



香港交易所

THE STOCK EXCHANGE OF HONG KONG LIMITED

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

6 December 2005

**The Listing Committee of The Stock Exchange of Hong Kong Limited
(the “Listing Committee”)
criticises
Chow Sang Sang Holdings International Limited (the “Company”)
for breaching the Exchange Listing Rules**

At a disciplinary hearing held on 4 October 2005, the Listing Committee conducted a hearing into possible breaches of the Exchange Listing Rules by the Company of its obligations under the then Rule 14.25(1) of the Exchange Listing Rules.

Facts

The Listing Division alleged that the Company breached Rule 14.25(1) (in force prior to 31 March 2004) in relation to four categories of connected transactions “due to inadvertent oversight” as the total consideration or value of each of these categories (the “Transactions”) exceeded the higher of \$1 million or 0.03 per cent of the Company’s net tangible assets (“NTA”) (but not exceeding the higher of \$10 million or 3 per cent of the Company’s NTA) in different periods of time since 1991, 2002 and 2003.

Pursuant to the then Rule 14.25(1), the Company should have published an announcement as soon as possible and include details of the Transactions in its next published annual report.

The Transactions were as follows:

i. Financial assistance to connected person

Since 31 October 2002, Chow Sang Sang Jewellery (Foshan) Co., Ltd. (“CSSJ (Foshan)”), a non-wholly owned subsidiary of the Company, had lent various sums of money for different durations at the interest rate of 6 per cent per annum to Foshan Shunde Jinpeng Jewelry Co. Ltd. (“Jinpeng Jewelry”) (a connected person) under six trusted lending agreements and four trusted lending extension agreements (the “Loans”).

Jinpeng Jewelry was a former substantial shareholder of CSSJ (Foshan) when it owned 10 per cent of the equity interest in CSSJ (Foshan) which was reduced to 4.9 per cent on 5 September 2003. Jinpeng Jewelry continued to be an associate of a director of CSSJ (Foshan).

The total value of the Loans at any time exceeded \$1 million but no announcement was made until March 2004. The Company was therefore in breach of the then Rule 14.25(1) in respect of the Loans since 31 October 2002 up to 30 March 2004.

ii. Lease of property from connected persons

Chow Sang Sang Jewellery Company Limited (“CSSJ”), a wholly-owned subsidiary of the Company, entered into various Leases to rent certain properties from several connected persons since the 1970s (the “Leases”).

Since 1991, the annual rental under each of the Leases exceeded \$1 million but no announcement was made until March 2004. The Company was therefore in breach of the then Rule 14.25(1) in respect of the Leases from 1991 until 30 March 2004.

iii. Purchase of raw materials from connected persons

Since 8 September 2003, various subsidiaries of the Company had purchased raw materials (polished diamonds) from Jing Hua Diamond & Jewellery Co., Ltd. (“Jing Hua”) (a substantial shareholder of Chow Sang Sang Jewellery (Shandong) Co., Ltd. which was a non-wholly owned subsidiary of the Company). There was no formal sale and purchase agreement or supply agreement between Jing Hua and the various subsidiaries. All the transactions between them were conducted on an individual order basis and settled by cash.

The total amount of purchases from Jing Hua between 8 September 2003 and 31 December 2003 was \$5,202,000 which exceeded the higher of \$1 million and 0.03 per cent of the Company’s NTA. The Company was in breach of the then Rule 14.25(1) as no announcement was made until March 2004.

iv. Purchase of finished goods from connected person

Since August 2002, various subsidiaries of the Company had purchased gold products from Jinpeng Jewelry. There was no formal sale and purchase agreement or supply agreement between Jinpeng Jewelry and the various subsidiaries. All the transactions between them were conducted on an individual order basis and settled by cash.

The total amount of purchases from Jinpeng Jewelry between 1 August 2002 and 31 December 2002 was \$2,066,000 and the total amount of purchases in 2003 was \$16,798,000. These amounts exceeded the higher of \$1 million and 0.03 per cent of the Company’s NTA. The Company was in breach of the then Rule 14.25(1) because no announcement was made until March 2004.

The details of the Transactions were only published in 2004 in the Company's announcement dated 30 March 2004.

The Decision

The Listing Committee concluded that the Company breached the then Rule 14.25 of the Exchange Listing Rules in respect of each of the Transactions. The Listing Committee decided to impose a public statement which involved criticism on the Company for the said breaches.

Head of Listing, Richard Williams said, "The importance to issuers of establishing compliance structures adequate to ensure compliance with regulatory obligations has been a prominent and recurrent theme of a number of press releases concluding disciplinary action brought by the Exchange. Of equal importance to the creation of those systems is their effective use. Listed issuers should assess transactions with connected parties against those structures and in the case of ongoing transactions they should be monitored regularly to ensure compliance with disclosure and other obligations."