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Esprit Holdings Limited
(Incorporated in Bermuda with limited liability)

1. **Completion of the Acquisition of a Majority Interest in Red Earth International Holdings Limited**
2. **Connected Transaction --- Acquisition of a Majority Interest in Red Earth Holdings Pty. Ltd.**
3. **Connected Transaction --- Temporary Loan Facilities to Red Earth International Holdings Limited**

Further to the announcement of the board of directors ("Board" or "Directors") of Esprit Holdings Limited ("Company") dated January 5, 1998 ("Announcement"), the Company has on May 7, 1998, through its wholly-owned subsidiary, completed the acquisition of 60.78 per cent. of Red Earth International Holdings Limited ("REI").

In addition, REI has also become on June 26, 1998 the majority shareholder of Red Earth Holdings Pty. Ltd. ("REA"), the holding company of the operations relating to RED EARTH products in Australia and New Zealand, by increasing its shareholding interest in REA from approximately 20 per cent. to approximately 95 per cent. through subscribing for further shares in REA. As Mr. Nicholas Everard Chadwick ("Mr. Chadwick") was a director of REI within the preceding 12 months and Mr. Ko Soon How ("Mr. Ko") is a director of REI and they were interested, immediately before the further subscription for shares by REI, in approximately 48 per cent. and approximately 32 per cent. of the issued share capital of REA respectively, the subscription of shares by REI in REA constituted a connected transaction for the purposes of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

Temporary loan facilities in the aggregate principal sum of approximately HK\$9.89 million have been made by a wholly-owned subsidiary of the Company to REI in order to finance the working capital requirements of REI including its acquisition of about 95 per cent. of REA as disclosed above. As Mr. Ko is interested in approximately 39 per cent. of the issued share capital of REI, such temporary loan facilities to REI constituted a connected transaction for the purposes of the Listing Rules. REI currently proposes to make capital calls on its members. The terms of these capital calls as well as the number of shares in REI involved are being considered by the directors of REI. It is expected that such capital calls will be completed on or before August 31, 1998 and all sums owing to the Company and/or its subsidiaries (the "Group") by REI pursuant to such facilities will then be repaid by REI in full from the proceeds of such capital calls. In addition, it is also expected that as a result of such capital calls, the Group's shareholding in REI will likely be increased. A further announcement will be made at the time to inform shareholders.

Details of the matters in relation to the acquisition of interests in REA, as well as the temporary loan facilities made available to REI, are disclosed in this announcement.

The Directors believe that the acquisitions of shares in REI and REA, which have enabled the Company to, inter alia, acquire a majority interest in and control the RED EARTH brand name and the distribution network in Australia and New Zealand, will enable the Group to consolidate the operations of the RED EARTH business and provide opportunities to expand the operations of the group significantly

Completion of the Acquisition of a Majority Interest in REI

Further to the Announcement, the Board is pleased to announce that the Company has on May 7, 1998, through its wholly-owned subsidiary, Red Earth Investment Limited ("Red Earth Investment"), completed the acquisition of 1,013,800 shares of US\$1.00 each ("REI Shares") in REI representing approximately 60.78 per cent. of the entire issued share capital of REI upon completion of such acquisition. A shareholders' deed dated as of May 7, 1998 ("Shareholders' Deed") has been concluded to regulate the management and shareholdings in REI and, in addition, relevant option deeds have been concluded to reflect the option arrangements disclosed in the Announcement.

The Shareholders' Deed which was concluded between Red Earth Investment, Mr. Ko and REI, provides that the business of REI is to act as a holding company for its subsidiaries which would carry on all or any of the businesses of sourcing, licensing and wholesale distribution of cosmetics and skin and hair care products as well as such other businesses as may from time to time be agreed in writing by the shareholders of REI and is permissible to be carried on under any applicable laws. Pursuant to the Shareholders' Deed, out of a total of three directors of REI, Red Earth Investment is entitled to and has appointed two directors whereas Mr. Ko is entitled to and has appointed one director, and that all decisions of the board of directors shall be by a simple majority vote. The shareholders of REI are obliged, pursuant to the Shareholders' Deed, to severally provide by way of loans to REI or by way of additional share capital, such sums as shall be required by REI from time to time for the proper conduct of its business and, unless otherwise agreed between the shareholders, such contribution shall be in amounts pro rata to the shareholdings of the members of REI. The Company has also agreed to exercise reasonable endeavours to procure, on a no commitment basis, loans from third parties to REI or any of its subsidiaries in the aggregate sum of not less than HK\$10 million and that, where security is required, such security shall be provided by the shareholders of REI on a several basis in accordance with their shareholding percentages. In addition, it has also been agreed that the Company shall endeavour to provide a facility of up to the principal sum of HK\$10 million to REI on terms, inter alia, that such facility will only be made available when the outstanding facilities of REI (other than loans from shareholders) which are actually drawn down by REI have exceeded HK\$10 million. This obligation shall, however, expire after December 18, 1999. Appropriate announcements, if required, will be made by the Company in accordance with the Listing Rules if and when such a facility is extended by the Company to REI. Mr. Chadwick currently holds only a nominal interest of less than 0.01 per cent. in REI and is not a party to the Shareholders' Deed. However, he is obliged to adhere to the Shareholders' Deed as a term to the exercise of Mr. Chadwick's Option (as defined below).

