EGANA

JEWELLERY & PEARLS LIMITED

(瑞洲珠寶有限公司)

INTERIM REPORT 2005/06

»Emotions and creativity do not know boundaries, visionary thinking transcends borderlines, even the ones within us.« *Hans-Jörg Seeberger*

CORPORATE INFORMATION

PRINCIPAL ACTIVITY

Design, manufacturing, distribution and trading of jewellery products; licensing or assignment of brand names to third parties for the design, manufacturing and/or distribution of jewellery and consumer products other than timepieces and holding of investments.

HEAD OFFICE & PRINCIPAL PLACE OF BUSINESS

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WEBSITES

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REGISTERED OFFICE

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HONG KONG SHARE REGISTRARS & TRANSFER OFFICE

Secretaries Limited, 26/F., Tesbury Centre,
28 Queen's Road East, Wanchai, Hong Kong

LISTING

The Stock Exchange of Hong Kong Limited Stock Code: 926

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	
	Notes	**30th November, 2005 (Unaudited)**	**30th November, 2004 (Unaudited and restated)**
		HK$'000	*HK$'000*
Turnover	*3*	**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	*3, 4*	**59,001**	50,454
Taxation	*5*	**(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	*6*	**11,264**	21,316
Earnings per share	*7*		
Basic		**12.48 cents**	14.33 cents
Diluted		**12.11 cents**	N/A

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended 30th November, 2005 (Unaudited)	Six months ended 30th November, 2004 (Unaudited and restated)
	HK$'000	*HK$'000*
Opening balance — Total equity, as previously reported	**659,924**	511,597
Retrospective adjustment — reclassification of leasehold land from fixed assets	**529**	1,577
Retrospective adjustment — reclassification of minority interests to equity	**41**	41
Opening balance — Total equity, as restated	**660,494**	513,215
(Deficit)/Surplus on revaluation of available-for-sale financial assets/investments in non-trading securities	**(25,410)**	72
Exchange differences on translation of the financial statements of foreign subsidiaries	**(10,008)**	10,464
Net (expense)/income recognised directly in equity	**(35,418)**	10,536
Net profit for the period	**52,578**	48,432
Disposal of available-for-sale financial assets	**1,085**	—
Issue of share capital upon conversion of convertible bonds	**12,598**	31,753
Premium arising from conversion of convertible bonds	**14,702**	34,529
Expenses incurred in connection with conversion of convertible bonds	**(2)**	—
Equity component of convertible bonds	**8,100**	—
Share of translation reserve by minority shareholder of a subsidiary	**(2)**	3
Dividends	**(8,110)**	(15,239)
Closing balance — Total equity	**706,025**	623,229

CONSOLIDATED BALANCE SHEET

	Notes	As at 30th November, 2005 (Unaudited)	As at 31st May, 2005 (Audited and restated)
		HK$'000	*HK$'000*
Non-current assets			
Fixed assets	*8*	**44,070**	39,925
Leasehold land	*9*	**4,581**	4,645
Intangible assets	*10*	**108,158**	114,965
Interest in an associated company		**(59)**	(58)
Investments in non-trading securities	*11*	**—**	150,760
Available-for-sale financial assets	*11*	**87,090**	—
Deferred tax assets		**12,091**	16,645
		255,931	326,882
Current assets			
Inventories		**339,063**	269,493
Accounts receivable, net	*12*	**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	*13*	**(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	*14*	**(243,873)**	(229,043)
Current portion of long-term bank borrowings	*14*	**(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

CONSOLIDATED BALANCE SHEET *(continued)*

	Notes	As at 30th November, 2005 (Unaudited)	As at 31st May, 2005 (Audited and restated)
		HK$'000	HK$'000
Non-current liabilities			
Long-term bank borrowings	14	**(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
Capital and reserves			
Share capital	15	**219,180**	206,582
Reserves	16	**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	16	**39**	41
Total equity		**706,025**	660,494

CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30th November, 2005 (Unaudited) *HK$'000*	Six months ended 30th November, 2004 (Unaudited) *HK$'000*
Cash generated by operations	**24,387**	227,335
Interest paid	**(11,851)**	(6,951)
Tax paid	**(4,686)**	(4,945)
Net cash from operating activities	**7,850**	215,439
Net cash from/(used in) investing activities	**6,814**	(124,385)
Net cash from financing activities	**34,583**	10,265
Net increase in cash and cash equivalents	**49,247**	101,319
Cash and cash equivalents at 1st June, 2005/1st June, 2004	**418,149**	199,835
Effect of foreign exchange rate changes	**(108)**	811
Cash and cash equivalents at 30th November, 2005/30th November, 2004	**467,288**	301,965
Analysis of cash and cash equivalents:		
Cash and bank balances	**155,281**	75,222
Promissory notes	**312,007**	226,743
	467,288	301,965

Notes:

1. **Basis of preparation and principal 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 profit and loss account, 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 profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account. In prior periods, 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. The adoption of HKAS 17 has no material impact on the Group's results for the current and prior periods.

Notes: (continued)

1. Basis of preparation and principal accounting policies *(continued)*

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:

(a) Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

(i) Debt and equity securities previously accounted for under the treatment of Statement of Standard Accounting Practice ("SSAP") 24

Up to 31st May, 2005, the Group classified its investments in debt and equity securities, other than subsidiaries and associated companies, as investments in non-trading securities and trading securities in accordance with SSAP 24.

Non-trading securities

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair values of individual securities are credited or debited to the revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant securities, together with any surplus/deficit transferred from the revaluation reserve, is dealt with in the profit and loss account.

Where there is objective evidence that individual investment is impaired, the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

Trading securities

Trading securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the profit and loss account. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

From 1st June, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Financial assets are classified as "available-for-sale financial assets", "investments held for trading" (a category under "financial assets at fair value through profit or loss"), "loans and receivables" or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Available-for-sale financial assets" and "investments held for trading" are carried at fair value, with changes in fair values recognised in equity and profit or loss account, respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

Notes: (continued)

1. **Basis of preparation and principal accounting policies** *(continued)*

Financial instruments *(continued)*

(a) Classification and measurement of financial assets and financial liabilities *(continued)*

(i) Debt and equity securities previously accounted for under the treatment of Statement of Standard Accounting Practice ("SSAP") 24 *(continued)*

On 1st June, 2005, following the adoption of HKAS 39, the Group has re-designated "investments in non-trading securities" amounting to approximately HK$150,760,000 and "short-term investments" (including "investments in trading securities") amounting to approximately HK$113,000 recorded in the consolidated balance sheet as "available-for-sale financial assets" and "investments held for trading", respectively.

(ii) Financial assets and financial liabilities other than debt and equity securities

As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". "Other financial liabilities" are carried at amortised cost using the effective interest method. The adoption of HKAS 39 has no material impact on the financial assets and financial liabilities other than debt and equity securities of the Group.

(b) Derivative financial instruments

Consistent with prior periods, derivative financial instruments arise from forward, option and swap transactions undertaken by the Group in the precious metals, foreign exchange and interest rate markets.

Derivative financial instruments are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion or those which do not qualify for hedge accounting is recognised immediately in the profit and loss account.

Up to 31st May, 2005, assets related to derivative financial instruments which are marked to market are included in "deposits, prepayments and other receivables" in the accounts. Liabilities resulting from such contracts are included in "accounts payable, accruals and other payables" in the accounts.

With the adoption of HKAS 39, from 1st June, 2005 onwards, assets and liabilities related to derivative financial instruments are recorded as "derivative financial instruments" under assets and liabilities in the consolidated balance sheet, respectively. The adoption of HKAS 39 in respect of derivative financial instruments has no material impact on the Group's results for the current period.

(c) Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1st June, 2005. In addition, the Group's discounted bills with recourse, which were previously treated as contingent liabilities, have been accounted for as actual liabilities prospectively on or after 1st June, 2005, as the financial assets derecognition conditions as stipulated in HKAS 39 have not been fulfilled.

Notes: (continued)

1. **Basis of preparation and principal accounting policies** *(continued)*

Financial instruments *(continued)*

(d) 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 periods, 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.

Share-based payments

In prior periods, no amounts were recognised when option holders were granted share options over shares in the Company. If the option holders chose to exercise the options, the normal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1st June, 2005, in order to comply with HKFRS 2 "Share-based payment", the Group recognises the fair value of share options as an expense in the profit and loss account, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting polices. A corresponding increase is recognised in capital reserve within equity.

