



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

Interim Report 2004

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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 Stock 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 2004 (the "Period Under Review") increased by 5% to HK\$94,840,000 compared to HK\$90,360,000 for the six months ended 30 September 2003 (the "Last Corresponding Period").

The Group recorded a profit attributable to shareholders of HK\$25,359,000 for the six months ended 30 September 2004, representing an increase of 7% compared to the Last Corresponding Period.

The Board has resolved to declare an interim dividend of 0.8 HK cent per share for the six months ended 30 September 2004.



RESULTS

The board of Directors (the "Board") of Sau San Tong Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim financial results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months and three months ended 30 September 2004, together with the comparative unaudited figures for the corresponding period in 2003, as follows:

Condensed Consolidated Income Statement (Unaudited)

	Notes	For the six months ended 30 September		For the three months ended 30 September	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	2	94,840	90,360	43,916	45,717
Cost of sales		(12,235)	(17,217)	(6,536)	(8,970)
Gross profit		82,605	73,143	37,380	36,747
Other revenue		214	131	91	126
Selling and distribution expenses		(37,660)	(35,635)	(17,007)	(20,103)
General and administrative expenses		(15,360)	(10,103)	(7,978)	(5,532)
Profit from operations		29,799	27,536	12,486	11,238
Finance costs		(2)	(65)	—	(36)
Profit before taxation		29,797	27,471	12,486	11,202
Taxation	4	(4,397)	(3,686)	(1,564)	(875)
Profit after taxation		25,400	23,785	10,922	10,327
Minority interests		(41)	(88)	62	332
Profit attributable to shareholders		25,359	23,697	10,984	10,659
Dividends	5	5,147	1,000	5,147	—
Earnings per share	6				
Basic		4.58 cents	4.49 cents	1.93 cents	2.10 cents
Diluted		4.06 cents	N/A	1.74 cents	N/A



Condensed Consolidated Balance Sheet
As at 30 September 2004

	Notes	(Unaudited) 30 September 2004 HK\$'000	(Audited) 31 March 2004 HK\$'000
Non-current assets			
Goodwill		530	439
Fixed assets		17,880	13,531
Total non-current assets		<u>18,410</u>	<u>13,970</u>
Current assets			
Inventories		351	210
Due from a minority shareholder of a subsidiary		2,274	3,774
Prepayments, deposits and other receivables		32,883	17,259
Trade receivables	7	6,916	7,670
Cash and bank balances		53,167	34,305
		<u>95,591</u>	<u>63,218</u>
Current liabilities			
Current portion of obligations under finance lease		—	(32)
Trade payables	8	(6,227)	(3,414)
Deferred income		(9,333)	(7,162)
Other payables and accruals		(5,081)	(3,743)
Taxation payable		(9,120)	(4,789)
Total current liabilities		<u>(29,761)</u>	<u>(19,140)</u>
Net current assets		<u>65,830</u>	<u>44,078</u>
Total assets less current liabilities		<u>84,240</u>	<u>58,048</u>
Non-current liabilities			
Deferred taxation		(117)	(222)
Minority interests		84,123	57,826
		(68)	(413)
Net assets		<u>84,055</u>	<u>57,413</u>
Capital and reserves			
Share capital		6,434	5,370
Reserves		77,621	52,043
Shareholders' equity		<u>84,055</u>	<u>57,413</u>



Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 September 2004

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
As at 1 April 2004	5,370	24,952	(3,652)	30,743	57,413
Net profit attributable to shareholders	—	—	—	25,359	25,359
Exercise of share options	1,064	9,885	—	—	10,949
Dividends	—	—	—	(9,666)	(9,666)
As at 30 September 2004	<u>6,434</u>	<u>34,837</u>	<u>(3,652)</u>	<u>46,436</u>	<u>84,055</u>
As at 1 April 2003	500	4,895	—	4,317	9,712
Net profit attributable to shareholders	—	—	—	23,697	23,697
Dividends	—	—	—	(1,000)	(1,000)
As at 30 September 2003	<u>500</u>	<u>4,895</u>	<u>—</u>	<u>27,014</u>	<u>32,409</u>



Condensed Consolidated Cash Flow Statement (Unaudited)

For the six months ended 30 September 2004

	For the six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000
Net cash generated from operating activities	25,709	26,751
Net cash used in investing activities	(8,154)	(6,588)
Net cash generated from/(used in) financing activities	1,307	(2,065)
Net increase in cash and cash equivalents	18,862	18,098
Net cash and cash equivalents as at 1 April	34,305	4,284
Cash and cash equivalents as at 30 September	53,167	22,382
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	53,167	22,382

