EganaGoldpfeil

(HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)
(stock code: 048)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30TH NOVEMBER, 2007

RESULTS

The board of directors (the "Board" or the "Directors") of EganaGoldpfeil (Holdings) Limited ("EganaGoldpfeil" or 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, 2007 together with the comparative figures for the six months ended 30th November, 2006 which are summarised as under. These results have been reviewed by the Audit Committee of the Company but not by the auditors.

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Six months ended	
	30th November, 2007 (Unaudited)	30th November, 2006 (Unaudited)
	HK$'000	*HK$'000*
Turnover	**2,884,348**	3,309,970
Cost of sales	**(1,666,169)**	(1,990,605)
Gross profit	**1,218,179**	1,319,365
Other revenues	**93,875**	64,582
Distribution costs	**(855,238)**	(716,706)
Administrative expenses	**(566,957)**	(356,104)
Impairment losses on assets *(Note 2)*	**(1,011,067)**	(3,137)
Operating (loss)/profit	**(1,121,208)**	308,000
Finance costs	**(131,207)**	(89,786)
(Loss)/profit before share of profit of associated companies	**(1,252,415)**	218,214
Share of profit of associated companies	**9,112**	13,275
(Loss)/profit before taxation	**(1,243,303)**	231,489
Taxation *(Note 3)*	**(21,893)**	(25,594)
(Loss)/profit for the period	**(1,265,196)**	205,895
Attributable to:		
Equity holders of the Company	**(1,263,503)**	186,023
Minority interests	**(1,693)**	19,872
	(1,265,196)	205,895
Dividends	**–**	43,792
(Loss)/earnings per share *(Note 4)*		
Basic	**(86.30) cents**	14.20 cents
Diluted	**N/A**	14.04 cents

CONSOLIDATED BALANCE SHEET

	As at 30th November, 2007 (Unaudited) HK$'000	As at 31st May, 2007 (Audited) HK$'000
Non-current assets		
Fixed assets	**527,255**	467,305
Leasehold land	**18,728**	20,214
Intangible assets	**683,524**	651,526
Deferred tax assets	**54,947**	54,467
Interests in associated companies	**123,992**	200,131
Available-for-sale financial assets	**47,559**	186,684
Derivative financial instruments	–	3,980
	1,456,005	1,584,307
Current assets		
Inventories	**1,502,763**	1,418,799
Accounts receivable, net	**413,563**	709,546
Deposits, prepayments and other receivables	**387,360**	332,440
Due from associated companies	**26,439**	34,431
Investments held for trading	**135**	123
Derivative financial instruments	–	3,284
Cash and cash equivalents	**557,625**	706,785
	2,887,885	3,205,408
Current liabilities		
Accounts payable	**(238,213)**	(658,016)
Accruals and other payables	**(548,547)**	(454,998)
Bills payable	–	(168,146)
Provisions	**(104,501)**	(55,103)
Derivative financial instruments	**(86,294)**	(81,948)
Short-term bank borrowings	**(1,675,210)**	(1,291,934)
Short-term other loans	**(379,407)**	–
Current portion of long-term bank borrowings	**(1,980,603)**	(383,412)
Current portion of other long-term liabilities	**(3,290)**	(77,730)
Current portion of obligations under finance leases	**(17,263)**	(13,208)
Current portion of pensions and other post retirement obligations	**(11,324)**	(16,938)
Due to associated companies	**(103)**	(2,475)
Due to a Director	–	(42)
Loan from a minority shareholder	**(1,584)**	(1,442)
Taxation payable	**(34,419)**	(17,719)
	(5,080,758)	(3,223,111)

