EganaGoldpfeil

(HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(stock code: 48)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31ST MAY, 2007

RESULTS

The board announces the consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31st May, 2007 together with the comparative figures for the year ended 31st May, 2006 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	For the year ended 31st May, 2007	**For the year ended 31st May, 2006 (Audited)**
	HK$'000	*HK$'000*
Turnover	7,025,459	5,975,450
Cost of sales	(4,452,086)	(3,641,406)
Gross profit	2,573,373	2,334,044
Other revenues *(Note 2)*	148,392	110,266
Distribution costs	(1,543,601)	(1,308,469)
Administrative expenses	(785,903)	(651,408)
Impairment losses on assets *(Note 3)*	(1,986,830)	(12,367)
Operating (loss)/profit	(1,594,569)	472,066
Finance costs *(Note 4)*	(308,533)	(137,284)
(Loss)/profit before share of profit of associated companies	(1,903,102)	334,782
Share of profit of associated companies	82,730	10,363
(Loss)/profit before taxation	(1,820,372)	345,145
Taxation *(Note 5)*	(119,821)	(5,923)
(Loss)/profit for the year	(1,940,193)	339,222
Attributable to:		
Equity holders of the Company	(1,959,408)	304,957
Minority interests	19,215	34,265
	(1,940,193)	339,222
Dividends *(Note 6)*	43,802	100,294
(Loss)/earnings per share *(Note 7)*		
Basic	(141.46) cents	23.85 cents
Diluted	N/A	23.73 cents

CONSOLIDATED BALANCE SHEET

	As at 31st May, 2007	As at 31st May, 2006 (Audited)
	HK$'000	*HK$'000*
Non-current assets		
Fixed assets	467,305	416,649
Leasehold land	20,214	20,907
Intangible assets	651,526	833,341
Deferred tax assets	54,467	144,793
Interests in associated companies	200,131	161,461
Available-for-sale financial assets	186,684	296,398
Derivative financial instruments	3,980	6,045
	1,584,307	1,879,594
Current assets		
Inventories	1,418,799	1,318,602
Accounts receivable, net *(Note 8)*	709,546	1,501,662
Deposits, prepayments and other receivables	332,440	461,178
Due from associated companies	34,431	19,908
Investments held for trading	123	312
Derivative financial instruments	3,284	10,426
Cash and cash equivalents	706,785	1,385,251
	3,205,408	4,697,339
Current liabilities		
Accounts payable, accruals and other payables *(Note 9)*	(1,113,014)	(1,331,230)
Bills payable	(168,146)	(249,808)
Provisions	(55,103)	(8,524)
Derivative financial instruments	(81,948)	(37,570)
Short-term bank borrowings	(1,291,934)	(1,105,516)
Current portion of long-term liabilities	(474,350)	(204,261)
Current portion of pensions and other post retirement obligations	(16,938)	(15,470)
Due to associated companies	(2,475)	(6,449)
Due to a Director	(42)	(42)
Loan from a minority shareholder	(1,442)	(1,349)
Taxation payable	(17,719)	(12,707)
	(3,223,111)	(2,972,926)
Net current (liabilities)/assets	(17,703)	1,724,413
Total assets less current liabilities	1,566,604	3,604,007
Non-current liabilities		
Long-term liabilities	(877,133)	(1,173,902)
Pensions and other post retirement obligations	(224,701)	(211,000)
Derivative financial instruments	(129,398)	(2,029)
Deferred tax liabilities	(8,413)	(6,502)
	(1,239,645)	(1,393,433)
Net assets	326,959	2,210,574
Capital and reserves		
Share capital	1,464,001	1,285,810
Reserves	(1,142,741)	587,273
Equity attributable to equity holders of the Company	321,260	1,873,083
Minority interests	5,699	337,491
Total Equity	326,959	2,210,574

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 all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations 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 preparation of accounts in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise their judgement in the process of applying the Group's accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form basis of making the judgements about carrying values of assets and liabilities that are not apparent from other sources. Actual result may differ from these estimates.