Where the option holders are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If an option holder chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised, the related capital reserve is transferred directly to retained profits.

As all the Group's options were granted to option holders before 7th November, 2002, the Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied. Accordingly, the adoption of HKFRS 2 has no impact on the Group's net assets and results for the current and prior periods.

Notes: (continued)

2. Summary of the effects of the changes in accounting policies

The cumulative effects of the new HKFRSs as at 31st May, 2005 and 1st June, 2005 are summarised below:

	As at 31st May, 2005 (previously reported)	Retrospective adjustments		As at 31st May, 2005 (restated)	Adjustments on 1st June, 2005	As at 1st June, 2005 (restated)
		HKAS 17	HKAS 27		HKAS 39	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Fixed assets	44,041	(4,116)	—	39,925	—	39,925
Leasehold land	—	4,645	—	4,645	—	4,645
Intangible assets	114,965	—	—	114,965	—	114,965
Interest in an associated company	(58)	—	—	(58)	—	(58)
Investments in non-trading securities	150,760	—	—	150,760	(150,760)	—
Available-for-sale financial assets	—	—	—	—	150,760	150,760
Deferred tax assets	16,645	—	—	16,645	—	16,645
Inventories	269,493	—	—	269,493	—	269,493
Accounts receivable, net	85,367	—	—	85,367	—	85,367
Royalty deposit	7,406	—	—	7,406	—	7,406
Deposits, prepayments and other receivables	108,004	—	—	108,004	—	108,004
Due from fellow subsidiaries	97,628	—	—	97,628	—	97,628
Due from a related company	829	—	—	829	—	829
Investments held for trading	—	—	—	—	113	113
Short-term investments	113	—	—	113	(113)	—
Cash and cash equivalents	418,149	—	—	418,149	—	418,149
Accounts payable	(69,614)	—	—	(69,614)	—	(69,614)
Accruals and other payables	(58,646)	—	—	(58,646)	—	(58,646)
Bills payable	(64,514)	—	—	(64,514)	—	(64,514)
Short-term bank borrowings	(229,043)	—	—	(229,043)	—	(229,043)
Current portion of long-term bank borrowings	(54,776)	—	—	(54,776)	—	(54,776)
Current portion of other long-term liabilities	(692)	—	—	(692)	—	(692)
Due to fellow subsidiaries	(9,391)	—	—	(9,391)	—	(9,391)
Due to a related company	(1,942)	—	—	(1,942)	—	(1,942)
Due to Directors	(255)	—	—	(255)	—	(255)
Taxation payable	(1,026)	—	—	(1,026)	—	(1,026)
Long-term bank borrowings	(156,791)	—	—	(156,791)	—	(156,791)
Other long-term liabilities	(4,813)	—	—	(4,813)	—	(4,813)
Deferred tax liabilities	(1,874)	—	—	(1,874)	—	(1,874)
Total effects on assets and liabilities	659,965	529	—	660,494	—	660,494
Minority interests	(41)	—	41	—	—	—
	659,924	529	41	660,494	—	660,494
Share capital	206,582	—	—	206,582	—	206,582
Reserves	445,445	529	—	445,974	—	445,974
Proposed final dividend	7,897	—	—	7,897	—	7,897
Equity attributable to equity holders of the Company	659,924	529	—	660,453	—	660,453
Minority interests	—	—	41	41	—	41
Total effects on total equity	659,924	529	41	660,494	—	660,494

Notes: (continued)

3. Segmental information

(a) Primary reporting format — business segments

The Group's businesses are managed according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit which is subject to risks and returns that are different from those of other business segments.

The Group is organised on a worldwide basis into two main business segments:

- Jewellery - design, manufacturing, distribution and trading of jewellery products.
- Investments - investments in strategic investments and investments held for trading and available-for-sale financial assets (trading and non-trading securities in prior period). Strategic investments include investments in a private closed-end fund (in prior period) and an unlisted company which could bring medium or long-term synergetic benefits to the Group's businesses such as strategic alliance and partnership with various distribution business in Asia for furtherance of the Group's business penetration in the region.

