EGANA

JEWELLERY & PEARLS LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30TH NOVEMBER, 2003

HIGHLIGHTS

Turnover amounted HK$390 million

Distributable earnings exceeded HK$40 million

Annualized return on shareholders' fund: 17%

Dividend: HK5.5¢ per share

RESULTS

The board of directors (the "Directors") of Egana Jewellery & Pearls Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th November, 2003 together with the comparative figures for the six months ended 30th November, 2002 which are summarised as under. These results have been reviewed by the Audit Committee of the Company.

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Six months ended 30th November, 2003 (Unaudited) *HK$'000*	30th November, 2002 (Unaudited) *HK$'000*
Turnover	389,644	369,300
Cost of sales	(207,148)	(217,057)
Gross profit	182,496	152,243
Other revenues	9,768	16,333
Distribution costs	(66,074)	(47,195)
Administrative expenses	(74,632)	(72,691)
Operating profit	51,558	48,690
Finance costs	(8,651)	(6,951)
Profit before taxation	42,907	41,739
Taxation *(note 2)*	(2,484)	(2,649)
Profit after taxation but before minority interests	40,423	39,090
Minority interests	(1)	(46)
Profit attributable to shareholders	40,422	39,044
Dividends	17,061	18,612
Earnings per share *(note 3)*		
Basic	13.03 cents	12.59 cents
Diluted	N/A	N/A

Notes:

1. **Basis of preparation and principal accounting policies**

The condensed interim accounts have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

The condensed interim accounts have been prepared under the historical cost convention, as modified for the revaluation of leasehold land and buildings and investments in non-trading securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st May, 2003, except as described below.

In the current interim period, the Group has adopted SSAP 12 (Revised) "Income taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognized in respect of timing differences arising, except where those timing difference were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of this revised accounting policies had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

2. **Taxation**

Taxation comprised:

	Six months ended	
	30th November, 2003	**30th November, 2002**
	HK$'000	*HK$'000*
Company and subsidiaries -		
Hong Kong profits tax		
- Provision for current period	2,500	2,500
Overseas income tax		
- Provision for current period	32	149
- Overprovision in prior periods	(48)	—
	2,484	2,649
Associated company		
Hong Kong profits tax		
- Provision for current period	—	—
Overseas income tax		
- Provision for current period	—	—
	2,484	2,649

Hong Kong profits tax was provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit arising in or derived from Hong Kong. Overseas income tax was provided by subsidiaries with overseas operations on their estimated assessable profits for the period at the tax rates applicable in the countries in which the subsidiaries operated.

3. **Earnings per share**

Basic earnings per share

Basic earnings per share was calculated based on the consolidated profit attributable to shareholders for the period of approximately HK$40,422,000 (2002: HK$39,044,000) and the weighted average number of ordinary shares of approximately 310,206,000 (2002: 310,206,000) in issue during the period.

Diluted earnings per share

During the periods ended 30th November, 2003 and 30th November, 2002, the Company's share options exercise price was above the average fair value of one ordinary share, and thus there were no dilutive potential ordinary shares.

INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of HK5.5 cents per share (2002: HK6 cents per share) payable on 25th March, 2004 to shareholders whose names appear on the register of members of the Company on 17th March, 2004.

BUSINESS REVIEW AND PROSPECTS

Looking forward, with our main market in Europe improving (as shown by the success of our in-house exhibition in Germany in January 2004) and our brand pyramid approach that offers established names like Esprit, JOOP!, MEXX, Dugena, Katarina Witt by Dugena, Pierre Cardin, and Abel & Zimmermann, we expect encouraging growth in our European business.

Asia has now fully recovered from SARS and aftereffects of Iraq war. The Group feels confident that with the promising response of the recent launch of Esprit Jewel in China and having a portfolio of brands readily acceptable in Mainland, China market will start contributing significantly to Group bottom line. This belief is further strengthened by the fact that the Group has had manufacturing unit in Hong Kong since inception and therefore is able to take full advantage of Closer Economic Partnership Arrangement (CEPA).

The Group has also signed a cooperation agreement with a reputable Shanghai based jewellery group for Pierre Cardin Jewel and the merchandise has received very encouraging response from the Mainland China market. In addition, the Group is taking active steps to increase market penetration in Taiwan.

During the period, the Group increased its investment in strategic partnerships by HK$17 million to help realize the Asian business plans geared to deliver Asia turnover contribution to be at 28% of Group's total revenue at the end of the current 5-year program.

On the US side, the Group continues to build market network in spite of the prevailing intense competition. However, with the focus differentiation approach targeting high-end market and our Thai manufacturing units supporting both gold and platinum high-end production, the results are on target to provide significant contributions in terms of both turnover and bottom line growth.

With the generally positive outlook and Group's traditional focus on delivering continued double-digit growth to our Shareholders, the overall future prospects have considerably improved.

Group's brand portfolio is considered to be adequate for the time being to support the planned growth targets and no major changes are anticipated. However, the Group may look to enhance individual brands by co-branding them with local brands as the need and opportunity arises. Independent valuation shows that the fair market value of the Group's brand portfolio should exceed HK$1.2 billion, representing a valuable off-balance sheet Group asset.