	As at 30th November, 2007 (Unaudited) *HK$'000*	As at 31st May, 2007 (Audited) *HK$'000*
Net current liabilities	**(2,192,873)**	(17,703)
Total assets less current liabilities	**(736,868)**	1,566,604
Non-current liabilities		
Long-term bank borrowings	–	(838,234)
Other long-term liabilities	**(34,184)**	(38,899)
Pensions and other post retirement obligations	**(254,693)**	(224,701)
Derivative financial instruments	–	(129,398)
Deferred tax liabilities	**(8,728)**	(8,413)
	(297,605)	(1,239,645)
Net (liabilities)/assets	**(1,034,473)**	326,959
Capital and reserves		
Share capital	**1,464,001**	1,464,001
Reserves	**(2,502,622)**	(1,142,741)
Equity attributable to equity holders of the Company	**(1,038,621)**	321,260
Minority interests	**4,148**	5,699
Total Equity	**(1,034,473)**	326,959

Notes:

1. Basis of preparation and principal accounting policies

In the annual report of the Company for the year ended 31st May, 2007, the auditors stated that they were unable to form an opinion as to whether the accounts of the Group gave a true and fair view of the state of affairs of the Company and of the Group as at 31st May, 2007 and of the Group's loss and cash flows for the year then ended because of the scope limitation on material sales transactions and receivable provision, and the fundamental uncertainty relating to the Company's and the Group's ability to continue as a going concern.

In preparing the accounts for the six months ended 30th November, 2007, the Directors have given careful consideration to the future liquidity of the Group in light of the Group incurring a consolidated net loss attributable to the equity holders of the Company of approximately HK$1.3 billion for the six months ended 30th November, 2007 and consolidated net current liabilities of approximately HK$2.2 billion as at 30th November, 2007. Subsequent to 31st May, 2007, most of the Group's bankers suspended their credit facilities to the Group. As at the date of approval of interim results for the six months ended 30th November, 2007, the Group is unable to meet all of its obligations to financial creditors when due. Accordingly, the Group has fundamental uncertainty to continue as a going concern. The Group's liquidity and its ability to meet its operating costs are dependent on the outcome of the financial restructuring proposal (the "Lifestyle Proposal") made by Lifestyle International Holdings Limited ("Lifestyle") as detailed in the announcement of the Company dated 29th January, 2008 (the "Announcement").

As set out in the Announcement, after extensive negotiations with Lifestyle and financial creditors of the Group, a majority of the financial creditors in number and debt amount indicated their acceptance (subject to legally binding documentation) of the principal terms of the Lifestyle Proposal which involved, among other things, injection by Lifestyle of new funds into the Company in the amount of approximately HK$1.2 billion and reduction of the level of the Group's indebtedness owed to financial creditors. In addition, a bridging loan of HK$300 million provided by Lifestyle had been extended to 22nd February, 2008 and subject to certain conditions, Lifestyle is prepared to further extend the maturity date of the bridging loan. Provided the Lifestyle Proposal can be completed with injection of new funds into the Company and the reduction of the Group's indebtedness owed to financial creditors, the Directors consider that the Group will be able to meet its financial obligations as they fall due and to finance its future working capital and financial requirements. On this basis, the Directors consider that it is reasonable that the accounts for the six months ended 30th November, 2007 are prepared on a going concern basis, the validity of which is dependent on the successful outcome of the Lifestyle Proposal. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities to current assets and current liabilities. The effect of these adjustments has not been reflected in the accounts.

The condensed consolidated 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 (the "Listing Rules") and with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed consolidated accounts have been prepared on the historical cost basis except for 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 condensed consolidated accounts are consistent with those followed in the preparation of the Group's annual accounts for the year ended 31st May, 2007.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on 1st June, 2007.

The adoption of these new HKFRSs had no material effect on the results or financial position for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The Directors anticipate that the application of these standards and interpretations will have no material impact on the results and the financial position of the Group.

