

*Interim Report 2005/06*



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



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*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 the 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 six months ended 30 September 2005 (the "Period Under Review") increased by 11.26% to approximately HK\$105,523,000 compared to approximately HK\$94,840,000 for the six months ended 30 September 2004 (the "Last Corresponding Period").

The Group recorded a loss attributable to equity holders of the Company of approximately HK\$19,450,000 for the six months ended 30 September 2005 (2004: profit attributable to equity holders of the Company of approximately HK\$25,359,000).

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2005 (2004: HK\$0.008 per share).



## RESULTS

The board of Directors (the “Board”) of Sau San Tong Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 September 2005, together with the comparative unaudited figures for the corresponding period in 2004, as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	For the three months ended 30 September		For the six months ended 30 September	
		2005	2004	2005	2004
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	<b>70,742</b>	43,916	<b>105,523</b>	94,840
Cost of sales		<b>(44,741)</b>	(6,536)	<b>(49,472)</b>	(12,235)
Gross profit		<b>26,001</b>	37,380	<b>56,051</b>	82,605
Other revenue		<b>197</b>	91	<b>297</b>	214
Selling and distribution expenses		<b>(22,754)</b>	(17,007)	<b>(46,279)</b>	(37,660)
General and administrative expenses		<b>(19,630)</b>	(7,978)	<b>(31,453)</b>	(15,360)
Profit/(loss) from operations		<b>(16,186)</b>	12,486	<b>(21,384)</b>	29,799
Gain on partial disposal of interest in a subsidiary		-	-	<b>6,004</b>	-
Finance costs		-	-	-	(2)
Profit/(loss) before taxation	3	<b>(16,186)</b>	12,486	<b>(15,380)</b>	29,797
Taxation	4	<b>(1,548)</b>	(1,564)	<b>(1,609)</b>	(4,397)
Net profit/(loss) for the period		<b>(17,734)</b>	10,922	<b>(16,989)</b>	25,400
Attributable to:					
Equity holders of the Company		<b>(19,943)</b>	10,984	<b>(19,450)</b>	25,359
Minority interests		<b>2,209</b>	(62)	<b>2,461</b>	41
Net profit/(loss) for the period		<b>(17,734)</b>	10,922	<b>(16,989)</b>	25,400
Interim dividend	5	-	5,147	-	5,147
Earnings/(loss) per share					
Basic	6	<b>(3.04) cents</b>	1.93 cents	<b>(2.96) cents</b>	4.58 cents
Diluted		<b>(3.03) cents</b>	1.74 cents	<b>(2.96) cents</b>	4.06 cents

**CONDENSED CONSOLIDATED BALANCE SHEET**

As at 30 September 2005

		<b>(Unaudited)</b> <b>30 September</b> <b>2005</b> <b>HK\$'000</b>	(Audited) 31 March 2005 HK\$'000
	Notes		
<b>Non-current assets</b>			
Goodwill		<b>341</b>	140
Fixed assets	7	<b>25,302</b>	21,435
Deferred tax assets		<b>366</b>	366
		<b>26,009</b>	21,941
<b>Current assets</b>			
Inventories		<b>8,214</b>	785
Due from minority shareholders of subsidiaries		<b>6,569</b>	16,369
Prepayments, deposits and other receivables		<b>30,217</b>	35,594
Trade receivables	8	<b>24,018</b>	4,695
Cash and bank balances		<b>32,197</b>	33,454
		<b>101,215</b>	90,897
<b>Current liabilities</b>			
Trade payables	9	<b>21,594</b>	2,713
Deferred income		<b>15,207</b>	11,195
Other payables and accruals		<b>14,237</b>	4,502
Taxation payable		<b>4,671</b>	3,069
		<b>55,709</b>	21,479
<b>Net current assets</b>		<b>45,506</b>	69,418
<b>Net assets</b>		<b>71,515</b>	91,359
<b>Capital and reserves</b>			
Share capital	10	<b>6,569</b>	6,569
Reserves	11	<b>60,123</b>	84,832
<b>Total equity attributable to equity holders of the Company</b>		<b>66,692</b>	91,401
<b>Minority interests</b>		<b>4,823</b>	(42)
<b>Total equity</b>		<b>71,515</b>	91,359