Manufacturing facilities are also considered sufficient to meet the anticipated increases in turnover and aside from minor refurbishment and re-tooling no significant changes are anticipated. Thanks to a vertically integrated manufacturing support, there has been continuous product development, unique design and fashion innovation, generating high levels of customer satisfaction and setting industry trends.

In February 2004, Merrill Lynch, an international investment bank subscribed to US$10 million 5-year convertible bonds of the Group, the proceeds of which will be applied to the working capital for the Asian business. Merrill Lynch and the Group each have an option to require the Group to issue further convertible bonds with maturity in February 2009 to the extent of US$35 million, proceeds from which are intended the expansion of business in Asia and the US.

The Group continues to practice its core values of "Compassion, Integrity and Fairness" to strive for being a leader and one of the most respected multi-brand jewellery group focusing on customer service superiority, for the ultimate benefit of our stakeholders.

MANAGEMENT DISCUSSIONS AND ANALYSIS

Group turnover for the 6 months to November 2003 stands at HK$390 million (6% increase); giving a profit attributable to shareholders of HK$40 million that represents an average annualized 17% return on shareholders' funds for the period.

The turnover contribution from Europe was 83% (87% November 2002), America 10% (10% November 2002) and Asia Pacific 7% (3% November 2002). Continued growth in Asian revenue is anticipated going forward.

While improving overall turnover, Group managed to leverage its manufacturing-distributor-brand manager business model to deliver a remarkable 5% improvement in Gross Profit that now stands at 47%.

Administration expenses were managed to 19% of the turnover level, an improvement over 12 months to May 2003 figure of 21%.

During the 6 months to November 2003, the Group acquired 100% interest in a jewellery distribution business from a third-party company. In addition, the European Technology and Logistic Center in Germany started operation in June 2003 with the set up costs expensed during the period. These two events resulted in an increase in Distribution costs to 17% of the turnover; from 12 months to May 2003 figure of 14%. However, these costs increases have helped the Group to improve margins as illustrated above. European Technology and Logistic Center in Germany is showing positive signs of streamlining delivery logistics and achieving faster order fulfillment. The nominal cost increase would therefore form a lower portion of group turnover as more group brands are introduced in the newly acquired distribution network.

Profit attributable to shareholders now stands at 10% of the turnover, an improvement from 12 months to May 2003 figure of 8%, indicating that the Group has been able to deliver an overall improvement for the benefit of our shareholders.

The Shareholder's Equity stands at HK$486 million, representing a growth of 15.4% when compared to November 2002. This growth rates illustrates Group's continued focus on delivering double-digit growth to our shareholders. In the 12 months to May 2003, the Group has effected a dividend payout ratio to the extent of 50%.

Inventory turnover has shown a minor increase to 175 days from 162 days (May 2003) due to accumulation of inventory resulting from two specific reasons. The first reason was the sudden pick up in demand from Autumn 2003 onwards in Europe resulting in larger than planned raw material and work-in-progress investment. The second reason relates to stocking up for the first in-house fair held in our new European Headquarters and Exhibition Center in Offenbach, Germany in January 2004, an event that was not only a success but very encouraging for the Group as an indication of how 2004 business would look.

However, the level of 175 days is itself well below industry norm of 210 days and with the new logistic and technology center now in operation in Germany inventory turnover days are likely to witness a downward trend. (as of January 2004, the Group was at 158 days).

Average debtor days were kept within 70 days, similar to May 2003 and well within industry norm of 120 days. This is attributable to our ongoing close attention and regular review of credit terms. This credit control is deemed essential by the Group in an economic environment that would have otherwise necessitated deterioration in terms to not only increase turnover as was achieved but just to maintain it at previous levels.

Interest cover was at a healthy level, indicating that the Group can ride out minor variations in working capital requirements even if the prospects were lower from the current encouraging levels.

Leverage ratio (net borrowings as a proportion of consolidated tangible net worth) improved to 0.13 from May 2003 level of 0.25, while Gearing Ratio (interest bearing debt/consolidated tangible net worth) stood at 0.50 well within industry terms of 1 times.

The Group practices natural hedging to the extent possible and currency hedging as far as is reasonably practicable. As such, the foreign currency exposure against adverse exchange movements has been adequately contained.

Generally, the confirmed orders in hand covering 6 months worth of shipments are at a higher level than last year.

The Group had no significant capital commitments as at 30th November, 2003 and there are no material contingent liabilities or off-balance sheet obligations other than trade bills discounted in the ordinary course of business as already fully reflected in the accounts.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 15th March, 2004 to 17th March, 2004, both days inclusive, during which period no transfer of shares of the Company will be recorded.

EMPLOYEES

As at 30th November, 2003, the Group had approximately 3,085 employees. They were remunerated based on their experience, their qualifications, the Group's performance and market conditions.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its securities (whether on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or otherwise) during the period ended 30th November, 2003.

CODE OF BEST PRACTICE

Except that the non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at annual general meetings of the Company, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") throughout the period.

PUBLICATION OF RESULTS ON THE STOCK EXCHANGE'S WEBSITE

All the information required by paragraphs 46(1) to 46(6) inclusive of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course.

On behalf of the Board
Hans-Joerg SEEBERGER
Chairman and Chief Executive

Hong Kong, 26th February, 2004

Please also refer to the published version of this announcement in South China Morning Post and The Standard.