



**JEWELLERY & PEARLS LIMITED**

(聯洲珠寶有限公司)

*(Incorporated in the Cayman Islands with limited liability)*  
(stock code: 926)

**AGREEMENT ENTERED INTO BETWEEN  
MERRILL LYNCH INTERNATIONAL AND THE COMPANY  
IN RELATION TO THE  
SUBSCRIPTION RIGHTS ATTACHED TO THE  
US\$45,000,000 CONVERTIBLE BONDS DUE 2009**

Reference was made to the Company's announcements dated 10th February, 2004, 26th February, 2004, 13th January, 2005, 18th February, 2005 and 1st August, 2005 in relation to the issue of the Bonds for an aggregate principal amount of US\$45,000,000 to Merrill Lynch International ("Merrill Lynch") and the granting of Subscription Rights to Merrill Lynch to subscribe for Shares of the Company.

The Company announced that on 24th May, 2006, the Company has entered into a letter agreement with Merrill Lynch pursuant to which Merrill Lynch agreed to waive its rights, benefits or claims in relation to the Subscription Rights at a total consideration of HK\$2,950,000 ("the Consideration").

The Consideration was negotiated on an arm's length basis and the Board considers that it is fair and reasonable so far as the Company is concerned.

Reference was made to the Company's announcements dated 10th February, 2004, 26th February, 2004, 13th January, 2005, 18th February, 2005 and 1st August, 2005 ("the Announcements") in relation to the issue of the Bonds for an aggregate principal amount of US\$45,000,000 to Merrill Lynch International ("Merrill Lynch") and the granting of Subscription Rights to Merrill Lynch to subscribe for Shares of the Company. Unless the context otherwise requires, defined terms used in this announcement shall have the same respective meanings as in the Announcements.

## The Bonds and the Subscription Rights

The table below shows the total principal amount of the Bonds, the actual amount of the Bonds granted to Merrill Lynch and the number of subscription shares Merrill Lynch is entitled to subscribe under the Subscription Rights:-

	<b>Tranche 1 Bonds</b>	<b>Tranche 2 Bonds</b>	<b>Tranche 3 Bonds</b>	<b>Tranche 4 Bonds</b>	<b>Total</b>
Principal amount of the Bonds	Tranche 1 Bonds: US\$10,000,000 Tranche 1a Bonds: US\$5,000,000	Tranche 2a Bonds: US\$5,000,000 Tranche 2b Bonds: US\$5,000,000	Tranche 3a Bonds: US\$5,000,000 Tranche 3b Bonds: US\$5,000,000	Tranche 4a Bonds: US\$5,000,000 Tranche 4b Bonds: US\$5,000,000	US\$45,000,000
Actual amount of the Bonds granted to Merrill Lynch	Tranche 1 Bonds: US\$10,000,000 Tranche 1a Bonds: Nil (note 7)	Tranche 2a Bonds: Nil Tranche 2b Bonds: Nil (note 7)	Tranche 3a Bonds: US\$5,000,000 Tranche 3b Bonds: Nil (note 7)	Tranche 4a Bonds: US\$5,000,000 Tranche 4b Bonds: Nil (note 7)	US\$20,000,000     (note 7)
Amount of the Bonds lapsed	Tranche 1a Bonds: US\$5,000,000	Tranche 2a Bonds: US\$5,000,000 Tranche 2b Bonds: US\$5,000,000	Tranche 3b Bonds: US\$5,000,000	Tranche 4b Bonds: US\$5,000,000	US\$25,000,000
No. of Shares (“the Subscription Shares”) that could be subscribed by Merrill Lynch under the Subscription Rights	5,548,928 Subscription Shares at a fixed subscription price of HK\$2.5 (notes 1 and 4)	Nil	4,293,570 Subscription Shares at a fixed subscription price of HK\$1.656 (notes 2 and 5)	4,584,808 Subscription Shares at a fixed subscription price of HK\$1.5504 (notes 3 and 6)	14,427,306 Subscription Shares
Maturity Date for the Subscription Rights	31st March 2009	31st March 2009	31st March 2009	31st March 2009	

