

*First Quarterly Report 2005*



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



## 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 trade 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 announcement in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at [www.hkgem.com](http://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 the 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 three months ended 30 June 2005 decreased by 31.70% to approximately HK\$34,781,000 compared with approximately HK\$50,924,000 for the three months ended 30 June 2004.

The Group recorded a profit attributable to shareholders of approximately HK\$493,000 for the three months ended 30 June 2005 (2004: approximately HK\$14,375,000).

The Board does not recommend the payment of any dividend for the three months ended 30 June 2005.



## FINANCIAL INFORMATION

### Unaudited consolidated results

The board of Directors (the “Board”) of the Company is pleased to announce the unaudited consolidated financial results (the “Unaudited Quarterly Results”) of the Company and its subsidiaries (the “Group”) for the quarter ended 30 June 2005 (the “Quarterly Period”) together with comparative figures of the corresponding period ended in 2004 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		For the three months ended 30 June	
	Notes	2005 HK\$'000	2004 HK\$'000
Turnover	2	<b>34,781</b>	50,924
Cost of sales		<b>(4,731)</b>	(5,699)
Gross profit		<b>30,050</b>	45,225
Other revenue	2	<b>100</b>	123
Selling and distribution expenses		<b>(23,525)</b>	(20,653)
General and administrative expenses		<b>(11,823)</b>	(7,382)
Profit/(loss) from operating activities		<b>(5,198)</b>	17,313
Gain on disposal of a subsidiary	3	<b>6,004</b>	–
Finance costs		<b>–</b>	(2)
Profit before taxation		<b>806</b>	17,311
Taxation	4	<b>(61)</b>	(2,833)
Profit after taxation		<b>745</b>	14,478
Minority interests		<b>(252)</b>	(103)
Profit attributable to shareholders		<b>493</b>	14,375
Earnings per share	5		
Basic ( <i>cents</i> )		<b>0.08</b>	2.68
Diluted ( <i>cents</i> )		<b>0.07</b>	2.57



## NOTES (UNAUDITED):

### 1. Basis of preparation and significant accounting policies

The Unaudited Quarterly Results of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the GEM Listing Rules of the Exchange. They have been prepared under historical cost convention, except for financial assets and financial liabilities that have been measured at fair value. The principal accounting policies used in the preparation of the Unaudited Quarterly Results are consistent with those adopted in the preparation of the annual financial consolidated statements of the Group for the year ended 31 March 2005, except for those mentioned below.

In the Quarterly Period, the Group has adopted, for the first time, a number of new and revised HKFRSs, which are generally effective for the accounting periods beginning on or after 1 January 2005.

The major effects of the new HKFRSs, which have had a material impact on the Unaudited Quarterly Results, are set out below:

The adoption of HKFRS 2 "Share-Based Payment" requires an expense to be recognised where the Group buys goods or services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The main impact of HKFRS 2 on the Unaudited Quarterly Results is the expensing of employees' and directors' share options by using an option-pricing model. Prior to this, the provision of share options to employees and directors did not result in a charge to the profit and loss account. The Group has taken advantage of the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002, that had not vested at 1 January 2005.

The effect of adopting HKFRS 2 has not resulted in a change to the consolidated retained profits as at 1 April 2005 but has been to decrease consolidated profits for the Quarterly Period by approximately HK\$332,000 (three months ended 30 June 2004: HK\$nil) due to an increase in the employee benefits expense (included in "General and administrative expenses").

Due to the adoption of certain new HKFRSs during the Quarterly Period, the accounting treatment and presentation of certain items and balances in the Unaudited Quarterly Results have been revised to comply with the new requirements.



## 2. Turnover and other revenue

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 three months ended 30 June	
	2005 HK\$'000	2004 HK\$'000
<b>Turnover</b>		
Operation of slimming centres	<b>31,386</b>	46,074
Sales of health and beauty products	<b>3,395</b>	4,850
	<b>34,781</b>	50,924
<b>Other revenue</b>		
Interest income	<b>10</b>	1
Management income	–	90
Others	<b>90</b>	32
	<b>100</b>	123

## 3. Gain on disposal of a subsidiary

On 30 May 2005, the Group has entered into an agreement to dispose of 49% of the issued share capital of a wholly owned subsidiary, Goldtime Enterprises Corp. ("GEC"), a company incorporated in the British Virgin Islands, to an independent third party at a consideration of HK\$6,000,000. GEC is an investment holding company and has not carried out any business activities since its incorporation. The purpose to incorporate GEC is to set up a slimming centre in Hangzhou. The consideration was arrived at after arm's length negotiation between the two parties with reference to the Group's brand name and expertise in operating slimming business and the future prospect of slimming business in Mainland China. The share transfer was completed on 30 May 2005.