Notes:

1. Group reorganization and basis of preparation

The Company was incorporated in the Cayman Islands on 21 May 2002 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganization (the "Reorganization") to rationalize the group structure in preparation for the listing of the Company's shares on GEM, the Company became the holding company of the Group upon completion of the Reorganization on 4 November 2003. Further details of the Reorganization are set out in the Company's prospectus dated 10 November 2003 (the "Prospectus"). The Group resulting from the Reorganization, is regarded as a continuing entity for the accounting propose.

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



2. Turnover and segment information

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

The Group is principally engaged in the selling of health and beauty products and operation of slimming centres. The Group comprises two business segments: (i) selling of health and beauty products and (ii) operation of slimming centres.

An analysis of the Group's turnover and operating results for the six months ended 30 September 2004 by business segments is as follows:

	For the six months ended 30 September 2004			
	Sales of goods HK\$'000	Service income HK\$'000	Elimination HK\$'000	Group HK\$'000
Turnover				
External sales	10,493	84,347	—	94,840
Inter-segment sales	2,892	—	(2,892)	—
Total revenue	<u>13,385</u>	<u>84,347</u>	<u>(2,892)</u>	<u>94,840</u>
Segment profit	<u>935</u>	<u>32,297</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>
Profit after taxation				25,400
Minority interests				<u>(41)</u>
Profit attributable to shareholders				<u><u>25,359</u></u>





	For the six months ended 30 September 2003			
	Sales of	Service	Elimination	Group
	goods	income		
	HKS'000	HKS'000	HKS'000	HKS'000
Turnover				
External sales	19,522	70,838	—	90,360
Inter-segment sales	<u>771</u>	<u>—</u>	<u>(771)</u>	<u>—</u>
Total revenue	<u>20,293</u>	<u>70,838</u>	<u>(771)</u>	<u>90,360</u>
Segment profit	<u>1,962</u>	<u>28,720</u>		30,682
Unallocated costs				(3,277)
Other revenue				<u>131</u>
Profit from operations				27,536
Finance costs				<u>(65)</u>
Profit before taxation				27,471
Taxation				<u>(3,686)</u>
Profit after taxation				23,785
Minority interests				<u>(88)</u>
Profit attributable to shareholders				<u>23,697</u>

Since all the Group's turnover and operating results are derived from activities in Hong Kong, no geographical analysis is shown.

3. Profit before taxation

Profit before taxation is stated after crediting and charging the followings:

	For the six months ended 30 September		For the three months ended 30 September	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Crediting				
Interest income	1	—	—	—
Management fee income	120	—	30	—
Charging				
Amortisation of goodwill	77	71	41	36
Depreciation				
— Owned assets	3,193	1,816	1,707	1,049
— Leased assets	—	124	—	62
Operating lease rentals				
— Premises	3,006	1,747	1,632	932
— Machinery	—	32	—	8
Interest on bank loan and overdrafts wholly repayable within five years	—	20	—	8
Interest expenses on obligation under finance leases	2	44	—	27

4. Taxation

Hong Kong profits tax has been provided at a rate of 17.5% on the estimated assessable profits of the individual companies incorporated in Hong Kong for the six months ended 30 September 2004. (six months ended 30 September 2003: 17.5%)

	For the six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000
Hong Kong profits tax	4,502	3,829
Deferred taxation	(105)	(143)
	<u>4,397</u>	<u>3,686</u>





5. Dividends

	For the six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000
Interim dividend proposed/declared	<u>5,147</u>	<u>1,000</u>

- (i) At a meeting held on 8 November 2004, the Directors declared an interim dividend of 0.8 HK cent per share for the six months ended 30 September 2004. This proposed dividend is not reflected as dividend payable in these condensed accounts, but will be reflected as an appropriation of distributable reserve for the year ending 30 March 2005.
- (ii) For the six months ended 30 September 2003 (prior to the Reorganization), certain companies of the Group had declared and paid dividends to their then shareholders.

6. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 September 2004 is based on the unaudited profit attributable to shareholders of HK\$25,359,000 (2003: HK\$23,697,000) and on the weighted average number of 553,861,000 ordinary shares in issue during the Period Under Review (2003: 528,000,000 shares, all of which were deemed to have been issued prior to the Listing).