HKAS 23 (Revised)	Borrowing costs[1]
HKFRS 8	Operating segments[1]
HK(IFRIC) – INT 12	Service concession arrangements[2]
HK(IFRIC) – INT 13	Customer loyalty programmes[3]
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction[2]

1 *Effective for annual periods beginning on or after 1st January, 2009.*

2 *Effective for annual periods beginning on or after 1st January, 2008.*

3 *Effective for annual periods beginning on or after 1st July, 2008.*

2. Impairment losses on assets

	Six months ended	
	30th November, 2007	30th November, 2006
	HK$'000	*HK$'000*
Impairment losses on accounts receivable	**44,320**	3,137
Impairment losses on other receivables	**966,747**	–
	1,011,067	3,137

In light of the findings by KPMG, the Directors decided to make full allowance for certain accounts and other receivables totalling approximately HK$1,001,556,000. The remaining amount of approximately HK$9,511,000 related to allowances made for receivables arising from other transactions during the period.

3. Taxation

Taxation comprised:

	Six months ended 30th November, 2007 HK$'000	30th November, 2006 HK$'000
The Company and its subsidiaries		
Current taxation:		
Hong Kong profits tax		
– Provision for current period	**8,576**	5,735
Overseas taxation		
– Provision for current period	**10,282**	10,754
– Under-provision in prior periods	**20**	20,987
Deferred taxation		
– Recognised during the period	**3,015**	(11,882)
	21,893	25,594

Hong Kong profits tax was provided at the rate of 16.5% (2006: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong. Taxation on overseas profits was calculated on the estimated assessable profits for the period provided by subsidiaries with overseas operations at the tax rates applicable in the countries in which the subsidiaries operated.

4. (Loss)/earnings per share

(a) Basic (loss)/earnings per share

Basic (loss)/earnings per share was calculated based on the consolidated loss attributable to equity holders of the Company for the period of approximately HK$1,263,503,000 (2006: profit of HK$186,023,000) and the weighted average number of ordinary shares of approximately 1,464,001,000 (2006: 1,310,387,000) in issue during the period.

(b) Diluted (loss)/earnings per share

No diluted loss per share is presented for the six months ended 30th November, 2007 as the exercise of the Company's outstanding share options for the period would result in a decrease in loss per share.

(c) Reconciliation

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

	Six months ended 30th November, 2007 HK$'000	30th November, 2006 HK$'000
(Loss)/profit attributable to equity holders of the Company used in calculating basic and diluted (loss)/earnings per share	**(1,263,503)**	186,023

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

	Six months ended	
	30th November, 2007	30th November, 2006
Weighted average number of ordinary shares used in calculating basic (loss)/earnings per share	**1,464,001,000**	1,310,387,000
Dilutive potential effect in respect of		
– Share options of the Company	**N/A**	14,097,000
Weighted average number of ordinary shares used in calculating diluted (loss)/earnings per share	**N/A**	1,324,484,000

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the period ended 30th November, 2007 (2006: HK3 cents per share).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the six months ended 30th November, 2007, the Group continued to focus on the design, assembly, manufacturing and distribution of luxury and fashion products which are broadly divided into three principal categories, namely, timepieces, jewellery, and leather and lifestyle products.

Turnover of the Group for the six months ended 30th November, 2007 was approximately HK$2,884.3 million, (as compared to approximately HK$3,310.0 million in the same period last year), of which approximately HK$911.1 million (2006: approximately HK$1,084.3 million) was attributable to timepieces, approximately HK$427.5 million (2006: approximately HK$600.6 million) was attributable to jewellery and approximately HK$1,545.7 million (2006: approximately HK$1,625.1 million) was attributable to leather and lifestyle products.

As stated in the Group's 2006/2007 annual report (the "Annual Report"), the Group's financial problems were principally attributable to a largely self-contained area of the Group's trading operations (as identified in the KPMG's review) which has been discontinued during the six months ended 30th November, 2007 (the "Trading Operations"). This resulted in a significant decrease of the Trading Operations turnover. The Trading Operations generated turnover of approximately HK$683.1 million for the six months ended 30th November, 2006, but only approximately HK$41.7 million for the six months ended 30th November, 2007 as activities were run down. After excluding the Trading Operations, the Group's turnover for the six months ended 30th November, 2007 was approximately HK$2,842.6 million, compared to approximately HK$2,626.9 million for the six months ended 30th November, 2006. The increase of approximately 8.2% of the Group's turnover (excluding Trading Operations) was mainly contributed by the sales growth in its Eastern Europe markets due to generally favourable consumer sentiment stimulating demand for the Group's products. The Group intends, whilst maintaining its market share in Western Europe, to devote more resources in the future to Eastern Europe, Middle East and Asia, especially the mainland China market following the completion of the financial restructuring of the Group.

