



ESPRIT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

MAJOR AND CONNECTED TRANSACTION

The Company is pleased to announce that on February 7, 2002, the Company and its wholly-owned subsidiary Esprit Capital, have entered into the Asset Acquisition Agreement with, inter alia, the Seller and the Seller's Group pursuant to which the Assets will be acquired by Esprit Capital.

The Group currently owns international rights in relation to the **ESPRIT** brandname, save with respect to the rights held or licensed by the Seller and the Seller's 37% interests as a limited partner in Esprit International. Subject to Closing taking place in accordance with the terms of the Asset Acquisition Agreement, the Group will own, manage and control 100% of the **ESPRIT** brandname on a worldwide basis and Esprit International will also become a wholly-owned subsidiary of the Group.

The proposed transaction will result in the global unification of the **ESPRIT** brandname. The Board believes that it would make strategic sense as it would create a global business with all the accompanying positives of scale and geographical diversification as well as enhanced brand equity. Due to the highly complementary nature of the Assets with the existing business, significant synergies in terms of both revenue and cost can be anticipated. Following completion of the proposed Acquisition, the Group, as the sole owner of the brand worldwide, will explore even more aggressively, additional licensing opportunities, particularly in the U.S.. The already high recognition of the **ESPRIT** brandname in the U.S., coupled with the Group's extensive skills in product design, distribution and sourcing as well as its experience in developing rapidly in new markets will add a new dimension and growth for years to come.

The Asset Acquisition Agreement constitutes a major and connected transaction for the Company under the Listing Rules that requires approval from the Shareholders. As Mr. Ying, who currently holds approximately 43.87% of the issued share capital of the Company, and Mr. Friedrich, who currently holds approximately 9.91% of the issued share capital of the Company, are entitled to vote on the transaction and they have given their written approval to the transaction, the Company has made an application to the Stock Exchange in relation to the acceptance of such written approval in lieu of a resolution to be passed at a Shareholders' meeting of the Company approving the transaction. A circular, including the advice of the independent financial advisers to be appointed by the Company and the recommendations of the independent Directors regarding the transaction, will be despatched to Shareholders.

Trading in the Shares of the Company on the Stock Exchange was suspended at the request of the Company with effect from 10 a.m. on Friday, February 8, 2002 pending the release of this announcement. The Company has applied to the Stock Exchange for a resumption of trading in the Shares of the Company with effect from 10 a.m. on Monday, February 11, 2002. The Company has also requested for a suspension of the trading in the Shares of the Company on the London Stock Exchange for one day on Friday, February 8, 2002.

BACKGROUND

The Group currently owns international intellectual property rights in respect of the **ESPRIT** brandname, except certain rights for use in the U.S. and the Caribbean Islands which are held outside of the Group by the Seller in which the Company has an indirect attributable interest of approximately 5%.

In addition, the existing intellectual property rights of the Group are principally held by Esprit International which is a limited partnership organised under the laws of California. The Company indirectly holds 63% of Esprit International and the Seller owns the other 37% of Esprit International in its capacity as a limited partner.

Pursuant to the Asset Acquisition Agreement, the Seller will sell the Assets to Esprit Capital, a wholly owned subsidiary of the Company. The Assets comprise, inter alia, of all the Seller's intellectual property rights in the **ESPRIT** brandname and the Seller's 37% interests as a limited partner of Esprit International.

TERMS OF THE ASSET ACQUISITION AGREEMENT

Date: February 7, 2002.

- Parties:**
- (1) Seller, being a wholly-owned subsidiary of EUS;
 - (2) the Seller's Group, comprising the following:
 - (a) EUS, which is indirectly held as to approximately 5% by the Company with the remaining 95% directly or indirectly held or controlled by Oaktree and Cerberus;
 - (b) Oaktree;
 - (c) Cerberus;
 - (3) Esprit Capital;
 - (4) the Company; and
 - (5) Mr. Ying and Mr. Friedrich.

Oaktree and Cerberus are independent third parties not connected with the Company, the Directors, chief executive, substantial Shareholders of the Company or its subsidiaries or their respective associates (as defined in the Listing Rules).

Mr. Ying and Mr. Friedrich are made parties to the Asset Acquisition Agreement solely for the purpose of approving the Asset Acquisition Agreement and the transactions contemplated therein and covenanting to vote in favour of the Asset Acquisition Agreement and the transactions contemplated therein at any Shareholders' meeting of the Company convened for the purpose of considering them.

