



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

First Quarterly Report
第一季度業績報告

2006

Stock Code 股份代號 : 8200

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The Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss 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.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

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 three months ended 30 June 2006 together with comparative figures of the corresponding period ended in 2005 as follows:

	Notes	For the three months ended 30 June	
		2006 HK\$'000	2005 HK\$'000
Turnover	2	126,213	34,781
Cost of sales		(105,031)	(4,731)
Gross profit		21,182	30,050
Other revenue	2	1,640	100
Selling and distribution expenses		(18,170)	(23,525)
General and administrative expenses		(11,445)	(11,823)
Loss from operating activities		(6,793)	(5,198)
Gain on partial disposal of a subsidiary	3	—	6,004
Finance costs		(110)	—
(Loss)/profit before taxation		(6,903)	806
Taxation	4	(11)	(61)
(Loss)/profit for the year		(6,914)	745
Attributable to:			
Equity holders of the Company		(8,973)	493
Minority interests		2,059	252
		(6,914)	754
(Loss)/earnings per share	5		
Basic		(1.35 cents)	0.08 cents
Diluted		N/A	0.07 cents

NOTES:**1. Basis of preparation and significant accounting policies**

The results have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 results are consistent with those adopted in the preparation of the annual report of the Group for the year ended 31 March 2006.

2. Turnover and other revenue

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 beauty and slimming services rendered, net of discounts.

	For the three months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Turnover		
— Provision for beauty and slimming services from slimming centers	18,279	31,386
— Distribution sales of cosmetic and skin care products	106,424	—
— Sales of other health and beauty products	1,510	3,395
	126,213	34,781
Other revenue		
Interest income	19	10
Management income	1,000	—
Others	621	90
	1,640	100

3. Gain on disposal of a subsidiary

On 30 May 2005, the Group has disposed 49% of the issued share capital of a wholly owned subsidiary to an independent third party at a consideration of HK\$6,000,000. This subsidiary is an investment holding company and has not carried out any business activities at the time of disposal. The purpose to incorporate this subsidiary is to set up a slimming centre in Hangzhou which has been subsequently started in June 2006.

4. Taxation

No Hong Kong profits tax has been provided for the three months ended 30 June 2006 as the Group did not have any assessable profit (three months ended 30 June 2005: 17.5% on estimated assessable profit). PRC enterprise income tax has been provided at the rate of 33% (three months ended 30 June 2005: Nil) on the estimated assessable profit.

The details of the taxation charge are as follows:

	For the three months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Hong Kong profits tax	—	61
PRC enterprise income tax	11	—
Deferred taxation	—	—
	11	61

5. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share for the three months ended 30 June 2006 is based on the unaudited loss attributable to equity holders of the Company for the three months ended 30 June 2006 of approximately HK\$8,973,000 (three months ended 30 June 2005: profit of approximately HK\$493,000) and on the weighted average number of 666,900,000 shares (three months ended 30 June 2005: on the weighted average number of 656,900,000 shares).

No diluted loss/(earnings) per share for the three months ended 30 June 2006 has been presented as the exercise of the outstanding share option of the Company would result in reducing loss per share. The calculation of diluted earnings per share for the three months ended 30 June 2005 is based on the unaudited profit attributable to equity holders of the Company for the three months ended 30 June 2005 of approximately HK\$493,000 and on 659,162,192 shares, being the weighted average number of ordinary shares outstanding during the period, adjusted for the effects of the share options during the period.

6. Condensed consolidated statement of changes in equity

	Attributable to equity holders of the Company									
	Share capital	Share premium	Merger reserve	Exchange reserve	Employee share-based compensation reserve	Statutory surplus reserve	Retained profits/(Accumulated losses)	Total	Minority interest	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2006	6,669	45,342	(3,652)	(44)	2,219	399	(20,577)	30,356	5,331	35,687
(Loss)/profit for the period	—	—	—	—	—	—	(8,973)	(8,973)	2,059	(6,914)
Exchange adjustments	—	—	—	206	—	—	—	206	32	238
At 30 June 2006	6,669	45,342	(3,652)	162	2,219	399	(29,550)	21,589	7,422	29,011
As at 1 April 2005	6,569	41,527	(3,652)	12	—	—	46,945	91,401	(42)	91,359
Unvested share options cost	—	—	—	—	332	—	—	332	—	332
Translation differences	—	—	—	(28)	—	—	—	(28)	(5)	(33)
Profit for the period	—	—	—	—	—	—	493	493	252	745
As at 30 June 2005	6,569	41,527	(3,652)	(16)	332	—	47,438	92,198	205	92,403