In preparing the accounts, the Directors of the Company have given careful consideration to the future liquidity of the Group in light of the Group having consolidated net current liabilities of HK$17,703,000 as at 31st May, 2007 and having incurred consolidated net loss to the equity holders of the Company of HK$1,959,408,000 for the year then ended. 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 these accounts, the Group is unable to meet all of its obligations to banks when due. The Group's liquidity and its ability to meet its operating costs are dependent on the Group's bankers continuing to exercise forbearance pending the outcome of the proposed acquisition and restructuring.

As more fully described in the Company's announcement dated 2nd October, 2007, Lifestyle International Holdings Limited ("Lifestyle") has proposed to acquire approximately 29.67% of the shares in the Company, from Peninsula International Limited, a controlling shareholder of the Company. As part of Lifestyle's proposal, a bridging loan of HK$300 million was provided to the Group on 24th September, 2007 for a term of four months from 24th September, 2007. Upon the completion of the abovementioned acquisition, the Company will issue convertible bonds of HK$880 million to Lifestyle. The Group has also actively discussed with its principal bankers regarding a rescheduling of the Group's bank borrowings.

Provided that the acquisition by Lifestyle and the consequent issue of convertible bonds can be completed, and the agreements can be reached with the principal bankers for the rescheduling of the Group's bank borrowings, the Directors are satisfied 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. Accordingly, the accounts have been prepared on a going concern basis. 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 HKICPA has issued certain new and revised HKFRSs that are first effective for the current accounting period of the Group and the Company. These changes in standards have not resulted in any substantial changes to the Group's results of operations and financial position.

At the date of approval of these accounts, the following standards and interpretations were in issue but not yet effective for the year ended 31st May, 2007.

HKAS 1 (Amendment)	Note a	Capital disclosures
HKAS 23 (Revised)	Note b	Borrowing costs
HKFRS 7	Note a	Financial instruments: Disclosures
HKFRS 8	Note b	Operating segments
HK(IFRIC) – Int 10	Note c	Interim financial reporting and impairment
HK(IFRIC) – Int 11	Note d	HKFRS 2 - Group and treasury share transactions
HK(IFRIC) – Int 12	Note e	Service concession arrangements
HK(IFRIC) – Int 13	Note f	Customer loyalty programmes
HK(IFRIC) – Int 14	Note e	HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction

Note a: effective for annual periods beginning on or after 1st January, 2007
Note b: effective for annual periods beginning on or after 1st January, 2009
Note c: effective for annual periods beginning on or after 1st November, 2006
Note d: effective for annual periods beginning on or after 1st March, 2007
Note e: effective for annual periods beginning on or after 1st January, 2008
Note f: effective for annual periods beginning on or after 1st July, 2008

The Group has commenced considering the potential impact of the above new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its result of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

2. Other revenues

	For the year ended 31st May, 2007 *HK$'000*	**For the year ended 31st May, 2006** *HK$'000*
Dividend income	1,774	2,168
Exchange gain, net	33,865	1,664
Gain on derivative financial instruments, net		
– forward foreign exchange contracts	13,471	–
– forward gold and silver contracts	3,433	7,191
– silver option	–	2,608
– currency option	–	9,954
Gain on disposal of available-for-sale financial assets – listed securities	774	–
Gain on disposal of intangible assets	3,174	15,692
Interest income	83,880	54,457
Redemption premium received on maturity of equity-linked notes	–	3,220
Rental income, net of outgoings	6,264	4,701
Others	1,757	8,611
	148,392	110,266

3. Impairment losses on assets

	For the year ended 31st May, 2007 *HK$'000*	For the year ended 31st May, 2006 *HK$'000*
Impairment loss on intangible assets	215,336	–
Impairment loss on available-for-sale financial assets	206,446	3
Impairment loss on accounts receivable	562,902	11,892
Impairment loss on other receivables	265,755	472
Impairment loss on promissory notes	736,391	–
	1,986,830	12,367

