

Listed Company Information

SA SA INT'L<0178> - Announcement

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SA SA International Holdings Limited
(the "Company")
(Incorporated in the Cayman Islands with limited liability)

Connected Transactions

Summary

On 22nd January, 1998, Sa Sa Cosmetic Company Limited ("Cosmetic"), a subsidiary of the Company, relying on advice given, made a payment in the amount of HK\$40,660,987.37 (the "First Payment") to Mr. Kwok Siu Ming, Simon ("Mr. Kwok"), the chairman of the Company, to cover a proportion of the expenses incurred by Mr. Kwok for the purpose of the initial public offering ("IPO") of shares in the Company ("Shares"). At the time of the First Payment, the executive Directors took the view that the making of the First Payment was on normal commercial terms. Mr. Kwok was subsequently notified that the First Payment was made in contravention of the terms of the prospectus issued by the Company in June 1997 relating to the IPO (the "Prospectus") and immediately returned the same amount to Cosmetic in June 1998 (the "Second Payment"), together with a sum of HK\$2,063,664.05 ("Interest") in July 1999 representing compensation to Cosmetic for accrued interest.

The First Payment and the Second Payment (together the "Payments") constitute connected transactions for the Company in accordance with Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and should have been disclosed and made subject to approval of shareholders other than Mr. Kwok and his Associates (as defined in the Listing Rules) ("Independent Shareholders").

Background

As part of the arrangements for the IPO in June 1997, Mr. Kwok agreed to give 52.48 million shares in the Company ("Subject Shares") to a consultant (the "Consultant") in recognition of the assistance which the Consultant has given to the Company in relation to the IPO. This was disclosed in the Prospectus. This amount was not included as part of the estimated expenses of the IPO payable by the Company in the Prospectus as Mr. Kwok was of the view that such amount did not form part of the Company's expenses.

In August 1997, Mr. Kwok received advice that expenses incurred in connection with the IPO should in fact be borne by the Company and its subsidiaries (the "Group"). The board of executive directors' meeting approved a payment of HK\$38,220,134.40 ("First Sum") to the Consultant on 15th August, 1997. This sum represented a proportion of the expenses incurred by Mr. Kwok (that is, by giving the Subject Shares to the Consultant) for the purpose of the IPO which was for the benefit of the public shareholders. This sum was determined

based on a formula using the issue price of the Shares at the time of the IPO of HK\$2.38. In fact, the Shares were trading at around HK\$3.20 at that time.

In January 1998, Mr. Kwok received advice that he was entitled to interest on the First Sum from the date of the IPO until the date of payment at 10.5% per annum. The First Payment, which is HK\$40,660,987.37, was paid by Cosmetic to Mr. Kwok's nominee, Electron Consultants Limited on 22nd January, 1998 (the "First Payment") instead of to the Consultant, as Mr. Kwok's agreement with the Consultant was that the Consultant was to receive Shares and therefore the Company paid Mr. Kwok's nominee in cash.

In June 1998, the Company was advised that the First Payment was made in contravention of the terms of the Prospectus. Upon notification, Mr. Kwok accepted that an error had been made and immediately returned an amount equal to the First Payment (the "Second Payment") to Cosmetic in two tranches on 29th and 30th June, 1998.

On 15th July, 1999, Mr. Kwok paid the Interest to Cosmetic in the aggregate amount of HK\$2,063,664.05, being the interest which Cosmetic could have been earned during the period whilst the money was out of its hands.

Reasons for the transaction

The Group made the First Payment on advice that it is normal practice for expenses in connection with a company's IPO to be borne by the Group and not its controlling shareholder. The Second Payment was made by Mr. Kwok as soon as he realised that he has relied on incorrect advice and was made to reverse the First Payment.

General

At the time of the First Payment, relying on the aforesaid advice that it is normal practice that expenses incurred for the purpose of the IPO should be paid by the Company and not the controlling shareholder, the executive Directors then formed the view that the making of the First Payment was on normal commercial terms.

Mr. Kwok (the chairman of the Company) and Ms. Law Kwai Chun, Eleanor, his wife who is also an executive director of the Company, are together controlling shareholders (as defined in the Listing Rules) of the Company. Therefore, the Payments constitute connected transactions for the Company pursuant to the Listing Rules and should have been disclosed by way of a press announcement. As both payments exceeded 3% of the consolidated net tangible assets of the Company based on the then latest published accounts, the Payments should also have been made subject to Independent Shareholders' approval. The failure to do so constituted a breach of the Listing Rules.

The First Payment was included in the deposits, prepayments and other receivables account in the financial statements for the year ended 31st March, 1998 when it was decided that the First Payment should be refunded to Cosmetic. The First Payment should have also been disclosed as an amount due from Mr. Kwok, a director of the Company, in the financial statements for the year ended 31st March, 1998 together with the terms of this amount due and this additional disclosure was omitted in the financial statements for the year ended 31st March, 1998.

The First Payment, Second Payment and the Interest (collectively referred as the "Transactions") had no effect on the loss for the year ended 31st March, 1999 ("the Loss") and the net assets at 31st March, 1999 ("the Net Assets") except that the Interest which covered the period from January 1998 to July 1999 paid to Cosmetic in July 1999 has been credited in full in arriving at the Loss and

the Net Assets but the effect on the Loss and the Net Assets is insignificant.

The Transactions have been properly disclosed in the 31st March, 1999 annual report.

Due to an oversight, the Payments were not brought to the attention of the Stock Exchange when they were made. As soon as the Directors were aware of the oversight, the matter was reported to the Stock Exchange on 24th July, 1999. Thereafter, the Company immediately proceeded to gather information for the preparation of this announcement to inform shareholders about the details of the Payments.

The Stock Exchange reserves its rights to take further action in relation to the matters mentioned above.

By Order of the Board
Sa Sa International Holdings Limited
Mok Yuen Yin, Anne
Company Secretary

Hong Kong, 2nd August, 1999