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**

For the six months ended 30 September 2005

	Share capital	Share premium	Merger reserve	Exchange reserve	Share option based reserve	Retained earnings	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>As at 1 April 2005</b>	6,569	41,527	(3,652)	12	-	46,945	91,401	(42)	91,359
Net loss for the period	-	-	-	-	-	(19,450)	(19,450)	2,461	(16,989)
Contribution from minority shareholders of subsidiaries	-	-	-	-	-	-	-	2,404	2,404
Share options cost	-	-	-	-	1,983	-	1,983	-	1,983
Translation differences	-	-	-	(16)	-	-	(16)	-	(16)
2004/05 final dividend paid	-	-	-	-	-	(7,226)	(7,226)	-	(7,226)
<b>As at 30 September 2005</b>	<u>6,569</u>	<u>41,527</u>	<u>(3,652)</u>	<u>(4)</u>	<u>1,983</u>	<u>20,269</u>	<u>66,692</u>	<u>4,823</u>	<u>71,515</u>
As at 1 April 2004	5,370	24,952	(3,652)	-	-	30,743	57,413	413	57,826
Net profit for the period	-	-	-	-	-	25,359	25,359	41	25,400
Reduction in minority interests on acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	(386)	(386)
Exercise of share options	1,064	9,885	-	-	-	-	10,949	-	10,949
2003/04 final and special dividends paid	-	-	-	-	-	(9,666)	(9,666)	-	(9,666)
As at 30 September 2004	<u>6,434</u>	<u>34,837</u>	<u>(3,652)</u>	<u>-</u>	<u>-</u>	<u>46,436</u>	<u>84,055</u>	<u>68</u>	<u>84,123</u>



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 September 2005

	For the six months ended 30 September	
	2005 HK\$'000	2004 HK\$'000
Net cash generated from operating activities	<b>16,170</b>	25,709
Net cash used in investing activities	<b>(12,627)</b>	(8,154)
Net cash generated from/(used in) financing activities	<b>(4,816)</b>	1,307
Net increase/(decrease) in cash and cash equivalents	<b>(1,273)</b>	18,862
Net cash and cash equivalents as at 1 April	<b>33,454</b>	34,305
Effect of foreign exchange rate changes, net	<b>16</b>	–
Cash and cash equivalents as at 30 September	<b>32,197</b>	53,167
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	<b>32,197</b>	53,167



## NOTES (UNAUDITED):

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

The unaudited interim financial statements 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. 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 interim financial statements are consistent with those adopted in the preparation of the annual financial statements of the Group for the year ended 31 March 2005, except for those mentioned below.

In the Period Under Review, 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 application of the new HKFRSs has resulted in a change in the presentation of minority interests in the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. The changes in presentation have been applied retrospectively.

The new HKFRSs, which have had a material impact on the unaudited interim financial 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 interim financial 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 increase consolidated loss for the Period Under Review by approximately HK\$1,983,000 (2004: Nil) due to an increase in the employee benefits expense (included in "General and administrative expenses").





## 2. Turnover and segment information

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

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary reporting basis, by geographical segment.

### (a) Business segments

The Group is principally engaged in three business segments, including the operation of slimming centres, the sales of health and beauty products and the product distribution.

An analysis of the Group's turnover and operating results for the six months ended 30 September 2005 by business segments is as follows:

	For the six months ended 30 September 2005				
	Service income HK\$'000	Sales of goods HK\$'000	Product distribution income HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover					
External sales	58,219	7,239	40,065	-	105,523
Inter-segment sales	-	1,683	-	(1,683)	-
Total revenue	<u>58,219</u>	<u>8,922</u>	<u>40,065</u>	<u>(1,683)</u>	<u>105,523</u>
Segment profit/(loss)	<u>(9,351)</u>	<u>(4,736)</u>	<u>1,239</u>		(12,848)
Unallocated costs					(8,833)
Other revenue					<u>297</u>
Loss from operations					(21,384)
Gain on partial disposal of interest in a subsidiary					<u>6,004</u>
Loss before taxation					(15,380)
Taxation					<u>(1,609)</u>
Net loss for the period					<u>(16,989)</u>



