EGANA

JEWELLERY & PEARLS LIMITED

(聯洲珠寶有限公司)

(Incorporated in the Cayman Islands with limited liability)

(stock code: 926)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30TH NOVEMBER, 2005

HIGHLIGHTS

Turnover amounted HK$433 million
Distributable earnings reached HK$52 million
Annualised return on shareholders' funds: 15%
Dividend HK2.5 cents per share

RESULTS

The board of directors (the "Board") 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, 2005 together with the comparative figures for the six months ended 30th November, 2004 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, 2005 (Unaudited) *HK$'000*	Six months ended 30th November, 2004 (Unaudited and restated) *HK$'000*
Turnover	433,124	420,668
Cost of sales	(234,511)	(232,461)
Gross profit	198,613	188,207
Other revenues	22,647	21,818
Distribution costs	(66,267)	(76,270)
Administrative expenses	(77,297)	(72,790)
Operating profit	77,696	60,965
Finance costs	(18,695)	(10,511)
Profit before taxation	59,001	50,454
Taxation *(note 2)*	(6,423)	(2,022)
Profit for the period	52,578	48,432
Attributable to:		
Equity holders of the Company	52,578	48,431
Minority interests	—	1
	52,578	48,432
Dividends	11,264	21,316
Earnings per share *(note 3)*		
Basic	12.48 cents	14.33 cents
Diluted	12.11 cents	N/A

CONSOLIDATED BALANCE SHEET

	As at 30th November, 2005 (Unaudited) *HK$'000*	As at 31st May, 2005 (Audited and restated) *HK$'000*
Non-current assets		
Fixed assets	44,070	39,925
Leasehold land	4,581	4,645
Intangible assets	108,158	114,965
Interest in an associated company	(59)	(58)
Investments in non-trading securities	—	150,760
Available-for-sale financial assets	87,090	—
Deferred tax assets	12,091	16,645
	255,931	326,882

	As at 30th November, 2005 (Unaudited) *HK$'000*	As at 31st May, 2005 (Audited and restated) *HK$'000*
Current assets		
Inventories	339,063	269,493
Accounts receivable, net	172,000	85,367
Royalty deposit	3,797	7,406
Deposits, prepayments and other receivables	155,008	108,004
Due from fellow subsidiaries	32,131	97,628
Due from a related company	1,098	829
Derivative financial instruments	1,773	—
Investments held for trading	106	—
Short-term investments	—	113
Tax recoverable	2,189	—
Cash and cash equivalents	467,288	418,149
	1,174,453	986,989
Current liabilities		
Accounts payable	(115,791)	(69,614)
Accruals and other payables	(56,361)	(58,646)
Bills payable	(66,349)	(64,514)
Derivative financial instruments	(1,063)	—
Short-term bank borrowings	(243,873)	(229,043)
Current portion of long-term bank borrowings	(59,672)	(54,776)
Current portion of other long-term liabilities	(523)	(692)
Due to fellow subsidiaries	(33,378)	(9,391)
Due to a related company	—	(1,942)
Due to Directors	(300)	(255)
Dividend payable	(8,110)	—
Taxation payable	—	(1,026)
	(585,420)	(489,899)
Net current assets	589,033	497,090
Total assets less current liabilities	844,964	823,972
Non-current liabilities		
Long-term bank borrowings	(128,000)	(156,791)
Other long-term liabilities	(4,609)	(4,813)
Convertible bonds	(3,600)	—
Deferred tax liabilities	(2,730)	(1,874)
	(138,939)	(163,478)
Net assets	706,025	660,494

	As at 30th November, 2005 (Unaudited) *HK$'000*	As at 31st May, 2005 (Audited and restated) *HK$'000*
Capital and reserves		
Share capital	219,180	206,582
Reserves	475,542	445,974
Proposed interim/final dividend	11,264	7,897
Equity attributable to equity holders of the Company	705,986	660,453
Minority interests	39	41
Total equity	706,025	660,494

Notes:

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

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets, investments held for trading and certain financial instruments, which are carried at fair values.

