

Connected Transaction

Esprit Holdings Limited *(Incorporated in Bermuda with limited liability)*

19 March, 1998

The directors (the "Directors") of Esprit Holdings Limited (the "Company") announced that on March 19, 1998 Esprit (Holdings III) BV ("Esprit BVIII"), an indirect wholly owned subsidiary of the Company, entered into a shareholders' agreement (the "Agreement") with Mr. Lawrence Firestone and 100930 Canada Ltd. ("LFCO"), a Canadian company controlled by Mr. Firestone, whereby Esprit BVIII agreed to sell and LFCO agreed to acquire 250,000 existing shares ("Subject Shares") in Esprit de Corp. (1980) Ltee ("Esprit Canada"), representing 25 percent of the issued share capital of Esprit Canada, at a cash consideration of Cdn\$250,000 (approximately HK\$1.4 million) ("Consideration"). The Consideration has already been paid by LFCO to Esprit BVIII. Mr. Firestone is the president and a director of Esprit Canada.

Esprit Canada is engaged in the distribution of a wide range of apparel and other products under the ESPRIT brandname in Canada and is a recently acquired indirect wholly owned subsidiary of the Company. The audited loss before taxation of Esprit Canada for the eight-month period ended June 30, 1997 was Cdn\$3,161,280 (approximately HK\$17.1 million) and the audited loss before taxation for the year ended October 31, 1996 was Cdn\$990,062 (approximately HK\$5.3 million). The audited loss after taxation of Esprit Canada for the eight-month period ended June 30, 1997 was Cdn\$3,397,566 (approximately HK\$18.3 million) and the audited loss after taxation for the year ended October 31, 1996 was Cdn\$1,071,062 (approximately HK\$5.8 million). The business of Esprit Canada was independently valued at zero as at October 17, 1997 and Esprit BVIII has injected Cdn\$1,000,000 (approximately HK\$5.4 million) cash into Esprit Canada since October 17, 1997. Hence, the Directors consider that the current fair value of Esprit Canada is Cdn\$1,000,000 (approximately HK\$5.4 million) (the "Presumed Value") and the Consideration was determined after arm's length negotiation between LFCO and the Company with reference made to the Presumed Value. The Directors consider that the implementation of the Agreement is to the advantage of the Company as Mr. Firestone, who is regarded by the Directors as a key member of the management team of Esprit Canada, should be better incentivised by the Agreement to continue to render his best services for the operation of Esprit Canada.

Under the Agreement, LFCO has the right to exercise a put option (i) after March 19, 2001 and before March 19, 2003 or (ii) within 30 days after Mr. Firestone is removed as the president or as a director of Esprit Canada other than by voluntary resignation or (iii) within 30 days after an issue of new shares by Esprit Canada in which LFCO does not acquire its entitled pro rata share and which has the effect of reducing the net asset value per share of Esprit Canada, whereby the Company will be required to buy back all the Subject Shares at a consideration equivalent to 120 percent of the capital investment of LFCO in Esprit Canada, being the Consideration plus any shareholder's loan extended by LFCO to Esprit Canada during the period commencing on the date of execution of the Agreement and ending on the date of exercise of such put option by LFCO ("Subject Period"), taking into account any net profit/loss of Esprit Canada attributable to LFCO during the Subject Period less, where applicable, any dividend which may be declared and paid to LFCO out of any profit recorded by Esprit Canada during the Subject Period. Shareholder's loan may be extended by LFCO to Esprit Canada as and when required and if extended, steps will be taken to ensure full compliance with requirement of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") accordingly. On the other hand, the Company has the right to exercise a call option under the Agreement to acquire all the Subject Shares at any time after execution of the Agreement without time limit on the same pricing terms as those under the put option granted to LFCO under the Agreement. Terms of the option arrangements mentioned above were arrived at after arm's length negotiation between LFCO and the Company.

The Agreement constitutes a connected transaction under the Listing Rules by virtue of Mr. Firestone's directorship with Esprit Canada. However, as 25 percent of the Presumed Value is

less than the higher of either three percent of the book value of the net tangible assets of the Company as disclosed in the annual report of the Company for the year ended June 30, 1997 or HK\$10,000,000, the Agreement is not subject to approval by the shareholders of the Company in general meeting under the provision of Rule 14.25(1) of the Listing Rules. The Directors consider that the terms of the Agreement including the option arrangements are fair and reasonable so far as the shareholders of the Company are concerned.

By Order of the Board

Alva Chan Wai Mo

Executive Director

Hong Kong, March 19, 1998