



SAU SAN TONG HOLDINGS LIMITED
修身堂控股有限公司

Third Quarterly Report 2004

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.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

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 howsoever 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 Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (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

Consolidated turnover of the Group for the nine months ended 31 December 2004 increased by approximately 6.4% to approximately HK\$121,652,000 compared with approximately HK\$114,288,000 for the nine months ended 31 December 2003.

The Group recorded a net profit attributable to shareholders of approximately HK\$31,364,000 for the nine months ended 31 December 2004, representing an increase of approximately 26.3% compared with the last corresponding period.

The Board does not recommend the payment of any dividend for the three months ended 31 December 2004.



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 and nine months ended 31 December 2004 together with comparative figures for the corresponding period in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the quarter and nine months ended 31 December 2004

	Notes	For the quarter ended 31 December		For the nine months ended 31 December	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	2	26,812	23,928	121,652	114,288
Cost of sales		(5,446)	(5,140)	(17,681)	(22,357)
Gross profit		21,366	18,788	103,971	91,931
Other revenue	2	89	104	303	235
Selling and distribution expenses		(15,779)	(8,673)	(53,439)	(44,308)
General and administrative expenses		(9,678)	(7,888)	(25,038)	(17,991)
Gain on disposal of subsidiaries	2	10,007	—	10,007	—
Profit from operating activities		6,005	2,331	35,804	29,867
Finance costs		—	(24)	(2)	(89)
Profit before taxation		6,005	2,307	35,802	29,778
Taxation	3	—	(1,047)	(4,397)	(4,733)
Profit after taxation		6,005	1,260	31,405	25,045
Minority interests		—	(127)	(41)	(215)
Net profit attributable to shareholders		6,005	1,133	31,364	24,830
Dividends	4	—	—	5,255	1,000
Earnings per share	5				
Basic (cents)		0.93	0.24	5.36	5.52
Diluted (cents)		0.91	0.21	4.93	5.30





NOTES (UNAUDITED):

1. Group reorganisation and basis of preparation

The Company was incorporated in the Cayman Islands on 21 May 2002 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation") to rationalise 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 Reorganisation on 4 November 2003. Further details of the Reorganisation are set out in the Company's prospectus dated 10 November 2003. The Group resulting from the Reorganisation, is regarded as a continuing entity for the accounting purpose.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants, the disclosure requirements of Hong Kong Companies Ordinance and the GEM Listing Rules. They have been prepared under the historical cost convention.

2. Turnover, revenue and gain

Turnover represents the invoiced value of goods sold, net of discounts and returns and the appropriate proportion of contract revenue from services rendered, net of discounts.

	For the quarter ended 31 December		For the nine months ended 31 December	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover				
Operation of slimming centres	22,075	18,008	106,422	88,846
Sales of health and beauty products	4,737	5,920	15,230	25,442
	<u>26,812</u>	<u>23,928</u>	<u>121,652</u>	<u>114,288</u>
Other revenue				
Interest income	6	—	7	2
Others	83	104	296	233
	<u>89</u>	<u>104</u>	<u>303</u>	<u>235</u>
Gain				
Gain on disposal of subsidiaries	10,007	—	10,007	—



3. Taxation

Hong Kong profits tax has been provided at a rate of 17.5% on the estimated assessable profits for the nine months ended 31 December 2004 (nine months ended 31 December 2003: 17.5%).

	For the quarter ended 31 December		For the nine months ended 31 December	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong profits tax	—	1,047	4,502	4,733
Deferred taxation	—	—	(105)	—
	<u>—</u>	<u>1,047</u>	<u>4,397</u>	<u>4,733</u>

4. Dividends

The Board does not recommend the payment of third quarter dividend for the three months ended 31 December 2004 (three months ended 31 December 2003: HK\$nil).

		Nine months ended 31 December	
		2004 HK\$'000	2003 HK\$'000
Interim dividend declared and paid by the Company	(i)	5,255	—
Interim dividend declared and paid by the subsidiaries of the Company	(ii)	—	1,000
		<u>5,255</u>	<u>1,000</u>

(i) For the six months ended 30 September 2004, the Directors declared and paid an interim dividend of 0.8 HK cent per share.

(ii) For the six months ended 30 September 2003 (prior to the Reorganisation), certain companies of the Group had declared and paid dividends to their then shareholders.





5. Earnings per share

The calculation of basic earnings per share for the quarter and the nine months ended 31 December 2004 is based on the unaudited net profit attributable to shareholders for the quarter and the nine months ended 31 December 2004 of approximately HK\$6,005,000 and HK\$31,364,000 respectively (quarter and nine months ended 31 December 2003: approximately HK\$1,133,000 and HK\$24,830,000 respectively) and on the weighted average number of 648,907,609 shares and 585,658,545 shares in issue during the periods (quarter and nine months ended 31 December 2003: on the weighted average number of 478,786,957 shares and 450,048,000 shares respectively).

