so on the Stock Exchange where the Shares have more liquidity. For the past 52 weeks, the Share has been trading at between HK$3.85 and HK$10.30. This price range represents a multiple of 9.9 to 26.4 times the Group’s earnings of approximately 39 cents per Share for the year ended June 30, 1999. As at May 22, 2000 (being the latest practicable date for ascertaining the Share price prior to printing), the closing price of the Share was HK$9.25, representing 23.7 times the Group’s 1998/99 earnings.

We understand from the Company that the amount of proceeds to be raised from the Spin-Off Proposal has not been finalised and will not be ascertained until the launch of the Global Offering, currently expected towards the end of June 2000. However, similar to other equity offerings, the pricing of Esprit Europe Shares will be subject to market condition at the time of launch of the Global Offering and will make reference to comparable companies currently listed in Europe. We note that these comparable companies are currently trading at between 18 to 63 times their respective 1999 historic earnings, with an average of approximately 32 times. As such price-earnings multiples are currently higher than that of the Company, we are of the opinion that the Spin-Off Proposal allows the Company to unlock the value of Esprit Europe in the process whilst, at the same time, allowing potential investors of Esprit Europe to buy into a pure European lifestyle entity.

(b) Benefits to be derived from the Spin-Off Proposal

The Spin-Off Proposal allows Esprit Europe to raise equity funds without dilution to Shareholders’ equity holding in the Company. It also enables Esprit Europe to have access to capital markets independently following the spin-off and Listing to fund its own operations and growth plans.

Proceeds of the Spin-Off Proposal will be used to repay the existing shareholder’s loan of approximately €113 million (equivalent to approximately HK$791 million) from the Company.

(c) Financial impact to the Group

The Group’s unaudited net tangible assets as at December 31, 1999 were HK$875 million, or HK$0.78 per Share (based on approximately 1,116.56 million Shares outstanding as at the Latest Practicable Date). Assuming an offering of 25 per cent. of the enlarged issued share capital of Esprit Europe to raise approximately €200 million (equivalent to approximately HK$1,400 million) as set out in Appendix I of the Circular, the Group’s net tangible assets will increase to approximately HK$2,018 million, or to HK$1.81 per Share following completion of the Spin-Off Proposal. This represents an increase of approximately 132 per cent. We understand the expected funds raised by Esprit Europe at present is based on the assumptions as set out in Appendix I of the Circular. The actual amount raised will be dependent, to a large extent, on the market conditions at the time of launch of the Global Offering.

As at December 31, 1999, the Group had net cash (cash less total bank loans and overdrafts) of approximately HK$168 million. Based on the unaudited management accounts of the Group as at December 31, 1999, following completion of the Spin-Off Proposal and assuming that the net proceeds
LETTER FROM DBS ASIA

to be raised from the Global Offering will be approximately €200 million (equivalent to approximately HK$1,400 million) and the repayment by Esprit Europe of the intra-group indebtedness due to the Esprit Holdings Group of approximately €113 million (equivalent to approximately HK$791 million), the Group’s net cash will increase to approximately HK$1,600 million with approximately HK$900 million in the Esprit Europe Group.

In terms of earnings, the Group’s profit after taxation and minority interests for the year ended June 30, 1999 was HK$430 million. Assuming the Spin-Off Proposal had become effective on July 1, 1997, the Group’s unaudited pro-forma profit after taxation and minority interests for the year ended June 30, 1999 would have been approximately HK$431 million, after taking into account notional interests earned from the net proceeds raised in the exercise at the notional rate of approximately 4 per cent. per annum. In this respect, there would be no dilution to the Group’s historical earnings as a result of the Spin-Off Proposal. Nevertheless, the Spin-Off Proposal, if implemented, will result in a dilution to the Group’s interest in Esprit Europe and, accordingly, a decrease in attributable profits of Esprit Europe to the Group in the future.

Relating to the non-provision of Assured Entitlements

(a) Difficulty in terms of trading of FSE listed securities

Unlike most Hong Kong listed spin-offs that result in another company listed on the Stock Exchange, the Spin-Off Proposal involves the offering of Esprit Europe Shares to be listed on FSE. There is a significant time difference between Hong Kong and Frankfurt and, for this reason, it may be difficult for Qualifying Shareholders to trade in such securities.

It is also worth noting that in the event Assured Entitlements were to be offered, we understand that the Company would be unlikely to make available to Qualifying Shareholders 1 per cent. or more of the Esprit Europe Shares comprising in the Global Offering. Given that such preferential offer is of an insignificant amount, accepting Shareholders are likely to end up having odd lots of shares that are comparatively difficult to trade in the event that the Assured Entitlements go ahead.

(b) Delay in offering timetable due to additional offering compliance

An offering of Esprit Europe Shares by way of Assured Entitlements would have to comply with the requirements under the Hong Kong Companies Ordinance, including the registration of the German prospectus to be issued by Esprit Europe with the Hong Kong authorities. This prospectus would have to comply with certain Hong Kong requirements that include the translation of its content into Chinese. Some of the content requirements are inconsistent with the requirements in Germany and may not be necessary for investors to appraise the value of Esprit Europe. Moreover, the additional expenses and time involved in doing so would not be in the interests of the Company, considering the Spin-Off Proposal as a whole.

(c) Position of Independent Shareholders vis-a-vis the majority Shareholders

At present, Mr. Michael Ying and Mr. Jürgen Friedrich, Chairman and non-executive Director of the Company respectively and their respective Associates, have 45.02 per cent. and 13.27 per cent. interests in the Company while the Independent Shareholders have in aggregate the remaining 41.71 per cent. Under the non-provision of Assured Entitlements, both Mr. Michael Ying and Mr. Jürgen Friedrich will not be entitled to Esprit Europe Shares on a preferential basis. Consequently, their positions in respect of the non-provision of Assured Entitlements are the same as that of the
LETTER FROM DBS ASIA

Independent Shareholders. We also note that the absence of Assured Entitlements does not preclude the Independent Shareholders to apply for Esprit Europe Shares in the Global Offering should they wish to do so.

Relating to the Stock Option Plan

(a) Purpose of the Stock Option Plan

The purpose of the Stock Option Plan is to provide those eligible employees and directors of Esprit Europe to have an opportunity to acquire shareholdings in Esprit Europe such that they will have additional incentive to increase the long-term shareholder value of the company in which they serve.

