

SAU SAN TONG

2013

First Quarterly Report  
第一季度業績報告

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SAU SAN TONG



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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

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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 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 or deceptive; and (2) there are no other matters the omission of which would make any statement herein or in this report misleading.*

## QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 30TH JUNE 2013

The Board of Directors of the Company announce the unaudited consolidated financial results of the Company and its subsidiaries (the "Group") for the three months ended 30 June 2013 together with comparative figures of the corresponding period ended in 2012 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	For the three months ended 30 June	
		2013 HK\$'000	2012 HK\$'000
Turnover	2	<b>324,910</b>	258,393
Cost of sales		<b>(286,136)</b>	(217,879)
Gross profit		<b>38,774</b>	40,514
Other revenue	2	<b>2,217</b>	220
Selling and distribution costs		<b>(20,360)</b>	(17,293)
General and administrative expenses		<b>(21,081)</b>	(18,120)
(Loss)/profit from operations		<b>(450)</b>	5,321
Finance costs		<b>(426)</b>	(228)
Share of (losses)/profits of jointly controlled entities		<b>(262)</b>	1,854
(Loss)/profit before taxation		<b>(1,138)</b>	6,947
Income tax expense	3	<b>(1,766)</b>	(1,968)
(Loss)/profit for the period		<b>(2,904)</b>	4,979
Attributable to:			
Owners of the Company		<b>(4,744)</b>	2,066
Non-controlling interests		<b>1,840</b>	2,913
(Loss)/profit for the period		<b>(2,904)</b>	4,979
(Loss)/earnings per share	4		
Basic and diluted, HK cents		<b>(1.91)</b>	0.83

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	For the three months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
<b>(Loss)/profit for the period</b>	<b>(2,904)</b>	4,979
<b>Other comprehensive income for the period:</b>		
Exchange differences on translation of financial statements of overseas subsidiaries, net of nil tax	<b>13</b>	67
<b>Total comprehensive (loss)/income for the period</b>	<b>(2,891)</b>	5,046
<b>Attributable to:</b>		
Owners of the Company	<b>(4,757)</b>	2,096
Non-controlling interests	<b>1,866</b>	2,950
<b>Total comprehensive (loss)/income for the period</b>	<b>(2,891)</b>	5,046

Notes:

## 1. Basis of preparation and significant accounting policies

The results have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, which collective term include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations and Accounting Guidelines issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and also comply with the applicable disclosure provisions of The Rules Governing the Listing of Securities on the GEM of the Stock 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 results are consistent with those adopted in the preparation of the annual report of the Group for the year ended 31 March 2013.

## 2. Turnover and other revenue

Turnover represents the invoiced value of goods supplied to customers, net of discounts, returns, value added tax or other sales tax; service income from provision of beauty and slimming services, net of discounts and franchise fees income. The amount of each significant category of revenue recognised in turnover during the period is as follows:

	For the three months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
<b>Turnover</b>		
Distribution sale of cosmetic and skin care products	296,597	224,118
Provision of beauty and slimming services	18,729	26,185
Provision of franchise services	9,029	7,762
Sale of health, beauty and related products	555	328
	<b>324,910</b>	<b>258,393</b>
<b>Other revenue</b>		
Interest income	73	54
Management and consultancy fee income	—	9
Others	2,144	157
	<b>2,217</b>	<b>220</b>

### 3. Income tax expense

No provision for Hong Kong Profits Tax is made for the three months ended 30 June 2013 as the companies in the Group either have sustained tax losses or have no assessable profits for Hong Kong Profits Tax purpose (three months ended 30 June 2012: Nil). Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in relevant tax countries.

The details of the taxation charge are as follows:

	For the three months ended 30 June	
	2013 HK\$'000	2012 HK\$'000
Hong Kong profits tax	—	—
PRC enterprise income tax	1,766	1,968
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	1,766	1,968

### 4. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share for the three months ended 30 June 2013 is based on the unaudited loss attributable to owners of the Company for the three months ended 30 June 2013 of approximately HK\$4,744,000 (three months ended 30 June 2012: profit of approximately HK\$2,066,000) and on the weighted average number of 248,293,750 shares (three months ended 30 June 2012: on the weighted average number of 248,293,750 shares).