	For the six months ended 30 September 2004				
	Service income HK\$'000	Sales of goods HK\$'000	Product distribution income HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover					
External sales	84,347	10,493	–	–	94,840
Inter-segment sales	–	2,892	–	(2,892)	–
Total revenue	<u>84,347</u>	<u>13,385</u>	<u>–</u>	<u>(2,892)</u>	<u>94,840</u>
Segment profit	<u>32,297</u>	<u>935</u>	<u>–</u>		33,232
Unallocated costs					(3,647)
Other revenue					<u>214</u>
Profit from operations					29,799
Finance costs					<u>(2)</u>
Profit before taxation					29,797
Taxation					<u>(4,397)</u>
Net profit for the period					<u>25,400</u>

(b) Geographical segments

The Group's business can be subdivided into the Mainland China and Hong Kong markets.

An analysis of the Group's turnover for the six months ended 30 September 2005 by geographical segments is as follows:

Group	Hong Kong		Mainland China		Consolidated	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Segment revenue:						
Sales to external customers	<u>52,641</u>	<u>94,840</u>	<u>52,882</u>	<u>–</u>	<u>105,523</u>	<u>94,840</u>



### 3. Profit/(loss) before taxation

Profit/(loss) before taxation is stated after crediting and charging the followings:

	For the three months ended 30 September		For the six months ended 30 September	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
<b>Crediting</b>				
Interest income	-	-	8	1
Management fee income	-	30	-	120
<b>Charging</b>				
Amortisation of goodwill	-	41	-	77
Depreciation				
– Owned assets	2,219	1,707	4,588	3,193
Operating lease rentals				
– Land and buildings	2,383	1,632	5,084	3,006
Interest expenses on obligation under finance leases	-	-	-	2

### 4. Taxation

Hong Kong profits tax has been provided at a rate of 17.5% on the estimated assessable profits for the six months ended 30 September 2005 (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 six months ended 30 September	
	2005 HK\$'000	2004 HK\$'000
Current – Hong Kong Profits tax	61	4,502
Current – Overseas	1,548	-
Deferred	-	(105)
	1,609	4,397

### 5. Interim dividend

	For the six months ended 30 September	
	2005 HK\$'000	2004 HK\$'000
Interim dividend declared	-	5,147

The Board does not declare an interim dividend for the six months ended 30 September 2005 (2004: HK\$0.008 per share).



**6. Earnings/(loss) per share**

(a) *Basic loss per share*

The calculation of basic loss per share for the three months and the six months ended 30 September 2005 are based on the unaudited loss attributable to equity holders of the Company of approximately HK\$19,943,000 and HK\$19,450,000 (2004: profit attributable to equity holders of the Company for the three months and six months ended 30 September 2005 of approximately HK\$10,984,000 and HK\$25,359,000) and on the weighted average number of 656,900,000 shares and 656,900,000 shares in issue during those periods (2004: on the weighted average number of approximately 569,119,000 shares and 553,861,000 shares).

(b) *Diluted loss per share*

The calculation of diluted loss per share for the three months and the six months ended 30 September 2005 are based on the unaudited loss attributable to equity holders of the Company of approximately HK\$19,943,000 and HK\$19,450,000 (2004: profit attributable to equity holders of the Company for the three months and six months ended 30 September 2005 of approximately HK\$10,984,000 and HK\$25,359,000) and on approximately 657,111,000 shares and 657,917,000 shares, being the weighted average number of shares outstanding adjusted for the effect of the share options during those periods (2004: on the weighted average number of approximately 631,264,000 shares and 625,246,000 shares).