4. Finance Costs

	For the year ended 31st May, 2007 *HK$'000*	For the year ended 31st May, 2006 *HK$'000*
Interest on bank borrowings		
– wholly repayable within five years	144,828	108,956
– not wholly repayable within five years	—	206
Interest on other loans and notes payable		
– wholly repayable within five years	14,108	10,199
– not wholly repayable within five years	—	13
Interest element of finance leases	1,605	250
Interest on convertible bonds	—	93
Interest on advances from associated companies	87	588
Bank charges	26,886	26,069
Net fair value loss/(gain) on financial instruments	121,019	(9,090)
	308,533	137,284

5. Taxation

	For the year ended 31st May, 2007 *HK$'000*	For the year ended 31st May, 2006 *HK$'000*
The Company and its subsidiaries		
Current taxation:		
Hong Kong profits tax		
– Provision for the year	1,889	3,567
– Under-provision in prior years	–	149
Overseas taxation		
– Provision for the year	16,225	15,744
– Under-provision in prior years	22,977	2,921
Deferred taxation-Recognised during the year	78,730	(16,458)
	119,821	5,923

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

6. Dividends

	For the year ended 31st May, 2007 *HK$'000*	For the year ended 31st May, 2006 *HK$'000*
Interim, paid, HK3.00 cents (2006: HK2.80 cents) per ordinary share	43,802	36,003
Final, proposed, HK nil cent (2006: HK5.00 cents) per ordinary share	–	64,291
	43,802	100,294

During the year, an interim dividend of approximately HK$43,802,000 (2006: HK$36,003,000) was declared and paid on 15th February, 2007 and 30th March, 2007 respectively. No final dividend was proposed for the year ended 31st May, 2007.

7. (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 year ended 31st May, 2007 of approximately HK$1,959,408,000 (2006: profit of HK$304,957,000) and the weighted average number of ordinary shares of approximately 1,385,170,000 (2006: 1,278,628,000) in issue during the year.

(b) Diluted (loss)/earnings per share

No diluted loss per share is presented for the year ended 31st May, 2007 as the exercise of the Company's outstanding share options for the year ended 31st May, 2007 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:

	For the year ended 31st May, 2007 *HK$'000*	For the year ended 31st May, 2006 *HK$'000*
(Loss)/profit attributable to equity holders of the Company used in calculating basic (loss)/earnings per share	(1,959,408)	304,957
Interest savings in respect of convertible bonds	–	38
(Loss)/profit attributable to equity holders of the Company used in calculating diluted (loss)/earnings per share	(1,959,408)	304,995

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

	For the year ended 31st May, 2007	For the year ended 31st May, 2006
Weighted average number of ordinary shares used in calculating basic (loss)/earnings per share	1,385,170,000	1,278,628,000
Dilutive potential effect in respect of–		
– convertible bonds	–	5,696,000
– share options of the Company	N/A	1,146,000
Weighted average number of ordinary shares used in calculating diluted (loss)/earnings per share	N/A	1,285,470,000

8. Accounts receivable, net

In general, the Group grants an average credit period of 30 to 120 days to its trade customers. An aging analysis of accounts receivable at 31st May, 2007 after impairment losses on accounts receivable was as follows:

	As at 31st May, 2007 *HK$'000*	As at 31st May, 2006 *HK$'000*
Current and due within one month	546,495	1,360,020
Due between one to two months	89,158	41,618
Due between two to three months	17,828	12,722
Due between three to four months	14,983	10,781
Due over four months	41,082	76,521
	709,546	1,501,662

9. Accounts payable, accruals and other payables

	As at 31st May, 2007 *HK$'000*	As at 31st May, 2006 *HK$'000*
Accounts payable	658,016	896,020
Accruals and other payables	454,998	435,210
	1,113,014	1,331,230

At 31st May, 2007, the aging analysis of the accounts payable was as follows:

	As at 31st May, 2007 *HK$'000*	As at 31st May, 2006 *HK$'000*
Current and due within one month	589,860	844,144
Due between one to two months	30,577	33,398
Due between two to three months	2,072	6,199
Due between three to four months	791	2,046
Due over four months	34,716	10,233
	658,016	896,020

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the year ended 31st May, 2007, the Group focused 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.