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 30 June 2006 (2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS
Business Review

For the three months ended 30 June 2006 (the "Quarter"), turnover amounted to approximately HK\$126,213,000, representing an 263% increase from approximately HK\$34,781,000 in the corresponding period in last year. Such dramatic increase is mainly contributed by the establishment of a Sino-foreign Equity Joint Venture Company, Shanghai Dong Fang Ri Hua Sales Co. Ltd. ("Shanghai Dong Fang Ri Hua"), in which the Group has 51% interest, in September 2005. Shanghai Dong Fang Ri Hua is engaged in the distribution of 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 People's Republic of China (the "PRC"). Turnover from such distribution business amounted to approximately HK\$106,424,000 during the Quarter.

During the Quarter, turnover generated from all the slimming centres in Hong Kong and in the PRC amounted to approximately HK\$18,279,000 (2005: approximately HK\$31,386,000). Such decrease is due to the price war in the local market. Nevertheless, the situation has been improved when compared with the corresponding turnover for the three months ended 31 March 2006 of approximately HK\$5,395,000 only. There is an encouraging growth of approximately HK\$3,321,000 in the turnover from PRC slimming centres compared with the corresponding period in last year. At the same time, the total deferred income for the above PRC slimming centres amounted to approximately HK\$21,483,000 which will be crystallized as part of turnover of the Group in the coming quarters.

During the Quarter, the Group recorded a decrease of approximately HK\$8,868,000 in gross profit and has incurred a loss attributable to equity holders of the Company of approximately HK\$8,973,000 (2005: profit of approximately HK\$493,000). Such downturn is attributable to the price war as mentioned, together with the investments on the Group's expansion in the PRC.

OUTLOOK

Sau San Tong has successfully established a strong foothold in the health and slimming market in both Hong Kong and the PRC. The Group will continue to focus its core business as well as widen its business coverage by leveraging on its reputation in the market and the established network in both Hong Kong and the PRC. The Group has also implemented various cost control measures in order to improve the profitability in coming quarters.

Slimming Centres

The Group's expansion pace of slimming centres in the PRC will accelerate and a team of expertise led by the Group's management was in place to explore the PRC market and the management is confident that with its first mover advantage, plus the impressive results of the existing PRC slimming centres, together with the escalating level of average income in the PRC, the Group is able to seize a substantial market share in the years to come.

For Hong Kong, being the leading slimming service provider, Sau San Tong is able to withstand the short term set back and continue to be the leader of the industry providing the most quality and professional services to its customers. In fact, the Group introduced an exclusive "Anti-aging program" as well as a range of comprehensive beauty and slimming services so as to widen the spectrum of treatments being provided to its customers.

Management Consultation Services

Being the leading slimming services provider in Hong Kong and in the PRC, Sau San Tong has accumulated a wealth of experience in the management and operation of slimming centres as well as high caliber professionals from the industry. In order to capitalize its existing resources, the Group has embarked the provision of management consultation services for existing slimming centres as well as assist in the setting up slimming centres in the PRC and overseas.

In June 2006, the Group has successfully entered into an agreement under which management consultation services are to be provided for the setting up of a slimming and beauty centre in Canada, together with advisory service during the initial operation period. In July 2006, the Group has also entered into an agreement with a company engaged in the provision of various Yoga services, health-care services and slimming and beauty services in Hong Kong under which management consultation services are to be provided. In general, the service scope of the above agreements include scouting of premises, licenses application, legal and financial advises, staff training, management and operation.

Such encouraging start has further strengthened the confidence of the Group in this kind of new business. Apart from Canada and Hong Kong, the Group also believes that there will be an immense demand for this kind of services in the PRC since its beauty and slimming market is still under developed with a shortage of expertise. Also, provision of this kind of services command not much overhead costs and thus contributing to a positive revenue growth to the Group.

