EGANA

JEWELLERY & PEARLS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 926)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30TH NOVEMBER, 2004

HIGHLIGHTS

Turnover amounted HK$421 million (Up 8%)
Distributable earnings reached HK$45 million (Up 11%)
Annualised return on shareholders' funds: 15%
Dividend HK5.5 cents 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, 2004 together with the comparative figures for the six months ended 30th November, 2003 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, 2004 (Unaudited) *HK$'000*	30th November, 2003 (Unaudited) *HK$'000*
Turnover	420,668	389,644
Cost of sales	(232,461)	(207,148)
Gross profit	188,207	182,496
Other revenues	21,818	9,768
Distribution costs	(76,270)	(66,074)
Administrative expenses	(76,430)	(74,632)
Operating profit	57,325	51,558
Finance costs	(10,511)	(8,651)
Profit before taxation	46,814	42,907
Taxation *(note 2)*	(2,022)	(2,484)
Profit after taxation but before minority interests	44,792	40,423
Minority interests	(1)	(1)
Profit attributable to shareholders	44,791	40,422
Dividends	21,316	17,061
Earnings per share *(note 3)*		
Basic	13.25 cents	13.03 cents
Diluted	N/A	N/A

CONSOLIDATED BALANCE SHEET

	As at 30th November, 2004 (Unaudited) *HK$'000*	As at 31st May, 2004 (Audited) *HK$'000*
Non-current assets		
Fixed assets	39,451	39,056
Intangible assets	118,638	115,610
Interest in an associated company	(65)	(59)
Investments in non-trading securities	80,193	80,121
Deferred tax assets	10,538	9,646
	248,755	244,374
Current assets		
Inventories	245,219	207,868
Accounts receivables, net	74,031	286,061
Royalty deposit	10,825	14,079
Deposits, prepayments and other receivables	88,982	32,572
Due from fellow subsidiaries	103,880	77,956

	As at 30th November, 2004 (Unaudited) *HK$'000*	As at 31st May, 2004 (Audited) *HK$'000*
Due from a related company	1,428	1,428
Short-term investments	168,168	38,449
Cash and cash equivalents		
- Promissory notes	226,743	164,568
- Cash and bank balances	75,222	35,267
	994,498	858,248
Current liabilities		
Accounts payable	(89,619)	(65,566)
Accruals and other payables	(98,677)	(56,024)
Bills payable	(80,897)	(59,074)
Short-term bank borrowings	(166,410)	(136,369)
Current portion of long-term bank borrowings	(26,061)	(24,854)
Current portion of other long-term loans	(857)	(460)
Current portion of obligations under finance lease	—	(54)
Due to fellow subsidiaries	(23,862)	(42,931)
Due to a related company	(634)	(1,242)
Due to Directors	(178)	(170)
Dividend payable	(15,239)	—
Taxation payable	(6,774)	(10,092)
	(509,208)	(396,836)
Net current assets	485,290	461,412
Total assets less current liabilities	734,045	705,786
Non-current liabilities		
Long-term bank borrowings	(105,948)	(107,090)
Other long-term liabilities	(7,697)	(19,469)
Convertible bonds	—	(66,300)
Deferred tax liabilities	(2,609)	(1,289)
	(116,254)	(194,148)
Minority interests	(45)	(41)
Net assets	617,746	511,597
Capital and reserves		
Share capital	190,488	158,735
Reserves	405,942	339,590
Proposed interim/final dividend	21,316	13,272
Shareholders' funds	617,746	511,597

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 Institute of Certified Public Accountants.

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

The accounting polices adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st May, 2004.