Revenue of the Group for the year ended 31st May, 2007 was approximately HK$7.0 billion (2006: approximately HK$6.0 billion), of which approximately HK$2.5 billion (2006: approximately HK$2.1 billion) was attributable to timepieces, approximately HK$1.3 billion (2006: approximately HK$1.1 billion) to jewellery and approximately HK$3.2 billion (2006: approximately HK$2.8 billion) to leather and lifestyle products. The growth of business was primarily due to an increase in the sales of our licenced brand Cerruti 1881 timepieces and a positive growth in the sales of timepieces from our own brands including Pierre Cardin. The sales of Cerruti 1881 jewellery products also demonstrated a strong growth. For leather and lifestyle products, the growth in the sales of JOOP! branded goods, had contributed to the sales growth of this segment for the year ended 31st May, 2007. Furthermore, the sales in trading business have shown an extraordinary growth by approximately 35%.

Financial Review

Sales

Revenue totalling approximately HK$7.0 billion was recorded for the year ended 31st May, 2007, an increase of approximately 18% compared to approximately HK$6.0 billion recorded for the year ended 31st May, 2006. The growth was primarily due to the factors set out in the paragraph headed “Business Review” above.

By business segment, sales increased by approximately 21% for timepiece products, approximately 17% for jewellery products, and approximately 15% for leather and lifestyle products compared to the previous financial year.

Geographically, revenue from Western Europe represented approximately 57% of the Group's total, with Eastern Europe approximately 8%, Asia Pacific approximately 29%, and USA approximately 6% (as compared to 64%, 7%, 25% and 4% respectively for the year ended 31st May, 2006).

Sales of approximately HK$7.0 billion for the year ended 31st May, 2007 included sales in the Group's trading operations of approximately HK$1.8 billion to customers in respect of which the Company's auditors, Baker Tilly Hong Kong Limited, were unable to obtain reasonable representations and assurances to satisfy themselves as to original sales (the "Trading Operations"). The sales in respect of the Trading Operations were approximately HK$1.3 billion for the year ended 31st May, 2006.

Cost of Sales and Gross Profit

Cost of sales increased by approximately 22% from approximately HK$3.6 billion for the year ended 31st May, 2006 to approximately HK$4.5 billion for the year ended 31st May, 2007 mainly as a result of an increase in sales volume and general cost increases. In addition, in view of the shortening of product life cycle, the Group is tightening its inventory provision policy and additional inventory provisions of approximately HK$225.4 million were charged to cost of sales during the year ended 31st May, 2007.

The Group's gross profit increased by approximately 10% from approximately HK$2.3 billion for the year ended 31st May, 2006 to approximately HK$2.6 billion for the year ended 31st May, 2007. Gross profit margin dropped slightly to approximately 37% (compared to approximately 39% for the year ended 31st May, 2006), primarily due to the additional inventory provision made during the financial year. The gross profit of approximately HK$448.0 million was derived from the aforesaid HK$1.8 billion sales revenue in respect of the Trading Operations, which the Company's auditors were unable to obtain reasonable representations and assurances from the Company to satisfy themselves as to the original sales and the related costs thereof. The gross profit in respect of the Trading Operations was approximately HK$405.0 million for the year ended 31st May, 2006.

Expenses

Following the Company's announcements on 7th August 2007 and 31st August 2007, the Board referred to KPMG's independent financial review findings and found that it was prudent to make full provisions for the doubtful accounts and other receivables and promissory notes as at balance sheet date. Approximately HK$1.6 billion had been charged to the profit and loss account during current financial year ended 31st May, 2007 and approximately HK$1.0 billion would be charged in the next financial period beginning 1st June, 2007.

