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**ESPRIT**  
esprit holdings limited  
**ESPRIT HOLDINGS LIMITED**  
(Incorporated in Bermuda with limited liability)  
**CONNECTED TRANSACTION**

Further to the announcement by the Company on September 24, 2001, the Company, RE Investment and RE International have entered into the deed of settlement with Mr. Ko and Jeckson on December 18, 2001 (“**Deed of Settlement**”). Pursuant to the Deed of Settlement, Jeckson has transferred to RE Investment its 39% interest in RE International, the Esprit Action and the Share Option Action will be dismissed, and Mr. Ko and Jeckson have also assumed various additional obligations and responsibilities, in consideration of the Company and RE Investment paying an aggregate sum of HK\$15,000,000 as disclosed below.

Pursuant to the Deed of Settlement, the Company has obtained 100% ownership of RE International which indirectly holds the “RED EARTH” brand name worldwide. The Directors (including the independent non-executive directors) consider that the terms of the Deed of Settlement are fair and reasonable and in the interest of the Company as a whole. As the signing of the Deed of Settlement constituted a connected transaction, this announcement is made in accordance with Rule 14.25(1) of the Listing Rules. Disclosure will also be made in compliance with the Listing Rules in the next published annual report and accounts of the Company.

#### Background

As announced by the Company on September 24, 2001, the Share Option Action was commenced by RE Investment to compel Jeckson to transfer its entire 39% interests in RE International. Jeckson disputed the claims, and subsequently commenced the Esprit Action against the Company making various allegations regarding, inter alia, computation of the price payable to acquire Jeckson’s said interests in RE International.

#### Deed of Settlement

The Directors wish to announce that the Company, RE Investment and RE International have entered into the Deed of Settlement with Mr. Ko and Jeckson on December 18, 2001. Pursuant to the Deed of Settlement:

- (a) Mr. Ko and Jeckson have acknowledged that the allegations against the Company in the Esprit Action are groundless and without merit and will procure the Esprit Action to be dismissed without order as to costs;
- (b) Jeckson has transferred to RE Investment its entire 39% interests in RE International and the Share Option Action will be dismissed. As a result, the Group will own 100% of the RE International which indirectly holds the “RED EARTH” brand name worldwide;
- (c) as RE International has become a wholly-owned subsidiary of the Company, Mr. Ko will be released from guarantees given by him in relation to banking facilities to companies within the Red Earth Group; and
- (d) Mr. Ko and Jeckson have assumed various additional obligations and responsibilities, including principally, the transfer to nominee(s) of the Company and/or RE Investment and/or RE International of all shares in the companies within the Esprit Group (excluding any listed shares of the Company) and the Red Earth Group owned by Mr. Ko or companies controlled by him, the resignation by Mr. Ko from all directorship and other appointments within the Red Earth Group, the non-competition undertaking by Mr. Ko for 2 years from the date of the Deed of Settlement, the full co-operation and assistance from Mr. Ko in relation to certain third party franchisee disputes, and the undertaking from Mr. Ko and Jeckson not to support or assist any third party regarding any claims against the Esprit Group and the Red Earth Group within 6 years from the date of the Deed of Settlement.

Mr. Ko and Jeckson on the one hand and the Esprit Group on the other also agree and undertake not to bring any claims of any kind or bring any action against each other in the future arising out of or in connection with the matters pleaded in the Actions.

In consideration of Mr. Ko and Jeckson agreeing to all the above and, for the reasons further explained in the paragraph headed “Reasons for signing the Deed of Settlement” below, the Company and RE Investment have paid the aggregate sum of HK\$15,000,000, as to HK\$14,700,000 to Mr. Ko and Jeckson, and as to HK\$300,000 to the Company’s solicitors in respect of legal costs and disbursements as directed by Mr. Ko and Jeckson pursuant to the terms of the Deed of Settlement.

#### Reasons for signing the Deed of Settlement

The Deed of Settlement has been negotiated on an arm’s length basis. Pursuant to the Deed of Settlement, Mr. Ko and Jeckson have acknowledged that the allegations against the Company in the Esprit Action are groundless and without merit and will procure the Esprit Action to be dismissed without order as to costs. The Company has obtained 100% ownership of RE International which indirectly holds the “RED EARTH” brand name worldwide. Mr. Ko and Jeckson have assumed various additional obligations and responsibilities which are beneficial to the Company and the Red Earth Group. The Company, RE Investment and RE International have saved substantial legal costs and management time and attention in relation to pursuing the Actions and in handling possible subsequent appeal(s) by settling the Actions. As a result, the Directors (including the independent non-executive directors) consider that the terms of the Deed of Settlement are fair and reasonable and in the interest of the Company as a whole.

#### Connected Transaction

RE International was held as to about 61% by RE Investment, a wholly owned subsidiary of the Company, with the remaining 39% held by Jeckson, a company controlled by Mr. Ko. Mr. Ko is a director and the ex-chief executive officer of RE International. The signing of the Deed

of Settlement therefore constituted a connected transaction. As the amount payable by the Company and RE Investment pursuant to the Deed of Settlement is less than 3% of the book value of the audited consolidated net tangible assets of the Company as at June 30, 2001, but is greater than 0.03% of such value, disclosure is required to be made by the Company pursuant to Rule 14.25(1) of the Listing Rules. Disclosure will also be made in compliance with the Listing Rules in the next published annual report and accounts of the Company.

#### Business of RE Investment and RE International

RE Investment is a wholly owned subsidiary of the Company and is an investment holding company. RE International is a wholly owned subsidiary of the Company holding the business of design, licensing, sourcing, wholesale and retail distribution of cosmetics, skin and general body care products under the RED EARTH brand name worldwide.

The consolidated net tangible asset value of RE International based on its audited accounts made up to June 30, 2001 is HK\$(23,386,120). Based on the audited consolidated financial statements of RE International made up to June 30, 2000 and June 30, 2001, the net profits/loss before and after tax attributable to the shareholders of RE International for the two financial years immediately preceding the date of the Deed of Settlement are HK\$12,618,429 and HK\$12,095,104 for the year ended June 30, 2000 and HK\$1,419,519 and HK\$(543,172) for the year ended June 30, 2001.

#### Definitions

“Actions”	the Share Option Action and the Esprit Action
“Company”	Esprit Holdings Limited, a company incorporated in Bermuda the shares of which are primary listed on the Stock Exchange and secondary listed on the London Stock Exchange
“Director”	a director of the Company
“Esprit Action”	the proceedings initiated by Jeckson against the Company, RE Investment and RE International
“Esprit Group”	the Company and its subsidiaries for the time being and from time to time or a company in which the Company or any of its subsidiaries holds an interest or a subsidiary of such a company
“Jeckson”	Jeckson Management Limited, a company incorporated in the British Virgin Islands and a company controlled by Mr. Ko
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Ko”	Mr. Steven Ko Soon How
“RE International”	Red Earth International Holdings Limited, a company incorporated in the British Virgin Islands
“RE Investment”	Red Earth Investment Limited, a company incorporated in the British Virgin Islands
“Red Earth Group”	RE International, its subsidiaries for the time being and from time to time or a company in which RE International or any of its subsidiaries holds an interest or a subsidiary of such a company
“Share Option Action”	the proceedings initiated by RE Investment against Jeckson
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By Order of the Board  
**John Poon Cho Ming**  
Executive Director

Hong Kong, December 18, 2001

This announcement may be viewed on the internet at [www.espritholdings.com](http://www.espritholdings.com).