2. **Taxation**

Taxation comprised:

	Six months ended	
	30th November, 2004	**30th November, 2003**
	HK$'000	*HK$'000*
Company and subsidiaries		
Current taxation:		
Hong Kong profits tax		
- Provision for current period	6,133	2,500
- Over-provision in prior periods	(4,879)	—
Overseas income tax		
- Provision for current period	314	32
- Under/(Over)-provision in prior periods	25	(48)
Deferred taxation:		
- Recognised during the period	429	—
	2,022	2,484
Share of taxation attributable to associated company		
Hong Kong profits tax	—	—
Overseas income tax	—	—
	2,022	2,484

Hong Kong profits tax was provided at the rate of 17.5% (2003: 17.5%) 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$44,791,000 (2003: HK$40,422,000) and the weighted average number of ordinary shares of approximately 337,969,000 (2003: 310,206,000) in issue during the period.

Diluted earnings per share

During the periods ended 30th November, 2004 and 30th November, 2003, 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 DIVIDENDS

The Directors have resolved to declare an interim dividend of HK5.5 cents per share (2003: HK5.5 cents per share) payable on 30th March, 2005 to shareholders whose names appear on the register of members of the Company on 23rd March, 2005.

BUSINESS REVIEW AND PROSPECTS

The 5-year growth plan has been implemented as scheduled as evident by an encouraging 8% growth in turnover, and 11% increment in after tax earnings.

In Europe, the Exhibition Centre at our European Headquarters, at Offenbach, Frankfurt Germany hosted the first ever Egana Autumn Fair in September 2004, which attracted customers from our existing coverage in Western Europe, as well as new customers from Eastern Block. There reflected an 8% increase in revenue from Europe.

Also, the European Technology & Logistic Center at Frankfurt, Germany has been in place on a timely manner to enlarge the logistics efficiency and faster order fulfillment benefits pursuant to the extension of 12 countries to 25 countries within European community effective 2004. This translates into 1.3% savings on European sales in logistics cost.

In collaboration with our partners in China, the progress is satisfactory. The new collections of various brandnames were very well received and should materialise in new orders during and after the Basel Fair, which is the largest and most important watch and jewellery fair in the world. In the 6 months to November 2004, Asia reflected a 17% increase in orders to that in 2003.

Based on this positive development and the global economic recovery underway, we are hopeful that the Group's annual revenue share from our Asian market for FY04/05 would exceed 20%, targeting the 30% revenue split threshold in the 5-year plan.

With the gradual development of branded goods, the in-house production has increased, which results in lesser bought-in-finished goods. This enhancement of product mix enriches the gross margin to 45%, a 7% basis point upsurge as compared to the FY03/04's.

This enables the Group to reserve further resources for communications program and marketing activities for enhancing the brand awareness and gaining further network coverage.

In the US, our focus differentiation approach towards the upscale and luxury jewellery segment is bringing positive results which recorded a 7% increase in revenue during the 6 months to November 2004 as compared to that in 2003. The exhibition in the Phoenix Jewellery Show in January 2005 attracted strong customer interest towards the Group's extended jewel range, and the platinum jewellery collection.

The Group in its production facilities (G&W) in Germany has developed certain advanced platinum jewellery production process, and is in partnership with the Platinum Guild to launch internationally during the Basel Fair a platinum jewellery collection which is expected to have particularly good reception in the US and China markets, in addition to the European segment.

The Company is pursuing strategic alliance possibility to achieve further growth of our business in the US. It is believed that with the Group's well established jewellery product development and production facilities network (2 in Europe, 4 in Asia), a well balanced portfolio of brands with international recognition, and our pioneer experience in co-branding approach, we are well posed to be in partnership with strong retail network and/or chain stores to jointly expand the US business, with a view to achieving 20% revenue share in 5-year time.

In November 2004, Merrill Lynch subscribed US$5 million convertible bonds with maturity in February 2009, evidencing its confidence towards our Group.

We continue to focus on delivering double digit growth in shareholder value, and have achieved a 21% rise for the period.

MANAGEMENT DISCUSSION AND ANALYSIS

Group turnover for the 6 months to November 2004 reached HK$421 million, an encouraging 8% increase, which was represented by 8% increment in Europe; 7% in the US and 17% in Asia Pacific, as compared to the same period in 2003.