(b) Salient terms of the Stock Option Plan

— Stock option rights are issuable to eligible employees in annual tranches with the first tranche issuable immediately prior to the Global Offering and subsequently in four additional tranches in the years 2001 to 2004. The total number of Esprit Europe Shares which may be issued pursuant to the exercise of the Stock Option Plan will represent not more than 10 per cent. of the issued share capital of Esprit Europe following the Global Offering and from time to time.

— The exercise price of the Esprit Europe Shares shall be either at the offer price at the time of the Global Offering or, following the Listing of Esprit Europe, at the average closing price of Esprit Europe Shares on the FSE for a period of 15 exchange trading days preceding the day of grant of such option rights.

— Stock options may only be exercised following the expiration of a two-year period (three years in the case of members of the Management Board, and certain other employees) from the first day of issue of such rights (“Blocked Period”). In addition, such stock options are only exercisable in the event that the share price of Esprit Europe Share is not less than 120 per cent. of the exercise price, if such exercise is made within one year following the Blocked Period; 130 per cent., if such exercise is made within two years after the Blocked Period; and 140 per cent., if such exercise is made within three years after the Blocked Period. In case of a three-year Blocked Period, the exercise hurdles are 130 per cent., 140 per cent. and 150 per cent. respectively on the first, second and third year following expiration of the Blocked Period.

— Instead of issuing the Esprit Europe Shares as a result of the exercise of stock options under the Stock Option Plan, Esprit Europe has the option to compensate the eligible employee in cash equivalent to the difference between the market price on the day of such exercise and the exercise price.

We note that the terms of the Stock Option Plan are more restrictive than that allowable under the Listing Rules. For instance, the exercise price of the Esprit Europe Shares must be not less than the average closing price of Esprit Europe Shares on the FSE for a period of 15 exchange trading days preceding the date of grant whereas those in Hong Kong allow the exercise price to be fixed at not more than 20 per cent. discount to market price. In addition, Hong Kong stock option plans do not normally put share price hurdles before share options can be exercised. Given the more restrictive nature of the Stock Option Plan, we are of the view that the terms therein are designed to be more in
LETTER FROM DBS ASIA

line with the objective of shareholders of Esprit Europe, including the Company, and as such are fair
and reasonable to Shareholders. We are also of the view that the Stock Option Plan is of benefit to the
Group by providing additional incentive to relevant employees.

RECOMMENDATIONS

In relation to the Spin-Off Proposal

The Spin-Off Proposal allows the Group to unlock the value of Esprit Europe while, at the same
time, enables it to raise funds to repay the Company’s investment and to expand Esprit Europe’s
business. Consequently, we are of the opinion that the Spin-Off Proposal is beneficial to the Group and
its Shareholders. We therefore recommend the Independent Board Committee to advise the
Shareholders to vote in favour of the ordinary resolution to approve the Spin-Off Proposal at the
upcoming Special General Meeting. We note that Mr. Michael Ying and Mr. Jürgen Friedrich and their
respective Associates, who together have 58.29 per cent. interests in the Company, are entitled to and
will vote in favour of the Spin-off Proposal.

In relation to the non-provision of Assured Entitlements to Qualifying Shareholders

Having considered all the factors and reasons in relation to the non-provision of Assured
Entitlements to Qualifying Shareholders, we are of the opinion that such non-provision is fair and
reasonable to the Independent Shareholders. As such, we would recommend the Independent Board
Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to
approve the non-provision of Assured Entitlements at the upcoming Special General Meeting.

In relation to the proposed adoption of the Stock Option Plan by Esprit Europe

The proposed adoption of the Stock Option Plan by Esprit Europe is for the benefit of Esprit
Europe as it will assist in retaining existing staff of Esprit Europe. With such a scheme, it is expected
that the interests of eligible employees and members of the Management Board of Esprit Europe will
be more aligned with that of the shareholders of Esprit Europe, including the Company. As the terms
of the Stock Option Plan are generally in line with those adopted by listed companies on the FSE, we
are of the view that the Stock Option Plan is fair and reasonable to Shareholders and is of benefit to the
Group. We recommend the Independent Board Committee to advise the Shareholders to vote in favour
of the ordinary resolution to approve the Stock Option Plan. We note that Mr. Michael Ying and Mr.
Jürgen Friedrich and their respective Associates who are not entitled to any Esprit Europe shares under
the Stock Option Plan, will vote in favour of the Stock Option Plan.

Yours faithfully,
For and on behalf of
DBS Asia Capital Limited
David Tsang
Managing Director
APPENDIX I

FINANCIAL INFORMATION

Save in respect of the unaudited pro-forma consolidated results of the Esprit Europe Group for the two years ended June 30, 1998 and 1999 and the audited consolidated profit and loss accounts of the Group for the two years as aforementioned respectively set out in paragraph 1 of section A and paragraph 2 of section B below, the financial information set out in this Appendix I has been prepared on the assumption (“Assumption”) that the Global Offering will comprise 25 per cent. of the enlarged issued share capital of Esprit Europe and that the net proceeds (after deduction of all relevant expenses) to be raised will be approximately €200 million (equivalent to approximately HK$1,400 million).

The Assumption has been adopted solely for the purpose of this circular in order to illustrate the possible financial effects on the Group as a result of the implementation of the Spin-Off Proposal. The Assumption is only based upon the Company’s information (which may or may not be accurate) on the current market conditions and other factors as at the Latest Practicable Date. Shareholders should note that the percentage of Esprit Europe Shares to be issued by Esprit Europe in the Global Offering and the actual amount to be raised will be subject to market conditions at the time of the launch of the Global Offering.

Shareholders must not therefore assume that the Assumption represents a prediction of the likely market conditions as at the time of the Global Offering or the likely outcome of the Global Offering or any other factors. There is no representation of any kind, and no liability of any kind is assumed, by the Company, Goldman Sachs, or their respective affiliates, directors, officers, employees and professional advisers, in relation to the accuracy or completeness of the Assumption.

In addition, the Directors also reserve the right not to proceed with the Global Offering or the Spin-Off Proposal if, for any reason (including the market conditions at the relevant time), they consider that it will not be in the interests of the Company to do so.