	Six months ended 30th November, 2005		
	Jewellery products	**Investments**	**Group**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	433,124	—	433,124
Segment results	75,964	1,732	77,696
Finance costs			(18,695)
Profit before taxation			59,001
Taxation			(6,423)
Profit for the period			52,578
Attributable to:			
Equity holders of the Company			52,578
Minority interests			—
			52,578
Segment assets	1,343,247	87,196	1,430,443
Interest in an associated company	(59)	—	(59)
Total assets	1,343,188	87,196	1,430,384
Segment liabilities	(724,359)	—	(724,359)
Total liabilities	(724,359)	—	(724,359)
Capital expenditure	9,191	—	9,191
Depreciation	4,699	—	4,699
Amortisation	1,099	—	1,099
Write back of provision for bad debts	80	—	80
Bad debt expense	284	—	284
Write back of provision for inventory	2,468	—	2,468

Notes: (continued)

3. Segmental information *(continued)*

(a) Primary reporting format — business segments *(continued)*

	Six months ended 30th November, 2004 (restated)		
	Jewellery products	**Investments**	**Group**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	420,668	—	420,668
Segment results	60,965	—	60,965
Finance costs			(10,511)
Profit before taxation			50,454
Taxation			(2,022)
Profit for the period			48,432
Attributable to:			
Equity holders of the Company			48,431
Minority interests			1
			48,432
Capital expenditure	3,545	—	3,545
Depreciation	3,915	—	3,915
Amortisation	1,117	—	1,117
Write-back of provision for bad debts	291	—	291
Bad debt expense	331	—	331
Write back of provision for inventory	22,748	—	22,748

	As at 31st May, 2005 (restated)		
	Jewellery products	**Investments**	**Group**
	HK$'000	*HK$'000*	*HK$'000*
Segment assets	1,163,056	150,873	1,313,929
Interest in an associated company	(58)	—	(58)
Total assets	1,162,998	150,873	1,313,871
Segment liabilities	(653,377)	—	(653,377)
Total liabilities	(653,377)	—	(653,377)

Notes: (continued)

3. Segmental information *(continued)*

(b) Secondary reporting format — geographical segments

The Group's operations are mainly located in Europe, Asia Pacific and America.

In determining the Group's geographical segments, turnover and results attributed to the segments were based on the destination of delivery of merchandise. Segment assets and capital expenditure were based on the geographical location of the assets.

	Six months ended 30th November, 2005			As at 30th November, 2005
	Turnover	**Segment results**	**Capital expenditure**	**Total assets**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Europe	363,305	75,720	213	488,005
America	45,428	(2,988)	1,105	74,919
Asia Pacific	24,391	4,964	7,873	867,519
	433,124	77,696	9,191	1,430,443
Interest in an associated company				(59)
Total assets				1,430,384

	Six months ended 30th November, 2004 (restated)			As at 31st May, 2005 (restated)
	Turnover	**Segment results**	**Capital expenditure**	**Total assets**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Europe	348,351	58,460	455	454,256
America	43,358	(1,981)	1,179	50,947
Asia Pacific	28,959	4,486	1,911	808,726
	420,668	60,965	3,545	1,313,929
Interest in an associated company				(58)
Total assets				1,313,871

Notes: (continued)

4. Profit before taxation

The Group's profit before taxation is arrived at after crediting and charging the following:

	Six months ended 30th November, 2005 HK$'000	Six months ended 30th November, 2004 (restated) HK$'000
Crediting:		
Interest Income	12,872	7,931
Exchange gain, net	—	7,129
Gain on derivative financial instruments		
- forward foreign exchange contracts	1,040	—
- forward gold contracts	371	—
- currency options	2,564	—
Charging:		
Depreciation of fixed assets	4,699	3,915
Amortisation of intangible assets	1,035	1,054
Amortisation of leasehold land	64	63
Interest expenses	12,305	6,369
Exchange loss, net	7,493	—
Net fair value loss on financial instruments - interest rate swaps	1,628	—

5. 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 - Recognised during the period	**4,980**	429
	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.

Notes: (continued)

6. Interim dividend

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.