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 September 2004 is based on the unaudited profit attributable to shareholders of HK\$25,359,000 and on 625,246,000 shares, being the weighted average number of ordinary shares outstanding during the Period Under Review adjusted for the effect of the share options during the Period Under Review.

No diluted earning per share for the six months ended 30 September 2003 has been disclosed as there were no diluting events existed.



7. Trade and other 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:

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
0 to 90 days	6,535	7,443
91 to 120 days	296	142
Over 120 days	85	85
	<u>6,916</u>	<u>7,670</u>

8. Trade and other 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:

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
0 to 90 days	5,726	2,496
91 to 120 days	501	331
121 to 150 days	—	286
Over 150 days	—	301
	<u>6,227</u>	<u>3,414</u>



RESERVES

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

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of 0.8 HK cent per share for the six months ended 30 September 2004 to be payable to shareholders whose names appear on the register of members of the Company on 30 November 2004.

The interim dividend will be paid around 15 December 2004.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 29 November 2004 to 30 November 2004, both dates inclusive, during which period no transfer of shares may be registered. In order to qualify for the interim dividend, all completed transfer forms together with the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Standard Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 26 November 2004.

CHANGE OF COMPANY NAME

The special resolution for change of the Company name to "Sau San Tong Holdings Limited" and the Chinese name to "修身堂控股有限公司" for identification purpose was duly passed at the extraordinary general meeting held on 26 July 2004. The certificate of incorporation on change of the Company name was issued by the Registrar of Companies in the Cayman Islands on 29 July 2004 and was received by the Company on 20 August 2004. Accordingly, the change of Company name from "Sau San Tong Holdings (Cayman Islands) Limited" to "Sau San Tong Holdings Limited" and Chinese name from "修身堂控股(開曼群島)有限公司" to "修身堂控股有限公司" took effect from 29 July 2004.





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	Subscription price per share HK\$	Number of share options				At 30 September 2004
				At 1 April 2004	Exercised during the period	Granted during the period	Cancelled/lapsed during the period	
Director								
— Miss Cheung Yuk Shan, Shirley	10 September 2004	10/9/2004–03/11/2013	0.512	—	—	5,000,000	—	5,000,000
— Mr. Cheung Ka Heng, Frankie	10 September 2004	10/09/2004–03/11/2013	0.512	—	—	5,000,000	—	5,000,000
— Mr. Ho, Francis Man Kwong	9 September 2004	09/09/2004–03/11/2013	0.512	—	—	5,000,000	—	5,000,000
Other Eligible Participants	5 January 2004	5/1/2004–4/1/2009	0.486	21,000,000	(800,000)	—	—	20,200,000
				<u>21,000,000</u>	<u>(800,000)</u>	<u>15,000,000</u>	<u>—</u>	<u>35,200,000</u>



BUSINESS REVIEW AND OUTLOOK

Slimming Centres

During the first half of 2004, the improved economy in Hong Kong has provided a better environment for the slimming business. The Group has been enjoying a steady revenue growth for the operations of slimming centres despite intense market competition. The Group is now operating four scaleable slimming centres in Hong Kong with a turnover of HK\$84,347,000 for the six months ended 30 September 2004. As always, the Group will continue to improve the quality of its services to provide more flexible and value-added services to its customers.

The slimming centres in Shanghai, the People's Republic of China (the "PRC") have been opened in early October 2004 and will start to generate revenue during the third quarter (October – December) of the year 2004. The management is confident that the slimming centres in Shanghai, the PRC will bring positive contribution to the Group.

Health and Beauty Products

In August 2004, the Group has introduced a new healthy mooncake under the brandname of Sau San Tong to the market. The Group also launched a new natural health drink "Sau San Tong Bamboo Flavones Drink — Light" (修身堂果味竹葉水) in June 2004. Both products were distributed through several major retail chains in Hong Kong. Coupled with the impressive advertising campaign, the market response to these two new products were satisfactory.

In September 2004, the Company's wholly-owned subsidiary, Smartime International Investment Limited ("Smartime") has entered into a joint venture agreement with Skytop International Development Inc. and Shanghai Dong Fang P&G Co., Limited to establish a sino-foreign co-operative joint venture business in the PRC which will engage in the retailing and distributing of P&G products including cosmetics and skin care products in Shanghai, the PRC and the eastern part of the PRC. In view of the increase of the average purchasing power of the PRC customers, the management believes it is strategically important to expand the sales of health and beauty products in the PRC market to capture the economic growth. Through this transaction, the Group can further strengthen its leading position as one of the prominent providers of health and beauty products and services.