Notes:-

1. 5,548,928 Subscription Shares represents 15% of the principal amount of the Tranche 1 Bonds issued multiplied by 7.7685 (the predetermined exchange rate) divided by HK\$2.1 (the predetermined Base Price);
2. 4,293,570 Subscription Shares represents 15% of the principal amount of the Tranche 3a Bonds issued multiplied by 7.7685 (the predetermined exchange rate) divided by HK\$1.357 being 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 3a Bonds;

3. 4,584,808 Subscription Shares represents 15% of the principal amount of the Tranche 4a Bonds issued multiplied by 7.7685 (the predetermined exchange rate) divided by HK\$1.2708 being 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;
4. The fixed subscription price of HK\$2.5 for 5,548,928 Subscription Shares represents the lower of (a) 122% of the closing price of the Shares on the trading day immediately preceding the actual date of issue of the Tranche 1 Bonds; or (b) HK\$2.5;
5. The fixed subscription price of HK\$1.656 for 4,293,570 Subscription Shares represents the 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 3a Bonds;
6. The fixed subscription price of HK\$1.5504 for 4,584,808 Subscription Shares represents the 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;
7. As of the date of this announcement, Merrill Lynch has fully exercised its rights to convert the aggregate amount of US\$20,000,000 Bonds into Shares of the Company; and
8. As of the date of this announcement, Merrill Lynch has never exercised its Subscription Rights to subscribe for Subscription Shares.

## **AGREEMENT**

On 24th May, 2006, the Company entered into a letter agreement (“the Letter Agreement”) with Merrill Lynch pursuant to which Merrill Lynch agreed to waive its rights, benefits, and claims in relation to the Subscription Rights attached to the Bonds being Tranche 1 Bonds, Tranche 1a Bonds, Tranche 2 Bonds, Tranche 3 Bonds and Tranche 4 Bonds at a total consideration of HK\$2,950,000 (“the Consideration”).

The Consideration was determined by an arm’s length negotiation and also by reference to the estimated value of the Subscription Rights by applying the trinomial model during the process of negotiation. The trinomial model is one of the options pricing models used to value fairly the prices or values of the options. The Board uses the trinomial model as an indicator to determine whether the Consideration reached is fairly priced when compared with the market value.

The Board considers that the Consideration is fair and reasonable and shall be in the best interests of the shareholders of the Company as a whole.

The Consideration, which will be funded entirely from the Company’s available internal financial resources, will be paid to Merrill Lynch in cash on or before 31st May, 2006.

## **RELEASE AND DISCHARGE**

Upon the date on which the Consideration is paid to Merrill Lynch (“the Completion Date”):

- (i) the Subscription Rights attached to the Bonds being Tranche 1 Bonds, Tranche 1a Bonds, Tranche 2 Bonds, Tranche 3 Bonds and Tranche 4 Bonds remaining unexercised as of the date of the Letter Agreement shall be cancelled;
- (ii) Merrill Lynch waives all its rights, benefits or claims in respect of the Subscription Rights remaining unexercised as of the date of the Letter Agreement;
- (iii) Merrill Lynch releases and discharges the Company from any obligations and liabilities (whether future, contingent, outstanding or accrued, if any) whatsoever on the part of the Company under, arising out of, or in any way connected with, or relating to the Subscription Rights remaining unexercised as of the date of the Letter Agreement; and
- (iv) the letter agreement dated 10th February, 2004 relating to the Subscription Rights (“the Subscription Agreement”) shall cease to have effect on the Completion Date, provided that nothing herein shall prejudice any rights owing to either party in respect of Subscription Rights which have been duly exercised by Merrill Lynch pursuant to the Subscription Agreement prior to the date of the Letter Agreement.

## **REASONS FOR ENTERING INTO THE LETTER AGREEMENT**

The Company entered into the Letter Agreement in order to prevent the shareholders’ interests of the Company from further dilution and to maximise the Shareholders’ value.

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 Mr. 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, 25th May, 2006

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