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**JEWELLERY & PEARLS LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

**(stock code: 926)**

**ISSUE OF TRANCHE 4A 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, 26th February, 2004, 13th January, 2005, 18th February, 2005, 7th March, 2005 and 17th March, 2005 ("the Announcements").

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 Shares of the Company, the Tranche 4a Bonds will be issued to Merrill Lynch in accordance with the terms and conditions of the Subscription Agreements.

Reference is made to the Company's announcements dated 10th February, 2004, 26th February, 2004, 13th January, 2005, 18th February, 2005, 7th March, 2005 and 17th March, 2005 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 and its principal terms**

The Tranche 4a Bonds and the Subscription Right:

The Board of Directors of the Company is pleased to announce that Merrill Lynch has exercised its option to subscribe for the Tranche 4a Bonds of up to US\$5,000,000 in accordance with the terms and conditions of the Subscription Agreements.

A subscription right in respect of the Tranche 4a Bonds ("the Subscription Right") will also be granted to Merrill Lynch for the subscription of Shares of the Company at a Fixed Conversion Price.

Upon the granting of the listing approval from the Stock Exchange, the Tranche 4a Bonds will be issued to Merrill Lynch (subject to Merrill Lynch's agreement that the number of Shares to be issued pursuant to the conversion of the Tranche 4a Bonds and the exercise of the Subscription Right shall not exceed the Maximum Number of Shares — as described more fully at "Conditions" below).

#### Conversion Price:

According to the Subscription Agreements, Merrill Lynch has the conversion right to convert the Tranche 4a Bonds into Shares either at Fixed Conversion Price or at Floating Conversion Price at the discretion of Merrill Lynch. The Fixed Conversion Price means the price 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 prior to the actual date of issue of the Tranche 4a Bonds and the said formula has been defined and disclosed in the Company's announcements dated 10th February and 26th February, 2004 respectively.

Assumed that the actual date of conversion of the Tranche 4a Bonds was 11th July, 2005, then the Fixed Conversion Price will be HK\$1.602 ("the Assumed Fixed Conversion Price").

The Assumed Floating Conversion Price means Floating Conversion Price calculated as if the actual date of conversion of the Tranche 4a Bonds was 11th July, 2005. The Floating Conversion Price means the price which is set at 90% of the average of the five lowest daily closing prices per Share during the 30 consecutive trading days immediately prior to the date on which the conversion notice is received by the Company and the said formula has been defined and disclosed in the Company's announcement dated 10th February, 2004.

Assumed that the actual date of conversion of the Tranche 4a Bonds was 11th July, 2005, then the Floating Conversion Price will be HK\$1.1538 ("the Assumed Floating Conversion Price").

#### Conversion Period and Exercise Period:

According to the terms of the Tranche 4a Bonds, the Tranche 4a Bonds may be converted at any time in the period from and including the actual issue date of the Tranche 4a Bonds to and including the day falling one week prior to the maturity date of the Tranche 4a Bonds.

According to the terms of the Subscription Right, the Subscription Right may be exercised at any time in the period from and including the actual issue date of the Tranche 4a Bonds to and including the maturity date of the Tranche 4a Bonds.

Shares to be issued:

We set out below a summary showing the total number of Shares that could be issued if the Tranche 4a Bonds to be converted at (i) the Assumed Fixed Conversion Price; (ii) the Assumed Floating Conversion Price and (iii) par value of the Shares (HK\$0.50):

	<b>No. of Shares to be issued under the Tranche 4a Bonds</b>	<b>No. of Shares Subscription Shares”) to be issued under the Subscription Right</b>	<b>Total no. of Shares to be issued under the Tranche 4a Bonds and the Subscription Right</b>
(i) Assumed Fixed Conversion Price (HK\$1.602)	24,264,981	4,436,438	28,701,419
(ii) Assumed Floating Conversion Price (HK\$1.1538)	33,690,847	4,436,438	38,127,285
(iii) par value of the Shares (HK\$0.50)	77,745,000	4,436,438	82,181,438

The number of Shares to be issued under the Tranche 4a Bonds under the above three scenarios were calculated by converting the principal amount of the Tranche 4a Bonds of US\$5,000,000 into HK\$38,872,500 (using an assumed exchange rate of US\$1.00 into HK\$7.7745 as reported by Bloomberg on page “HKD Currency HP” on 11th July, 2005) and then divided by the respective Assumed Fixed Conversion Price, Assumed Floating Conversion Price and the par value of the Shares.

The number of Subscription Shares to be issued under the Subscription Right represent 15 per cent. of the principal amount of the Tranche 4a Bonds (US\$5,000,000 converted into HK\$38,842,500 using the predetermined exchange rate of US\$1.00 into HK\$7.7685 as stated in the Subscription Agreements) divided by the assumed base price of HK\$1.3133 (“the Assumed Base Price”).