#### 4. Taxation

Hong Kong profits tax has been provided at a rate of 17.5% on the estimated assessable profits for the three months ended 30 June 2005 (three months ended 30 June 2004: 17.5%). Taxation on overseas profit has been calculated on the estimated taxable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

	For the three months ended 30 June	
	2005 HK\$'000	2004 HK\$'000
Profits tax	61	3,101
Deferred taxation	—	(268)
	<u>61</u>	<u>2,833</u>

#### 5. Earnings per share

The calculation of basic earnings per share for the three months ended 30 June 2005 is based on the unaudited profit attributable to shareholders for the three months ended 30 June 2005 of approximately HK\$493,000 (three months ended 30 June 2004: approximately HK\$14,375,000) and on the weighted average number of 656,900,000 shares (three months ended 30 June 2004: on the weighted average number of 537,000,000 shares).

The calculation of diluted earnings per share for the three months ended 30 June 2005 is based on the unaudited profit attributable to shareholders for the three months ended 30 June 2005 of approximately HK\$493,000 (three months ended 30 June 2004: approximately HK\$14,375,000) and on 659,162,192 shares, being the weighted average number of ordinary shares outstanding during the periods, adjusted for the effects of the share options during the periods (three months ended 30 June 2004: on the weighted average number of 558,842,740 shares).

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)***For the three months ended 30 June 2005*

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Exchange reserve HK\$'000	Share option based reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
As at 1 April 2005	6,569	41,527	(3,652)	12	-	46,945	91,401
Unvested share options cost	-	-	-	-	332	-	332
Translation differences	-	-	-	(28)	-	-	(28)
Net profit attributable to shareholders	-	-	-	-	-	493	493
<b>As at 30 June 2005</b>	<b>6,569</b>	<b>41,527</b>	<b>(3,652)</b>	<b>(16)</b>	<b>332</b>	<b>47,438</b>	<b>92,198</b>
As at 1 April 2004	5,370	24,952	(3,652)	-	-	30,743	57,413
Net profit attributable to shareholders	-	-	-	-	-	14,375	14,375
As at 30 June 2004	5,370	24,952	(3,652)	-	-	45,118	71,788





## MANAGEMENT REVIEW AND ANALYSIS

### **Slimming Centres**

#### *Business Review*

The Group is operating six scaleable slimming centres, with four in Hong Kong and two in Shanghai. During the Quarterly Period, the operation of slimming centres recorded a decline in profit when compared with the corresponding period of last year. The decrease was mainly caused by the late arrival of summer, which affected the business of slimming service in Hong Kong. Summer is the peak season for slimming industry as customers are more aware of their figures especially when the weather is hot, which stimulates customers in joining slimming programmes for better figures. Despite the keen competition of slimming industry, the Group is confident to maintain a substantial market share with its strong brand image and aggressive marketing strategies.

On the other hand, the slimming centres in Shanghai have recorded satisfactory results and revenue growth during the Quarterly Period. With the successful promotional campaigns in Shanghai, especially the TV programme namely "Sau Sau Tong Special: Fit for Life", the "Sau San Tong" brand name has gained a wide recognition in Shanghai as well as Mainland China. In addition, our promotional campaigns have aroused the awareness of healthy slimming concept among Shanghai citizens which in turn increases the eagerness of potential customers to join our programmes.

With the well-established reputation and foundation, the overall performance of our slimming centres are smooth and satisfactory.

#### *Outlook*

In the future, the Group will focus its resources in expanding the Mainland China market. With the continuous economic growth and improvement of living standard in Mainland China, people are more conscious of health and beauty, thus leading to a great demand in health and beauty services. After the successful exploration of the Shanghai market, the management believes that widening the customer base by developing more potential markets in Mainland China will be the Group's future goal. The increasing demand for health and beauty services in Mainland China poses challenge as well as business opportunities to the Group.

The Group is now in the process of setting up new slimming centres in Shenzhen and Hangzhou which is scheduled to be opened within this financial year and Guangzhou to follow suit. To maintain our growth and achieve our long-term objective to be the leading health, beauty and slimming products and service provider, we will further explore new markets in Hong Kong, Mainland China and other areas.

## **Health and Beauty Products**

### *Business Review*

In order to enlarge our customer base and increase the popularity of our products, the Group has been paying great efforts to diversify its health and beauty products by introducing a new product, "Sau San Tong One Minute Diet Tea". The product is distributed through several large scale retail chains. Besides using teenage idols Twins as spokespersons, we also use different means of publicity campaigns e.g. TV commercials, magazines and imitators to increase the market awareness. Market response for this product is satisfactory.

### *Outlook*

"Sau San Tong Healthy Mooncake" will be available for sale before Mid-Autumn festival. The mooncake promotes the healthy concept of low sugar and low fat and with about only one-third calorie compare with normal mooncakes available in the market. The management believes that this product is an alternative for those who are looking for high quality and healthy food. The product has successfully entered the mass market by extending the customer base to include children, teenagers, men and families, which fortifies the "Sau San Tong" brand name in the community.

## **Distribution Business in Mainland China**

### *Business Review*

The Sino-foreign Equity Joint Venture Company ("JV Company"), in which the Group has 51% interest, has been established in Shanghai and the JV Company plans to commence its operations on 1 September 2005. A distribution agreement has been entered into between the JV Company and Guangzhou Procter & Gamble Company Limited ("P&G") on 8 August 2005. The JV Company will distribute P&G's personal care products in Shanghai and P&G's cosmetic and skin care products comprising SKII and Max Factor in the eastern and western part of Mainland China, which include 13 cities such as Shanghai, Hangzhou, Nanjing, Suzhou, Chengdu and Ningbo etc.