Distribution costs increased by 18% from approximately HK$1.3 billion for the year ended 31st May, 2006 to approximately HK$1.5 billion for the year ended 31st May, 2007. Such increases were mainly contributed by an increase in sales turnover and associated costs such as freight and warranty costs. Other expenses including rent and rates, advertising and promotion had also increased. Administrative expenses increased by approximately 21% from approximately HK$651 million for the year ended 31st May, 2006 to approximately HK$786 million for the year ended 31st May, 2007. Such increases were mainly attributable to an increase staff related and general overhead costs such as insurance and depreciation, an one-off compensation loss resulting from the termination of a business partnership agreement.

For the year ended 31st May, 2007, impairment provisions on assets totalling approximately HK$2.0 billion were recorded as a result of various provisions made principally as a result of findings from KPMG's review and current year's audit. Impairment provisions were recognised on the Group's accounts receivable, other receivables and promissory notes totalling approximately HK$1.6 billion. In addition, the Group reassessed the value of its intangible assets including trademarks and decided to write off approximately HK$215 million of intangible assets. Further, the Group has written off certain available-for-sale financial assets in the amount of approximately HK$206 million, including provisions made on the Group' strategic investments of approximately HK$89.4 million. The strategic investments consist of a private company, which was set up with a view to enhancing the Group's distribution network in Asia, and a private closed-end fund. Both investments were fully written down during the year ended 31st May, 2007. In addition, an impairment provision in the amount of approximately HK$117.0 million was made against the Group's unlisted investments with a view to focusing on Group's core business.

As a consequence, the Group incurred an operating loss of approximately HK$1.6 billion for the year ended 31st May, 2007, compared to an operating profit of approximately HK$0.5 billion for the year ended 31st May, 2006.

Finance Costs

Finance costs increased by approximately 125% from approximately HK$137.3 million for the year ended 31st May, 2006 to approximately HK$308.5 million for the year ended 31st May, 2007 primarily due to a general increase in interest charges on bank borrowings and a loss incurred in the amount of approximately HK$121.0 million resulting from the revaluation of the Group's financial instruments used for hedging purposes.

Turnover days

The inventory turnover was approximately 112 days, as compared to approximately 124 days for the year ended 31st May, 2006. The inventory turnover, calculated on a basis by excluding the cost of sales in respect of the Trading Operations, was approximately 162 days for the year ended 31st May, 2007 as compared to approximately 167 days in the previous year. As at 31st May, 2007, inventories were in the approximate amount of HK$1.4 billion (2006: approximately HK$1.3 billion). The increase of approximately 8% was mainly as a result of an appreciation of Euro as at 31st May, 2007.

The average debtor turnover has shortened from approximately 60 days for the year ended 31st May, 2006 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 for the year ended 31st May, 2007 compared to 25 days for the year ended 31st May 2006. There was a decrease in accounts receivable of approximately HK$792.1 million mainly due to a provision made for doubtful debts of HK$548.6 million in response to KPMG's findings.

Assets

Total assets were approximately HK$4,789.7 million as at 31st May, 2007 compared to approximately HK$6,576.9 million as at 31st May, 2006. The decrease of HK$1,787.2 million was mainly attributable to the provision made for accounts receivables, promissory notes, available-for-sale financial assets and other receivables and impairment losses on intangible assets totalling HK$1,986.8 million during the financial year.

As at 31st May, 2007, certain assets of the Group were pledged as security for banking facilities granted to certain overseas subsidiaries of the Group. Assets pledged includes freehold land and buildings with an aggregate net book value of approximately HK$37.4 million as at 31st May, 2007 (2006: approximately HK$52.1 million), certain leasehold rights with an aggregate net book value of approximately HK$18.0 million as at 31st May, 2007 (2006: approximately HK$16.9 million) and inventories with approximate carrying amount of HK$68.6 million as at 31st May, 2007 (2006: approximately HK$57.8 million). Apart from these, the Group had no other pledged assets as at 31st May, 2007.

The Group is not currently in anticipation of any material purchase of capital assets or material investments for the coming year.

In November 2006, the Company privatised Egana Jewellery & Pearls Limited, its Hong Kong listed subsidiary engaged in the jewellery business which was 55% owned by the Company prior to the privatisation. Save as disclosed above, the Group made no other material acquisitions or disposals of subsidiaries and associated companies in the course of the financial year.