The Group's Shareholding in REI

The Announcement set out the Group's holdings in REI as contemplated in the Shareholders' Deed and the option agreements. For ease of reference and subject to the implementation of capital calls by REI as disclosed below, the impact on the current holdings of Red Earth Investment in REI as contemplated in the Shareholders' Deed and the option agreements are summarised again as follows:

Description of Event	Percentage of REI held by Red Earth Investment
1. Current shareholding (1,013,800 REI Shares)	60.78 (Note 1)
2. Exercise by Mr. Chadwick of an option to subscribe for 294,300 new REI Shares at the total consideration of A\$450,000 (about HK\$2,160,000) which must be exercised on or before January 15, 1999 ("Mr Chadwick's Option")	51.67 (Note 2)
3. Exercise by Red Earth Investment of its right to subscribe for 294,400 new REI Shares at the total consideration of A\$450,000 (about HK\$2,160,000) if Mr. Chadwick's Option expires without any prior exercise	66.67 (Note 3)

Notes:

1. Mr. Ko holds about 39.21 per cent. (654,100 REI Shares) and Mr. Chadwick holds a nominal interest of less than 0.01 per cent. (100 Shares).
2. Mr. Chadwick will hold about 15 per cent. (294,400 REI Shares) and Mr. Ko will hold about 33.33 per cent. (654,100 REI Shares).
3. Mr. Ko will hold about 33.33 per cent. (654,100 REI Shares) and Mr. Chadwick holds a nominal interest of less than 0.01 per cent. (100 REI Shares).

The Shareholders' Deed provides for pre-emption rights in favour of the other shareholders of REI in the case of a transfer of shares in REI by a shareholder and, in the case of an event of default (as defined in the Shareholders' Deed), a non-defaulting shareholder may require the defaulting shareholder to sell all or any of the shares in REI held by the defaulting shareholder to the non-defaulting shareholder on the terms set out in the Shareholders' Deed.

REI currently proposes to make certain capital calls on its members. It is expected that such capital calls will be completed on or before August 31, 1998. If such capital calls are implemented, there will be further changes in the shareholdings of REI and it is further expected that the shareholdings of Red Earth

Investment will likely be increased to beyond its current level. An announcement will be made at the time to inform shareholders. Further details of such capital calls are also set out in the section headed "Temporary Loan Facilities to REI".

Acquisition of a Majority Interest in REA

REA, a private company incorporated in Australia, sells RED EARTH products in Australia and New Zealand, being two of the principal markets of RED EARTH products. Many of the retail outlets operated by REA are located in prime shopping areas.

REI has increased its holdings in REA from 20 per cent. to approximately 95 per cent. by subscribing for an additional 400,000 shares of A\$1.00 each ("REA Ordinary Shares") and 10.2 million class "L" shares of A\$0.10 each ("REA New Shares") in REA at a price of A\$1.50 per REA Ordinary Share and A\$0.10 per REA New Share respectively payable in cash upon application. REI has therefore paid the total sum of about HK\$7,776,000 in order to increase its shareholdings in REA from 20 per cent. to approximately 95 per cent. which is equivalent to the average price of about HK\$5.48 per REA Ordinary Share or REA New Share as the case may be. Such price has been determined as a result of arms' length negotiations. The REA New Shares rank in all respects equally with the REA Ordinary Shares in issue. Completion of the subscription of the 400,000 REA Ordinary Shares and the 10.2 million REA New Shares took place on May 27, 1998 and June 26, 1998 respectively. The subscription of the 400,000 REA Ordinary Shares was funded by REI out of its own resources whereas the subscription for the 10.2 million REA New Shares was entirely funded by drawing down a temporary loan facility made available to REI by a wholly-owned subsidiary of the Company (see the section headed "Temporary Loan Facilities to REI").