### *Outlook*

As the market shows enormous potential for the business, it will become one of the major businesses and sources of income for the Group in the future.

## **Financial Review**

For the quarter ended 30 June 2005, the Group's turnover was approximately HK\$34,781,000, which demonstrated a decrease of approximately 31.70% over the last corresponding period in 2004. The decrease was attributable to the revenue decline in Hong Kong slimming services.



The gross profit for the first quarter of 2005 was approximately HK\$30,050,000, a decrease of approximately HK\$15,175,000 compared with the same quarter last year. The profit attributable to shareholders for the first quarter of 2005 amounted to approximately HK\$493,000, representing a decrease of 96.57% compare with the first quarter of 2004. Such decrease was primarily due to the decline in revenue received from slimming services in Hong Kong caused by the late arrival of summer this year and intensive competition of the slimming business. Moreover, additional human resources which have been employed in expanding the market in Mainland China have affected the operating results.

### 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 30 June 2005
				At 1 April 2005	Granted during the period	Exercised during the period	Cancelled 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 ("Mr. Ho")	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	8,700,000	-	-	-	8,700,000
	2 September 2004	2 September 2004 – 1 September 2009	HK\$0.489	4,000,000	-	-	3,000,000	1,000,000
	18 November 2004	18 November 2004 – 17 November 2009	HK\$0.748	1,800,000	-	-	1,800,000	-
	20 May 2005	20 May 2005 – 19 May 2010	HK\$0.534	-	4,800,000	-	-	4,800,000
				<u>29,500,000</u>	<u>4,800,000</u>	<u>-</u>	<u>4,800,000</u>	<u>29,500,000</u>

Note: Share options are generally either fully vested and exercisable immediately after the date of grant or vested and exercisable over a period of 3 years from the date of grant.



## DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 30 June 2005, the interests or short positions of the Directors of the Company in the shares and underlying shares (the "Shares") of the Company or any of 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, or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Exchange pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

### Long position in the shares of the Company:

Name of Director	Number of shares, capacity and nature of interest			Approximate percentage interest in the Company's issued share capital
	Through a controlled corporation	Directly beneficially owned	Total	
Miss Cheung	293,200,000 <i>(Note 1)</i>	81,070,000	374,270,000	56.98%
Dr. Cheng Shing Lung, Edwin	–	5,330,000	5,330,000	0.81%

*Note 1:* The 293,200,000 shares of the Company 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 directly owned by Miss Cheung.



### Long position in the underlying shares of the Company:

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	Exercise price per share	Aggregate long position in the 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	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 of the Company in a physically settled equity derivative for the purpose of the SFO.

Save as disclosed above, as at 30 June 2005, none of the Directors or Chief Executive or their respective associates of the Company had any other interests or short positions in the Shares of the Company or any of its associated corporations (within the meaning of Part XV of SFO) which are required to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of SFO or were required pursuant to Section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to Rule 5.46 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Exchange.

**SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES**

As at 30 June 2005, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept under Section 336 of the SFO:

**Long position in the Shares of the Company:**

Substantial shareholder	Capacity	Number of shareholding		Number of share options held
		Share	Percentage	
Biochem	Beneficial owner (Note 1)	293,200,000	44.64%	-
Miss Cheung Yuk Shan, Shirley	Beneficial owner	81,070,000	12.34%	5,000,000
Value Partners Limited	Investment manager (Note 2)	63,630,000	9.69%	-

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 31.58% interest in Value Partners Limited.

Saved as disclosed above, as at 30 June 2005, no person, other than the Directors of the Company, whose interests are set out in the section "Directors' Interests and Short Positions in the Shares and Underlying Shares" above, had registered an interest or short position in the Shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.



### **Management Shareholders**

As at 30 June 2005, so far as the Directors are aware, other than Miss Cheung and Value Partners 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 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 30 June 2005, 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 shareholders or the 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.

### **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 three months ended 30 June 2005.

### **AUDIT COMMITTEE**

The Group has established an audit committee on 4 November 2003 with written terms of reference in compliance with the relevant GEM Listing Rules. The audit committee comprises three independent non-executive directors of the Company, namely Mr. Hong Po Kui, Martin, Mr. Li Kuo Hsing and Mr. Ho Yiu Ming. 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 Quarterly Results of the Group.

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

Hong Kong, 12 August 2005

*As at the date of this report, the Board comprises executive directors namely Miss Cheung Yuk Shan, Shirley (Chairman), Mr. Cheung Ka Heng, Frankie, Mr. Ho, Francis Man Kwong and Dr. Cheng Shing Lung, Edwin; independent non-executive directors namely Mr. Hong Po Kui, Martin, Mr. Li Kuo Hsing and Mr. Ho Yiu Ming.*