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ESPRIT HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

Connected Transactions

- 1. Subscription of a Convertible Note to be Issued by Red Earth International Holdings Limited**
- 2. Facility to Red Earth International Holdings Limited**

Summary

Esprit Holdings Limited ("Esprit" or "Company") is currently interested, through its wholly owned subsidiary, Red Earth Investment Limited ("Red Earth Investment"), in approximately 60.78 per cent. of Red Earth International Holdings Limited ("REI"). Red Earth Investment proposes to subscribe for a convertible note ("Note") to be issued by REI for the amount of HK\$22,013,100 payable by Red Earth Investment to REI immediately upon subscription and issue of the Note. Pursuant to the terms of the Note, Red Earth Investment will have an option to convert the outstanding amount of the Note or any part thereof at any time into fully paid shares with a par value of US\$1.00 each of REI ("Shares") at the conversion price of US\$1.80 per Share. As the Note will only be subscribed by Red Earth Investment and REI is a connected person because it is controlled as to approximately 39.21 per cent. by one of its directors, the subscription of the Note will constitute a connected transaction for the purposes of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") requiring the approval of the independent shareholders of the Company.

Based on the existing issued share capital of REI, upon conversion of the entire Note into Shares, the holdings of Red Earth Investment in REI will be increased to approximately 79.85 per cent. of the enlarged issued share capital of REI upon such conversion. It is expected that REI will apply approximately HK\$10.08 million of the proceeds of the issue of the Note to repay all sums owing by REI to a wholly owned subsidiary of the Company pursuant to certain temporary facilities granted by such subsidiary to REI as disclosed in the announcement of the Company dated July 23, 1998 ("Announcement") and the balance of such proceeds in the sum of approximately HK\$11.93 million will be used for general working capital purposes of REI.

Worldwide Thousand Ltd. ("WTL"), which is held by Mr. Michael Ying Lee Yuen ("Mr. Ying"), a director of the Company, as to approximately 77.40 per cent., currently holds approximately 59.34 per cent. of the issued share capital of the Company and is entitled to vote on the subscription of the Note as the interests of WTL and Mr. Ying in the subscription of the Note are the same as those of the other shareholders of the Company. WTL has given its written approval to such subscription and the Company has made an application to the Stock Exchange in relation to the acceptance of such written approval by WTL in lieu of a resolution passed at a shareholders' meeting of the Company approving the subscription.

The Company will appoint an independent financial adviser to the shareholders of the Company to advise on the fairness and reasonableness of the subscription of the Note as far as the shareholders of the Company are concerned. A circular containing further information on the subscription of the Note and the advice from such independent financial adviser to the shareholders of the Company will be sent to the shareholders of the Company as soon as practicable.

As disclosed in the Announcement, the Company had agreed to endeavor to provide a facility of up to a principal sum of not less than HK\$10 million to REI ("Esprit Facility"). It is expected that the Esprit Facility will be made available by a wholly owned subsidiary of the Company advancing loans in the total principal sum of HK\$10 million to REI on or before December 31, 1998. As REI is a connected person as disclosed above, the Esprit Facility will constitute a connected transaction for the purposes of the Listing Rules. However, no independent shareholders' approval is required pursuant to Rule

14.25(1) of the Listing Rules and the Company will include details of the transaction in its next published annual report and accounts for the year ended June 30, 1998.

1. Subscription of a Convertible Note to be Issued by Red Earth International Holdings Limited

REI, a private company incorporated in the British Virgin Islands, is the holding company of a group of companies which are engaged in the licensing and distribution of cosmetic and personal care products under the RED EARTH brand name in Hong Kong, Australia, New Zealand, Taiwan and Singapore.

Esprit currently holds, through its wholly owned subsidiary, Red Earth Investment, 1,013,800 Shares representing approximately 60.78 per cent. of the entire issued share capital of REI. The remaining 654,100 Shares and 100 Shares, representing approximately 39.21 per cent. and less than 0.01 per cent. of the entire issued share capital of REI, are held by Mr. Ko Soon How ("Mr. Ko"), who is a director of REI and Mr. Nicholas Everard Chadwick ("Mr. Chadwick"), who resigned as director of REI within the past 12 months, respectively.

Red Earth Investment, a wholly owned subsidiary of Esprit, proposes to subscribe for the Note for an amount of HK\$22,013,100 payable to REI immediately upon subscription and issue of the Note, which are expected to take place as soon as practicable upon the Company's receipt of acceptance by the Stock Exchange of the written approval by WTL of the subscription as referred to above in lieu of a resolution passed at a shareholders' meeting of the Company approving the subscription. The subscription will be financed by internal resources of the Company or its subsidiaries. The Note shall bear interest, payable quarterly in arrear, at the prime rate for lending in Hong Kong dollars as announced or applied by The Hongkong and Shanghai Banking Corporation Limited and shall be repayable on demand.