A. ESPRIT EUROPE GROUP

1. The table below summarises the unaudited pro-forma consolidated results of Esprit Europe Group for the two years ended June 30, 1998 and 1999, which have been prepared on the basis that the structure of Esprit Europe Group as envisaged by the Restructuring had been in existence since July 1, 1997.

<table>
<thead>
<tr>
<th></th>
<th>1998 (HK$’000)</th>
<th>1999 (HK$’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>3,123,638</td>
<td>3,815,837</td>
</tr>
<tr>
<td>Profit before Taxation</td>
<td>309,738</td>
<td>330,973</td>
</tr>
<tr>
<td>Taxation</td>
<td>(179,845)</td>
<td>(209,271)</td>
</tr>
<tr>
<td>Profit after Taxation</td>
<td>129,893</td>
<td>121,702</td>
</tr>
</tbody>
</table>

Note:

(1) The operating results of the Esprit Europe Group were originally denominated in Deutsche Mark (“DM”) and, for illustration purpose only, they have been translated into Hong Kong Dollars at DM1: HK$4.321 and DM1: HK$4.425, the average rates for the year ended June 30, 1998 and 1999 respectively.
APPENDIX I

FINANCIAL INFORMATION

(2) The unaudited pro-forma consolidated results of Esprit Europe Group have been prepared based on the assumption that the estimated net proceeds of the Global Offering would be €200 million and that such net proceeds:

(a) were received on July 1, 1997;
(b) out of such net proceeds, €113 million was used to repay intra-group indebtedness to Esprit Holdings Group on July 1, 1997; and
(c) that the remaining €87 million had been placed on short term deposits earning interest of approximately 4 per cent. per annum.

2. Set out below is a summary of the unaudited pro-forma consolidated net tangible assets based on the audited accounts of Esprit Europe Group for the year ended June 30, 1999 which have been prepared on the basis that the proceeds of the Global Offering have been received by Esprit Europe Group on that day. For illustration purpose only, the summary has been prepared on the Assumption set out at the beginning of this Appendix.

<table>
<thead>
<tr>
<th></th>
<th>June 30, 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HK$’000</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>208,665</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>13,839</td>
</tr>
<tr>
<td>Net current assets</td>
<td></td>
</tr>
<tr>
<td>Before the New Issue</td>
<td>203,227</td>
</tr>
<tr>
<td>Net proceeds of the Global Offering (Note 1)</td>
<td>1,400,000</td>
</tr>
<tr>
<td></td>
<td>1,603,227</td>
</tr>
<tr>
<td>Deferred taxation</td>
<td>(156,022)</td>
</tr>
<tr>
<td>Loans from Esprit Holdings Group</td>
<td>(898,153)</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Unaudited pro-forma consolidated net tangible assets</td>
<td>771,556</td>
</tr>
</tbody>
</table>

Notes: The balance sheet of Esprit Europe Group was originally denominated in Deutsche Mark and, for illustration purpose only, it has been translated into Hong Kong dollars at the rate of DM1:HK$4.0949.

(1) Based on the assumption that the net proceeds of Global Offering of approximately 25 per cent. of the enlarged issued share capital of Esprit Europe is €200 million (equivalent to approximately HK$1,400 million).

(2) The carrying value of the intangible assets of Esprit Europe excluded from the above table is approximately HK$324 million.

B. THE GROUP

1. Set out below are unaudited pro-forma statements of the adjusted consolidated net tangible assets and unaudited adjusted consolidated net assets of the Group which shows the effect of the completion of the Global Offering. For illustration purpose only, the summary has been prepared on the Assumption set out at the beginning of this Appendix.

— 28 —
**APPENDIX I**  

**FINANCIAL INFORMATION**

(a) Unaudited pro-forma adjusted consolidated net tangible assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audited consolidated net tangible assets of the Group as at June 30, 1999</td>
<td>672,720</td>
</tr>
<tr>
<td>Unaudited profit attributable to shareholders of the Group for the six months ended December 31, 1999</td>
<td>210,975</td>
</tr>
<tr>
<td>Amortisation of trademark for the six months ended December 31, 1999</td>
<td>10,170</td>
</tr>
<tr>
<td>Interim dividend for the six months ended December 31, 1999</td>
<td>(42,292)</td>
</tr>
<tr>
<td>Issue of shares for cash and scrip dividend for the six months ended December 31, 1999</td>
<td>16,565</td>
</tr>
<tr>
<td>Movements in other reserves for the six months ended December 31, 1999</td>
<td>7,047</td>
</tr>
<tr>
<td><strong>Unaudited adjusted consolidated net tangible assets of the Group before implementation of Global Offering</strong></td>
<td>875,185</td>
</tr>
</tbody>
</table>

Add: Net proceeds of the Global Offering                                                   1,400,000
Less: Minority interests of the public investors in Esprit Europe as at December 31, 1999   (257,167)
**Unaudited pro-forma adjusted consolidated net tangible assets after completion of the Global Offering** | 2,018,018 |

**Unaudited pro-forma adjusted consolidated net tangible assets per Share before the Global Offering (Note)** | 0.78

**Unaudited pro-forma adjusted consolidated net tangible assets per Share after completion of the Global Offering (Note)** | 1.81

*Note:* Based on 1,116,558,836 Shares in issue as at the Latest Practicable Date.
(b) Unaudited pro-forma adjusted consolidated net assets

<table>
<thead>
<tr>
<th>Description</th>
<th>As at December 31, 1999 (HK$'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audited consolidated net assets of the Group as at June 30, 1999</td>
<td>1,435,512</td>
</tr>
<tr>
<td>Unaudited profit attributable to shareholders of the Group for the six months ended December 31, 1999</td>
<td>210,975</td>
</tr>
<tr>
<td>Interim dividend for the six months ended December 31, 1999</td>
<td>(42,292)</td>
</tr>
<tr>
<td>Issue of shares for cash and scrip dividend for the six months ended December 31, 1999</td>
<td>16,565</td>
</tr>
<tr>
<td>Movements in other reserves for the six months ended December 31, 1999</td>
<td>7,047</td>
</tr>
<tr>
<td>Unaudited adjusted consolidated net assets of the Group before implementation of Global Offering</td>
<td>1,627,807</td>
</tr>
<tr>
<td>Add: Net proceeds of the Global Offering</td>
<td>1,400,000</td>
</tr>
<tr>
<td>Less: Minority interests of the public investors in Esprit Europe as at December 31, 1999</td>
<td>(329,950)</td>
</tr>
<tr>
<td>Unaudited pro-forma adjusted consolidated net assets after completion of the Global Offering</td>
<td>2,697,857</td>
</tr>
<tr>
<td><strong>Unaudited pro-forma adjusted consolidated net assets per Share before the Global Offering (Note)</strong></td>
<td><strong>1.46</strong></td>
</tr>
<tr>
<td><strong>Unaudited pro-forma adjusted consolidated net assets per Share after completion of the Global Offering (Note)</strong></td>
<td><strong>2.42</strong></td>
</tr>
</tbody>
</table>

*Note:* Based on 1,116,558,836 Shares in issue as at the Latest Practicable Date.
APPENDIX I

FINANCIAL INFORMATION

2. Set out below are the audited consolidated profit and loss accounts of the Group for the two years ended June 30, 1999.