7. 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

Notes: (continued)

7. **Earnings per share** *(continued)*

(c) Reconciliation *(continued)*

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 *HK$'000*	Six months ended 30th November, 2004 *HK$'000*
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

8. **Fixed assets**

	Property, plant and equipment *HK$'000*
Carrying value as at 1st June, 2005, as previously reported	44,041
Effect of adopting HKAS 17	(4,116)
Carrying value as at 1st June, 2005, as restated	39,925
Additions	9,181
Exchange adjustments and disposals	(337)
Charge for the period	(4,699)
Carrying value as at 30th November, 2005	44,070

9. **Leasehold land**

	HK$'000
Carrying value as at 1st June, 2005, as previously reported	—
Effect of adopting HKAS 17	4,645
Carrying value as at 1st June, 2005, as restated	4,645
Charge for the period	(64)
Carrying value as at 30th November, 2005	4,581

Notes: (continued)

10. Intangible assets

	HK$'000
Carrying value as at 1st June, 2005	114,965
Additions	10
Exchange adjustments and disposals	(5,782)
Charge for the period	(1,035)
Carrying value as at 30th November, 2005	108,158

11. Investments in non-trading securities/Available-for-sale financial assets

At 30th November, 2005, the available-for-sale financial assets were stated at fair values which were determined by the Directors or according to quoted market prices and the revaluation deficit of approximately HK$25,410,000 (2004: a surplus of HK$72,000) was recorded in the revaluation reserve. In the opinion of the Directors, there were no indication of impairment in the carrying values of the investments/financial assets.

12. Accounts receivable aging analysis

The Group allows an average credit period of 30-120 days to its trade customers. Aging analysis of accounts receivable after provision for bad and doubtful debts is as follows:

	As at 30th November, 2005 *HK$'000*	**As at 31st May, 2005** *HK$'000*
In current month	120,374	58,995
Between 1 to 2 months	26,637	6,198
Between 2 to 3 months	2,401	1,589
Between 3 to 4 months	4,573	1,828
Over 4 months	18,015	16,757
	172,000	85,367

13. Accounts payable aging analysis

Aging analysis of accounts payable is as follows:

	As at 30th November, 2005 *HK$'000*	**As at 31st May, 2005** *HK$'000*
In current month	74,037	51,750
Between 1 to 2 months	9,715	4,513
Between 2 to 3 months	16,733	4,675
Between 3 to 4 months	13,839	3,578
Over 4 months	1,467	5,098
	115,791	69,614

Notes: (continued)

14. Bank borrowings

(a) Short-term bank borrowings comprised:

	As at 30th November, 2005 *HK$'000*	As at 31st May, 2005 *HK$'000*
Bank loans and overdrafts	196,043	168,772
Trust receipts and import loans	47,830	60,271
	243,873	229,043

(b) Long-term bank borrowings:

	As at 30th November, 2005 *HK$'000*	As at 31st May, 2005 *HK$'000*
Repayable within a period of		
- not exceeding 1 year		
Secured	—	—
Unsecured	59,672	54,776
- more than 1 year, but not exceeding 2 years		
Secured	—	—
Unsecured	108,000	116,791
- more than 2 years, but not exceeding 5 years		
Secured	—	—
Unsecured	20,000	40,000
	187,672	211,567
Less: Amounts repayable within 1 year included under current liabilities	(59,672)	(54,776)
	128,000	156,791

Notes: (continued)

15. Share capital

	Number of shares	Nominal value of each share	Nominal value of shares
		HK$	*HK$'000*
Balance as at 1st June, 2005	413,164,452	0.50	206,582
Issue upon exercise of convertible bonds	25,194,994	0.50	12,598
Balance as at 30th November, 2005	438,359,446	0.50	219,180