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

On the basis of the existing issued share capital of REI, if the entire amount of the Note is converted into Shares, Red Earth Investment will increase its shareholding in REI from approximately 60.78 per cent. (1,013,800 Shares) to approximately 79.85 per cent. (2,591,800 Shares). Mr. Ko's and Mr. Chadwick's holdings of 654,100 Shares and 100 Shares respectively will in that case be reduced from approximately 39.21 per cent. and 0.006 per cent. to approximately 20.15 per cent. and 0.003 per cent. respectively. The subscription of the Note replaces the proposed capital calls of REI on its members as disclosed in the Announcement which REI has decided not to proceed with.

As the Note will only be subscribed by Red Earth Investment and REI is a connected person because it is controlled as to approximately 39.21 per cent. by Mr. Ko who is a director of REI, the subscription of the Note will constitute a connected transaction for the purposes of the Listing Rules requiring approval by the independent shareholders of the Company. In this connection, WTL, which is held by Mr. Ying, a director of the Company, as to approximately 77.40 per cent., currently holds approximately 59.34 per cent. of the issued share capital of the Company and is entitled to vote on the subscription of the Note as the interests of WTL and Mr. Ying in the subscription of the Note are the same as those of the other shareholders of the Company. WTL has given its written approval to such subscription and the Company has made an application to the Stock Exchange in relation to the acceptance of such written approval by WTL in lieu of a resolution passed at a shareholders' meeting of the Company approving the subscription.

It is expected that approximately HK\$10.08 million of the proceeds of the issue of the Note will be applied by REI to repay all sums owing to Esprit Distribution Limited, a wholly owned subsidiary of the Company, by REI pursuant to certain temporary facilities granted by Esprit Distribution Limited to REI

as disclosed in the Announcement and the balance of such proceeds in the sum of approximately HK\$11.93 million will be used for REI's general working capital purposes. Based on the consolidated management accounts of REI and its subsidiaries ("Red Earth Group") for the years ended June 30, 1996 and June 30, 1997 respectively, REI made a consolidated profit before tax of approximately HK\$327,000 and a consolidated profit after tax of approximately HK\$247,000 for the year ended June 30, 1996 and suffered a consolidated loss both before and after tax of approximately HK\$11 million for the year ended June 30, 1997. Based on the consolidated management accounts of the Red Earth Group as at April 30, 1998, the Red Earth Group had net liabilities of approximately HK\$8 million.

2. Esprit Facility to REI

As disclosed in the Announcement, the Company had agreed to endeavor to provide the Esprit Facility of up to a principal sum of not less than HK\$10 million to REI on terms, inter alia, that the Esprit Facility will only be made available where the outstanding facilities of REI (other than loans from shareholders of REI) which are actually drawn down by REI have exceeded HK\$10 million.

It is expected that the Esprit Facility will be made available by Esprit Distribution Limited, a wholly-owned subsidiary of the Company as referred to above, advancing loans in the total principal sum of HK\$10 million to REI on or before December 31, 1998 to finance the working capital requirements of REI. The Esprit Facility will be financed by internal resources of the Company or its subsidiaries. The Esprit Facility shall bear interest, payable monthly in arrear, at the prime rate for lending in Hong Kong dollars as announced or applied by The Hongkong and Shanghai Banking Corporation Limited and shall be repayable in full within two years from the date of the first drawdown. Mr. Ko and Mr. Chadwick will be required to charge all their respective shareholdings and interests in REI to the Company as security for the Esprit Facility.

As REI is a connected person on account of Mr. Ko's shareholding of approximately 39.21 per cent. in REI, the Esprit Facility will constitute a connected transaction for the purposes of the Listing Rules. However, no independent shareholders' approval is required pursuant to Rule 14.25(1) of the Listing Rules and the Company will include details of the transaction in its next published annual report and accounts for the year ended June 30, 1998.

General

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

A circular containing, inter alia, details of the subscription of the Note and the advice from an independent financial adviser to the shareholders of the Company on the fairness and reasonableness of such subscription as far as the shareholders of the Company are concerned will be dispatched to the shareholders of the Company as soon as practicable.

By Order of the Board
Esprit Holdings Limited
Alva Chan Wai Mo
Director

Hong Kong, August 15, 1998.

The announcement can also be accessed through the internet at <http://www.esprit-intl.com/company/financial/>