During the financial year ended 31st May, 2007, an interim dividend of approximately HK$43.8 million (2006: approximately HK$36 million) was declared and paid on 15th February, 2007 and 30th March, 2007 respectively. No final dividend is proposed for the year ended 31st May, 2007.

<u>Liquidity, Financial Resources and Capital Structure</u>

The net gearing ratio had increased from approximately 0.59 times as at 31st May, 2006 to approximately 5.40 times as at 31st May, 2007, calculated based on the sum of short-term bank borrowings and current portion of long-term liabilities divided by total shareholders' equity. The increase was mainly as a result of the sharp decrease in equity (before minority interests) from approximately HK$1,873.1 million as at 31st May, 2006 to approximately HK$321.3 million as at 31st May, 2007. There was also an increase of short-term bank borrowings of approximately HK$186.4 million (approximately HK$1,291.9 million as at 31st May, 2007 compared to approximately HK$1,105.5 million as at 31st May, 2006), and current portion of long-term liabilities of approximately HK$270.1 million (approximately HK$474.4 million as at 31st May, 2007 compared to approximately HK$204.3 million as at 31st May, 2006).

The Group has a net cash and cash equivalents position of approximately HK$706.8 million as at 31st May, 2007, a decrease by approximately HK$678.5 million compared to prior year, primarily due to an impairment loss on promissory notes of approximately HK$736.4 million made for the year ended 31st May, 2007.

The Group had long-term bank borrowings totalling approximately HK$1,221.6 million as at 31st May, 2007 (2006: approximately HK$1,326.1 million), of which approximately HK$383.4 million was due within one year (2006: approximately HK$170.2 million), and approximately HK$838.2 million was due after one year and within five years (2006: HK$1,155.9 million including HK$0.2 million due after 5 years). Other long-term liabilities comprised notes payable and other loans amounting to approximately HK$87.6 million (2006: HK$39.3 million), of which approximately HK$77.8 million was due within one year (2006: approximately HK$29.6 million), and approximately HK$6.3 million was due after one year and within five years, (2006: approximately HK$6.2 million) and approximately HK$3.5 million was due after five years (2006: approximately HK$3.5 million). As at 31st May 2007, the Group had obligations under finance leases totalling approximately HK$42.2 million (2006: approximately HK$12.8 million), of which approximately HK$13.2 million was due within one year (2006: approximately HK$4.5 million), and approximately HK$29.0 million was due after one year and within five years (2006: approximately HK$8.3 million).

As at 31st May, 2007, the Group had short-term bank loans and overdrafts of approximately HK$944.3 million (2006: approximately HK$815.6 million) and trust receipts and import loans of approximately HK$347.6 million (2006: approximately HK$290.0 million).

Our revenue and assets were denominated in Euro and Swiss Francs 56%; US$ 31%; HK$ 4% and other 9%. Payments were in Euro and Swiss Francs 42%; US$ 33%; HK$ 17% and other 8%.

During the financial year, the Group entered into forward foreign exchange, gold and silver contracts to hedge against fluctuations in foreign exchange rates. The Group had also bought and sold some currency and silver options during the financial year. The Group's exposure to interest rate risks relates primarily to the Group's long-term debt obligations, which the Company generally assumes to fund capital expenditures and working capital requirements. The Group had entered into interest rates swaps to manage its exposure in this regard.

Save as disclosed above, the Group had no significant capital commitment, material contingent liabilities or off balance sheet obligations as at 31st May, 2007.

As set out in the Company's press announcement of 2nd October, 2007, the Group has requested that all financial creditors exercise forbearance pending implementation of a financial restructuring. Up to the present time, the creditors are exercising such forbearance. The financial restructuring is intended to include an injection of approximately HK$1.2 billion of new funds into the Group through the possible issue by the Company of HK$880 million convertible bonds and the transfer of certain doubtful receivables for approximately HK$325 million, as well as a restructuring of financial indebtedness on terms acceptable to the Group's financial creditors. In the meantime, a bridging loan of HK$300 million from Lifestyle International Holdings Limited was drawn down by the Company in full on 24th September, 2007 for a period of 4 months. 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 material impact on the bank facilities referred to in this section.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its securities (whether on the Stock Exchange or otherwise) during the year ended 31st May, 2007.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the year, the Company complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "Code") except for A.1.3, A.2.1, A.4.1 and A.4.2 of the Code.