The calculation of diluted earnings per share for the quarter and nine months ended 31 December 2004 is based on the unaudited net profit attributable to shareholders of approximately HK\$6,005,000 and HK\$31,364,000 respectively (quarter and nine months ended 31 December 2003: approximately HK\$1,133,000 and HK\$24,830,000 respectively) and on 660,886,785 shares and 636,441,614 shares, being the weighted average number of ordinary shares outstanding during the periods, adjusted for the effects of the share options during the periods (quarter and nine months ended 31 December 2003: on the weighted average number of 534,429,193 shares and 468,662,857 shares respectively).

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)***For the nine months ended 31 December 2004*

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
As at 1 April 2004	5,370	24,952	(3,652)	30,743	57,413
Net profit attributable to shareholders	—	—	—	31,364	31,364
Exercise of share options	1,199	16,575	—	—	17,774
2003/04 final dividend	—	—	—	(9,666)	(9,666)
2004/05 interim dividend	—	—	—	(5,255)	(5,255)
As at 31 December 2004	<u>6,569</u>	<u>41,527</u>	<u>(3,652)</u>	<u>47,186</u>	<u>91,630</u>
As at 1 April 2003	500	4,895	—	4,317	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	<u>5,280</u>	<u>20,859</u>	<u>(3,851)</u>	<u>28,147</u>	<u>50,435</u>



MANAGEMENT REVIEW AND ANALYSIS

Business Review and Outlook

Slimming Centres

The Group is now operating four scaleable slimming centres in Hong Kong. Though slimming business is now experiencing a severe competition in Hong Kong, the Group still managed to maintain a steady revenue growth in this quarter as compared to the corresponding period in last year through the provision of more diversified and personalised slimming services to the customers.

The slimming centres in Shanghai have been opened in early October 2004 and the results have been consolidated in the Group's results during the period under review. Intensive advertising campaigns have been carried out in Shanghai to promote our services and products. The management is confident that the Shanghai slimming centres will become one of the substantial income streams to the Group's slimming business in the future.

After we successfully explored the market in Shanghai, we are now planning to set up slimming centres in Guangzhou, one of the wealthiest cities in the PRC. In order to achieve our long-term objective to be the leading health, beauty and slimming products and services provider, we will continue to explore new markets in the PRC or other countries.

Health and Beauty Products

During the period under review, the Group introduced two health products called "Fat Cut" (速效修身吸脂) and "Fat Out" (速效修身排毒) to the market. These products were distributed through several major retail chains in Hong Kong. Coupled with the impressive advertising campaign, the market response to these new products was satisfactory.

The Group is now in the process of incorporating a Sino-foreign co-operative joint venture company in the PRC according to a joint venture agreement entered into between the Group, Skytop International Development Inc. and Shanghai Dong Fang P&G Co., Limited in September 2004. The principal activities of the Sino-foreign co-operative joint venture company are the





retailing and distributing of P&G products including cosmetics and skin care products in Shanghai and the eastern part of the PRC. (Details of this transaction can be referred to the Company's announcement dated 10 September 2004 and circular dated 15 October 2004.) The management is confident that this transaction can expand our sales and distribution network in the PRC and further strengthen the Group's leading position as one of the prominent providers of health and beauty products and services.

Financial Review

The Group has achieved a consolidated turnover of approximately HK\$121,652,000 for the nine months ended 31 December 2004, which demonstrated an increase of approximately 6.4% over the last corresponding period. The increase is primarily attributable to our soaring service income generated from the operation of slimming centres.

The Group's gross profit increased by approximately 13.1% to approximately HK\$103,971,000 for the nine months ended 31 December 2004 from approximately HK\$91,931,000 of the last corresponding period. The gross profit margin was approximately 85.5% for the nine months ended 31 December 2004, an increase of approximately 6.3% over the last corresponding period.

Consolidated net profit attributable to shareholders amounted to approximately HK\$31,364,000 for the nine months ended 31 December 2004, an increase of approximately 26.3% from approximately HK\$24,830,000 compared over the last corresponding period. The significant rise was mainly contributed by the gain on disposals of two subsidiaries during the period under review.

SHARE OPTION SCHEME

Share option scheme aims to enable the Company to grant options to eligible participants as incentives or rewards for their contribution or potential contribution to the Company or any of its subsidiaries. Eligible participants of the share option scheme include full-time or part-time employees, executives or officers (including executive, non-executive and independent non-executive directors) of the Company or any of its subsidiaries and any suppliers, consultants, agent or advisers who, in the sole discretion of the Board, have contributed to the Company.