16. Reserves and minority interests

	Convertible bonds	Share premium account	Exchange translation reserve	Retained profits	Goodwill	Revaluation reserve	Other reserve	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance as at 1st June, 2005, as previously reported	–	96,724	13,838	333,435	(13,149)	22,425	69	453,342	–	453,342
Effect of adopting HKAS 17	–	–	–	529	–	–	–	529	–	529
Effect of adopting HKAS 27	–	–	–	–	–	–	–	–	41	41
Balance as at 1st June, 2005, as restated	–	96,724	13,838	333,964	(13,149)	22,425	69	453,871	41	453,912
Equity component of convertible bonds issued	22,802	–	–	–	–	–	–	22,802	–	22,802
Share premium arising from conversion of convertible bonds	(14,702)	14,702	–	–	–	–	–	–	–	–
Expenses incurred in connection with conversion of convertible bonds	–	(2)	–	–	–	–	–	(2)	–	(2)
Exchange differences arising on translation of overseas subsidiaries' accounts	–	–	(10,008)	–	–	–	–	(10,008)	–	(10,008)
Share of translation reserve by minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	(2)	(2)
Deficit on revaluation of listed available-for-sale financial assets	–	–	–	–	–	(25,410)	–	(25,410)	–	(25,410)
Disposal of unlisted available-for-sale financial assets	–	–	–	–	–	1,085	–	1,085	–	1,085
Profit for the period	–	–	–	52,578	–	–	–	52,578	–	52,578
2005 final dividend	–	–	–	(8,110)	–	–	–	(8,110)	–	(8,110)
Interim dividend declared	–	–	–	(11,264)	–	–	–	(11,264)	–	(11,264)
Balance as at 30th November, 2005	8,100	111,424	3,830	367,168	(13,149)	(1,900)	69	475,542	39	475,581

Notes: (continued)

17. Related party transactions

(a) During the period, the Group had the following material transactions with EganaGoldpfeil (Holdings) Limited and its subsidiaries excluding the Group ("EganaGoldpfeil Group") which also constituted connected transactions as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited:

	Six months ended	
	30th November, 2005 (Unaudited) *HK$'000*	**30th November, 2004 (Unaudited)** *HK$'000*
Sales of goods/services	1,658	3,791
Purchases of goods	2,559	2,746
Interest income	235	608
Interest expense	354	—
Allocation of operating costs	39,756	49,928
Management fee expenses	6,030	4,872
Royalty fee expenses	8,790	9,357

Notes:

i. Sales and purchases of goods were determined with reference to published prices and market conditions.

ii. Interest was charged at the commercial rate.

iii. Cost allocation, management fee expenses and royalty fee expenses were charged according to the terms of the relevant agreements.

(b) During the period, compensation to key management of the Group is analysed as below:

	Six months ended	
	30th November, 2005 (Unaudited) *HK$'000*	**30th November, 2004 (Unaudited)** *HK$'000*
Salaries and other short-term employee benefits	8,066	7,613
Termination benefits	97	—
Post-employment benefits	97	86
	8,260	7,699

Notes: (continued)

17. Related party transactions *(continued)*

(c) During the period, the Group paid royalties of approximately HK$2,529,000 (2004: HK$2,600,000) to a related company, JOOP! GmbH, which were charged according to the terms of the relevant agreement.

(d) The Group paid HK$Nil (2004: HK$567,800) to International Taxation Advisory Services Limited, of which Mr. David Wai Kwong WONG, a Director of the Company, was a director, for corporate advisory services rendered. The Directors consider that the fees were paid according to prices and conditions similar to those offered by other external consultants of the Group.

18. Contingent liabilities

There is no material contingent liabilities as at 30th November, 2005. As mentioned in Note 1, the Group's discounted bills with recourse, which were previously treated as contingent liabilities, have been accounted for as actual liabilities prospectively on or after 1st June, 2005 under HKAS 39.

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 March 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 DISCUSSIONS AND ANALYSIS

With the defined strategy to grow the sales network and brand awareness, the management also pay 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 HK2.5 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 materials. 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.

MANAGEMENT DISCUSSIONS AND ANALYSIS *(continued)*

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 (the "Stock Exchange") granted the listing approval to the Company for issue of Tranche 4a Bonds of up to US$5,000,000 to Merrill Lynch International ("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. 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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As at 30th November, 2005, the interests and short positions of the Directors and chief executive in the shares and underlying shares of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under section 352 of the SFO or as notified to the Company were as follows:

The Company

	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total Interests	Total Interests as % of the issued share capital	Underlying shares (share options)	Total Interests (including underlying shares) as % of the issued share capital
Number of shares of HK$0.50 each in the Company								
Hans-Joerg SEEBERGER	—	—	—	247,166,099 *(Note i)*	247,166,099	56.38%	3,300,000 *(Note iii)*	57.14%
Peter Ka Yue LEE	73,651	—	1,114,838 *(Note ii)*	—	1,188,489	0.27%	250,000 *(Note iii)*	0.33%
Michael Richard POIX	373,398	—	—	—	373,398	0.09%	250,000 *(Note iii)*	0.14%
Ho Yin CHIK	2,160	—	—	—	2,160	0%	—	0%