<table>
<thead>
<tr>
<th></th>
<th>1998 (HK$’000)</th>
<th>1999 (HK$’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>5,087,206</td>
<td>5,993,820</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>489,587</td>
<td>624,599</td>
</tr>
<tr>
<td>Exceptional Item</td>
<td>(125,300)</td>
<td>77,662</td>
</tr>
<tr>
<td>Share of Results of Associated Companies</td>
<td>(17,616)</td>
<td>702,261</td>
</tr>
<tr>
<td>Profit before Taxation</td>
<td>346,671</td>
<td>703,407</td>
</tr>
<tr>
<td>Taxation</td>
<td>(153,916)</td>
<td>(228,381)</td>
</tr>
<tr>
<td>Profit after Taxation</td>
<td>192,755</td>
<td>475,026</td>
</tr>
<tr>
<td>Minority Interests</td>
<td>(37,656)</td>
<td>(44,999)</td>
</tr>
<tr>
<td>Profit Attributable to Shareholders</td>
<td>155,099</td>
<td>430,027</td>
</tr>
<tr>
<td>Dividends</td>
<td>(41,517)</td>
<td>(160,845)</td>
</tr>
<tr>
<td>Retained Profit for the Year</td>
<td>113,582</td>
<td>269,182</td>
</tr>
</tbody>
</table>
APPENDIX I

3. Set out below is an unaudited pro-forma statement of the adjusted consolidated profit and loss accounts of the Group for the two years ended June 30, 1998 and 1999 assuming that the Global Offering had taken place before July 1, 1997 and the structure of Esprit Europe Group as envisaged by the Restructuring had been in existence before July 1, 1997. Please note that the following pro-forma statement of the adjusted consolidated profit and loss accounts of the Group does not include any exceptional gain is expected to arise from the Global Offering and does not take into account the potential benefits of the Global Offering to the Group (other than the interest income earned from the net proceeds thereof), such as the reduction of interest expenses and the utilisation of net proceeds for the development and expansion of the European business and the other businesses of the Group, had the Global Offering been implemented before July 1, 1997. For illustration purpose only, the summary has been prepared on the Assumption set out at the beginning of this appendix.

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(HK$’000)</td>
<td>(HK$’000)</td>
</tr>
<tr>
<td>Turnover</td>
<td>5,087,206</td>
<td>5,993,820</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>557,195</td>
<td>693,835</td>
</tr>
<tr>
<td>Exceptional Item</td>
<td>(125,300)</td>
<td>77,662</td>
</tr>
<tr>
<td>Share of Results of Associated Companies</td>
<td>(17,616)</td>
<td>1,146</td>
</tr>
<tr>
<td>Profit before Taxation</td>
<td>414,279</td>
<td>772,643</td>
</tr>
<tr>
<td>Taxation</td>
<td>(190,503)</td>
<td>(264,798)</td>
</tr>
<tr>
<td>Profit after Taxation</td>
<td>223,776</td>
<td>507,845</td>
</tr>
<tr>
<td>Minority Interests</td>
<td>(71,237)</td>
<td>(76,606)</td>
</tr>
<tr>
<td>Profit Attributable to Shareholders</td>
<td>152,539</td>
<td>431,239</td>
</tr>
<tr>
<td>Dividends</td>
<td>(41,517)</td>
<td>(160,845)</td>
</tr>
<tr>
<td>Retained Profit for the Year</td>
<td>111,022</td>
<td>270,394</td>
</tr>
</tbody>
</table>

Note: The unaudited pro-forma adjusted consolidated profit and loss accounts of the Group have been prepared based on the assumption that the estimated net proceeds of the Global Offering would be €200 million and that such net proceeds:

(1) were received on July 1, 1997;
(2) out of such net proceeds, €113 million was used to repay intra-group indebtedness to Esprit Holdings Group on July 1, 1997 which in turn placed on short term deposits earning interest of approximately 4 per cent. per annum; and
(3) that the remaining €87 million had been placed on short term deposits by Esprit Europe Group earning interest of approximately 4 per cent. per annum.
APPENDIX II

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose 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

(i) As at the Latest Practicable Date, the Directors below hold the following interests in the Shares of the Company in addition to the interests disclosed in paragraph (ii) below:

<table>
<thead>
<tr>
<th>Name of Director</th>
<th>Number of Shares of the Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Personal</td>
</tr>
<tr>
<td>Michael Ying Lee Yuen</td>
<td>—</td>
</tr>
<tr>
<td>Jürgen Alfred Rudolf Friedrich</td>
<td>1,087,866</td>
</tr>
<tr>
<td>Surinder Chhibber</td>
<td>4,000,000</td>
</tr>
<tr>
<td>Connie Wong Chin Tzi</td>
<td>1,741,013</td>
</tr>
</tbody>
</table>

Notes:

(1) All the Shares are held by Great View International Limited, a company incorporated in the British Virgin Islands and controlled by Mr. Michael Ying Lee Yuen.

(2) The Shares are held by Anke Beck-Friedrich, the spouse of Mr. Jürgen Friedrich.

(3) All the Shares are held by Worldwide Thousand Ltd., a company incorporated in the British Virgin Islands and controlled by Mr. Jürgen Friedrich.