The accounting policies used in the accounts are consistent with those followed in the preparation of the Group's annual accounts for the year ended 31st May, 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associated companies have been changed under HKAS 1 "Presentation of Financial Statements" and HKAS 27 "Consolidated and Separate Financial Statements", respectively. The changes in presentation have been applied retrospectively.

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have major impacts on how the results for the current or prior accounting periods are prepared and presented:

Trademarks and goodwill

Subsequent to 30th November, 2004, the Group decided to early adopt HKFRS 3 "Business Combinations" together with HKAS 36 "Impairment of Assets" and HKAS 38 "Intangible Assets" in 2005. Since 1st June, 2004, amortisation of the acquired trademarks and positive goodwill has been discontinued. As a result, the profit attributable to equity holders of the Company for the six months ended 30th November, 2004 is increased by approximately HK$3.7 million as compared with that previously disclosed in the previous interim accounts.

Leasehold land

The adoption of revised HKAS 17 "Leases" has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from fixed assets to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at fair value or cost less accumulated depreciation and accumulated impairment.

All buildings held for own use which are situated on freehold and leasehold land are presented as part of fixed assets and are stated at cost less accumulated depreciation, rather than at fair value.

The new accounting policies have been adopted retrospectively, with the opening balances of retained profits and the comparative information adjusted for the amounts relating to prior period. As a result, the opening retained profits as at 1st June, 2005 is increased by approximately HK$0.5 million.

Financial instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosures and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible bonds

HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into its liability and equity components. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The principal impact of HKAS 32 on the Group is in relation to convertible bonds issued by the Company that contain both liability and equity components. Previously, convertible bonds were classified as liabilities on the balance sheet. As HKAS 32 requires retrospective application, comparative figures have been restated.

Minority interests

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the period were also separately presented in the profit and loss account as a deduction before arriving at the profit attributable to shareholders.

With effect from 1st June, 2005, in order to comply with HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to equity holders of the Company, and minority interests in the results of the Group for the period are presented on the face of the consolidated profit and loss account as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the Company.

The presentation of minority interests in the consolidated balance sheet, profit and loss account and statement of changes in equity for the comparative period has been restated accordingly.

Gain or loss arising from transactions with minority interests are now recognised directly in equity.

2. **Taxation**

Taxation comprised:

	Six months ended 30th November, 2005 *HK$'000*	Six months ended 30th November, 2004 *HK$'000*
Company and subsidiaries:		
Current taxation		
Hong Kong profits tax		
- Provision for current period	1,119	6,133
- Over-provision in prior periods	—	(4,879)
Overseas income tax		
- Provision for current period	324	314
- Under-provision in prior periods	—	25
	1,443	1,593
Deferred taxation	4,980	429
- Recognised during the period	6,423	2,022

Hong Kong profits tax was provided at the rate of 17.5% (2004: 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**

(a) **Basic earnings per share**

The basic earnings per share was calculated based on the consolidated profit attributable to equity holders of the Company for the period of approximately HK$52,578,000 (2004: HK$48,431,000) and the weighted average number of ordinary shares of approximately 421,143,000 (2004: 337,969,000) in issue during the period.

(b) **Diluted earnings per share**

During the period ended 30th November, 2005, diluted earnings per share was calculated based on the adjusted consolidated profit attributable to equity holders of the Company for the period of approximately HK$52,616,000 and the weighted average number of ordinary shares of approximately 434,432,000 that would be in issue having adjusted for the effects of all dilutive potential ordinary shares issuable during the period.

During the period ended 30th November, 2004, the Company's share options exercise price was above the average fair value of one ordinary share, thus there were no dilutive potential ordinary shares.