The Assumed Base Price means the Based Price calculated as if the actual date of issue of the Tranche 4a Bonds was 11th July, 2005. The Based Price means the price which is set at the arithmetic average of the daily volume weighted average price of the Shares during the 30 consecutive trading days immediately prior to the actual date of issue of the Tranche 4a Bonds. The Base Price of HK\$2.10 defined in the Company’s announcement dated 10th February, 2004 was an assumed based price calculated as if the actual date of issue of the Tranche 4 Bonds was 9th February, 2004. The formula in calculating the number of Subscription Shares has been defined and disclosed in the Company’s announcement dated 10th February, 2004.

Under the Subscription Agreements, the Company has an option to issue the Tranche 4b 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 to issue the Tranche 4b Bonds.

Interests:

The Tranche 4a Bonds bear interest from the date of issue of the Tranche 4a Bonds to the Date of Maturity (unless converted or redeemed) at the rate of 1.5% per annum.

Transferability:

Merrill Lynch has agreed with the Company that it will not assign or transfer any of the Tranche 4a Bonds to any third party, other than to a subsidiary or holding company or subsidiary of such a holding company, without the prior written consent of the Company.

Status of the Shares:

All the Shares to be issued under the Tranche 4a Bonds shall rank pari passu in all respects with the Shares already in issued.

Date of Maturity:

The Tranche 4a Bonds mature on 31st March, 2009.

Early Redemption:

The Company may, at any time prior to 30th March, 2007, redeem the Tranche 4a Bonds at an amount equal to 108% of the principal amount of the Tranche 4a Bonds plus accrued interest, provided that the closing price of the Shares has remained below HK\$0.60 per Share for at least 10 consecutive trading days, by giving written notice to Merrill Lynch in accordance with the Subscription Agreements.

At the written request of Merrill Lynch, the Tranche 4a Bonds may also be early redeemed at an amount equal to 108% of its principal amount of the Tranche 4a Bonds plus accrued interest at any time if the aggregate number of Shares held by EganaGoldpfeil at any time falls below 200 million Shares.

**Shareholding Structure**

At the date of this announcement, the issued ordinary share capital of the Company is HK\$206,582,226 comprising 413,164,452 Shares. EganaGoldpfeil, the single largest shareholder of the Company, currently holds 246,121,144 Shares, representing approximately 59.57% of the existing issued ordinary share capital of the Company.

Upon the full conversion of the Tranche 4a Bonds based on the (i) Assumed Fixed Conversion Price; (ii) Assumed Floating Conversion Price and (iii) par value of the Shares (HK\$0.50) and the exercise of the Subscription Right, the shareholding structure of the Company in the existing and enlarged issued ordinary share capital of the Company will be as follows:-

No. of Shares to be issued under the Tranche 4a Bonds and the Subscription Right	Existing issued ordinary shares of the Company	Enlarged issued ordinary shares of the Company	Percentage of shares holding of EganaGoldpfeil in (i) the existing; and (ii) the enlarged issued ordinary shares of the Company	Percentage of shares holding of Merrill Lynch in (i) the existing; and (ii) the enlarged issued ordinary shares of the Company	Percentage of shares holding of the public (except Merrill Lynch) in (i) the existing; and (ii) the enlarged issued ordinary shares of the Company
28,701,419 (Assumed Fixed Conversion Price)	413,164,452	441,865,871	(i) 59.57% (ii) 55.70%	(i) 0.00% (ii) 6.50% <i>(note 1)</i>	(i) 40.43% (ii) 37.80%
38,127,285 (Assumed Floating Conversion Price)	413,164,452	451,291,737	(i) 59.57% (ii) 54.54%	(i) 0.00% (ii) 8.45% <i>(note 1)</i>	(i) 40.43% (ii) 37.01%
82,181,438 (par value of the Shares)	413,164,452	495,345,890	(i) 59.57% (ii) 49.69%	(i) 0.00% (ii) 16.59% <i>(note 1)</i>	(i) 40.43% (ii) 33.72%

Notes:-

1. The percentage of shareholding of Merrill Lynch in the enlarged issued ordinary shares of the Company include 2,583 Shares currently held by Merrill Lynch plus the Shares to be issued to Merrill Lynch under the Tranche 4a Bonds and the Subscription Right; and
2. The total number of Shares to be issued at a par value of the Shares and the Subscription Right represent approximately 19.89% and 16.59% of the existing and the enlarged issued share capital of the Company.

### Conditions

The issue of the Tranche 4a 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 Shares which fall to be issued upon exercise of the conversion rights under the Tranche 4a Bonds and the Subscription Right; 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), an 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 (“AGM”) held on 18th November, 2004 (“2004 General Mandate”) authorising the Directors to issue Shares of up to 76,195,132 Shares. During the period from the date of AGM to the date of this announcement, a total of 32,188,790 Shares were issued under the 2004 General Mandate.