Regular board meetings were held during the year although some of them were held with consent to notice of less than 14 days as provided under A.1.3 of the Code. In November 2006, the Board resolved to segregate the roles of Chairman and Chief Executive to comply with Code Provision A.2.1.

All Independent Non-Executive Directors are not appointed for a specific term as stipulated under A.4.1 of the Code but are subject to retirement by rotation and re-election at the annual general meetings of the Company. Code A.4.2 has been complied with during the year except that given the extensive experience of the Chairman and as the founder of the Group, the Chairman was not subject to retirement by rotation at least once every three years under the Company's articles of association of the Company.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own code for Directors' Securities Transactions on terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules.

The Company has made specific enquiry of all Directors of any non-compliance with the code during the financial year ended 31st May, 2007, and they have all confirmed their full compliance with the required standard as set out in the code.

EXTRACT OF THE DRAFT AUDITOR'S REPORT ON THE GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MAY, 2007

"Basis of disclaimer of opinion

1. Scope limitation – material sales transactions and receivable provision

   Included in consolidated turnover of $7,025,459,000 were recorded sales of $1,816,741,000 to several customers during the year ended 31st May, 2007. The recorded gross profit arising on these transactions in the amount of $448,040,000 has been included in determining the Group's gross profit of $2,573,373,000. The consolidated net loss to the equity holders of the Company for the year of $1,959,408,000 includes a full provision of $548,646,000 against the year end outstanding balances due from these same customers. We were unable to obtain reasonable representations and assurances from management that these sales transactions represented genuine sales to independent third party customers. Accordingly, we were unable to satisfy ourselves as to the original sales, the related costs thereof, the gross profit so arising, or the appropriateness of the provision made in respect of the outstanding balances.

2. Fundamental uncertainty relating to the going concern basis

   As explained in (note 2) to the accounts, that the Group incurred a consolidated net loss to the equity holders of the Company of $1,959,408,000 for the year ended 31st May 2007 and had consolidated net current liabilities of $17,703,000 at 31st May 2007. The accounts have been prepared on a going concern basis, the validity of which is dependent on the successful outcome of the proposed acquisition of a controlling interest in the Company, and related proposed funding, by a prospective investor, and the Group's current negotiations with its principal bankers regarding a rescheduling of the Group's bank borrowings. The accounts do not include any adjustments that would result from a failure to obtain such funding support. We consider that appropriate disclosures have been made. However, the uncertainty surrounding the outcome of this proposed acquisition and funding by a prospective investor and negotiations with the principal bankers raises a significant doubt regarding the Group's ability to continue as a going concern.

Disclaimer of opinion: disclaimer on view given by the accounts

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we do not express an opinion as to whether the accounts give 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 in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the accounts have been properly prepared in accordance with disclosure requirements of the Hong Kong Companies Ordinance."

AUDIT COMMITTEE

The Audit Committee has reviewed the Company's consolidated results for the year ended 31st May, 2007 which have been agreed by the Company auditors.

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

This preliminary results announcement will be published on the website of the Stock Exchange as well as the Company's website (www.egana.com) soon and the annual report will be dispatched to the shareholders of the Company as soon as practicable.

On behalf of the Board
Peter Ka Yue LEE
Deputy Chairman

Hong Kong, 26th October, 2007

As at the date of this announcement, the Board comprises Messrs. Peter Ka Yue LEE, Michael Richard POIX, Ho Yin CHIK, Wolfgang Heinz PFEIFER and Juergen Ludwig HOLZSCHUH as executive directors and Professor Udo GLITTENBERG and Dr. Goetz Reiner WESTERMEYER as independent non-executive directors.