The diluted earnings per share for the three months ended 30 June 2013 and 2012 is the same as the basic earnings per share as the assumed exercise of the outstanding share options and convertible notes has anti-dilutive effect.

## 5. Condensed consolidated statement of changes in equity

	Attributable to owners of the Company											
	Share capital	Share premium	Merger reserve	Exchange reserve	Share-based payment reserve	Convertible notes reserve	The PRC statutory surplus reserve	Other reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 1 April 2013</b>	2,483	160,072	(3,637)	6,974	10,732	–	4,463	48	(55,621)	125,514	23,767	149,281
<b>Change in equity for the period:</b>												
Total comprehensive (loss)/income for the period	–	–	–	(13)	–	–	–	–	(4,744)	(4,757)	1,866	(2,891)
<b>At 30 June 2013</b>	2,483	160,072	(3,637)	6,961	10,732	–	4,463	48	(60,365)	120,757	25,633	146,390
<b>At 1 April 2012</b>	2,483	160,072	(3,637)	6,673	10,796	1,315	2,668	–	(61,382)	118,988	23,382	142,370
<b>Change in equity for the period:</b>												
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(5,321)	(5,321)
Total comprehensive income for the period	–	–	–	30	–	–	–	–	2,066	2,096	2,950	5,046
<b>At 30 June 2012</b>	2,483	160,072	(3,637)	6,703	10,796	1,315	2,668	–	(59,316)	121,084	21,011	142,095

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 30 June 2013 (2012: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the three months ended 30 June 2013 (the “Period Under Review”), the Group’s turnover amounted to approximately HK\$324,910,000, representing an increase of 26% from approximately HK\$258,393,000 in the corresponding period in last year. Such increase was mainly due to the remarkable growth in the distribution sales of our Shanghai Dong Fang Ri Hua Sales Co. Ltd. (“Dong Fang”). During the Period Under Review, turnover from the distribution business increased by 32% to approximately HK\$296,597,000, (2012: approximately HK\$224,118,000).

Notwithstanding the challenging market conditions encountered during the Period Under Review, the performance of all our beauty, slimming and spa centres in both Hong Kong and in the People’s Republic of China (the “PRC”) is still satisfactory. During the Period Under Review, the turnover generated from all our beauty, slimming and spa centres amounted to approximately HK\$18,729,000 (2012: approximately HK\$26,185,000), representing a decrease of 28% as compared to that of the corresponding period in last year. During the Period Under Review, the franchise co-operation business contributed HK\$9,029,000 turnover to the Group (2012: HK\$7,762,000).

During the Period Under Review, the Group recorded a decrease of approximately HK\$1,740,000 in gross profit and has generated loss attributable to owners of the Company of approximately HK\$4,744,000 (2012: profit of approximately HK\$2,066,000). The results is mainly due to intense competition, slowdown of the customer sentiment in Hong Kong segment and expansion of the business of the Group.



## OUTLOOK

### Beauty, Slimming and Spa Centers

Against a background of modest expansion in the Hong Kong economy, the retail sector showed retarded growth during the Period Under Review. This has compounded existing unfavorable operating factors in Hong Kong linked to high rental and inflation pressure. Nevertheless, beauty, slimming and spa products and services have exhibited relatively strong attributes and resilience against declining economy, as they have gradually changed from being luxury to necessities for the local female population. As income continued to rise and lifestyle became increasingly busy, relaxing and revitalizing beauty and slimming service and high-end products saw steady increases in demand. Market sophistication also favored the dominance of the higher end market by Sau San Tong which enjoys strong brand recognition and quality reputation. However, at the start of migration to the high-end market, the Group unavoidably suffered from an initial set back in the segmental results due to the lower margin of high-end products. This was further aggravated by negative factors such as throttling rentals and increases in costs of sale.