**7. Fixed Assets**

*The Group*

	Leasehold improvements HK\$'000	Machinery HK\$'000	Office equipment HK\$'000	Furniture and fixture HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost</b>						
At 1 April 2005	19,088	8,824	3,061	1,917	2,611	35,501
Additions	4,811	433	677	177	2,357	8,455
At 30 September 2005	23,899	9,257	3,738	2,094	4,968	43,956
<b>Accumulated depreciation</b>						
At 1 April 2005	8,894	2,261	1,018	754	1,139	14,066
Charge for the period	2,794	883	306	206	399	4,588
At 30 September 2005	11,688	3,144	1,324	960	1,538	18,654
<b>Net book value</b>						
At 30 September 2005	12,211	6,113	2,414	1,134	3,430	25,302
At 31 March 2005	10,194	6,563	2,043	1,163	1,472	21,435



### 8. Trade receivables

Credit periods given to customers ranged from 45 to 90 days. The aging analysis of trade receivables (consolidated), based on invoice date, is as follows:

	<b>30 September 2005 HK\$'000</b>	31 March 2005 HK\$'000
0 to 90 days	<b>23,742</b>	4,695
91 to 120 days	<b>276</b>	–
	<b><u>24,018</u></b>	<u>4,695</u>

### 9. Trade payables

Credit periods given by suppliers ranged from 30 to 60 days. The aging analysis of trade payables (consolidated), based on invoice date, is as follows:

	<b>30 September 2005 HK\$'000</b>	31 March 2005 HK\$'000
0 to 90 days	<b>21,419</b>	2,570
91 to 120 days	<b>175</b>	143
	<b><u>21,594</u></b>	<u>2,713</u>

### 10. Share capital

There were no movements in the share capital of the Company during the six months ended 30 September 2005.

### 11. Reserves

Movements in the reserves of the Group during the period are set out in the unaudited condensed consolidated statement of changes in equity.



## BUSINESS REVIEW AND OUTLOOK

### **Slimming Centres**

#### *Hong Kong*

Hong Kong's slimming business has experienced an unprecedented challenge during the Period Under Review due to a price war initiated by a number of players in the industry. Under this circumstance the operating results of the Company's slimming centre was affected. Turnover for the Group's Hong Kong slimming centres during the Period Under Review amounted to approximately HK\$45,402,000, while compared to HK\$84,347,000 of the same period last year.

Being the leading slimming services provider, Sau San Tong's management is determined to provide the most professional and attentive services during this period of severe competition. As the competition intensifies, the market will go through a period of consolidation whereby companies with lesser ability will be out of business and the industry will be back on track. Historically, as for all industries, companies which provides the most quality and professional services and with strong financial standing will be able to withstand all turbulences.

Under the competitive climate the Group continues to excel by providing a more comprehensive range of beauty and slimming services so as to widen the horizon of beauty and slimming industry. These services include the exclusive "Pilates Self-Activate Bodyline" programme, slimming services targeting at male and spa treatment etc..

#### *Mainland China*

The Group slimming services in the People's Republic of China ("PRC") recorded satisfactory results. The two Shanghai slimming centres, opened in late 2004, recorded an unaudited turnover of approximately HK\$12,790,000 during the Period Under Review, and an unaudited profit after taxation of approximately HK\$3,447,000 for the three months ended 30 September 2005. The operating result for the Shenzhen centre, opened in mid September 2005 was satisfactory. The PRC operation contributes over 20% of the Group's total turnover from the slimming business and the management foresees this percentage will continue to grow as the number of slimming centres in the PRC increases.



Looking into the future, the PRC market will continue to be the focus of the Group's future market growth. Slimming centres will be opened in Hangzhou by the end of 2005 and another one in Guangzhou during the first half of 2006. Negotiations are in place for the opening of additional slimming centres around the PRC. The total number of rooms and floor area of our PRC slimming centres will exceed Hong Kong with the opening of the Hangzhou slimming centre. The potential of the PRC market is immense and the Group's expansion pace will accelerate with an aim at opening four to eight centres per year.