Notes:

i. 1,044,955 shares were registered in the name of Peninsula International Limited and its nominee which held the same as nominee for the Captive Insurance Trust, a discretionary trust whose prospective beneficiaries included Mr. Hans-Joerg SEEBERGER ("Mr. SEEBERGER") and his family. 246,121,144 shares were registered in the name of EganaGoldpfeil and its nominee. By virtue of Mr. SEEBERGER's interests in EganaGoldpfeil and the Captive Insurance Trust under the SFO, he was deemed to be interested in these shares.

ii. These shares were beneficially owned by Joshua Limited, a company which was wholly and beneficially owned by Mr. Peter Ka Yue LEE.

iii. The options, exercisable at HK$2.24 per share, were granted pursuant to the Company's Executive Share Option Scheme.

iv. All the interests stated above represent long position.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATION *(continued)*

Associated Corporation
EganaGoldpfeil

	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total Interests	Total Interests as % of the issued share capital	Underlying shares (share options)	Total Interests (including underlying shares) as % of the issued share capital
Number of shares of HK$1.00 each in EganaGoldpfeil								
Hans-Joerg SEEBERGER	—	—	—	478,620,553 *(Note i)*	478,620,553	37.49%	12,000,000 *(Note i)*	38.43%
Peter Ka Yue LEE	530,291	—	8,191,773 *(Note ii)*	—	8,722,064	0.68%	500,000 *(Note ii)*	0.72%
Michael Richard POIX	2,884,666	—	—	—	2,884,666	0.23%	500,000 *(Note iii)*	0.27%
Ho Yin CHIK	18,464	—	—	—	18,464	0%	144,800 *(Note iv)*	0.01%
Shunji SAEKI	53,000	8,640	—	—	61,640	0%	179,000 *(Note v)*	0.02%

Notes:

i. These shares were registered in the name of Peninsula International Limited and its nominee which held the same as nominee for the Captive Insurance Trust, a discretionary trust whose prospective beneficiaries included Mr. SEEBERGER and his family. The options, exercisable at HK$2.11 per share, were granted pursuant to EganaGoldpfeil's Executive Share Option Scheme.

ii. These shares were beneficially owned by Joshua Limited, a company which was wholly and beneficially owned by Mr. Peter Ka Yue LEE. The options, exercisable at HK$2.11 per share, were granted pursuant to EganaGoldpfeil's Executive Share Option Scheme.

iii. The options, exercisable at HK$2.11 per share, were granted pursuant to EganaGoldpfeil's Executive Share Option Scheme.

iv. The options, exercisable at HK$3.45 per share, were granted pursuant to EganaGoldpfeil's Executive Share Option Scheme.

v. 99,000 and 80,000 options, exercisable at HK$1.28 and HK$2.11 per share respectively, were granted pursuant to EganaGoldpfeil's Executive Share Option Scheme.

vi. All the interests stated above represent long position.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATION *(continued)*

Certain Directors held certain nominee shares in the Company's subsidiaries in trust for the Company as at 30th November, 2005.

Save as disclosed above, as at 30th November, 2005, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporation within the meaning of Part XV of the SFO which were required to be notified to the Stock Exchange and the Company pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which are required to be entered in the register under section 352 of the SFO.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS OTHER THAN THE DIRECTORS OR CHIEF EXECUTIVE OF THE COMPANY

As at 30th November, 2005, the following persons, other than the Directors or Chief Executive of the Company, held an interest in the shares or underlying shares of the Company as recorded in the register maintained by the Company under section 336 of the SFO:

	Corporate Interests	Total Interests	Total Interests as % of issued share capital	Underlying shares (including convertible bonds)	Total interests (including underlying shares) as % of the issued share capital
Number of shares of HK$0.50 each in the Company					
Glorious Concept Limited *(Note i)*	67,121,600	67,121,600	15.31%	—	15.31%
Eco-Haru Mfr. Holdings Limited *(Note i)*	67,121,600	67,121,600	15.31%	—	15.31%
EganaGoldpfeil *(Note ii)*	246,121,144	246,121,144	56.15%	—	56.15%
Merrill Lynch & Co Inc *(Note iii)*	10,157,577	10,157,577	2.32%	27,878,618	8.68%

Notes:

i. Glorious Concept Limited is a wholly-owned subsidiary of Eco-Haru Mfr. Holdings Limited, which in return is wholly-owned by EganaGoldpfeil.

ii. The interest includes 178,999,544 and 67,121,600 shares held by EganaGoldpfeil and Glorious Concept Limited respectively.

iii. These shares were beneficially held by Merrill Lynch & Co Inc.

iv. All the interests stated above represent long positions.

