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EGANA
JEWELLERY & PEARLS LIMITED
(Incorporated in the Cayman Islands with limited liability)
(stock code: 926)

**ISSUE OF TRANCHE 3A BONDS OF UP TO US\$5,000,000 PURSUANT
TO THE SUBSCRIPTION AGREEMENTS ENTERED INTO BETWEEN
MERRILL LYNCH AND THE COMPANY**

Reference is made to the Company's announcements dated 10th February, 2004 and 26th February, 2004.

The Directors wish to announce that, subject to the approval of the Stock Exchange for the listing of and the permission to deal in the new Shares of the Company, the Tranche 3a Bonds will be issued to Merrill Lynch.

Reference is made to the Company's announcements dated 10th February, 2004 and 26th February, 2004 regarding the issue of the Bonds (the "Announcements"). Unless the context otherwise requires, defined terms used in this announcement shall have the same respective meanings as in the Announcements.

Bonds to be issued

The Board of Directors of the Company is pleased to announce that Merrill Lynch has exercised its option to subscribe for the Tranche 3a Bonds of up to US\$5,000,000 under the Subscription Agreements entered into between Merrill Lynch and the Company, and, in accordance with the Subscription Agreements, the Company will also grant to Merrill Lynch a Subscription Right to subscribe for up to 3,518,342 new Shares of the Company (representing up to 15 per cent. of the principal amount of the Tranche 3a Bonds of US\$5,000,000 (multiplied by 7.7685, the agreed exchange rate used in calculating the number of Shares to be issued under the Subscription Right) divided by the Tranche 3a Bond's Fixed Conversion Price of HK\$1.656, which is set at 122% of the arithmetic average of the daily volume weighted average price of the Shares during the 30 consecutive trading days immediately preceding the Third Closing Date).

Under the Subscription Agreements, the Company has an option to issue a Tranche 3b Bonds of up to US\$5,000,000 to Merrill Lynch and at the date of this announcement, the Board of Directors has no such intention.

Public Float

At the date of this announcement, the issued ordinary share capital of the Company is HK\$190,487,831 comprising 380,975,662 Shares. EganaGoldpfeil, the single largest shareholder of the Company, currently holds 246,121,144 Shares, representing approximately 64.6% of the existing issued ordinary share capital of the Company.

After the full conversion of the Tranche 3a Bonds based on the Assumed Floating Conversion Price of HK\$1.1556, being 90 per cent. of the average of the lowest five closing prices per Share during the 30 consecutive trading days up to and including 17th December, 2004, and the exercise of the Subscription Right, the approximate percentage of shares holding of EganaGoldpfeil in the enlarged issued ordinary share capital of the Company will be as follows:-

In this announcement, an exchange rate of 7.7806 quoted on 17th December, 2004 was used to convert the Tranche 3a Bonds of US\$5,000,000 into HK\$38,903,000 in calculating the number of Shares to be issued under the Tranche 3a Bonds.

No. of Shares to be issued under (i) the Tranche 3a Bonds; and (ii) the Subscription Rights	Existing issued ordinary shares of the Company	Enlarged issued ordinary shares of the Company	Percentage of shares holding of EganaGoldpfeil
(i) 33,664,762	380,975,662	418,158,766	58.86%
(ii) 3,518,342			

Conditions

The issue of the Tranche 3a Bonds are conditional on, among other things, the satisfaction of following conditions:-

- (i) the obtaining of the approval from the Listing Committee of the Stock Exchange for the listing of and permission to deal in the new Shares which fall to be issued upon exercise of the conversion rights under the Tranche 3 Bonds and the Subscription Rights; and
- (ii) General Mandate has been granted to the Company for the issue of new Shares up to 20% of the issued ordinary share capital of the Company at the date of passing the relevant resolution by the Shareholders of the Company.

In respect of item (i), application has been made to the Stock Exchange and in respect of item (ii), General Mandate has been granted by the Shareholders of the Company at the annual general meeting held on 18th November, 2004 (“AGM”) authorising the Directors to issue new Shares of up to 76,195,132 Shares.

We set out below a summary showing the total number of Shares to be issued if the Tranche 3a Bonds to be converted at (i) the Fixed Conversion Price; (ii) Assumed Floating Price and (iii) par value of the Shares (HK\$0.5):-

	No. of Shares to be issued under the Tranche 3a Bonds	No. of Shares to be issued under the Subscription Rights	Total no. of Shares to be issued under the Tranche 3a Bonds and the Subscription Rights
(i) Fixed Conversion Price (HK\$1.656)	23,492,149	3,518,342	27,010,491
(ii) Assumed Floating Conversion Price (HK\$1.1556)	33,664,762	3,518,342	37,183,104
(iii) Par Value of the Shares (HK\$0.5)	77,806,000	3,518,342	81,324,342

If the Tranche 3a Bonds is converted at either Fixed Conversion Price or the Assumed Floating Conversion Price, the General Mandate will be sufficient to cover the total no. of Shares to be issued under the Tranche 3a Bonds and the exercise of the Subscription Rights.

With regards to the scenario (iii) above, the Board of Directors, based on the following factors, has formed the view that the possibility of a drop of the Floating Conversion Price to the level of HK\$0.5 is remote:-

- (a) the net asset value per Share is HK\$1.34;
- (b) the cost of investment per Share of EganaGoldpfeil in the Company is HK\$1.25; and
- (c) the average closing price per Share throughout the year 2004 is above HK\$1.00.

Merrill Lynch undertakes to the Company that if the scenario (iii) above emerges, the total number of Shares to be converted under the Tranche 3a Bonds and the Subscription Rights should be up to the maximum number of 76,195,132 Shares, adjusted in Merrill Lynch's reasonable determination for any subdivision, consolidation or similar event, which represent the 20% General Mandate granted to the Company at the AGM.

Save as disclosed above, all conditions precedent for the issue of the Tranche 3a Bonds were fulfilled.

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

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

Hong Kong, 13th January, 2005

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