Financial Review

Turnover

Turnover totalling approximately HK$2,884.3 million was recorded for the six months ended 30th November, 2007, a decrease of approximately 12.9% compared to approximately HK$3,310.0 million recorded for the same period last year. The decrease was primarily due to the cessation of the Trading Operations during the six months ended 30th November, 2007 as described in the paragraph headed "Business review" above.

By business segment, turnover decreased by approximately 16.0% for timepiece products, approximately 28.8% for jewellery products and approximately 4.9% for leather and lifestyle products compared to the previous corresponding period.

Geographically, turnover from Europe, Asia Pacific and America represented approximately 85.6%, 10.1% and 4.3% of the Group's total turnover respectively for the six months ended 30th November, 2007 (as compared to approximately 70.7%, 25.0%, and 4.3% respectively for the six months ended 30th November, 2006). The Eastern Europe markets demonstrated a growth in turnover as explained in the paragraph headed "Business review" above. There was a significant drop in the sales in the Asia Pacific market for the six months ended 30th November, 2007 mainly due to the cessation of the Group's Trading Operations primarily related to the mainland China market.

Cost of Sales and Gross Profit

Cost of sales decreased by approximately 16.3% from approximately HK$1,990.6 million for the six months ended 30th November, 2006 to approximately HK$1,666.2 million for the six months ended 30th November, 2007 mainly as a result of cessation of the Trading Operations during the period.

The Group's gross profit decreased by approximately 7.7% from approximately HK$1,319.4 million for the six months ended 30th November, 2006 to approximately HK$1,218.2 million for the six months ended 30th November, 2007. Gross profit margin increased to approximately 42.2% for the six months ended 30th November, 2007 (as compared to approximately 39.9% for the six months ended 30th November, 2006), primarily due to cost control measures implemented by the Group, the cessation of the Group's Trading Operations (which had a relatively thin gross profit margin) and the general appreciation of the Euro for the six months ended 30th November, 2007. Gross profit of approximately HK$236.6 million and HK$1.3 million were derived from the Trading Operations for the six months ended 30th November, 2006 and 2007 respectively.

Other revenues of the Group increased by approximately 45.4% from approximately HK$64.6 million for the six months ended 30th November, 2006 to approximately HK$93.9 million for the six months ended 30th November, 2007. The increase was primarily attributable to the recognition of exchange gains of approximately HK$68.1 million as well as profit made on the disposal of available-for-sale securities of approximately HK$1.3 million.

Expenses

As disclosed in the Annual Report, the Board made full provision of approximately HK$1.6 billion for the doubtful accounts, other receivables and promissory notes for the financial year ended 31st May, 2007 following KPMG's review. For the six months ended 30th November, 2007, a further amount of approximately HK$1.0 billion had been recorded as an impairment loss with respect to additional doubtful accounts and other receivables relating to transactions carried out after 31st May, 2007.

Distribution costs increased by approximately 19.3% from approximately HK$716.7 million for the six months ended 30th November, 2006 to approximately HK$855.2 million for the six months ended 30th November, 2007. The increase was mainly attributable to the growth of business in the Group's Eastern Europe market and appreciation of the Euro during the current period.

Administrative expenses increased by approximately 59.2% from approximately HK$356.1 million for the six months ended 30th November, 2006 to approximately HK$567.0 million for the six months ended 30th November, 2007. The Group incurred a loss on the disposal of interests in associated companies and available-for-sale securities of approximately HK$84.2 million, and legal and professional fees of approximately HK$71.4 million mainly for the current financial restructuring of the Group.

