

SAU SAN TONG HOLDINGS (CAYMAN ISLANDS) LIMITED

修身堂控股(開曼群島)有限公司*

(incorporated in the Cayman Islands with limited liability)

2003-2004

3rd Quarterly Financial Report

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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The Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of Sau San Tong Holdings (Cayman Islands) Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to the Company. The directors of the Company, have made all reasonable enquiries, confirm that, to the best of their knowledge and believes: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on the bases and assumptions that are fair and reasonable.

HIGHLIGHTS

Successful listing of the shares of the Company on GEM on 19 November 2003.

Turnover achieved approximately HK\$23,928,000 for the quarter ended 31 December 2003, representing an increase of approximately HK\$7,463,000 when compared to the same period of 2002.

The Group recorded a profit attributable to shareholders of approximately HK\$1,133,000 for the quarter ended 31 December 2003.

The Board does not recommend the payment of any dividend for the nine months ended 31 December 2003.

FINANCIAL INFORMATION

Unaudited consolidated results

The board of Directors (the “Board”) of the Company is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (the “Group”) for the quarter ended 31 December 2003 together with the comparative figures for the corresponding period ended in 2002 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the quarter ended 31 December 2003

	Notes	For the quarter ended 31 December		For the nine months ended 31 December	
		2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000
Turnover	2	23,928	16,465	114,288	43,897
Cost of sales		(5,140)	(2,046)	(22,357)	(6,997)
Gross profit		18,788	14,419	91,931	36,900
Other revenue	2	104	23	235	108
Selling and distribution costs		(8,673)	(8,335)	(44,308)	(23,087)
General and administrative expenses		(7,888)	(1,891)	(17,991)	(7,450)
Profit from operating activities		2,331	4,216	29,867	6,471
Finance costs		(24)	(24)	(89)	(57)
Profit before tax		2,307	4,192	29,778	6,414
Taxation	3	(1,047)	(837)	(4,733)	(1,457)
Profit before minority interests		1,260	3,355	25,045	4,957
Minority interests		(127)	(282)	(215)	(765)
Profit attributable to shareholders		1,133	3,073	24,830	4,192
Dividend		—	—	1,000	—
Earnings per share	4				
— basic, in cents		0.24	0.58	5.52	0.79
— diluted, in cents		0.21	n/a	5.30	n/a

NOTES:

1. **Group reorganization and basis of preparation**

The Company was incorporated in Cayman Islands on 21 May 2002 as an exempted company with limited liability under the Companies Law, Cap.22 of the Cayman Islands. Pursuant to a group reorganization (the "Reorganization") to rationalize the group structure in preparation for the listing of the Company's shares on GEM, the Company became the holding company of the Group upon completion of the Reorganization on 4 November 2003 and, through a placement of 132,000,000 shares (the "Placing") of the Company, the Company's shares were initially listed on GEM on 19 November 2003 (the "Listing"). Further details of the Reorganization are set out in the Company's prospectus dated 10 November 2003. The Group resulting from the Reorganization, is regarded as a continuing entity for the accounting purpose.

The principal accounting policies adopted in preparing the unaudited consolidated results conform with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

2. **Turnover and other revenue**

	For the quarter ended 31 December		For the nine months ended 31 December	
	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000
Turnover				
Sales of health and beauty products	5,920	1,351	25,442	9,303
Operation of slimming centres	18,008	15,114	88,846	34,594
	23,928	16,465	114,288	43,897
Other revenue				
Interest income	—	16	2	17
Others	104	7	233	91
	104	23	235	108

3. **Taxation**

Hong Kong profits tax has been provided at a rate of 17.5% on the estimated assessable profits for the period (three months and nine months ended 31 December 2002:16%).

There was no significant unprovided deferred taxation for the quarter and nine months ended 31 December 2003.

4. **Dividend**

The Directors do not recommend the payment of any dividend for the nine months ended 31 December 2003 (2002:HK\$nil).

5. **Earnings per share**

The calculation of basic earnings per share for the quarter and nine months ended 31 December 2003 is based on the unaudited net profits attributable to shareholders for the quarter and nine months ended 31 December 2003 of approximately HK\$1,133,000 and HK\$24,830,000 (quarter and nine months ended 31 December 2002: approximately HK\$3,073,000 and HK\$4,192,000) respectively and on the weighted average number of approximately 478,786,957 shares and 450,048,000 shares (quarter and nine months ended 31 December 2002: on the weighted average number of 528,000,000 shares and 528,000,000 shares respectively in which were deemed to have been issued prior to the placing) in issue during the periods.

No diluted earnings per share has been disclosed as there were no diluting events existed during the quarter and nine months ended 31 December 2002.