#### *Overall*

The Group recorded a loss in slimming business during the Period Under Review due to the decrease in turnover and the increase in expenses for the slimming services in Hong Kong. Having decided on entering the PRC market a substantial amount of resources were invested to open the market. A team led by the Company's management was formed, during the Period Under Review, to explore the PRC market. This team is responsible to conduct market research, location scouting, budgeting, liaison with local authorities on license application etc., for the setting up of new slimming centres. Having advance planning the Group has undertaken additional manpower in Hong Kong consisting of shop managers, customer services officers, consultants and slimming technicians. These staff will be seconded to slimming centres in the Mainland China. Training courses and on the job training were provided to prepare these staff for the PRC operation. It will take six to nine months training to be familiar with both the operation of the centres as well as to familiarise with the PRC market. The Group will ensure that we provide the best slimming services in the PRC.

Along with the business expansion, we have allocated resources for brand building strategy. Advertising expenses for during the Period Under Review increase by 20% over the Corresponding Period. The Group undertook a new promotional strategy to further boost the "Sau San Tong's" brandname as the slimming centre providing the most professional services in Hong Kong and the PRC. This strategy of strengthening of the corporate image in Hong Kong, brought about a multiplying effect into the PRC market resulting in a large number of potential strategic partners approaching the Group looking for co-operation in setting up of slimming centres. Meanwhile, this increases the awareness of health conscious in the PRC will in return further assist the Group in obtaining prime locations for the setting up of centres and attracting esteemed clients to our slimming centres. The brand building strategy brings forth encouraging results to the Group's existing partnership and a better return is expected for the future cooperation as well.



While the Group aggressively pursues geographical expansion for its slimming business, it will also adopt a prudent cost control measure to monitor the Group's expenses so as to enhance the profitability of the Group.

### **Health and Beauty Products**

Sau San Tong believes being able to introduce new products of high quality that meet customers' demand is the key to success for the ever-changing health and beauty industry. Over the years we have introduced many innovative products to the Hong Kong market. These products enable the Group to provide more selections to the customers thus broadening our customer base. During the Period Under Review, "Sau San Tong Healthy Mooncake" was available for sale during the Mid-Autumn festival. This is the second year which we have introduced our mooncake. The Group has introduced other products such as "Sau San Tong One Minute Diet Tea" as well. Resources were invested for product promotion, market research and the building up of a distribution network. As part of the PRC market opens under CEPA, some of the Group's products are able to enter the market. The management believes that the present investment will bring about positive return in the future.

The immense PRC market will be the ultimate goal for Sau San Tong's products. The management believes that there is a big market for mid-priced products, and this is the market which the Group is aiming at. In order to enter this market the Group is in the process of investigating for products which are complementary to our existing products. Hong Kong will remain the pilot city for our new products in the future. The management is confident at the future development of the Group's product sales business and is enthusiastic about the entrance to the health and beauty products' market in the Mainland China.

### **Distribution Business in Mainland China**

In order to broaden the Group's revenue base, the Group has successfully tap into the Mainland China's distribution market.

The Sino-foreign Equity Joint Venture Company, Shanghai Dong Fang Ri Hua Sales Co. Ltd ("Shanghai Dong Fang Ri Hua"), which the Group has 51% interest, commenced distribution business operation on 1 September 2005. The venture, within one month of operation has generated an unaudited turnover of approximately HK\$40,065,000 during the Period Under Review.





Under the contractual agreement with Guangzhou Procter & Gamble Company Limited, Shanghai Dong Fang Ri Hua has started to distribute P&G's personal care products in Shanghai and P&G's cosmetic and skin care products, like SKII in the eastern and western part of the Mainland China. Shanghai Dong Fang Ri Hua records an unaudited profit after taxation of approximately HK\$914,000 during the Period Under Review.

Shanghai Dong Fang Ri Hua will continue to explore for more distribution channels for P&G's products. Specialist counters for Max Factor will be established in Shanghai next year and Shanghai Dong Fang Ri Hua will commence distribution of Max Factor products to these counters. As the PRC market shows immense potential for P&G's products, the management anticipates the revenue generate from the venture will experience a double digit growth.