Details of the options, which have been granted under the share option scheme are listed below:

	Date of grant	Exercisable period	Exercise price per share	Number of share options			At 31 December 2004
				At 1 April 2004	Granted during the period	Exercised during the period	
Director							
— Miss Cheung Yuk Shan, Shirley ("Miss Cheung")	10 September 2004	10 September 2004–3 November 2013	HK\$0.512	—	5,000,000	—	5,000,000
— Mr. Cheung Ka Heng, Frankie ("Mr. Cheung")	10 September 2004	10 September 2004–3 November 2013	HK\$0.512	—	5,000,000	—	5,000,000
— Mr. Ho, Francis Man Kwong	9 September 2004	9 September 2004–3 November 2013	HK\$0.512	—	5,000,000	—	5,000,000
Other eligible participants							
	5 January 2004	5 January 2004–4 January 2009	HK\$0.486	21,000,000	—	(12,300,000)	8,700,000
	2 September 2004	2 September 2004–1 September 2009	HK\$0.489	—	5,000,000	(1,000,000)	4,000,000
	18 November 2004	18 November 2004–17 November 2009	HK\$0.748	—	2,800,000	(1,000,000)	1,800,000
				<u>21,000,000</u>	<u>22,800,000</u>	<u>(14,300,000)</u>	<u>29,500,000</u>



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

As at 31 December 2004, the interests or short positions of the Directors and the chief executive 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 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 Rule 5.46 of the GEM Listing Rules were as follows:

Long position in shares of the Company:

Name of Director	Number of shares			Approximate percentage interest in the Company's issued share capital
	Corporate interests	Personal interests	Total	
Miss Cheung	293,200,000 <i>(Note 1)</i>	81,070,000	374,270,000	56.98%

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 Miss Cheung.





Long position in underlying shares of the Company:

Share Option Scheme

The interests in the underlying shares of the Company arise from share options granted to the Directors of the Company under the Company's share option scheme, details of which are as follows:

Name of Director	Date of grant	Exercisable period	Subscription Price per share	Aggregate Long position In underlying Shares of the Company	Approximate percentage interest in the Company's Issued share capital
Miss Cheung	10 September 2004	10 September 2004– 3 November 2013	HK\$0.512	5,000,000	0.8%
Mr. Cheung	10 September 2004	10 September 2004– 3 November 2013	HK\$0.512	5,000,000	0.8%
Mr. Ho, Francis Man Kwong	9 September 2004	9 September 2004– 3 November 2013	HK\$0.512	5,000,000	0.8%

Note 1: The above interest constitutes a long position of the Director in a physically settled equity derivative for the purpose of the SFO.

Save as disclosed above, as at 31 December 2004, none of the Directors or chief executive 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 Rule 5.46 of the GEM Listing Rules, are required to be notified to the Company and the Exchange.



SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 December 2004, so far was known to any Directors or chief executive 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:

Name of Substantial Shareholders	Number of shares			Total	Approximate percentage interest in the Company's issued share capital
	Corporate interests	Personal interests	Others		
Miss Cheung	293,200,000 <i>(Note 1)</i>	81,070,000	—	374,270,000	56.98%
Value Partners Limited	—	—	65,950,000 <i>(Note 2)</i>	65,950,000	10.04%
Lloyd George Investment Management (Bermuda) Limited	—	—	36,700,000	36,700,000	5.59%

Note 1: Biochem is a company incorporated in the British Virgin Islands with limited liability. The entire issued share capital of Biochem is directly owned by Miss Cheung, who is a sole director of the company.

Note 2: Mr. Cheah Cheng Hye is deemed to be interested in the shares through his 31.82% interest in Value Partners Limited.

Saved as disclosed above, as at 31 December 2004, no person, other than the Directors of the Company and the chief executive of the Group whose interests are set out in the section "Directors' and chief executives' interests in Shares and short positions 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.





Management Shareholders

As at 31 December 2004, so far as the Directors are aware, other than Miss Cheung, Value Partners Limited and Lloyd George Investment Management (Bermuda) Limited as disclosed above, there is no other person who is directly or indirectly interested in 5% or more of the issued share capital of the Company and who is able, as a practical matter, to direct or influence the management of the Company.

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 received 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 2004, 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 competes or might compete with the business of the Group.

CHANGE IN DIRECTOR

On 17 January 2005, Mr. To Kon Hung, Terence resigned as an independent non-executive director of the Company for personal reasons. (Details can be referred to the Company's announcement dated 17 January 2005.)



AUDIT COMMITTEE

The Group has established an audit committee on 4 November 2003 with written terms of reference in the compliance with the GEM Listing Rules. The audit committee comprises four independent non-executive directors of the Company, namely Mr. Hong Po Kui, Martin, Mr. Li Kuo Hsing, Mr. Ho Yiu Ming who was appointed on 20 October 2004 and Mr. Cheng Shing Lung, Edwin who was appointed on 26 October 2004. 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 consolidated results of the Group for the nine months ended 31 December 2004, who is of the opinion that such financial statements comply with the applicable accounting standards, the Exchange and legal requirements, and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the nine months ended 31 December 2004.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules for the period under review.

By Order of the Board
Sau San Tong Holdings Limited
Cheung Yuk Shan, Shirley
Chairman

Hong Kong, 4 February 2005