The calculation of diluted earnings per share for the quarter and nine months ended 31 December 2003 is based on the unaudited net profits attributable to shareholders of approximately HK\$1,133,000 and HK\$24,830,000 and on 534,429,193 shares and 468,662,857 shares, being the weighted average number of ordinary shares outstanding during the period, adjusted for the effects of the share options during the periods.

6. Reserves

	Share capital HK\$'000	Merger reserve HK\$'000	Retained earnings HK\$'000	Share premium HK\$'000	Total HK\$'000
As at 1 April 2003	500	—	4,317	4,895	9,712
Net profit attributable to shareholders	—	—	24,830	—	24,830
Share issued in acquiring subsidiaries	3,856	(3,851)	—	—	5
Placing shares	924	—	—	—	924
Premium arising from the placing of shares	—	—	—	22,176	22,176
Share issuance expenses	—	—	—	(6,212)	(6,212)
Dividends	—	—	(1,000)	—	(1,000)
As at 31 December 2003	5,280	(3,851)	28,147	20,859	50,435
As at 1 April 2002	10	—	5,696	—	5,706
Net profit attributable to shareholders	—	—	4,207	—	4,207
Issue of ordinary shares	500	—	—	—	500
Share swap in accordance with the Reorganization	(10)	—	—	—	(10)
Share premium	—	—	—	4,895	4,895
As at 31 December 2002	500	—	9,903	4,895	15,298

CHAIRMAN'S STATEMENT

I am much delighted to announce the first unaudited quarterly results of the Company and its subsidiaries (collectively the "Group") after the listing.

The Company is the first enterprise specialized in health and beauty products and slimming services ever listed on the Exchange. Over the past few years, the Company has successfully built up its reputation as one of the most successful slimming specialists in Hong Kong and our products have seized a satisfactory market share. Whilst health, beauty and slimming is still a relatively new industry, we are now well positioned to further tap the emerging opportunities and become the market leader within the industry.

FINANCIAL REVIEW

For the quarter ended 31 December 2003, the Group achieved a consolidated turnover of approximately HK\$23,928,000, an increase of approximately 45% from approximately HK\$16,465,000 for the same period in 2002. This significant increase was attributable to the additional revenue generated from our new slimming centre at Causeway Bay, Hong Kong which was opened in June 2003 and our soaring sales of health and beauty products.

Consolidated net profit attributable to shareholders amounted to approximately HK\$1,133,000 for the quarter ended 31 December 2003, a decrease of approximately 63% from HK\$3,073,000 for the same period in 2002. The drop was primarily caused by the considerable increase in general and administrative expenses. In particular, during the period under review, we employed extra new staff and provided training for them in anticipation for opening the fourth slimming centre in Shatin, Hong Kong in early 2004.

Dealings in the Company's shares commenced on 19 November 2003. The funds raised have been and are being used to develop and promote our existing health and beauty products and services, set up new slimming centres and improve the quality of our services.

BUSINESS REVIEW AND OUTLOOK

Health and beauty products

During the period under review, we offered three major products namely Sau San Tong 5 day Perfect Figure (修身堂 5日修身料理), Sau San Tong 7 day Perfect Chest (修身堂 7日豐胸料理) and Easy Take Slim Tummy (好得減肚配方) to the market. Our products have been distributed through two major retailer chains in Hong Kong. Demand for our products is satisfactory and showed an encouraging growth.

Slimming centres

During the period under review, we operated three slimming centres, respectively in Central, Tsim Sha Tsui and Causeway Bay, Hong Kong. Given successful promotion through different celebrities as our spokespersons and a number of successful slimming cases achieved at our slimming centres which are well covered by the media, demand for our slimming services continues to grow. In order to meet the growing demand, we opened a new slimming centre in Shatin, Hong Kong in January 2004. Operation of this new slimming centre has been smooth and satisfactory.

In addition, we believe the continuous economic development and improvement in the living standard in the mainland China will lead to an increasing demand for health and beauty services. To explore this potential market, we plan to open a slimming centre in Shanghai, the People's Republic of China and launch advertising and promotion activities in coming March 2004.

To maintain our growth, we will continue to explore suitable locations whether in Hong Kong, mainland China or other areas to set up slimming centres. With established public recognition of our brand name “修身堂” and quality of service, we are confident that we will achieve our long-term objective to be the leading health, beauty and slimming products and services provider.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES OR SHORT POSITIONS IN SHARES

As at 31 December 2003, the interests or short positions of the Directors and the chief executives of the Company or their respective associates in shares and underlying shares (the "Shares") of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and/or short positions which they are deemed or taken to have under such provisions of the SFO, or which will be required, pursuant to section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules were as follows:

(i) **Long position in Shares of the Company:**

Name of Director	Capacity	Number of shareholding	
		Share	Percentage
Ms. Cheung Yuk Shan, Shirley ("Ms. Cheung")	Interest of a controlled corporation (Note 1)	293,200,000	55.53%

Note 1: The 293,200,000 Shares were held by Biochem Investments Limited ("Biochem"), a company incorporated in the British Virgin Islands with limited liability. The entire issued share capital of Biochem is wholly owned by Ms. Cheung.