## FINANCIAL REVIEW

### Results

During the Period Under Review, the consolidated turnover increased by 11.26% to approximately HK\$105,523,000 compared to approximately HK\$94,840,000 of the Last Corresponding Period. The increase was contributed by the revenue generated from the newly commenced distribution business in the Mainland China. The consolidated turnover for the six months ended 30 September 2005 included revenue generated from slimming centres in Hong Kong and the Mainland China amounted to approximately HK\$45,402,000 (2004: approximately HK\$84,347,000) and approximately HK\$12,817,000 (2004: Nil) respectively, revenue from the sale of health and beauty products amounted to approximately HK\$7,239,000 (2004: approximately HK\$10,493,000) and the revenue generated from the distribution business in the Mainland China amounted to approximately HK\$40,065,000 (2004: Nil).

The consolidated gross profit for the six months ended 30 September 2005 was approximately HK\$56,051,000, a decrease of approximately HK\$26,554,000 compared with the Last Corresponding Period. The Group's gross profit was contributed by the operation of slimming centres of approximately HK\$51,501,000 (2004: approximately HK\$75,926,000), the sale of health and beauty products of approximately HK\$2,482,000 (2004: approximately HK\$6,679,000) and the distribution business in the Mainland China of approximately HK\$2,068,000 (2004: Nil).

Consolidated loss attributable to equity holders of the Company amounted to approximately HK\$19,450,000 for the six months ended 30 September 2005 (2004: profit attributable to equity holders of the Company of approximately HK\$25,359,000). The loss was primarily due to the decline in revenue received from slimming centres in Hong Kong and the increase in costs incurred in exploring the PRC slimming market.



### **Segment information**

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary reporting basis, by geographical segment.

Details of the segment information is presented in note 2 of this report.

### **Capital Resources and Liquidity**

Cash and bank balances as at 30 September 2005 were approximately HK\$32,197,000 compared to approximately HK\$33,454,000 as at 31 March 2005. The Group had no bank borrowings during the Period Under Review.

As at 30 September 2005, the Group's liability was approximately HK\$55,709,000, compared to approximately HK\$21,479,000 as at 31 March 2005. The gearing ratio of the Group is zero as at 30 September 2005 (31 March 2005: zero).

### **Treasury policy**

The Group adopts a conservative approach towards its treasury policies. The Group evaluates the financial condition of its customers regularly so as to reduce the credit risk. The average outstanding days of the Group's accounts receivable was maintained at below 90 days. To manage liquidity risk, the Group closely monitors the Group's liquidity position to ensure the liquidity structure of the Group's assets, liabilities and commitments and to ensure that the Group can meet its funding requirements.

### **Foreign Exchange Exposure**

Since the Group's assets and liabilities, revenue and payments are mainly denominated in Hong Kong Dollars and Renminbi, the Groups considers that there was no significant exposure to foreign exchange fluctuations.

### **Net Assets**

As at 30 September 2005, the Group's net assets amounted to approximately HK\$71,515,000 compared to approximately HK\$91,359,000 as at 31 March 2005. There is no charge on the Group's assets as at 30 September 2005.

### **Contingent Liabilities**

As at 30 September 2005, there were no material contingent liabilities.

**Employee Information**

As at 30 September 2005, the Group had around 500 employees (2004: over 300 employees). During the Period Under Review, the Group's total staff costs amounted to approximately HK\$22,674,000 (2004: approximately HK\$17,955,000). Pursuant to the share option scheme adopted by the Company, share options have been granted to eligible participants to subscribe for shares in the Company under the terms and conditions stipulated therein.

The Group's remuneration policies are formulated on the basis of the performance and experience of individual employee and are in line with local market practices where the Group operates. In addition to the salary, the Group also offers to its employees other fringe benefits including provident fund and medical benefits.

**Significant Investments and Acquisitions**

During the Period Under Review, the Sino-foreign Equity Joint Venture, namely Shanghai Dong Fang Ri Hua, which the Group has 51% interest, has been established for a term of 10 years. Shanghai Dong Fang Ri Hua's registered capital is US\$5 million and the Group will contribute 51% of the registered capital, i.e. US\$2.55 million. Up to 30 September 2005, the Group has already injected capital of approximately US\$0.45 million and the remaining will be injected within the next two years.