(ii) As at the Latest Practicable Date, options exercisable for an aggregate of 41,000,000 Shares had been granted to the following Directors under the share option scheme of the Company:

<table>
<thead>
<tr>
<th>Director</th>
<th>Number of Shares subject to share options exercisable under the share option scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michael Ying Lee Yuen</td>
<td>15,000,000</td>
</tr>
<tr>
<td>John Poon Cho Ming</td>
<td>8,000,000</td>
</tr>
<tr>
<td>Heinz Jürgen Krogner-Komalik</td>
<td>8,000,000</td>
</tr>
<tr>
<td>Surinder Chhibber</td>
<td>7,000,000</td>
</tr>
<tr>
<td>Connie Wong Chin Tzi</td>
<td>3,000,000</td>
</tr>
</tbody>
</table>
Save as disclosed above, as at the Latest Practicable Date, none of the Directors had or was deemed to have any interests in the share capital of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which were required 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, pursuant to section 29 of the SDI Ordinance to be entered in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of listed companies, to be notified to the Company and the Stock Exchange.

Save as disclosed herein, none of the Directors is materially interested in any contract or arrangement subsisting at the date hereof which is significant to the business of the Group taken as a whole.

Since June 30 1999, the date to which the latest published audited financial statements of the Company were made up, none of the Directors or any professional advisers named in paragraph 9 of this Appendix has any direct or indirect material interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to the Directors, the following persons were, directly or indirectly, interested in 10 per cent. or more of the issued share capital carrying rights to vote at general meetings of any member of the Group:

<table>
<thead>
<tr>
<th>Name of Substantial Shareholders</th>
<th>Name of company</th>
<th>No. of shares</th>
<th>Percentage of shares held</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michael Ying Lee Yuen</td>
<td>Esprit Holdings Limited</td>
<td>502,656,352</td>
<td>45.02</td>
</tr>
<tr>
<td>Jürgen Alfred Rudolf Friedrich</td>
<td>Esprit Holdings Limited</td>
<td>148,199,227</td>
<td>13.27</td>
</tr>
<tr>
<td>Ko Soon How</td>
<td>Red Earth International Holdings Limited</td>
<td>654,100</td>
<td>39.21</td>
</tr>
</tbody>
</table>

Notes:

(1) All the Shares are held by Great View International Limited, a company incorporated in the British Virgin Islands and controlled by Mr. Michael Ying Lee Yuen.

(2) These Shares comprise of 1,087,866 Shares registered in the name of Mr. Jürgen Friedrich, 236,134 Shares registered in the name of Anke Beck-Friedrich being the spouse of Mr. Jürgen Friedrich, and 146,875,227 Shares registered in the name of Worldwide Thousand Ltd., a company incorporated in the British Virgin Islands and controlled by Mr. Jürgen Friedrich.

(3) Red Earth International Holdings Limited is a subsidiary of and currently owned as to 60.78 per cent. by the Group.

Save as disclosed above, there is no person known to the Directors who, as at the Latest Practicable Date, was, directly or indirectly, interested in 10 per cent. or more of the nominal value of the issued share capital of any member of the Group.
APPENDIX II

GENERAL INFORMATION

4. INDEBTEDNESS

At the close of the business on March 31, 2000, being the latest practical date prior to the printing of this circular for the purpose of this indebtedness statement, the Group had outstanding borrowings of approximately HK$473 million, comprising bank loans and overdrafts of approximately HK$469 million and obligations under finance leases of approximately HK$4 million.

Of these borrowings, bank loan of approximately HK$398 million is secured by the share capital of certain subsidiaries of the company. In addition, there are unconditional and irrevocable continuing joint and several guarantees by certain subsidiaries for the outstanding loan amount which are supported by charges over their respective assets, revenues and undertakings.

Freehold land and building of net book value of approximately HK$37 million is pledged for short term revolving bank loan facilities of approximately HK$25 million.

Save as aforesaid and apart from intra-group liabilities, none of the companies in the Group had outstanding, as at the close of business on March 31, 2000, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or accepted credits, debentures, mortgages, charges, hire purchase or finance lease commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of the Group since March 31, 2000.

5. WORKING CAPITAL

As at the Latest Practicable Date, after taking into account of the Group’s available banking facilities and the anticipated net proceeds of the Global Offering targeted to be raised is approximately €200m (equivalent to approximately HK$1,400 million), the Directors are of the opinion that the Group has sufficient working capital for its present requirements.

6. LITIGATION

No member of the Group is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, a subsidiary of the Group has entered into a service agreement with Mr. Heinz Jürgen Krogner-Kornalik dated November 11, 1994 as amended by an amendment agreement dated February 15, 1996. The service agreement took effect from January 9, 1995 and continues thereafter until terminated by either party giving the other party not less than twelve (12) months’ notice of termination, provided that such notice will only take effect from or after December 31, 2000. Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered into any service contracts with the Company or any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).
APPENDIX II

8. MATERIAL CONTRACTS

There are no contracts, not being contracts in the ordinary course of business, entered into by the Company and its subsidiaries within the two years immediately preceding the Latest Practicable Date of this circular, which are or may be material.

9. CONSENTS

DBS is a registered investment adviser and dealer in securities under the Securities Ordinance (Cap. 333 of the Laws of Hong Kong). As at the date of this circular, DBS has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter as set out in this circular, and references to DBS’s name in the form and context in which they respectively appear.

DBS is not interested beneficially in the share capital of any member of the Group nor does DBS have any rights to subscribe or to nominate persons to subscribe for securities in any member of the Group. DBS has no interest, either directly or indirectly, in the promotion of, or in the assets of, the Group which have been, since June 30, 1999 (being the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to, any member of the Group.

10. MISCELLANEOUS

(a) The company secretary of the Company is John Poon Cho Ming, a qualified solicitor in Hong Kong, England and Wales, and a barrister and solicitor in Alberta, Canada.

(b) The registered office of the Company is located at Clarendon House, Church Street, Hamilton HM 11 Bermuda and the head office of the Company is located at 10/F., 11 Yuk Yat Street, Tokwawan, Kowloon, Hong Kong.

(c) The English text of this circular and form of proxy shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Deacons Graham & James, 3rd to 7th and 18th Floor, Alexandra House, Chater Road, Central, Hong Kong during normal business hours on any business day from the date of this circular until June 9, 2000:

(a) the memorandum of association and bye-laws of the Company;

(b) the annual reports of the Group for the two years ended June 30, 1999 and 1998 and the unaudited interim results of the Group for the six months ended December 31, 1999;

(c) the Letter from the Independent Board Committee; and

(d) the Letter from DBS, the text of which is set out in this circular.
APPENDIX III

SUMMARY OF THE STOCK OPTION PLAN

The Stock Option Plan has not yet been approved by the general meeting of Esprit Europe as of the date of this circular. It will be enacted immediately following such shareholders’ approval and the first tranche of options will be issued immediately prior to the Listing of Esprit Europe. The Stock Option Plan and any options granted will only take effect if the Listing is obtained.