In an effort to further strengthen its leading market position, the Group has introduced a number of innovative beauty, slimming and anti-aging treatments and machineries. 4S thermal longevity therapy is one of the highlights introduced. It mimics the traditional Chinese cupping therapy which uses thermal energy and negative pressure to promote localized blood and lymph circulations, improve skin elasticity and invigorate metabolism with the aim of body detoxification and slimming. We also launched the “Restorative Redefining Body-shaping Therapy” using ROBOLEX which combines four major slimming technologies, namely multi-frequency transmission, ultrasound, laser and negative pressure in one to deliver enhanced slimming and shaping results. ROBOLEX has obtained the CE certification and can effectively help to resolve fat accumulation, edema and slack skin issues through a painless, massage-like procedure. We have also pioneered the combination of treatment with health foods and launched our exclusive “Trim-me Revitalizing Magnetotherapy” to help our customers build attractive silhouettes. While slimming honey is an all-natural drink to help the body dissolve fat, the treatment also uses magnetic geranium, a natural mineral to replenish the body with negative ions in order to purify the blood, invigorate body cells, boost immunity and alleviate insomnia. Combined with pilates, the entire body is strengthened and toned through an emphasis on both muscle building and regulated breathing to achieve outstanding slimming results. Sau San Tong is committed to delivering efficient and effective beauty and slimming treatments to allow our clients to feel refreshed and reborn. In addition to providing top-notch beauty and slimming products and services, the Group invests extensively in research and development and new technologies in the drive to create and unleash the beauty of each of our clients.

As vast swathes of the Chinese population begin to have increasing disposable income to spend on items other than the living essentials, the PRC beauty and slimming market continues to be underpinned by strong demand. Unscathed by the deceleration in economic growth and the central government's frugality drive that mainly focuses on government officials, China's vast market is supported by a significant number of female consumers who are able to afford more expensive high-end beauty and slimming services and demand for reliable anti-aging treatments. Given our presence in the PRC market and solid reputation built over the years, we have established a strong distribution and sales platform, solid foundation and strong brand visibility in the mainland with the establishment of deluxe beauty, slimming and spa centers. With a bigger population moving up the economic ladder, we believe that the beauty, slimming and anti-aging market in China will continue to grow. Capitalizing on our established presence and reputation, we will continue to earnestly expand our business in the PRC cities to achieve sustainable growth and return.

To leverage on our wealth of know-hows in the industry accumulated over the years, and to better capitalize on its existing resources, the Group also provides management consultation services for the setting up of beauty, slimming and spa centers. The management believes that the provision of consultation services by our high caliber professionals in the management and operation of beauty, slimming and spa centers will continue to enjoy high demand while there is a lack of related expertise in the PRC market.

### **Distribution Business in the PRC**

Paralleled to the provision of slimming and beauty services, product distribution is another core business of the Group. Dong Fang is the biggest distributor of P&G products in East China Area, and we are the sole distributor of SK-II, the world top class skincare brand, in the Eastern and Western China. Apart from SK-II, we also distribute Olay and various P&G personal care, cosmetic and skin care products, as well as Gillette Men series. Also, Dong Fang is authorized by P&G as the sole distributor to distribute its world recognized brands of high-end prestige fragrances, including Gucci, Dolce & Gabbana, Hugo, BOSS, Anna Sui, Dunhill, MontBlanc and ESCADA in the PRC (excluding departmental store channel). Looking ahead, as China continues shift a higher percentage of its GDP to high-end products, the management anticipates the revenues generated from the distribution business will continue to attain new heights and generate stable and sizeable income to the Group.

## Health and Beauty Products

Being a leading beauty and slimming services provider on the market, the Group is committed to development and introduction of new and innovative products that cater to the needs and demands of its customers. The Group has launched various products embedding an innovative mix of ingredients and technologies. One feature product launched is “Rebalancing Purifying Cream”. Formulated with oil absorption factors, our “Rebalancing Purifying Cream” suppresses excessive sebum production, minimizes the pores and replenishes the skin with hydration it needs all day long, responding to the needs of combination and oily skins. Another product is “Ultra Revitalizing Eye Trio” includes two eye products created with multiple biotechnologies and advanced active ingredients including hyaluronic acid, hydrolyzed collagen, panthenol and vitamin derivatives to resolve major issues in the eye area. The high frequency massage stick coming in the trio is of unique design and an utmost in eye care routines. In future, the Group will focus on launching highly specialized products to address different skin concerns in different geographic locations, climates and seasons. The Group is confident that the products sales business line will become another major business stream of the Group.