FINANCIAL REVIEW

Results

During the Period Under Review, the Group has achieved a revenue growth and continuous improvement in operating results. Consolidated turnover of the Group increased by 5% to HK\$94,840,000 compared to HK\$90,360,000 of the Last Corresponding Period. This increase was mainly contributed by the revenue generated from the four scaleable slimming centres. During the Period Under Review, turnover generated from slimming centres amounted to HK\$84,347,000, occupying 89% of the total revenue (2003: 78%) while the turnover from health and beauty products amounted to HK\$10,493,000, occupying 11% of the total revenue (2003: 22%).

The Group's gross profit increased by 13% from HK\$73,143,000 of the Last Corresponding Period to HK\$82,605,000 for the six months ended 30 September 2004. The gross profit as percentage of turnover increased from 81% of the Last Corresponding Period to 87% for the six months ended 30 September 2004.

Consolidated profit attributable to shareholders amounted to HK\$25,359,000 for the six months ended 30 September 2004, an increase of 7% from HK\$23,697,000 compared to the Last Corresponding Period. The rise was primarily due to the considerable increase in the revenue by enhancing the operational productivity and sales efficiency without incurring any additional expenses.

Capital Resources and Liquidity

On 2 September 2004, the Directors Miss Cheung Yuk Shan, Shirley and Mr. Cheung Ka Heng, Frankie have totally exercised the Pre-IPO share options of 105,600,000 shares under the Pre-IPO share option scheme and hence 105,600,000 ordinary shares of HK\$0.01 each were issued. In addition, the Company has issued 800,000 shares in September 2004 pursuant to the share option scheme of the Company. The net proceeds from the issuance of these ordinary shares amounted to HK\$10,949,000.





Cash and bank balances as at 30 September 2004 were HK\$53,167,000 compared to HK\$34,305,000 as at 31 March 2004. The Group had no bank borrowings during the Period Under Review.

As at 30 September 2004, the Group's liability was HK\$29,878,000, compared to HK\$19,362,000 as at 31 March 2004. The gearing ratio of the Group, measured on the basis of total borrowings as a percentage of net assets improved from 0.06% as at 31 March 2004 to 0% as at 30 September 2004.

Foreign Exchange Exposure

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

Group

As at 30 September 2004, the Group's net assets amounted to HK\$84,055,000 compared to HK\$57,413,000 as at 31 March 2004. There is no charge on the Group's assets as at 30 September 2004.

Contingent Liabilities

As at 30 September 2004, there were no material contingent liabilities.

Employee Information

As at 30 September 2004, the Group had approximately 353 employees (2003: 246 employee). During the Period Under Review, the Group's total staff costs amounted to HK\$17,955,000 (2003: HK\$12,893,000). 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.





Major transaction

In September 2004, the Company's wholly-owned subsidiary, Smartime has entered into a joint venture agreement with Skytop International Development Inc. and Shanghai Dong Fang P&G Co., Limited to establish a sino-foreign co-operative joint venture business in the PRC which will engage in the retailing and distributing of P&G products including cosmetics and skin care products in Shanghai, the PRC and the eastern part of the PRC. Smartime owns 51% interest in the joint venture business. The registered capital for the joint venture business would be US\$5,000,000 (approximately HK\$39,000,000) and US\$2,550,000 (approximately HK\$19,890,000) would be contributed in cash by Smartime. Details of this transaction can be referred to the Company's announcement dated 10 September 2004 and circular dated 15 October 2004.

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 health and beauty products

- Continue its focus on the development of quality and innovative health and beauty products
- Launched a natural health drink in June 2004 and healthy mooncake in August 2004
- Will launch two health products "Fat Cut" and "Fat Out" in October 2004

Expand health and beauty products in local and other markets

- Intend to set up a maximum of 10 self-owned counters in a personal care products retailer chain in Hong Kong and carry out feasibility studies of the expansion of the health and beauty products to other markets such as cities in Guangdong province
- Entered into a joint venture agreement with Skytop International Development Inc. and Shanghai Dong Fang P&G Co., Limited in September 2004 to establish a sino-foreign co-operative joint venture in the PRC which will engage in the retailing and distributing of P&G products including cosmetics and skin care products in Shanghai, the PRC and the eastern part of the PRC
- Study the feasibility of launching its health and beauty products in the PRC