If the Tranche 4a Bonds is converted at either the Assumed Fixed Conversion Price or the Assumed Floating Conversion Price, the remaining 44,006,342 Shares that could be issued under the 2004 General Mandate will be sufficient to cover the total no. of Shares to be issued under the Tranche 4a Bonds and the Subscription Right.

With regard to the scenario where the price of the Shares will fall below HK\$0.50 (the par value), 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\$0.50 is remote:-

- (a) the net asset value per Share is HK\$1.600;
- (b) the cost of investment per Share of EganaGoldpfeil in the Company is HK\$1.249; and
- (c) the average closing price per Share since January 2005 is above HK\$1.00.

Merrill Lynch undertakes to the Company that the total number of Shares to be converted under the Tranche 4a Bonds and the Subscription Right should be up to the maximum number of 44,006,342 Shares (“the Maximum Number of Shares”), adjusted in Merrill Lynch’s reasonable determination for any subdivision, consolidation or similar event, which represent the remaining balance of the 2004 General Mandate. The Maximum Number of Shares represents 10.65% and 9.63% of the existing issued share capital and the enlarged issued share capital of the Company respectively.

The Company and Merrill Lynch mutually agreed that if the Shares to be issued under the Tranche 4a Bonds reach the Maximum Number of Shares and, as a result of this, the conversion rights under the Tranche 4a Bonds and the Subscription Right could not be fully exercised, the Company shall, within 21 business days from the date of written notice of demand from Merrill Lynch, pay to Merrill Lynch at an account designated by Merrill Lynch an amount equal to the principal amount of the outstanding Tranche 4a Bonds plus accrued interest thereon at a rate of 1.5% per annum. After the aforementioned payment, all the conversion rights under the Tranche 4a Bonds and the exercise right in respect of the outstanding Subscription Right will lapse immediately. The foregoing is in addition to and does not affect the rights of the Company and Merrill Lynch to early redemption of the Tranche 4a Bonds as disclosed above.

The Directors will ensure that no connected person of the Company (as defined in the Listing Rules) will deal with the Shares issued under the Tranche 4a Bonds and the Subscription Right and the Directors will inform the Stock Exchange immediately at the time when they are aware of such dealings by the connected person of the Company.

Save as disclosed above, all conditions precedent for the issue of the Tranche 4a Bonds have been fulfilled.

### **Disclosure of Dilution Effect on Shareholders**

As the Company foresees the future dilution effect on the Shareholders of the Company as a result of the exercise of the conversion rights attaching to the Tranche 4a Bonds and the Subscription Right, the Company will promptly keep the Shareholders informed of the level of dilution effect and all relevant details of the conversion and/or exercise of the Subscription Right by way of an announcement on the website of the Stock Exchange in the following manners:-

1. Within 5 trading days after the end of each month, the Company will make an announcement (“the Monthly Announcement”) in a table form disclosing:-
  - (a) details of the conversion rights exercised by Merrill Lynch under the Tranche 4a Bonds and Shares subscribed under the Subscription Right during that month, which include, inter alia, the conversion date, the total principal amount converted, number of Shares converted, the floating/fixed conversion price, the percentage of dilution effect on the existing shareholders and the number of outstanding Bonds after the conversion. If there is no conversion during the relevant month, a negative statement to that effect;
  - (b) the total issued share capital of the Company announced in the previous Monthly Announcement and the total issued share capital of the Company as at the commencement and the last day of the relevant month;
2. In addition to the Monthly Announcement, if the cumulative amount of Shares issued pursuant to the conversion of the Tranche 4a Bonds reaches 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Tranche 4a Bonds (as the case may be) (and thereafter in a multiple of such 5% threshold), the Company will make an announcement on the website of the Stock Exchange including details as stated in condition (1) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Tranche 4a Bonds up to the date on which the total amount of Shares issued pursuant to the conversion amounted to 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Tranche 4a Bonds;
3. If Company forms the view that any issue of Shares under the Tranche 4a Bonds will trigger the disclosure requirements under Rule 13.09 of the Listing Rules, then Company is obliged to make such disclosures regardless of the issue of any announcements in relation to the Tranche 4a Bonds; and
4. If the conversion rights under the Tranche 4a Bonds are fully exercised and Shares under the Subscription Right are fully subscribed by Merrill Lynch or either party exercises its rights for an early redemption of the Tranche 4a Bonds, then the announcement requirements set out in the above conditions (1) to (3) will cease immediately.

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

By order of the Board  
**Egana Jewellery & Pearls Limited**  
**David Wai Kwong WONG**  
*Company Secretary*

Hong Kong, 1st August, 2005

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