(c) **Reconciliation**

A reconciliation of profit attributable to equity holders of the Company used in calculating the basic and diluted earnings per share was as follows:

	Six months ended 30th November, 2005	30th November, 2004 (restated)
	HK$'000	*HK$'000*
Profit attributable to equity holders of the Company used in calculating basic earnings per share	52,578	48,431
Interest savings in respect of convertible bonds	38	—
Profit attributable to equity holders of the Company used in calculating diluted earnings per share	52,616	48,431

A reconciliation of the number of ordinary shares for calculation of basic and diluted earnings per share was as follows:

	Six months ended 30th November, 2005	30th November, 2004
Weighted average number of ordinary shares used in calculating basic earnings per share	421,143,000	337,969,000
Dilutive potential effect in respect of convertible bonds	13,289,000	—
Weighted average number of ordinary shares used in calculating diluted earnings per share	434,432,000	337,969,000

INTERIM DIVIDENDS

The Board has resolved to declare an interim dividend of HK2.5 cents per share (2004: HK5.5 cents per share) payable on 29th March, 2006 to shareholders whose names appear on the register of members of the Company on 15th March, 2006.

BUSINESS REVIEW

Group turnover for the 6 months to November 2005 reached HK$433 million. Within which 24% of the revenue came from private label items and 76% from branded jewellery. The Group will continue to increase its focus on branded sales and market extension. The former approach has the advantage of saving the logistics and delivery cost for enriching the Group's operating margin, whereas the latter strategy can help increase the brand equity and market share.

With better product mixture, and production efficiency, the gross margin increased from 42.5% in FY 04/05 to 45% in FY 05/06.

During the period, Europe accounted for 84%, US at 10% and Asia at 6% of Group's turnover (versus 83%; 10%; 7% in 1H FY 04/05).

With the acquisition (by our parent company, EganaGoldpfeil (Holdings) Limited ("EganaGoldpfeil")) of Salamander, a renowned footwear brand and retailers with extensive network in both Eastern and Western Europe, in April 2005, the Group riding on the Salamander coverage managed to expand the branded jewellery distribution to Eastern Europe (including Austria), which now accounts for 4% of the revenue (3% in FY 04/05).

In Western Europe, with the ongoing introduction of new collections and new brands to the established points-of-sales, the Group sustained a stable revenue base from this area, such that, the Group is better positioned to plan its resources for the branding and marketing globally. For example, in the Egana Spring Fair held in our exhibition hall of our European headquarters in Frankfurt Germany in January 2006, there saw the initial debut of Cerruti 1881 jewellery to the world.

Asia, in particular Japan, Taiwan and China, continue to show positive reception of our brand presentation and distribution approach. Pierre Cardin, Esprit, MEXX, Carrera, JOOP! and Blue Fire have been successfully landed in this region.

Turning to US, with EganaGoldpfeil's participation as strategic partner in an American footwear distribution operations, the Group was given access to a wider network, which will be beneficial to the further growth.

MANAGEMENT DISCUSSION AND ANALYSIS

With the defined strategy to grow the sales network and brand awareness, the management also pays attention in controlling the distribution and administration expenses so as to increase the bottom line profitability.

The distribution costs in FY 05/06 were in line with those in FY 04/05, at HK$66 million and HK$76 million respectively. This is attributable to the Group's defined communication and promotion strategies as well as the sales administration model which are proven to bring positive effect to the Group's branding, marketing and sales activities.

The administration expenses were HK$77 million for 1H FY 05/06 similar to those in 1H FY 04/05. This is a result of our ongoing review and control of the Group's operational structure and corporate overheads. This is essential in this highly cost-competitive economy.

The continuous improvement in logistic efficiency in our European Technology & Logistic Center in Germany and the gross margin enhancement, managed to off-set the additional product development costs which were incurred to bring new innovation to the market for sustaining long-term growth potential, thereby achieving operating margin of 18%, up 27% from 1H FY 04/05, reaching HK$77.7 million.