Set out below is a summary of the principal terms of the Stock Option Plan which is proposed to be adopted by Esprit Europe:

(a) Who may join

Option rights may be granted only to employees of Esprit Europe or enterprises dependent on Esprit Europe (as defined in the German Stock Corporation Act) as well as their managing directors (jointly referred to as “employees”) and Esprit Europe’s Management Board. The eligibility criteria and who will be eligible employees will be determined by the Management Board with the consent of the Supervisory Board. The Supervisory Board is responsible for the determination of the selection criteria where the proposed grantees are members of the Management Board.

(b) Grant of options

The option rights will be issued to the employees and members of the Management Board in annual tranches. The first tranche will be issued immediately prior to the Global Offering of Esprit Europe Shares. Additional option rights may be issued up to 4 additional tranches in the years 2001 to 2004. The issue will be made by way of offer for enrolment in the Stock Option Plan to the eligible employees and members of the Management Board. The issue of the tranches 2001 to 2004 shall be made within a period set out in this Stock Option Plan from publication of Esprit Europe’s annual financial statements for the respective previous financial year, or the publication of an interim report in accordance with §44 Stock Exchange Act (Börsengesetz: Börsg) or the publication of quarterly figures, if Esprit Europe publishes such figures. Details of the issue (number of issued stock options, eligible participants, allocation of option rights to individual eligible persons) shall be decided by the Management Board with the consent of the Supervisory Board in case of options issued to employees, or the Supervisory Board in case of options issued to members of the Management Board.

(c) Consideration for grant of options

No consideration is payable by any employee or member of the Management Board for the grant of the option right.

(d) Price of Esprit Europe Shares

The purchase price for each Esprit Europe Share (“Purchase Price”), in the case of option rights granted prior to the Listing of Esprit Europe, shall be equal to the fixed issue price (price at which shares are allotted to the investors from the order book pursuant to the Global Offering) and, thereafter, the average closing price of Esprit Europe Shares at the FSE of the 15 exchange trading days preceding the first day of issue of the option rights.
APPENDIX III

SUMMARY OF THE STOCK OPTION PLAN

(e) Maximum number of Esprit Europe Shares

Subject to all necessary shareholders’ approval of Esprit Europe having been obtained to increase the number of shares issuable under the Stock Option Plan, the maximum number of Esprit Europe Shares issuable under the Stock Option Plan corresponds to 10 per cent. of the issued capital of Esprit Europe immediately prior to the capital increase by which the shares are created which will be sold to the investors through the Global Offering. Any increase of the number of shares issuable under the proposed Stock Option Plan or any new or additional scheme would require the approval of the general meeting of Esprit Europe and, under German stock corporation law, the total of all shares issuable under all stock option plans can in no case exceed 10 per cent of Esprit Europe’s issued capital as of the date of the relevant approval of the general meeting. Under German stock corporation law, the maximum number of shares under the Stock Option Plan can never exceed 10 per cent. of the company’s issued capital from time to time.

No single individual will be entitled to more than 25 per cent. of the aggregate number of shares issuable under the Stock Option Plan.

Note: In connection with the maximum number of shares that may be issued under the Stock Option Plan, at the request of the Stock Exchange, the Company will undertake to the Stock Exchange, in its capacity as the controlling shareholder of Esprit Europe, that it will not vote in favour of a shareholders’ resolution which would increase the number of shares under the Stock Option Plan to beyond 10 per cent. of the share capital of Esprit Europe, excluding for this purpose, shares issued upon the exercise of options granted pursuant to the Stock Option Plan.

(f) Time of exercise of the options

As a rule, options may be exercised for the first time after the expiration of two years calculated from the first day of issue (“Blocked Period”). However, the Blocked Period will be 3 years for (i) all members of the Management Board, (ii) all employees who hold options for shares in the Company and (iii) all other executive employees as may be decided by the Management Board with the consent of the Supervisory Board on the basis of objective criteria. After expiration of the Blocked Period, an exercise of options is only possible in exercise periods of each twenty banking days (i.e. days on which banks are open for business in Frankfurt am Main) following the occurrence of the following events:

(i) publication of Esprit Europe’s annual financial statements;

(ii) day of Esprit Europe’s annual general meeting;

(iii) publication of interim reports (§44 of the German Stock Exchange Act);

(iv) publication of quarterly figures, to the extent they are published by Esprit Europe on a voluntary basis, as further provided in the Stock Option Plan.

If the Blocked Period is 3 years, in the first year following expiration of the Blocked Period, up to one third of the total option rights of one tranche can be exercised and, in each of the second and the third year, a further one third each (in each case supplemented by options not yet exercised which could have been exercised in the previous years).
APPENDIX III  SUMMARY OF THE STOCK OPTION PLAN

If the Blocked Period is 2 years, in the first year following expiration of the Blocked Period, up to one fifth of the total option rights of one tranche can be exercised and, in each of the second through the fifth year after expiration of the Blocked Period, a further one fifth (plus the respective options which could have but have not been exercised in the previous years).

To the extent that it has not been exercised, any options granted will lapse without exception on the fifth (5th) anniversary of the expiration of the Blocked Period.

(g) Exercise of option rights

In case the Blocked Period is two years, the option is exercisable only if, on the date of expiration of the Blocked Period ("First Cut-off Date"), the average daily closing price of the ordinary shares of Esprit Europe at the FSE, calculated as the average over the fifteen (15) foregoing consecutive stock exchange trading days, adjusted for all possible capital increase or reduction measures by Esprit Europe, amounts to at least 120 per cent. of the relevant Purchase Price. After expiration of one year, calculated from the date of expiration of the Blocked Period (the "Second Cut-off Date"), options may only be exercised if, on the Second Cut-off Date, the above defined average closing price amounts to at least 130 per cent. of the relevant Purchase Price. After expiration of two years calculated from the date of expiration of the Blocked Period (the "Third Cut-off Date"), options may only be exercised if on the Third Cut-off Date, the above defined average closing price amounts to at least 140 per cent. of the Purchase Price. Corresponding further increases by 10 per cent. apply for the fourth and fifth Cut-off Date to be determined accordingly.