During the period, Europe accounted for 83%, US at 10% and Asia at 7% of Group's turnover, a pattern similar to that in 2003.

With successful opening up of certain new markets in Europe (including Russia, Poland, Croatia, Turkey) and in Asia (including China, Taiwan, Singapore), the Group is increasing the portion of product mix from bought-in-finished goods to in-house produced jewels. As a result, the gross margin reached 45%, a 7% upsurge from the 38% threshold for the year ended 31st May, 2004.

To launch branded products in new markets and to gain further market share in existing coverage, the Group has increased the communications program outlays during the period, by 1% to sales. Distribution cost is at 18% to sales (17% for November 2003).

Thanks to the enhanced logistics efficiency and inventory control due to the European Technology & Logistic Center in Germany, there continuously reflects 1.3% savings in logistics and order fulfillment expenses in Europe, which is translated to an overall 1% administrative expenses savings to the Group (18% in 2004 versus 19% in 2003).

Profit attributable to shareholders amounted to HK$45 million at a margin of 11%, and represented a promising increase of 11% over the same period in 2003. This is translated into an average annualised 15% returns on shareholder funds for the period.

The shareholders' funds stood at HK$618 million, representing a growth of 21% when compared to May 2004, echoing the Company's vision to deliver double digit growth to our shareholders.

The annualised inventory turnover for the 6 months to November 2004 is similar to that in the prior year, at 178 days. The annualised debtors turnover for November 2004 period is similar to that in 2003, at 78 days. These are attributable to our continuous focus in inventory control and tight credit policy.

The finance cost to sales ratio for 2004 is similar to that in 2003, at 2.5%, which represents a healthy level, demonstrating that the Group has practised a prudent treasury model to contain the borrowing cost to an acceptable level, thereby minimizing any adverse effect that may arise due to interest rate increase.

The current ratio is 2x, well ahead of the industry norm of 1x, reflecting a strong working capital platform to support the continuous growth of the business.

The gearing ratio (interest bearing debts to shareholders' funds) was 0.49x, as compared to 0.67x for the year ended 31st May, 2004, and the industry norm of 1x. This adds confidence to the management that the current multi-brand business approach and financing model (of matching capital expenditure by equity funds) are both making positive contribution for the long term growth.

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

Currently, the confirmed orders on hand covering 6-month worth of shipments are at a higher level than last year.

The Group had no significant capital commitments as at 30th November, 2004 and there are no contingent liabilities or off balance sheet obligations other than trade bills discounted in the ordinary course of business.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 21st March, 2005 to 23rd March, 2005, both days inclusive, during which period no transfer of shares of the Company will be recorded.

EMPLOYEES

As at 30th November, 2004, the Group had approximately 3,600 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, 2004.

CODE OF BEST PRACTICE

Except that the Independent 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 old Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") throughout the period.

As to the new Appendix 14 (Code on Corporate Governance Practices) of the Listing Rules, the Directors will adopt the principles set out therein. A Remuneration Committee comprising all Independent Non-Executive Directors and Mr. David Wai Kwong WONG, Director, was duly established on 31st January, 2005. A detailed Corporate Governance Report will be prepared and disclosed in the Company's 2005 Annual Report.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed with management regarding auditing, internal control and financial reporting matters including the review of the Company's unaudited interim financial results for the six months ended 30th November, 2004.

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

Hong Kong, 17th February, 2005

As at the date of this announcement, the Board comprises Mr. Hans-Joerg SEEBERGER, Mr. Peter Ka Yue LEE, Mr. Michael Richard POIX, Mr. Ho Yin CHIK, Mr. David Wai Kwong WONG, Mr. Shunji SAEKI and Mr. Michael BOMMERS as executive directors and Mr. Charles Cho Chiu SIN, Mr. Eduardo Tang Lung LAU and Professor Zhengfu WANG as independent non-executive directors.

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