During the six months ended 30th November, 2007, for cost reasons, the Group began steps to close the separate German office of one of its brands, Salamander, and relocate to the Group's headquarters in Europe. The Group will also close certain business units of its jewellery and leather divisions, consumer electronics sales company and the mass market business in timepieces. In this regard, the Group had accrued relocation expenses and associated restructuring costs in an aggregate amount of approximately HK$66.4 million during the six months ended 30th November, 2007, comprising cost of sales, distribution costs and administrative expenses of approximately HK$9.1 million, HK$8.8 million and HK$48.5 million respectively.

Overall, for the six months ended 30th November, 2007, the Group incurred an operating loss of approximately HK$1,121.2 million, compared to an operating profit of approximately HK$308.0 million for the six months ended 30th November, 2006.

Finance Costs

Finance costs, including interest accruals for all bank borrowings, increased by approximately 46.1% from approximately HK$89.8 million for the six months ended 30th November, 2006 to approximately HK$131.2 million for the six months ended 30th November, 2007 primarily due to an increase in the Group's bank borrowings.

Turnover days

The inventory turnover on an annualised basis was approximately 160 days, as compared to approximately 112 days for the year ended 31st May, 2007. The inventory turnover, calculated on a basis by excluding the cost of sales in respect of the Trading Operations, was approximately 164 days on an annualised basis for the six months ended 30th November, 2007 as compared to approximately 162 days for the year ended 31st May, 2007. As at 30th November, 2007, inventories were in the approximate amount of HK$1,502.8 million (as at 31st May, 2007: approximately HK$1,418.8 million). The increase of inventory by approximately 5.9% was mainly as a result of a growth in the Eastern Europe markets and an appreciation of the Euro as at 30th November, 2007.

The average debtor turnover on an annualised basis had shortened to approximately 36 days, as compared to approximately 57 days for the year ended 31st May, 2007. The average debtor turnover, calculated on a basis by excluding the sales and trade debtors arising from the Trading Operations, was approximately 34 days (in line with the year ended 31st May, 2007). There was a decrease in net accounts receivable of approximately HK$296.0 million partly due to a provision made for doubtful debts of approximately HK$44.3 million in response to KPMG's findings and improvement in debtor turnover.

Assets

Total assets were approximately HK$4,343.9 million as at 30th November, 2007 compared to approximately HK$4,789.7 million as at 31st May, 2007. The decrease of approximately HK$445.8 million was mainly attributable to the decrease in net accounts receivable and continued disposal of interests in associated companies and available-for-sale securities as part of the Group's strategy to dispose assets which are non-core to its businesses.

As at 30th November, 2007, certain assets of the Group were pledged as security for banking facilities granted to certain overseas subsidiaries of the Group. Assets pledged included freehold land and buildings with an aggregate net book value of approximately HK$39.9 million as at 30th November, 2007 (as at 31st May, 2007: approximately HK$37.4 million), certain leasehold rights with an aggregate net book value of approximately HK$19.8 million as at 30th November, 2007 (as at 31st May, 2007: approximately HK$18.0 million) and inventories with approximate carrying amount of HK$64.6 million as at 30th November, 2007 (as at 31st May, 2007: approximately HK$68.6 million). As stated in the Annual Report, certain assets of the Group were pledged as security for a bridging loan provided by a wholly owned subsidiary of Lifestyle International Holdings Limited ("Lifestyle") as part of the financial restructuring of the Group. Assets pledged included land and buildings and leasehold land with an aggregate net book value of approximately HK$25.5 million as at 30th November, 2007, trademarks with a net book value of approximately HK$78.1 million as at 30th November, 2007, cash and bank balances of approximately HK$249.1 million as at 30th November, 2007, all the Group's equity interests in P.C. International Marketing Limited ("PCIM"), a wholly owned subsidiary of the Group holding and operating the "Pierre Cardin" brand for timepiece and jewellery products and a debenture over the assets of PCIM, as well as a charge over 29.67% shares in the Company held by Joint Asset International Limited (an indirect wholly owned investment holding company of a discretionary trust whose prospective beneficiaries include the Group's former chairman and his family).