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

Actual business progress for the Period Under Review

Expand the market coverage for health and beauty services

- Carry out feasibility studies and intend to establish slimming centres in the PRC
- Carry out feasibility studies to explore the possibilities to establish slimming centres in Taiwan
- The slimming centres in Shanghai, the PRC have been opened in early October 2004 and will start to generate revenue during the third quarter (October – December) of the year 2004
- In view of the political instability after the Taiwan Presidential Election and the recent earthquake, the management decided to adopt a more conservative approach thus the expansion plan in Taiwan was put on hold

Increase efforts on advertising and promotional activities

- Intend to implement a series of strategies, such as advertising in printed media, television, radio and other media and participating in public functions including charity events
- Continue to allocate resources on advertising and promotional activities to promote the image of the Group and its products and services

Improve the quality of services at retailers and slimming centres

- Continue to implement a series of training programmes to improve the standard of services and product knowledge for its health and beauty consultants at the Group's slimming centres, and intend to invest in additional and advanced beauty care and slimming equipment and technology for the health and beauty services provided by the Group
- Continue to implement a series of training programmes to improve the standard for services and product knowledge of the health and beauty consultants at its slimming centres. Product training was provided to its retailers to strengthen the communications
- Introduced a number of new equipment in the slimming centres to provide more diversified and personalized services to the customers



USE OF PROCEEDS

The Company has successfully listed its shares on GEM of the Exchange on 19 November 2003. Net proceeds of approximately HK\$17.5 million was raised and received by the Company.

During the period from 1 April 2004 to 30 September 2004, the Group has incurred the following expenditure to achieve the business objectives as set out in the Prospectus:

	Notes	From 1 April 2004 to 30 September 2004	
		Proposed HK\$'000	Actual HK\$'000
Research and develop health and beauty products	1	200	46
Expand health and beauty products in local and other markets	2	100	148
Expand the market coverage on health and beauty services	3	—	12,343
Increase efforts on advertising and promotional activities	4	4,000	8,805
Improve the quality of services at retailers and slimming centres	5	<u>100</u>	<u>1,501</u>
Total		<u>4,400</u>	<u>22,843</u>

Notes:

- The Group has launched a natural health drink in June 2004 and healthy mooncake in August 2004. Relevant research and development costs were incurred during the Period Under Review.
- The Company's wholly-owned subsidiary, Smartime has entered into a joint venture agreement with Skytop International Development Inc. and Shanghai Dong Fang P&G Co., Limited in September 2004 to establish a sino-foreign co-operative joint venture business in the PRC which will engage in the retailing and distributing of P&G products including cosmetics and skin care products in Shanghai, the PRC and the eastern part of the PRC. The Group will dedicate additional resources when necessary.
- The slimming centres in Shanghai, the PRC have been opened in early October 2004 and will start to generate revenue during the third quarter (October – December) of the year 2004. Relevant costs were incurred during the Period Under Review.





4. Since television advertisements planned before March 2004 were deferred to April 2004, the actual usage during the Period Under Review was higher than the amount stated in the Prospectus. Under the current intense market competition, the management considered it was necessary to dedicate additional resources.
5. Apart from implementing a series of training programmes to improve the standard of services and product knowledge of the health and beauty consultants, the Group introduced a number of new equipment in the slimming centres to provide more diversified and personalized services to the customers. The management considered it was necessary to dedicate additional resources under the current competitive market.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN SHARES AND UNDERLYING SHARES

As at 30 September 2004, the interests or short positions of the Directors and the chief executive of the Company or their respective associates in shares and underlying shares (the "Shares") of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of SFO, including interests and/or short positions which they are deemed or taken to have under such provisions of the SFO, or which will be required, pursuant to section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

(a) Long position in shares of the Company:

Name of Director	Number of shares			Approximate percentage interest in the Company's issued share capital
	Corporate interests	Personal interests	Total	
Miss Cheung Yuk Shan, Shirley ("Miss Cheung")	293,200,000	79,820,000	373,020,000	57.98%
		<i>(Note 1)</i>		
Mr. Cheung Ka Heng, Frankie	—	26,400,000	26,400,000	4.10%

Note 1: The 293,200,000 Shares were held by Biochem Investments Limited ("Biochem"), a company incorporated in the British Virgin Islands with limited liability. The entire issued share capital of Biochem is wholly owned by Miss Cheung.