In case the Blocked Period is three years, the exercise hurdle is at least 130 per cent. of the relevant Purchase Price after the First Cut-off Date, at least 140 per cent. after the Second Cut-off Date and at least 150 per cent. after the Third Cut-off Date.

In all cases, the option is only exercisable if, on the relevant Cut-off Date, the average daily closing price compared with the applicable Purchase Price has out-performed the MDAX-Index which is published by the FSE. If the MDAX is no longer published, the Management Board shall determine a comparable index in its reasonable discretion and with the approval of the Supervisory Board. This also applies for options which could, however, have not been exercised prior to the Cut-off Date.

The option right is exercised by the holder of the option by written exercise notice pursuant to §198 of the German Stock Corporation Act with a notice period of ten (10) days. The exercise notice shall be submitted to Commerzbank AG as option agent by way of a form issued by Esprit Europe.

(h) Rights are personal to the Grantee

The option right is not transferable with the exception of inheritance. Any other disposition with respect to the option right or its derivatives, the granting of a sub-participation or the establishment of a trust with respect to the option right is prohibited. The same applies to the entering into derivative positions with regard to the granted option right or any other transactions which would commercially result in a sale of the option right. Any violation of these restrictions will result in a lapse of the option right.
APPENDIX III

SUMMARY OF THE STOCK OPTION PLAN

(i) Rights on ceasing employment

Option rights shall lapse if the employee or the member of the Management Board terminates his employment contract for any reason whatsoever other than a cause for which Esprit Europe or the relevant employer is responsible. The option right lapses if Esprit Europe terminates the employment contract for a cause connected with the person or the behaviour of the Employee for which the employee is responsible, regardless of the date of such termination. However, no lapse of options will occur if the employee or the member of the Management Board is appointed to serve as a member of Esprit Europe’s Supervisory Board after such termination.

(j) Rights on death and occurrence of certain other events

The employee or the member of the Management Board or his heirs in case of death may exercise those option rights in the next exercise period which are exercisable at that time, if

(i) the part of the business in which the employee or the member of the Management Board is employed is transferred to a third party which is not affiliated with Esprit Europe;

(ii) the employee or the member of the Management Board retires;

(iii) the employee or the member of the Management Board becomes incapable of work or exercising his profession and leaves Esprit Europe in consequence thereof;

(iv) the employee or the member of the Management Board deceases; or

(v) an employment or service agreement of an employee or Management Board concluded for a limited term has expired.

All Option Rights which were not exercisable at that time shall lapse.

(k) Effects of alteration of capital

If Esprit Europe increases its share capital by issuing new shares by granting subscription rights to its shareholders or debentures with option or conversion rights for shares or by carrying out other capital measures as described below, the option rights shall be adjusted as described below but the option price may not be reduced to an amount below of €1.00 being the notional amount of an Esprit Europe Share.

If Esprit Europe increases its share capital by granting subscription rights to the shareholders by issuance of new shares against cash contributions, or debentures with conversion or option rights, the holders of the option rights will be granted a subscription right the value of which corresponds to the subscription right of the shareholders. In case of a capital increase against contribution in kind, the option rights shall not be adapted, including, but not limited to the acquisition of other companies, parts of companies or company shares.

In the event of a capital increase arising from a capitalisation of Esprit Europe’s reserves, the provision in the articles of association providing for a conditional capital (i.e. the authorization for Esprit Europe to issue shares to the holders of the options on the condition that the option rights are exercised) shall increase at the same rate as the share capital (§218 German
APPENDIX III

SUMMARY OF THE STOCK OPTION PLAN

Stock Corporation Act). The holders of the option will therefore be provided with such number of additional shares upon exercise of their option rights as if they had already exercised their option rights at the time of the capital increase.

Fractions of shares which are created as a result of a capitalisation of Esprit Europe’s reserves shall not be provided upon exercise of the option right but shall be sold on the account of the party entitled to the option at the best price obtainable. The party entitled to the option shall receive the proceeds when the shares are issued.

In case of a decrease of capital, the option price or the option ratio (i.e. the number of shares issued under one option right) shall not be adapted, if by such decrease, the total number of shares has not changed, or the capital decrease is connected with a capital repayment, or an acquisition of own shares against payment of a consideration. In the event of a capital decrease by consolidation of shares without capital repayment, or acquisition of own shares without a change in the capital against payment, the number of shares which can be acquired for one option right at the option price will be reduced or increased in the proportion of the capital decrease or split of shares.

In case of other acts with an effect comparable with the above described cases of adaptation, the option rights may be adjusted by Esprit Europe according to §315 German Civil Code.

In all cases of adjustment, the company’s auditor must confirm in writing vis-à-vis the Management Board and the Supervisory Board that the adjustment is adequate. Esprit Europe is obliged to publish immediately the adaptation as well as the relevant date as of which such adaptation is effective. Publications shall be made exclusively in Esprit Europe’s intranet and in the Federal Gazette.

(l) Lapse or termination of option rights

Option rights shall lapse if the employee or the member of the Management Board terminates his employment contract with Esprit Europe (subject to paragraph (i) above).

To the extent that it has not been exercised, the option right will lapse without exception on the fifth (5th) anniversary of the expiration of the Blocked Period.

Any option may be terminated by Esprit Europe giving notice of one month if one of the following conditions occur:

(i) a creditor of the employee or the member of the Management Board levies execution against the rights of the employee under the Stock Option Plan;

(ii) an administrator is appointed to realize and distribute the assets of the employee or the member of the Management Board by way of bankruptcy, composition or insolvency proceedings or the commencement of bankruptcy is refused for insufficiency of assets;

(iii) the employee or the member of the Management Board fails to perform essential duties pursuant to statutes, the articles of association of Esprit Europe, his employment contract or the Stock Option Plan.
APPENDIX III

SUMMARY OF THE STOCK OPTION PLAN

Option rights shall also lapse in the circumstances described in paragraph headed “Rights on ceasing employment” to the extent they have not been exercised.

In case of a merger of Esprit Europe into another company, the stock option rights will have to be converted into rights of equal value against the surviving entity under sec. 23 of the German Transformation Act (Umwandlungsgesetz). The same applies if Esprit Europe were to change its legal form.