Save as disclosed above, as at 30th November, 2005, the Company had not been notified by any other persons (other than the Directors or Chief Executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register maintained by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

The Company

Share options are granted to the Directors, executives and employees under the Executive Share Option Scheme of the Company adopted on 26th June, 1998 and became unconditional on 23rd July, 1998 (the "Scheme").

The following shows the particulars of the share options of the Company granted to the Directors, executives and employees of the Group that are required to be disclosed pursuant to Rule 17.07 of Chapter 17 and sub-paragraph 13(1) of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the period:

Directors	Number of shares comprising the options outstanding at the beginning of the period	Number of shares comprising the options outstanding at the end of the period	Date granted	Subscription price per share
				HK$
Hans-Joerg SEEBERGER	3,300,000	3,300,000	09/01/2000	2.24
Peter Ka Yue LEE	250,000	250,000	09/01/2000	2.24
Michael Richard POIX	250,000	250,000	17/01/2000	2.24
Employees under continuous contracts (excluding Directors)	9,075,000	9,075,000	07/01/2000 to 31/01/2000	2.24
	12,875,000	12,875,000		

Note:

The outstanding options can be exercised in accordance with the Scheme at any time after the date upon which the options are granted but not later than 10 years from the date on which the Scheme was adopted, provided that up to 20%, 40%, 60% and 80% of the original number of shares comprising the options can be exercised in the 1st, 2nd, 3rd and 4th year from the date granted, respectively.

No options were granted, exercised, cancelled or lapsed during the period.

SHARE OPTION SCHEME *(continued)*

Associated Corporation
EganaGoldpfeil

Share options are granted to the Directors, executives and employees under the Executive Share Option Scheme of EganaGoldpfeil adopted on 31st May, 1993 (the "EganaGoldpfeil Scheme").

The following shows the particulars of the share options of EganaGoldpfeil granted to the Directors, executives and employees of EganaGoldpfeil Group that are required to be disclosed pursuant to Rule 17.07 of Chapter 17 and sub-paragraph 13(1) of Appendix 16 of the Listing Rules during the period:

Directors	**Number of shares comprising the options outstanding at the beginning of the period**	**Number of shares comprising the options outstanding at the end of the period**	**Date granted**	**Subscription price per share** *HK$*
Hans-Joerg SEEBERGER	12,000,000	12,000,000	09/01/2000	2.11
Peter Ka Yue LEE	500,000	500,000	09/01/2000	2.11
Michael Richard POIX	500,000	500,000	17/01/2000	2.11
Ho Yin CHIK	144,800	144,800	23/03/1997	3.45
Shunji Saeki	99,000	99,000	28/01/1997	1.28
	80,000	80,000	22/01/2000	2.11
Employees under continuous contracts (excluding Directors)	31,655,400	31,655,400	28/01/1997 to 25/02/2000	*
	44,979,200	44,979,200		

* The options are exercisable at a subscription price of HK$2.11 or HK$3.45 per share.

Note: The outstanding options can be exercised in accordance with the EganaGoldpfeil Scheme at any time from the date on which the options are granted and prior to the expiry of 10 years from that date, provided that up to 20%, 40%, 60% and 80% of the original number of shares comprising the options can be exercised in the 1st, 2nd, 3rd and 4th year from the date granted, respectively.

No options were granted, exercised, cancelled or lapsed during the period.

Save as disclosed above, no right to subscribe for the securities of the Company or its associated corporation within the meaning of the SFO, has been granted by the Company to, nor have any such rights been exercised by, any persons during the period.

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 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 practice 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.

CORPORATE GOVERNANCE *(continued)*

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 Annual Report 2004/05. 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 Listing Rules). 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.

APPRECIATION

On behalf of the Board, I would like to extend our gratitude and sincere appreciation to our colleagues for their hard work and dedication and the Company's shareholders for their support.

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

Hong Kong, 16th February, 2006