Assets to be acquired: The Assets to be sold, transferred, conveyed and assigned by the Seller to Esprit Capital pursuant to the Asset Acquisition Agreement comprise of:

- (a) the Seller's 37% limited partnership interests in Esprit International;
- (b) all intellectual property rights owned by the Seller which comprise of various trademarks, unregistered marks, domain names, copyrights, websites, knowhow and customer lists, as more particularly described in the Asset Acquisition Agreement;
- (c) leases and sub-leases of retail stores to which the Seller is a party and in respect of which Esprit Capital may (but is not obliged to) elect to take over pursuant to the terms of the Asset Acquisition Agreement; and
- (d) certain licences agreements relating to the use of the Seller's intellectual property rights referred to in paragraph (b) above, particulars of which are set out in the Asset Acquisition Agreement.

Consideration: The consideration will be US\$150 million (about HK\$1,162.5 million) to be paid in one lump sum in cash upon Closing. The consideration has been arrived at after arm's length negotiation between Esprit Capital and the Seller. The consideration is arrived at on an arm's length basis, taking into account, inter alia, the Board's assessment of the value of interests in Esprit International and the Board's assessment of the value of the various intellectual property rights to be sold by the Seller, including when such rights can be used and exploited on a uniform basis with the other related intellectual property rights concerning the **ESPRIT** brandname already held by the Group. The Board considers that the consideration to be fair and reasonable.

The consideration will be funded out of the internal resources of the Group and banking facilities.

Pre-Conditions to Closing: Closing is subject to satisfaction or, to the extent permitted by the Asset Acquisition Agreement, waiver of various pre-conditions, the principal terms of which are summarised below:

- (a) as regards the obligation of Esprit Capital to effect Closing:
 - (i) no order, injunction or other legal restraint preventing consummation of the Closing;
 - (ii) compliance by the Seller of the terms, covenants and conditions of the Asset Acquisition Agreement in all material respects and representations and warranties made by Seller being true and correct in all material respects;
 - (iii) no government action in U.S. preventing consummation of the transactions and termination or expiry of the waiting period under the U.S. Hart-Scott-Rodino Act;
 - (iv) consent of a lender to the Seller as specified in the Asset Acquisition Agreement having been obtained;
 - (v) the Company having issued a circular to and obtained the approval of a majority of the Shareholders regarding the Asset Acquisition Agreement in compliance with the Listing Rules; and
- (b) as regards the obligations of the Seller to effect Closing:
 - (i) no order, injunction or other legal restraint preventing consummation of the Closing;
 - (ii) compliance by Esprit Capital of the terms, covenants and conditions of the Asset Acquisition Agreement in all material respects and representations and warranties made by Esprit Capital being true and correct in all material respects;
 - (iii) no government action in U.S. preventing consummation of the transactions and termination or expiry of the waiting period under the U.S. Hart-Scott-Rodino Act.

Time of Closing: Unless the Asset Acquisition Agreement is terminated, Closing will take place on the day that is two business days following satisfaction or waiver of the pre-conditions aforementioned provided that, unless the parties mutually agree otherwise, Closing must take place no later than April 30, 2002.

Termination: The Asset Acquisition Agreement may be terminated by mutual consent, by either party on account that the pre-conditions applicable to the other party have not been satisfied (unless the relevant conditions shall have failed to occur as a result of any act or omission by the party who wishes to terminate) by an ultimate deadline of May 31, 2002 or on account of a breach of a representation, warranty or covenant in the manner as prescribed in the Asset Acquisition Agreement.

Other Material Terms: In addition to the above and other customary terms and warranties, the Asset Acquisition Agreement contains the following material terms:

- (a) the Seller is entitled to a non-exclusive and royalty-free licence to use certain **ESPRIT** trademarks as more particularly set out in the Asset Acquisition Agreement solely in connection with advertising, distribution, import and export, and sale of the Seller's existing inventories and work-in-progress in U.S. until September 15, 2002 and in Mexico until September 30, 2002. Any sale of the Seller's existing inventories and work-in-progress shall be conducted substantially in accordance with an operation plan as agreed with Esprit Capital and set out in the Asset Acquisition Agreement;
- (b) on Closing:
 - (i) the Seller and EUS shall execute a non-compete agreement in favour of Esprit Capital on Closing to the effect that the Seller shall not, nor shall it permit its affiliates to, inter alia, compete, directly or indirectly, with Esprit Capital or its affiliates in the apparel and apparel accessories business in U.S. and the Caribbean Islands, for a period of two years after Closing;
 - (ii) a release agreement will be executed between, inter alia, Esprit Capital and the Seller, releasing each other (including certain related or affiliated parties as set out in the release agreement) from all or any claims, actions, causes of action, obligations and liabilities as described in the release agreement;
- (c) as soon as reasonably possible after Closing, the Seller shall implement various arrangements including an obligation to immediately discontinue, subject to the licence referred to in paragraph (a) above, its use of all names, trademarks and other forms of advertising relating to the name "**ESPRIT**" or any form thereof, and certain **ESPRIT** trademarks as more particularly set out in the Asset Acquisition Agreement;
- (d) Esprit Capital on the one hand and the Seller and the Seller's Group on the other hand agree to indemnify and hold the other harmless from, inter alia, all damages, losses, liabilities and expenses as more particularly defined in the Asset Acquisition Agreement that the other party may actually incur directly as a result of the inaccuracy of the indemnifying party's representation or warranties or as a result of a material breach of any covenant or other provisions by the indemnifying party. EUS has agreed to be bound only by certain specific provisions in the Asset Acquisition Agreement including those

provisions concerning indemnification by Esprit Capital. The Seller's Group has agreed to be bound only by certain specific provisions in the Asset Acquisition Agreement including the indemnification given by the Seller and the Seller's Group; and

- (e) as disclosed in the announcement of interim results by the Company dated February 7, 2002, in response to an objection by Esprit International to the Seller's recent move to distribute Esprit products through mass retailers, the Seller initiated a demand for arbitration and court proceedings in December 2001, which primarily alleged mismanagement of Esprit International. The Group has received legal advice to the effect that the claims are entirely without merit and have filed counterclaims against the Seller. The Asset Acquisition Agreement provides that such claims or proceedings be stayed upon signing of the Asset Acquisition Agreement and that, upon Closing, such claims and proceedings will be dismissed.

The Board considers that the Asset Acquisition Agreement is on normal commercial terms and that such terms are fair and reasonable to the Company.

REASONS FOR THE TRANSACTION

The proposed transaction will result in the global unification of the **ESPRIT** brandname. The Board believes that it would make strategic sense as it would create a global business with all the accompanying positives of scale and geographical diversification as well as enhanced brand equity. Due to the highly complementary nature of the Assets with the existing business, significant synergies in terms of both revenue and cost can be anticipated.

Following completion of the proposed Acquisition, the Group, as the sole owner of the brand worldwide, will explore even more aggressively, additional licensing opportunities, particularly in the U.S.. The already high recognition of the **ESPRIT** brandname in the U.S., coupled with the Group's extensive skills in product design, distribution and sourcing and its experience in developing rapidly in new markets will add a new dimension and growth for years to come.

The audited net profit before and after taxation of Esprit International for the financial years ended June 30, 2000 and June 30, 2001 are as follows:

	Year ended June 30, 2000	Year ended June 30, 2001
Net profit before tax	US\$23,243,300 (about HK\$180,135,575)	US\$25,544,700 (about HK\$197,971,425)
Net profit after tax	US\$22,264,600 (about HK\$172,550,650)	US\$24,409,600 (about HK\$189,174,400)

The net asset value of Esprit International based on the audited balance sheet of Esprit International as at June 30, 2001 was US\$8,308,000 (about HK\$64,387,000).

Further details about the terms of the Asset Acquisition Agreement, the background and the reasons of the proposed acquisition, will be set out in the circular to be issued by the Company to its Shareholders as referred to below.

CIRCULAR TO SHAREHOLDERS

The Group is principally engaged in the design, licensing, sourcing, wholesale and retail distribution of high quality fashion products under the internationally known **ESPRIT** brandname in Europe, Asia Pacific and Canada, together with Red Earth cosmetics, skin and general body care products.