(b) Long position in underlying shares of the Company:

(i) Pre-IPO Share Option Scheme

Pursuant to the Company's Pre-IPO share option scheme adopted and approved by written resolution of the sole shareholder of the Company passed on 4 November 2003, options to subscribe for an aggregate of 105,600,000 Shares at an exercise price of HK\$0.1 per share of the Company have been conditionally granted by the Company under the Pre-IPO share option scheme. Each of the grantees has paid HK\$1.00 to the Company by way of consideration for the grant. All of these options are exercisable within the period commencing from the date falling on the expiry of the six-month period following the Listing date and ending on the expiry of five years following the Listing date but each will lapse in accordance with the terms of the Pre-IPO share option scheme if the relevant grantee ceases to be a director or an employee of the Group or on any other grounds set out in the Pre-IPO share option scheme. Particulars of the options granted are as follows:

Name of grantee	Title/position	Number of options granted	Exercise price per underlying share
Miss Cheung	Director	79,200,000	HK\$0.1
Mr. Cheung Ka Heng, Frankie	Director	26,400,000	HK\$0.1

On 2 September 2004, Miss Cheung and Mr. Cheung Ka Heng, Frankie have exercised the Pre-IPO share options of 79,200,000 shares and 26,400,000 shares respectively at an exercise price of HK\$0.1 under the Pre-IPO share option scheme.



(ii) *Share Option Scheme*

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

Name of Director	Date of grant	Exercisable period	Subscription price per share	Aggregate long position in underlying shares of the Company	Approximate percentage interest in the Company's issued share capital
Miss Cheung	10 September 2004	10/9/2004– 03/11/2013	HK\$0.512	5,000,000	0.8%
Mr. Cheung Ka Heng, Frankie	10 September 2004	10/09/2004– 03/11/2013	HK\$0.512	5,000,000	0.8%
Mr. Ho, Francis Man Kwong	9 September 2004	09/09/2004– 03/11/2013	HK\$0.512	5,000,000	0.8%

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

Saved as disclosed above, as at the 30 September 2004, none of the Directors or chief executive of the Company or their respective associates has any personal, family, corporate or other interests or short positions in the shares and underlying 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 Rule 5.46 of the GEM Listing Rules, are required to be notified to the Company and the Exchange.



INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 September 2004, so far as was known to any Directors or chief executive of the Company, the following interests of which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO, or who were deemed to be directly or indirectly interested in 5% or more of the issued capital of the Company, or which were recorded in the register of interests required to be kept under Section 336 of the SFO or have notified to the Company were as follows:

Long position in shares of the Company:

Name of Substantial Shareholders	Corporate interests	Number of shares			Total	Approximate percentage interest in the Company's issued share capital
		Personal interests	Others			
Miss Cheung	293,200,000 <i>(Note 1)</i>	79,820,000	—	373,020,000	57.98%	
Value Partners Limited	—	—	50,800,000 <i>(Note 2)</i>	50,800,000	7.90%	

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

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

Saved as disclosed above, as at 30 September 2004, no person, other than the Directors of the Company and the chief executive of the Group whose interests are set out in the section "Interests and short positions of Directors and chief executive in shares and underlying shares" above, had registered an interest or short position in the share capital, underlying shares and debentures of the Company that was required to be recorded pursuant to Section 336 of the SFO.





Management Shareholders

As at 30 September 2004, 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 2004, none of the Sponsor, its directors, employees or associates had any interest in the Shares of the Company, or any right to subscribe for or to nominate persons to subscribe for any Shares of the Company.

COMPETING INTERESTS

None of the Directors, 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.

AUDIT COMMITTEE

The Group has established an audit committee on 4 November 2003 with written terms of reference in the compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and the internal control system of the Group. As of the date of this report, in view of the amendments to the GEM Listing Rules upon the structure of audit committee, the audit committee comprises four independent non-executive directors of the Company, namely Mr. Hong Po Kui, Martin, Mr. Li Kuo Hsing, Mr. Ho Yiu Ming who was appointed on 20 October 2004 and Mr. Cheng Shing Lung, Edwin who was appointed on 26 October 2004.





The audit committee reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited consolidated interim financial results of the Group for the six months ended 30 September 2004, who is of the opinion that such financial statements comply with the applicable accounting standards, the Exchange and legal requirements, and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the six months ended 30 September 2004.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules for the Period Under Review.

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

Hong Kong, 8 November 2004