Apart from these, the Group had no other pledged assets as at 30th November, 2007.

The Group is not currently anticipating any material purchase of capital assets or material investments for the coming six months period ending 31st May, 2008.

Liquidity, Financial Resources and Capital Structure

The net gearing ratio was approximately 0.93 times as at 30th November, 2007, calculated based on the sum of short-term bank borrowings (including other loans) and current portion of long-term bank borrowings and other liabilities divided by total assets. Total assets decreased by approximately HK$445.8 million due to the reasons as detailed in the paragraph headed “Assets” above. There was an increase of short-term bank borrowings and other short term loans of approximately HK$762.7 million (approximately HK$2,054.6 million as at 30th November, 2007 compared to approximately HK$1,291.9 million as at 31st May, 2007), and current portion of long-term borrowings and other long-term liabilities of approximately HK$1,522.8 million (approximately HK$1,983.9 million as at 30th November, 2007 compared to approximately HK$461.1 million as at 31st May, 2007).

The Group had a net cash and cash equivalent position of approximately HK$557.6 million as at 30th November, 2007, a decrease of approximately HK$149.2 million from approximately HK$706.8 million as at 31st May, 2007. The decrease was attributable to net cash used in operating activities and deposits paid for potential investment of approximately HK$930.0 million, off-set by net cash generated from proceeds from new syndicated loan and the positive effect of foreign exchange rate changes during the current period.

The Group did not record any long-term bank borrowings as at 30th November, 2007 (as at 31st May, 2007: approximately HK$838.2 million). During the period, the Group breached certain of the terms of the syndicated loans, which are primarily related to the financial covenants of the Group. According to HKAS 1 “Presentation of Financial Statements”, since the banks have not agreed to waive their rights to demand immediate repayment as at the balance sheet date, the non-current portion of the bank loans have been classified as current liabilities in the condensed consolidated balance sheet as at 30th November, 2007. As at 30th November, 2007, the Group had short-term bank borrowings of approximately HK$1,675.2 million, comprising short-term bank loans and overdrafts of approximately HK$1,383.1 million (as at 31st May, 2007: approximately HK$944.3 million) and trust receipts and import loans of approximately HK$292.1 million (as at 31st May, 2007: approximately HK$347.6 million).

For the six months ended 30th November, 2007, revenue and assets were denominated in Euro and Swiss Francs: 74.0%; US$: 13.9 %; HK$: 0.8% and other: 11.3%. Payments were in Euro and Swiss Francs: 57.6%; US$: and HK$: 28.7% and other: 13.7%

As at 30th November, 2007, the Group had outstanding interest rates swaps for managing its exposure to interest rates risks and forward foreign exchange contracts for hedging against fluctuations in foreign exchange rates, as well as some currency options.

As at 30th November, 2007, the Group had commitments under operating leases totalling approximately HK$1,804.1 million (as at 31st May, 2007: approximately HK$1,639.0 million), of which approximately HK$340.9 million was due within one year (as at 31st May, 2007: approximately HK$309.9 million), approximately HK$882.3 million was due after one year and within five years (as at 31st May, 2007: approximately HK$764.6 million), and approximately HK$580.9 million was due after five years (as at 31st May, 2007: approximately HK$564.5 million). As at 30th November, 2007, the Group had commitments under license agreements of approximately HK$128.1 million, compared to approximately HK$144.2 million as at 31st May, 2007. Certain subsidiaries of the Group entered into purchase agreements with third party companies and agreed to purchase leather products from these third party companies during the year up to 2008. The total outstanding commitment amounted to approximately HK$581.3 million as at 30th November, 2007 (as at 31st May, 2007: approximately HK$515.9 million).

Save as disclosed above and in the notes to the interim accounts, the Group had no significant capital commitment, material contingent liabilities or off balance sheet obligations as at 30th November, 2007.