With a view to continuously enhancing the corporate structure and operating efficiency, the management is undertaking certain study on integration and structure streamlining possibilities for the benefit of the Group.

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. During the period, an exchange loss of HK$7.5 million was included in the profit and loss accounts.

Distributable earnings attributable to shareholders was HK$53 million, a 9% increment over FY 04/05's, showing a net margin of 12%.

As a result, this translated into a positive operating cash inflow to the Group, with cash and cash equivalents of HK$467 million as of 30th November, 2005.

The shareholders' funds stood at HK$706 million. In line with the established practice of having an annual cash dividend payout of no less than 40%, and targeting for a 35% (interim) to 65% (final) ratio, the management proposed an interim dividend of HK 2.5 cents per share.

During the period, we have increased the raw materials, which are primarily precious metals, precious stones, and diamond from HK$64 million to HK$85 million, a 31% increment. The maintenance of this level of raw materials is reasonable, as we are required to keep a stable reserve of materials to support the production of our branded products as a trend setter; and to accumulate during the period additional units to hedge against the anticipated increase in the price of the captioned material. The fair market value of the raw materials currently exceeds HK$100 million, an 18% appreciation. The average inventory turnover for finished goods for 1H FY 05/06 were 145 days (as compared to 108 days in FY 04/05), ahead of industry norm of 180 days.

The annualized debtors turnover for November 2005 period is similar to that in FY 04/05, within 80 days. This is attributable to our ongoing focus in tight credit policy.

The finance cost to sales ratio for 1H FY 05/06 is within 4.3%, which represents a healthy level, demonstrating that the Group has practiced a prudent treasury model to contain the borrowing cost to an acceptable level, thereby having minimized the adverse effect of interest rate increase as far as practicable.

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

The gearing ratio (interest bearing debts to shareholders' funds) was 0.62x, as compared to 0.67x for the year ended 31st May, 2005, and the industry norm of 1x. This reinforces 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.

On 9th August, 2005, the Stock Exchange of Hong Kong Limited granted the listing approval to the Company for issue of Tranche 4a Bonds of up to US$5,000,000 to Merrill Lynch. As of 27th January, 2006, Merrill Lynch has exercised its conversion rights to convert the entire Tranche 4a Bonds into shares of the Company. There does not exist any outstanding convertible bond. The Merrill Lynch has no further right to require the Company to issue further convertible bonds under the convertible bond subscription agreement entered in February 2004.

As of 16th February, 2006, Merrill Lynch has 13,655,619 subscription rights in the Company which will be expiring on 31st March, 2009, comprising of 4,588,349 rights exercisable at HK$1.5504 per share, 3,518,342 rights at HK$1.656 per share and 5,548,928 rights at HK$2.50 per share.

The leverage (Net debt to EBITDA) was at 0.21x (versus 0.39x for FY 04/05), demonstrating the Group's sound financial position to leverage its borrowings in an optimal manner, which sets a firm base preparing for its business growth and capital investment going forward.

Total assets increased by 9% to exceed HK$1,430 million as of 30th November, 2005. This is yet to include the value of the brand portfolio of the Group which is reckoned to be in the range of HK$1.2 billion — a valuable off-balance sheet asset of the Group.

Currently, the confirmed orders on hand cover 6-month worth of shipments.

The Group had no significant capital commitments as at 30th November, 2005 and there are no material contingent liabilities or off-balance sheet obligations in the ordinary course of business.

PROSPECT

Going forward, the Company is to pursue strategic alliance possibility to achieve further growth of our business in Asia and the US. Having regard to the Group's proven integrated jewellery product development and production facilities network (2 in Europe, 3 in Asia), a well-balanced brands portfolio with international recognition, and our pioneer experience in co-branding approach, we are confident that through appropriate partnership with strong retail network and/or chain stores, we should be able to expand steadily in these two growing regions. Our 5-year target is to increase the revenue pie from these 2 regions combined from 17% to 35%. The remaining 65% of enlarged revenue is to come from Europe where the paramount branding, marketing and trade fair activities are primarily originated for global benefit.