The Asset Acquisition Agreement constitutes a major and connected transaction for the Company under the Listing Rules that require approval from the Shareholders. The audited consolidated net asset value of the Group as at June 30, 2001 (after restatement on adoption of SSAP 9 (revised) as more particularly disclosed in the interim results of the Company dated February 7, 2002) was HK\$2,181,465,000 and the consideration of US\$150 million payable by the Company under the Asset Acquisition Agreement accounts for approximately 53% of the audited consolidated net asset value of the Group. The Company has announced on February 7, 2002 its results for the six months ended December 31, 2001 during which the Group recorded net profit after tax and minority interests of approximately HK\$385 million. In addition, the transaction will be regarded as a connected transaction on account of the Seller being a substantial shareholder (within the meaning of the Listing Rules) holding 37% limited partner interests in Esprit International which is a subsidiary of the Group.

Mr. Ying, who currently holds approximately 43.87% of the issued share capital of the Company, and Mr. Friedrich, who currently holds approximately 9.91% of the issued share capital of the Company, are entitled to vote on the transaction because their interests are the same as those of the other Shareholders of the Company. As they have given their written approval to the transaction, the Company has made an application to the Stock Exchange pursuant to Rule 14.10 of the Listing Rules in relation to the acceptance of such written approval in lieu of a resolution to be passed at a Shareholders' meeting of the Company approving the transaction.

A circular, including the advice of the independent financial advisers to be appointed by the Company and the recommendations of the independent non-executive Directors regarding the transaction, will be despatched to Shareholders in compliance with the requirements of the Listing Rules.

SUSPENSION AND RESUMPTION OF TRADING IN THE SECURITIES

Trading in the Shares of the Company on the Stock Exchange was suspended at the request of the Company with effect from 10 a.m. on Friday, February 8, 2002 pending the release of this announcement. The Company has applied to the Stock Exchange for a resumption of trading in the Shares of the Company with effect from 10 a.m. on Monday, February 11, 2002. The Company has also requested for suspension of the trading in the shares of the Company on the London Stock Exchange for one day on Friday, February 8, 2002.

DEFINITIONS

In this announcement, the following words have the same meanings below:

"Asset Acquisition Agreement"	the asset sale and purchase agreement made and entered into on February 7, 2002 between the Seller, the Seller's Group, Esprit Capital, the Company, Mr. Ying and Mr. Friedrich in relation to the sale and purchase of the Assets;
"Assets"	the assets to be sold, transferred, conveyed and assigned by the Seller to Esprit Capital pursuant to the Asset Acquisition Agreement;
"Board"	the board of Directors;
"Cerberus"	Cerberus International Ltd. and Cerberus Partners L.P.;
"Closing"	completion of the sale and purchase of the Assets in accordance with the terms of the Asset Acquisition Agreement;
"Company"	Esprit Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are currently listed on the main board of the Stock Exchange and secondarily listed in the London Stock Exchange;
"Director(s)"	the director(s), including the independent non-executive directors, of the Company;
"Esprit Capital"	Esprit Capital Limited, a wholly owned subsidiary of the Company incorporated in the British Virgin Islands;
"Esprit International"	Esprit International, a California limited partnership;
"EUS"	Esprit Holdings Inc., a company incorporated in Delaware in which the Company owns approximately 5% with the remaining 95% directly or indirectly held or controlled by Oaktree and Cerberus;
"Group"	the Company and its subsidiaries;
"HK\$"	Hong Kong dollars;
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"London Listing Rules"	the Listing Rules of London Stock Exchange;
"Mr. Friedrich"	Mr. Jürgen Friedrich, a non-executive Director of the Company;
"Mr. Ying"	Mr. Michael Ying Lee Yuen, an executive Director and Chairman of the Company;
"Oaktree"	OCM Opportunities Fund, L.P., Columbia/HCA Master Retirement Trust (Oaktree Separate Account I), The Common Fund for Bond Investments, TCW Special Credits Fund IV, TCW Special Credits Plus Fund, TCW Special Credits Trust IV and TCW Special Credits Trust IVA;
"Seller"	Esprit de Corp., a company incorporated in California which is wholly-owned by EUS;
"Seller's Group"	Oaktree, Cerberus and EUS;
"Share(s)"	share(s) of HK\$0.10 each in the share capital of the Company;
"Shareholder(s)"	holder(s) of the Shares;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"U.S."	United States of America;
"US\$"	United States dollars.

For the purpose of this announcement, unless otherwise indicated, an exchange rate of HK\$7.75:US\$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.

By Order of the Board
John Poon Cho Ming
Executive Director

Hong Kong, February 8, 2002

This announcement can also be accessed through our internet site at www.espritholdings.com.