As set out in the Company's announcement of 2nd October, 2007, the Group had requested that all financial creditors exercise forbearance pending implementation of the financial restructuring of the Group. Up to the present time, the creditors are exercising such forbearance. It was further stated in the Company's announcement of 29th January, 2008 that, after extensive negotiations with Lifestyle and financial creditors of the Group, a majority of the financial creditors in number and debt amount indicated their acceptance (subject to legally binding documentation) of the principal terms of the financial restructuring which involved, among other things, injection by Lifestyle of new funds into the Company in the amount of approximately HK$1.2 billion and reduction of the level of the Group's indebtedness owed to financial creditors. The financial restructuring is subject to a number of substantial conditions and may or may not be possible to implement successfully. The outcome of the financial restructuring will have a material impact on the bank facilities referred to in this section.

PROSPECTS

The Board is committed to do their utmost to remedy the Group's difficulties, is using its best endeavours to facilitate the implementation of the financial restructuring proposal made by Lifestyle as detailed in the announcement of the Company dated 29th January, 2008 (the "Lifestyle Proposal"), and is working with Lifestyle and the financial creditors of the Group to achieve this. After extensive negotiations with Lifestyle and the financial creditors of the Group, a majority of the financial creditors in number and debt amount indicated their acceptance (subject to legally binding documentation) of the principal terms of the Lifestyle Proposal which involved, among other things, injection by Lifestyle of new funds into the Company in the amount of approximately HK$1.2 billion and reduction of the level of the Group's indebtedness owed to financial creditors. The Lifestyle Proposal is likely to result in substantial dilution of the interests of shareholders in the Company. Details of the Lifestyle Proposal as presently envisaged are set out in the announcement of the Company dated 29th January, 2008. Agreement between the parties to the principal terms of the Lifestyle Proposal represents an important milestone in effecting a restructuring which will stabilise the financial situation of the Group. The Directors are encouraged by the progress made but no binding agreement has been reached and there can be no assurance that an agreement will ultimately be reached. In the meantime the Company is dependent for financial support on (and is in the course of negotiating) the renewal of the HK$300 million bridging loan provided by Lifestyle, which currently expires on 22nd February, 2008, and the continuing forbearance of financial creditors pending the implementation of the Lifestyle Proposal. The Company continues to discuss the terms of the Lifestyle Proposal with parties concerned and further announcements will be issued as appropriate. Shareholders will have an opportunity in due course to vote on the final terms of the Lifestyle Proposal.

The Trading Operations (as indentified by KPMG's review) have now ceased. Full provisions have now been made in respect of all the receivables and promissory notes on which KPMG has expressed reservations in their review. Following cessation of the Trading Operations, the Board believes that the Group has succeeded in retaining the loyalty of the Group's main suppliers and customers. This is supported by the growth in the Group's like-to-like turnover (excluding the Trading Operations) for the six months ended 30th November, 2007. In the current six months ending 31st May, 2008, sales over the holiday period and in January 2008 have been somewhat weaker than for the corresponding period in the previous financial year. This is in line with general economic conditions.

In order to further improve the gross profit margin of the Group, the Board has resolved to scale down thin margin businesses which include the consumer electronic business, the mass market business in timepiece as well as the American jewellery business. The Board will continue to further review the business operation of the Group so as to improve the operating efficiency.

As well as maintaining its market share in Western Europe, the Board intends to devote more resources in the future to Eastern Europe, Middle East and Asia and, in particular, the mainland China market following completion of the Lifestyle Proposal. The Board considers that the Group can benefit from Lifestyle's experience and business network in mainland China to participate in the expected strong growth of domestic consumption. The Board also believes that the Lifestyle Proposal, if completed, will lay a solid financial foundation for the current business and future development of the Group.

EMPLOYEES

The Group had approximately 7,200 employees as at 30th November, 2007, compared to approximately 7,400 employees as at 31st May, 2007. Remuneration is determined by reference to the employees' performance, qualifications, relevant working experiences and the prevailing market conditions. Performance-based bonus and a retention bonus system are in place 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, the Company's listed securities (whether on the Stock Exchange or otherwise) during the six months ended 30th November, 2007.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30th November, 2007, with deviations from certain code provisions as summarised below.