In September 2005, the Group established a slimming centre in Shenzhen ("Shenzhen Slimming Centre"), a wholly owned foreign enterprise, for a term of 30 years. Shenzhen Slimming Centre's total investment is HK\$5 million and the registered capital is HK\$3.5 million. The Group has injected capital of approximately HK\$0.5 million in October 2005 and the remaining will be injected within the next two years.

The capital contribution will be funded by internal resources of the Group.



## COMPARISON OF BUSINESS PROGRESS AND USE OF PROCEEDS

### Business objectives for the Period Under Review as set out in the Prospectus

### Actual business progress for the Period Under Review

#### Research and develop its health and beauty products

- |  |   |
|--|---|
| <ul style="list-style-type: none"><li>• Engage professionals to research and develop health and beauty products</li><li>• Deployment of new health and beauty products</li></ul> | <ul style="list-style-type: none"><li>• The Group has cooperated with the suppliers to research and develop health and beauty products</li><li>• The Group has launched healthy mooncake and "One Minute Diet Tea" during the Period Under Review</li></ul> |
|--|---|

#### Expand its health and beauty products in local market and other markets

- |   |   |
|---|---|
| <ul style="list-style-type: none"><li>• Identify potential locations for setting up of counters in the retailers</li><li>• Expand its health and beauty products in the PRC</li></ul> | <ul style="list-style-type: none"><li>• The Group considered focusing on product development first before setting up retail counters</li><li>• The Group is working on the building up of a distribution network in the PRC</li></ul> |
|---|---|

#### Increase efforts on advertising and promotional activities

- |   |  |
|---|--|
| <ul style="list-style-type: none"><li>• Continue its promotion campaigns in Hong Kong by advertising in printed media, television, radio, Mass Transit Railway stations and heavy traffic locations</li><li>• Continue to co-organise slimming campaigns with media</li><li>• Continue its public relations event featured by spokespersons</li></ul> | <ul style="list-style-type: none"><li>• The Group continued its promotional campaigns in Hong Kong by advertising in printed media, television, radio, MTR stations and locations with high traffic</li><li>• The Group continued to co-organise slimming campaigns with media</li><li>• The Group continued to organise public relations events featured by spokespersons</li></ul> |
|---|--|



**Business objectives for the Period Under Review as set out in the Prospectus**

**Actual business progress for the Period Under Review**

**Increase efforts on advertising and promotional activities**

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>• Conduct its promotion campaigns in the PRC and Taiwan</li> </ul> | <ul style="list-style-type: none"> <li>• The Group has cooperated with “上海時尚文化傳媒公司” to produce the “Sau San Tong: Fit for Life” TV specials in Shanghai. The programme has been broadcasted on Channel Young of Shanghai Media Group since 26 April 2005. No promotional campaign was carried out in Taiwan as the expansion plan was put on hold in view of the political instability</li> </ul> |
| <ul style="list-style-type: none"> <li>• Retain new spokespersons for the Group</li> </ul>                | <ul style="list-style-type: none"> <li>• The Group has retained new spokespersons</li> </ul>  |

**Improve the quality of services at its retailers and its slimming centres**

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• Continue to implement a series of training programmes for existing and new beauty consultants and its retailers</li> </ul> | <ul style="list-style-type: none"> <li>• The Group provided a series of training programmes to improve the service standard and product knowledge of the slimming and beauty consultants of its slimming centres. Product training was provided to its retailers to enhance their product knowledge and strengthen the communications</li> </ul> |
| <ul style="list-style-type: none"> <li>• Continue to invest in acquiring additional and advanced beauty-care and slimming equipment and technology</li> </ul>       | <ul style="list-style-type: none"> <li>• The Group has introduced a number of new equipment in the slimming centres to provide more diversified and personalised services to the customers. The management considered it was necessary to dedicate additional resources under the current competitive market</li> </ul>                          |