Immediately after completion of the subscription, REI holds 526,380 REA Ordinary Shares and 10.2 million REA New Shares representing approximately 95 per cent. of the entire issued voting share capital of REA. The remaining 202,208 REA Ordinary Shares and 303,312 REA Ordinary Shares, representing approximately 1.83 per cent. and 2.75 per cent. of the issued voting share capital REA, are owned or controlled by Mr. Ko and Mr. Chadwick respectively. Mr. Chadwick is also interested in 1,000 non-voting class "E" shares of A\$1.00 each, and Mr. Ko is interested in 2,000 non-voting class "I" shares of A\$0.50 each, all such shares carry no right to participate in the dividends or surplus assets or profits of REA other than dividends specifically declared for the two classes of shares and to repayment of the capital paid upon such shares in the event of a winding up of REA.

Based on the audited consolidated accounts of REA, REA made a consolidated profit before tax of A\$1,110,022 (equivalent to approximately HK\$5,328,000) and a consolidated profit after tax of A\$647,579 (equivalent to approximately HK\$3,108,000) for the year ended June 30, 1996 and it made a consolidated profit before tax of A\$19,990 (equivalent to approximately HK\$96,000) and suffered a consolidated loss after tax of A\$90,316 (equivalent to approximately HK\$434,000) for the year ended June 30, 1997. The audited consolidated net tangible asset value of REA as at June 30, 1997 was A\$726,422 (equivalent to approximately HK\$3,487,000) and REA does not currently have a positive net tangible asset value. Nevertheless, the Directors see considerable potential in the business of REA.

The Directors, including the independent non-executive Director who was present at the Board meeting approving the subscription, consider that the subscription for the REA Ordinary Shares and the REA New Shares by REI was on normal commercial terms and in the ordinary and usual course of business of REI.

As Mr. Chadwick was a director of REI within the preceding 12 months and Mr. Ko is a director of REI and they were interested, immediately before the further subscription for REA Shares by REI, in approximately 48 per cent. and approximately 32 per cent. of the share capital of REA respectively, the subscription for shares by REI in REA constituted 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 transactions in its next published annual report and accounts for the year ended June 30, 1998.

Temporary Loan Facilities to REI

Temporary loan facilities in the total principal sum of approximately HK\$9.89 million have been made available by the Group to REI in order to finance its working capital requirements including the acquisition of interests in REA by REI as disclosed above. These facilities were required by REI as REI could not borrow such funds from banks on satisfactory terms and within the time constraints in respect of which the funding was required. These facilities comprise of a working capital facility in the principal sum of HK\$5 million and a facility in the principal sum of A\$1.02 million (equivalent to approximately HK\$4.89 million) granted in March 1998 and June 1998 respectively to fund the acquisition of interests in REA as disclosed above. The facilities referred to above were unsecured, repayable on demand and were made available by a wholly-owned subsidiary of the Company, Esprit Distribution Limited, to REI and have been fully drawn down. The

outstanding principal amount of such loans bears interest at the prime rate for lending in Hong Kong dollars as announced or applied by The Hongkong and Shanghai Banking Corporation Limited.

REI currently proposes to make capital calls on its members. The terms of these capital calls as well as the number of shares in REI involved are being considered by the directors of REI. It is expected that all such capital calls will be completed on or before August 31, 1998 and all sums owing to the Group by REI pursuant to the above facilities will then be repaid by REI in full from the proceeds of such capital calls. A further announcement will be made at the time to inform shareholders.

The Directors, including the independent non-executive Director who was present at the Board meeting approving the temporary loan facilities, consider that the temporary loan facilities were on normal commercial terms.

As Mr. Ko holds approximately 39 per cent. of REI, the temporary loan facilities constituted a connected transaction for the purposes of the Listing Rules. The Stock Exchange has advised the Company that, based on its interpretation of the Listing Rules, independent shareholders' approval should have been obtained in relation to the temporary loan facilities in the principal sum of approximately HK\$9.89 million as disclosed above and that, in the opinion of the Stock Exchange, such temporary loan facilities made available by the Group to REI constituted a non-compliance with the requirements of the Listing Rules. The Company has been advised by the Stock Exchange that the Stock Exchange would reserve its rights to take further action against the Company in relation to making available such temporary loan facilities.

The Group's Plans for RED EARTH

The Group has been selling RED EARTH cosmetic, natural health and body care products in Hong Kong and other Asian countries since September 1992 but only as a distributor and licensee. The Directors believe that there is considerable potential in developing the RED EARTH brand name, particularly in respect of cosmetic products. The acquisitions of majority controlling interests in REI and REA have allowed the Group to control the RED EARTH brand name and will enable the Group to manage, consolidate and expand the operations of the RED EARTH business.

The Group intends to focus on further developing the existing markets of RED EARTH cosmetic products including Hong Kong, Taiwan and Singapore and to expand and introduce the brand name in respect of such products to new markets including Canada, the People's Republic of China, Germany and other parts of Europe. In this connection, the Group will utilise, where appropriate, its existing distribution network for ESPRIT products as well as establishing specialty stores for RED EARTH products.

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

Hong Kong, July 23, 1998.

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