Pursuant to code provision A.1.3 of the Code, notice of at least 14 days should be given of a regular board meeting. In order to timely discuss and address the current financial difficulties of the Group, certain regular and other board meetings were convened with shorter than 14 days' notice.

It is stipulated under code provision A.2.1 of the Code that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Following the death of Mr. Seeberger in October 2007, the Board has not yet appointed a new Chairman because the Board intends to make such appointment after completion of the Lifestyle Proposal. Mr. Seeberger's duties as Chairman had been delegated in part to Mr. Peter Ka Yue Lee who assisted in the management of the Board's affairs as Deputy Chairman.

As stipulated under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election. At present, the Company's independent non-executive directors of the Company are not appointed for a specific term. In accordance with the articles of association of the Company, all directors appointed either to fill a casual vacancy or as an additional board member are subject to election at the first general meeting after the appointment. One-third of the directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every director (excluding the Chairman), including those appointed for a specific term, is subject to retirement by rotation at least once every three years. The Board considers that sufficient measures have been taken to ensure the corporate governance practices of the Company are equivalent to those in the Code.

It was stated in the annual report of the Group for the year ended 31st May, 2007 that it became apparent from KPMG's review on the Group's receivables that significant provisions for asset impairment were required for the Group's receivables and promissory notes and that a number of high value transactions occurred without reference to or approval by the Board. The fact that such transactions could have occurred without the Board reviewing them and assessing the risks involved has revealed significant weaknesses and failings in the Company's internal control and risk management system. The Board intends to appoint external professionals to review the internal control systems of the Group so as to address such weaknesses. The Company has commenced solicitation of proposals from relevant professionals and such review will take place as soon as practicable.

INDEPENDENT NON-EXECUTIVE DIRECTORS

On 31st July, 2007, Mr. Andy Yick Man Ng ("Mr. Ng") resigned as an independent non-executive director of the Company. Following Mr. Ng's resignation, the number of independent non-executive Directors is two, below the minimum number and the qualification requirement as stipulated under Rules 3.10(1) and (2) of the Listing Rules. The Board intends to appoint a sufficient number of independent non-executive Directors, with at least one of them having the appropriate professional qualifications or accounting or related financial management expertise as soon as possible to meet the Listing Rules requirements. However, the appointment is not likely to be practicable unless and until the Lifestyle Proposal is implemented.

AUDIT COMMITTEE

The Audit Committee has reviewed the unaudited financial statements for the six months ended 30th November, 2007 and the interim report including the accounting principles and practices and any significant change in accounting policies adopted by the Group.

Following the resignation of Mr. Andy Yick Man Ng on 31st July, 2007, the composition of the Audit Committee has fallen below the minimum number requirement and the qualification requirement as stipulated under Rule 3.21 of the Listing Rules. The Board intends to appoint an additional committee member having the appropriate professional qualifications or accounting or related financial management expertise as soon as possible to meet the Listing Rules requirements. However, the appointment is not likely to be practicable unless and until the Lifestyle Proposal is implemented.

PUBLICATION ON THE STOCK EXCHANGE'S AND COMPANY'S WEBSITE

This preliminary result announcement is available for viewing at the Stock Exchange's Website as well as the Company's Website (www.egana.com). The interim report will be despatched to the shareholders of the Company as soon as practicable.

By Order of the Board
Peter Ka Yue LEE
Deputy Chairman

Hong Kong, 21st February, 2008

As at the date of this announcement, the Board comprises Messrs. Peter Ka Yue LEE, Michael Richard POIX, Wolfgang Heinz PFEIFER and Juergen Ludwig HOLZSCHUH as Executive Directors and Professor Udo GLITTENBERG and Dr. Goetz Reiner WESTERMEYER as Independent Non-Executive Directors.