## USE OF PROCEEDS

		<b>Proposed*</b> <b>amount to be</b> <b>used up to</b> <b>30 September</b> <b>2005</b>	<b>Actual</b> <b>accumulated</b> <b>utilisation up to</b> <b>30 September</b> <b>2005</b>
	<i>Notes</i>	HK\$'000	HK\$'000
Research and develop health and beauty products		800	756
Expand health and beauty products in local and other markets		400	684
Expand market coverage for health and beauty services	1	9,100	20,550
Increase efforts on advertising and promotional activities	2	17,000	32,405
Improve the service quality of retailers and slimming centres	3	400	2,029
<b>Total</b>		<b>27,700</b>	<b>56,424</b>

*Notes:*

1. The slimming centres in Shenzhen, the PRC have been opened in mid September 2005. Relevant costs were incurred during the Period Under Review.
  2. Under the current intense market competition, the management considered it was necessary to dedicate additional resources on advertising and promotional activities.
  3. Apart from providing training programmes to improve the standard of services and product knowledge of the slimming and beauty consultants, the Group also introduced a number of new slimming and beauty equipment in the slimming centres to provide more diversified and personalised services to the customers. The management considered it was necessary to dedicate additional resources to enhance the service quality under the current competitive market.
- \* The proposed amount represented the cost of implementation of the Group's business plan as stated in the Prospectus.



## 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 September 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
	6 September 2005	6 September 2005 – 5 September 2010	HK\$0.487	-	12,890,000	-	-	12,890,000
				<u>29,500,000</u>	<u>17,690,000</u>	<u>-</u>	<u>4,800,000</u>	<u>42,390,000</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 September 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 (Note 1)	81,070,000	374,270,000	56.98%
Dr. Cheng Shing Lung, Edwin	13,600,000 (Note 2)	4,930,000	18,530,000	2.82%

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.

Note 2: The 13,600,000 shares of the Company were held by Kingwise Corporation Limited ("Kingwise"), a company incorporated in Hong Kong with limited liability. Dr. Cheng Shing Lung, Edwin owned 30% of the issued share capital of Kingwise.





### 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 September 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 September 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		
		Share	Percentage	Number of share options held
Biochem	Beneficial owner (Note 1)	293,200,000	44.64%	-
Miss Cheung	Beneficial owner	81,070,000	12.34%	5,000,000
Value Partners Limited	Investment manager (Note 2)	51,185,000	7.79%	-

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 32.77% interest in Value Partners Limited.

Saved as disclosed above, as at 30 September 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 September 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 received a fee for acting as the Company's retained sponsor for the period from 19 November 2003 to 31 March 2006.

As at 30 September 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, 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.

### **RESIGNATION OF DIRECTOR**

On 4 October 2005, Mr. Ho, Francis Man Kwong resigned as an executive director of the Company for personal reasons.

### **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 six months ended 30 September 2005.

### **CODE ON CORPORATE GOVERNANCE PRACTICES**

In the opinion of the Board, the Company has complied with the code on corporate governance practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 September 2005, except for the following deviations:

1. In accordance with No.87 of the Company's Bye-laws, all the directors (with exception of the chairman of the board of the Company) are subject to the retirement of nearest to one-third of the board each year but not explicitly subject to retirement at least once every 3 years as required by the Code. A resolution will be proposed at the next annual general meeting to amend the Company's Bye-laws in line with the Code. (Code Provision A.4.1)



### **CODE ON CORPORATE GOVERNANCE PRACTICES** *(Continued)*

2. The Group will release a written guidelines on no less exacting terms than the required standard of dealings for the relevant employee as defined under the Code in respect of their dealings in the shares of the Company. (Code Provision A.5.4)
3. The Board is in the course of setting up its remuneration committee in accordance with the Code. The committee will be established within a short period of time. (Code Provision B.1.1)

### **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules.

### **AUDIT COMMITTEE**

The Group has established an audit committee 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 interim financial report for the six months ended 30 September 2005.

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

Hong Kong, 14 November 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, 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.*