(m) Ranking of Esprit Europe’s Shares

All shares issued under the Stock Option Plan shall rank pari passu with all other shares of Esprit Europe, as Esprit Europe has only one class of shares, in particular in relation to dividends, voting rights and the rights to liquidation proceeds.

(n) Period of Stock Option Plan

The Stock Option Plan will allow for the last tranche of options to be issued until the end of the calendar year 2004. Any options granted will lapse to the extent they have not been exercised on the fifth anniversary of the relevant Blocked Period.

(o) Alteration of the Stock Option Plan

The Stock Option Plan expressly provides that it may not be amended without approval of the general meeting.
NOTICE OF SPECIAL GENERAL MEETING

ESPRIT HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that a Special General Meeting of the members of Esprit Holdings Limited (the “Company”) will be held at 9:45 a.m. on June 9, 2000 at Pearl Rooms 1–2, 3rd Floor, Furama Hotel, One Connaught Road Central, Hong Kong for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

1. That the Spin-Off Proposal, the Global Offering and the Listing (respectively as defined in the circular from the Company to its members dated May 24, 2000 (the “Circular”)) be and is hereby approved and that the Directors of the Company or any duly constituted committee thereof be and is/are hereby authorized to proceed with and to take such steps which, in their opinion are necessary, desirable or expedient in connection with the Spin-Off Proposal, the Global Offering and the Listing (respectively as defined in the Circular) (including, but without limitation, the determination of the detailed terms and conditions thereof) on such terms and at such time but within six (6) months from the passing of this resolution as they consider fit;

2. That no Assured Entitlements (as defined in the Circular) will be offered to Qualifying Shareholders (as defined in the Circular) as part of the Spin-Off Proposal, the Global Offering and the Listing; and

3. That the Stock Option Plan (as defined in the Circular, the draft rules of which subject to such amendments as may be approved by the directors of Esprit Europe (or any duly constituted committee thereof) and accepted or not objected to by The Stock Exchange of Hong Kong Limited, has been produced to the meeting and marked “A” and signed by the Chairman of the meeting for the purpose of identification) be and is hereby approved and that the Directors of the Company or any duly constituted committee thereof be and is/are hereby authorized to proceed with and to take such steps as may be necessary, desirable or expedient (including, but without limitation, the determination of the detailed terms and conditions thereof) to enable the Stock Option Plan to be adopted, implemented and administered by Esprit Europe.

By Order of the Board
John Poon Cho Ming
Company Secretary

Hong Kong May 24, 2000
NOTICE OF SPECIAL GENERAL MEETING

Notes:

1. A member entitled to attend and vote at the Special General Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his behalf. A proxy need not be a member of the Company.

2. In order to be valid, a form of proxy together with any power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, must be deposited at the Company’s registrars, Secretaries Limited, 5/F, Wing On Centre, 111 Connaught Road Central, Hong Kong, not less than 48 hours before the time scheduled for holding the Special General Meeting or at any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish.
Esprit Holdings Limited  
(Incorporated in Bermuda with limited liability)

PROXY FORM  
FOR SPECIAL GENERAL MEETING TO BE HELD ON  
FRIDAY, JUNE 9, 2000

I/We(1) __________________________________________ of  
________________________________________________ being the registered holder(s) of (2) __________________________________________ shares of HK$0.10 each in the  
capital of Esprit Holdings Limited (the “Company”), hereby appoint (3) the chairman of the meeting (the “Chairman”) or (3) __________________________________________ of  
my/our proxy to attend and vote for me/us on my/our behalf in the manner indicated below, or if no such  
indication is given then to vote as my/our proxy thinks fit, at the special general meeting of the Company  
(the “Meeting”) to be held at Pearl Rooms 1–2, 3rd Floor, Furama Hotel, One Connaught Road Central,  
Hong Kong on Friday, June 9, 2000 at 9:45 a.m. Hong Kong time, or at any adjournment thereof for the  
purpose of considering and, if thought fit, passing the resolutions set out in the notice convening the  
Meeting.

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**ORDINARY RESOLUTIONS**

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<th>1.</th>
<th>Ordinary Resolution No. 1</th>
<th><strong>FOR</strong></th>
<th><strong>AGAINST</strong></th>
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<td>2.</td>
<td>Ordinary Resolution No. 2</td>
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<td>3.</td>
<td>Ordinary Resolution No. 3</td>
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Dated this __________ day of __________, 2000  
Signature(5) __________________________________________

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**Notes:**

1. Full name(s) and address(es) to be inserted in BLOCK CAPITALS. The names of all joint holders should be stated.

2. Please insert the number of shares of HK$0.10 each registered in your name(s). If no number is inserted, this proxy form will be  
deemed to relate to all such shares in the Company registered in your name(s).

3. If any proxy other than the Chairman is appointed, strike out “the chairman of the meeting or” and insert the name and address  
of the proxy desired in the space provided. IF NO NAME IS INSERTED, THE CHAIRMAN OF THE MEETING WILL ACT AS YOUR PROXY. A proxy need not be a member of the Company but must attend the Meeting in person to represent you.

4. IMPORTANT: If you wish to vote for a resolution, place a “√” in the box marked “FOR”. If you wish to vote against a  
resolution, place a “×” in the box marked “AGAINST”. Failure to complete any or all the boxes will entitle your proxy to cast  
your vote(s) or abstain at his discretion. Your proxy will also be entitled to vote or abstain at his discretion on any resolution  
properly put to the Meeting other than those referred to in the notice convening the Meeting.

5. This proxy form must be signed by you or your attorney authorised in writing, or in the case of a corporation, must be either  
under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

6. In order to be valid, this proxy form, together with the power of attorney or other authority, if any, under which it is signed or a  
certified copy of such power of authority must be deposited at the Company’s registrars, Secretaries Limited, 5/F, Wing On  
Centre, 111 Connaught Road, Central, Hong Kong not less than 48 hours before the time scheduled for holding the Meeting or  
any adjournment thereof.

7. In the case of joint holders of a share or shares, if more than one of the joint holders are present at the Meeting personally or by  
proxy, then one of the said persons so present whose name stands first on the register of members of the Company in respect of  
the relevant share(s) shall alone be entitled to vote in respect thereof.

8. Any alteration made to this proxy form must be initialled by the person who signs it.