Health and Beauty Products

During the past years, the Group's ability to introduce innovative and quality products has earned a leading status in the Hong Kong market. Copying such success, the Group is pleased to announce the cooperation with a famous bakery house in Hong Kong, who have comprehensive retail network, to distribute healthy and low-fat mooncakes in the coming Mid-Autumn Festival. The Group will implement a strict quality control to ensure the mooncakes are healthy with low-fat.

Besides Hong Kong, entrance of the Sau San Tong's products into the PRC is also one of the Group's major goals. The Group is planning the distribution of about 100 health and beauty products to the major cities in the PRC. With the well-established distribution network in the PRC, the Group is able to reap the best result through the effective use of resources. The management believes by leveraging on "Sau San Tong" brand name and the customer confidence built up over the prior years, these health and beauty products will be well received in the market bringing forth an additional revenue stream for the Group.

Distribution Business in the PRC

Shanghai Dong Fang Ri Hua will also be distributing Gillette's product in the PRC with the acquisition of Gillette by P&G. As the PRC market continues to boom showing immense potential for P&G products, the management anticipates the revenues generated from the distribution business will experience further growth and in turn provide the Group with stable source of income.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES

As at 30 June 2006, 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 the SFO, including interests and/or short positions which they are deemed or taken to have under such provisions of the SFO, or which will be required, pursuant to section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long position in shares of the Company:

Name of Director	Number of shares			Approximate percentage of interest in the Company's issued share capital
	Corporate interests	Personal interests	Total	
Dr. Cheung Yuk Shan, Shirley	293,200,000 (Note 1)	81,070,000	374,270,000	56.12%

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 Dr. Cheung Yuk Shan, Shirley.

Long position in 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	Subscription price per share	Aggregate long position in underlying shares of the Company	Approximate percentage of interest in the Company's issued share capital
Dr. Cheung Yuk Shan, Shirley	10 September 2004	10 September 2004 — 3 November 2013	HK\$0.512	5,000,000	0.75%
Mr. Cheung Ka Heng, Frankie	10 September 2004	10 September 2004 — 3 November 2013	HK\$0.512	5,000,000	0.75%

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 30 June 2006, 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 Rules 5.46 to 5.67 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 30 June 2006, so far was known to any Directors or chief executive of the Company, the following interests of which would fall to be disclosed under Divisions 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:

Substantial shareholder	Capacity	Number of shareholding		Number of share options held
		Share	Percentage	
Biochem	Beneficial owner	293,200,000	43.96%	—
Dr. Cheung Yuk Shan, Shirley	Beneficial owner	81,070,000	12.16%	5,000,000

Saved as disclosed above, as at 30 June 2006, 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 Executive's Interests and Short Position in Shares" above, had registered an interest or short position in the share capital, underlying shares and debentures of the Company that was required to be recorded pursuant to Section 336 of the SFO.

COMPETING INTERESTS

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

AUDIT COMMITTEE

The Group has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The audit committee comprises three Independent Non- Executive Directors, namely Mr. Hong Po Kui, Martin, Mr. Li Kuo Hsing and Mr. Ho Yiu Ming. The audit committee has reviewed the unaudited results of the Group for the three months ended 30 June 2006.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the three months ended 30 June 2006.

On behalf of the Board
Sau San Tong Holdings Limited
Cheung Yuk Shan, Shirley
Chairman

Hong Kong, 14 August 2006

As at the date of this report, the Board comprises Executive Directors namely Dr. Cheung Yuk Shan, Shirley (Chairman), Mr. Cheung Ka Heng, Frankie, Mr. Lee Man Kwong; Independent Non-Executive Directors namely Mr. Hong Po Kui, Martin, Mr. Li Kuo Hsing and Mr. Ho Yiu Ming.

SAU SAN TONG HOLDINGS LIMITED

修身堂控股有限公司

6/F, PRESTIGE TOWER,
23-25 NATHAN ROAD,
TSIMSHATSUI, KOWLOON,
HONG KONG

香港九龍尖沙咀彌敦道
23-25號彩星中心6樓