## Franchise Co-operation Business in the PRC

The Group started to tap in the PRC market in 2004 upon seeing the vast potential market in the PRC. Looking to capture a sizeable market share and establish its brand presence in a short time, we believed that the franchising co-operation model should be the best way. However, our virgin attempt of franchise co-operation business building on internal available resources lagged our expectation during the first few years due to a lack of allocated resources and expertise. Despite this initial setback, we successfully turned it into a valuable lesson for future business building.

Learning from our previous experience, the Group reformed the business model of its franchise co-operation business in June 2010. Since then, this segment has been realizing outstanding growth and exciting results. From the positive feedback of our co-operate beauty and slimming shops, it shows the Group is on the right business strategy track and it also indicates that the brand image of the Group is highly reputed and the Group's vision is correct, and giving the Group more confidence to develop the franchise co-operation business and to invest more resources into it.

### **BeautyU Online Booking Platform**

In October 2012, the Group officially launched “BeautyU” website as the first online beauty and slimming service booking platform in the PRC. “BeautyU” is the fruitful result of the joint initiative of Sau San Tong and an equity fund to serve as a platform for beauty and slimming service providers to join the platform. Also, as China has the largest number of online consumers in the world, the Group has embraced the “online” strategy for growing its income stream. Revolutionizing the traditional consumption model of big lump-sum prepayments, this new booking platform promotes self-service booking on a charge-per-usage basis with clear charge standards and user comments published on the website. As a pioneer of its type, the website vows to the philosophy of “promotion without hard-selling” which allows customers to pick the place, date, time and service at their own decision, introducing our customers a new lifestyle as well as leading the way of internet selling in the beauty and slimming industry.

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

As at 30 June 2013, 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		Total	Approximate percentage of interest in the Company's issued share capital
	Corporate interests	Personal interests		
Dr. Cheung Yuk Shan, Shirley	31,332,000 (Note 1)	40,322,700	71,654,700	28.86%
Mr. Cheung Ka Heng, Frankie	—	700,000	700,000	0.28%

*Note 1:* The 31,332,000 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

### 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 of interest in the Company's issued share capital
Dr. Cheung Yuk Shan, Shirley	10 September 2004	10 September 2004 – 3 November 2013	HK\$7.9226	323,124	0.13%
Mr. Cheung Ka Heng, Frankie	10 September 2004	10 September 2004 – 3 November 2013	HK\$7.9226	323,124	0.13%
Mr. Cheung Ka Heng, Frankie	2 March 2011	2 March 2011 – 1 March 2016	HK\$0.66	2,000,000	0.81%

*Note:* 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 2013, 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 corporations (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 to 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 2013, 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	31,332,000	12.62%	—
Dr. Cheung Yuk Shan, Shirley	Beneficial owner	40,322,700	16.24%	323,124

Save as disclosed above, as at 30 June 2013, 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.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors and Chief Executive's Interests and Short Positions in Shares" above, at no time during the Period under Review were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## COMPETING INTERESTS

None of the Directors or substantial 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.

## CORPORATE GOVERNANCE PRACTICES

The Company has established a formal and transparent procedure to protect the interests of the shareholders of the Company. The Company applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the Quarter, except that:

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Currently, the Company does not have a separate Chairman and Chief Executive Officer and Dr. Cheung Yuk Shan, Shirley ("Dr. Cheung"), the founder of the Group, holds both positions. The Board believes that Dr. Cheung can guide discussions and brief the Board in a timely manner on pertinent issues given her solid experience and strong connection in the beauty sector, and that vesting the roles of both Chairman and Chief Executive Officer in her provides the Group with strong and consistent leadership and allows for more effective and efficient planning and execution of long-term business strategies.



## 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 Ms. Hui Yat Lam. The audit committee has reviewed the unaudited financial results of the Group for the three months ended 30 June 2013.

## 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.

## 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 2013.

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

Hong Kong, 14 August 2013

*As at the date of this report, the Board comprises Executive Directors namely Dr. Cheung Yuk Shan, Shirley (Chairman), Mr. Cheung Ka Heng, Frankie; Independent Non-Executive Directors namely Mr. Hong Po Kui, Martin, Mr. Li Kuo Hsing and Ms. Hui Yat Lam.*



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