(ii) **Long position in underlying shares of equity derivatives of the Company:**

Name of Director	Capacity	Description of equity derivatives	Number of underlying shares
Ms. Cheung	Beneficial owner	share option (Note 2)	79,200,000
Mr. Cheung Ka Heng, Frankie	Beneficial owner	share option (Note 2)	26,400,000

Note 2: The share options were granted under the Pre-IPO share option scheme.

Save as disclosed above, as at 31 December 2003, none of the Directors or chief executives of the Company or their respective associates has any personal, family, corporate or other interests or short positions in the Shares of the Company or its associated (within the meaning of Part XV of SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant the minimum standard of dealings by Directors of the Company as referred to in Rules 5.40 to 5.58 of the GEM Listing Rules, are required to be notified to the Company and the Exchange. During the period under review, there was no debt securities issued by the Company at any time.

INTERESTS OR SHORT POSITIONS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDER

As at 31 December 2003, so far was known to any directors or chief executives of the Company, the following interests of which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO, or who were deemed to be directly or indirectly interested in 5% or more of the issued capital of the Company, or which were recorded in the register of interests required to be kept under Section 336 of the SFO or have notified to the Company were as follows:

Long position in Shares of the Company:

Substantial shareholder	Capacity	Number of shareholding	
		Shares	Percentage
Biochem	Beneficial owner (Note 3)	293,200,000	55.53%

Note 3: Biochem is a company incorporated in the British Virgin Islands with limited liability. The entire issued share capital of Biochem is directly owned by Ms. Cheung, who is a sole director of the company.

Saved as disclosed above, as at 31 December 2003, no person, other than the directors of the Company and the chief executives of the Group, whose interests are set out in the section "Director's and chief executives' interests in Shares or short position in Shares" above, had registered an interest or short position in the share capital, underlying shares and debentures of the Company that was required to be recorded pursuant to Section 336 of the SFO.

PRE-IPO SHARE OPTION SCHEME

Pursuant to the Company's Pre-IPO share option scheme adopted and approved by written resolution of the sole shareholder of the Company passed on 4 November 2003, options to subscribe for an aggregate of 105,600,000 Shares at an exercise price of HK\$0.1 per share of the Company have been conditionally granted by the Company under the Pre-IPO share option scheme. Each of the grantees has paid HK\$1.00 to the Company by way of consideration for the grant. All of these options are exercisable within the period commencing from the date falling on the expiry of the six-month period following the Listing date and ending on the expiry of five years following the Listing date but each will lapse in accordance with the terms of the Pre-IPO share option scheme if the relevant grantee ceases to be a director or an employee of the Group or on any other grounds set out in the Pre-IPO share option scheme. Particulars of the options granted are as follows:

Name of grantee	Title/ position	No. of options granted	No. of options outstanding as at the date hereof	Exercise price per underlying share
Ms. Cheung	Director	79,200,000	79,200,000	HK\$0.1
Mr. Cheung Ka Heng, Frankie	Director	26,400,000	26,400,000	HK\$0.1

No options granted pursuant to the Pre-IPO share option scheme as stated above has been exercised or cancelled during the period under review.

SPONSOR'S INTEREST

Pursuant to a sponsor agreement dated 10 November 2003 entered into between the Company and South China Capital Limited (the "Sponsor"), the Sponsor will receive a fee for acting as the Company's retained sponsor for the period from 19 November 2003 to 31 March 2006.

As at 31 December 2003, none of the Sponsor, its directors, employees or associates had any interest in the Shares of the Company, or any right to subscribe for or to nominate persons to subscribe for any Shares of the Company.

COMPETING INTERESTS

None of the Directors or the substantial shareholder or the initial management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) has any interest in a business which compete or might compete with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SUICIRITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the quarter ended 31 December 2003.

AUDIT COMMITTEE

The Group has established an audit committee with written terms of reference in the compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The audit committee comprises two independent non-executive directors of the Company, namely Mr. Hong Po Kui, Martin and Mr. Li Kuo Hsing. The audit committee reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited combined results of the Group for the quarter ended 31 December 2003.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules for the period under review.

By Order of the Board

Sau San Tong Holdings (Cayman Islands) Limited

Cheung Yuk Shan, Shirley

Chairman

Hong Kong, 12 February 2004