We are committed to continuing to provide quality product and services as well as innovativeness for customer's satisfaction, and to pursue our established Code of Corporate Governance Practice, with a view to maximizing the Group's total wealth and sustaining our stakeholders' long term value.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 13th March, 2006 to 15th March, 2006, both days inclusive, during which period no transfer of shares of the Company will be recorded.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th November, 2005, the Group employed approximately 3,700 staff. Remuneration is determined by reference to the employees' performance, qualifications, experiences and the prevailing market conditions. The Company has established discretionary bonuses, employee share option schemes to motivate and reward employees to achieve the Company's business performance targets.

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, 2005.

CORPORATE GOVERNANCE

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company is in compliance with most of the code provisions set out in the "Code on Corporate Governance Practices" ("the Code") issued by the Stock Exchange in January 2005 during the six months ended 30th November, 2005 with the following three exceptions:-

1. *Separation between the roles "Chairman" and "Chief Executive Officer"*

   The roles of Chairman and Chief Executive Officer of the Company are not separated. The main reasons are the Board believes that it is more effective for the titles "Chairman" and "Chief Executive" be vested in one person based on the Company's ongoing businesses experience, and the trade practise in Continental Europe from which the Company's revenue is mainly derived. Moreover, it is also in line with the conclusion reached by certain independent academic researchers in the United Kingdom and United States that "separation between the roles "Chairman" and "Chief Executive" as a philosophical rule do not improve corporate performance.

2. *Non-Executive Directors should be appointed for specific terms and subject to re-elections*

   All Independent Non-Executive Directors of the Company are not appointed for specific terms but they are subject to retirement by rotations and re-elections at the annual general meeting of the Company at least once every three years.

3. *Every Director should be subject to retirement by rotation at least once every three years*

   All Directors (except the Chairman) of the Company are subject to retirement by rotations and re-elections at the annual general meeting of the Company at least once every three years.

In response to the code provisions of the Code, the Company has adopted a "Code on Corporate Governance" ("EganaGoldpfeil Code") in July 2005 and issued and published a corporate governance report ("the Corporate Governance Report") in the Company's 2004/05 Annual Report. During the six months ended 30th November, 2005, the Board has reviewed the Company's corporate governance practices and formed the opinion that those practices are in line with the principles and procedures set out in the EganaGoldpfeil Code. Moreover, there is no significant change occurred since the publication of the Corporate Governance Report.

In the aspect of internal control and risk management system ("the System") implemented by the Company, the Corporate Planning Department, in echoing the "Annual Internal Control and Risk Management System Effectiveness Review" undertaken for the financial year ended 31st May, 2005, has undertaken a continuous review of the performance of the System for the six months ended 30th November, 2005, and presented on behalf of the Board the findings and recommendations in its "6 months Internal Control Review Memorandum" to the members of the Audit Committee in accordance with the written terms of reference of the Audit Committee in the contexts of the Corporate Governance Report. The members of the Audit Committee have reviewed and discussed with management and concurred with the conclusion that "In brief, the prevailing internal control system within the key operating units, and between such units and the headquarters appears to be adequate and effective for the Group's current business activities. There revealed no significant weakness which would require major improvement of the System."

MODEL CODE

The Company has adopted its "Code for Securities Transactions by Directors" ("the Code of Conduct") on terms no less exacting than the required standard set out in the Model Code

(Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange). Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Code of Conduct throughout the period under review.

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, 2005.

On behalf of the Board
Egana Jewellery & Pearls Limited
Hans-Joerg SEEBERGER
Chairman and Chief Executive

Hong Kong, 16th February, 2006

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, Professor Zhengfu WANG and Mr. Andy Yick Man NG as independent non-executive directors.

Please also refer to the published version of this announcement in The Standard.