

Third Quarterly Report 2005



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



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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities trade on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcement in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up to date information on GEM-listed issuers.

The Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of Sau San Tong Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on the bases and assumptions that are fair and reasonable.



HIGHLIGHTS

Consolidated turnover of the Group for the nine months ended 31 December 2005 increased by 84% to approximately HK\$223,800,000 compared with approximately HK\$121,652,000 for the nine months ended 31 December 2004.

The Group recorded a loss attributable to equity holders of the Company of approximately HK\$37,907,000 for the nine months ended 31 December 2005 (2004: profit attributable to equity holders of the Company of approximately HK\$31,364,000).

The Board does not recommend the payment of any dividend for the three months ended 31 December 2005 (2004: Nil).



FINANCIAL INFORMATION

Unaudited consolidated results

The board of Directors (the "Board") of the Company is pleased to announce the unaudited consolidated financial results (the "Unaudited Quarterly Results") of the Company and its subsidiaries (the "Group") for the three months and nine months ended 31 December 2005 together with comparative figures of the corresponding period ended in 2004 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	For the three months ended 31 December		For the nine months ended 31 December	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover	2	118,277	26,812	223,800	121,652
Cost of sales		(103,638)	(5,446)	(153,110)	(17,681)
Gross profit		14,639	21,366	70,690	103,971
Other revenue	2	428	89	725	303
Selling and distribution expenses		(19,466)	(15,779)	(65,745)	(53,439)
General and administrative expenses		(13,769)	(9,678)	(45,222)	(25,038)
Profit/(loss) from operations		(18,168)	(4,002)	(39,552)	25,797
Gain on partial disposal of interest in subsidiaries		-	10,007	6,004	10,007
Finance costs		-	-	-	(2)
Profit/(loss) before taxation		(18,168)	6,005	(33,548)	35,802
Taxation	3	(648)	-	(2,257)	(4,397)
Net profit/(loss) for the period		(18,816)	6,005	(35,805)	31,405
Attributable to:					
Equity holders of the Company		(18,457)	6,005	(37,907)	31,364
Minority interests		(359)	-	2,102	41
Net profit/(loss) for the period		(18,816)	6,005	(35,805)	31,405
Dividends	4	-	-	-	5,255
Earnings/(loss) per share	5				
Basic (cents)		(2.81)	0.93	(5.77)	5.36
Diluted (cents)		N/A	0.91	N/A	4.93



NOTES (UNAUDITED):

1. Basis of preparation and significant accounting policies

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

During the nine months ended 31 December 2005, 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 and 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 Quarterly Results, are set out below:

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

The effect of adopting HKFRS 2 has not resulted in a change to the consolidated retained profits as at 1 April 2005 but has been to increase consolidated loss for the nine months ended 31 December 2005 by approximately HK\$2,335,000 (2004: Nil) due to an increase in the employee benefits expense (included in "General and administrative expenses").



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 services rendered, net of discounts and business tax.

	For the three months ended 31 December		For the nine months ended 31 December	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover				
Operation of slimming centres	13,986	22,075	72,205	106,422
Sales of health and beauty products	1,598	4,737	8,837	15,230
Product distribution	102,693	–	142,758	–
	<u>118,277</u>	<u>26,812</u>	<u>223,800</u>	<u>121,652</u>
Other revenue				
Interest income	75	6	83	7
Others	353	83	642	296
	<u>428</u>	<u>89</u>	<u>725</u>	<u>303</u>

3. Taxation

Hong Kong profits tax has been provided at a rate of 17.5% on the estimated assessable profits for the nine months ended 31 December 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 three months ended 31 December		For the nine months ended 31 December	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Current – Hong Kong profits tax	–	–	61	4,502
Current – Overseas	648	–	2,196	–
Deferred	–	–	–	(105)
	<u>648</u>	<u>–</u>	<u>2,257</u>	<u>4,397</u>



4. Dividends

The Board does not recommend the payment of any dividend for the three months ended 31 December 2005 (2004: Nil).

	For the nine months ended 31 December	
	2005	2004
	HK\$'000	HK\$'000
Interim dividend declared and paid	(i) <u> -</u>	<u> 5,255</u>

(i) For the six months ended 30 September 2004, the Board declared and paid an interim dividend of 0.8 HK cent per share.

5. Earnings/(loss) per share

The calculation of basic loss per share for the three months and nine months ended 31 December 2005 are based on the unaudited loss attributable to equity holders of the Company for the three months and nine months ended 31 December 2005 of approximately HK\$18,457,000 and HK\$37,907,000 respectively (2004: profit attributable to equity holders of the Company for the three months and nine months ended 31 December 2004 of approximately HK\$6,005,000 and HK\$31,364,000 respectively) 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 648,907,609 shares and 585,658,545 shares respectively).

The calculation of diluted earnings per share for the three months and nine months ended 31 December 2004 are based on the unaudited profit attributable to equity holders of the Company for the three months and nine months ended 31 December 2004 of approximately HK\$6,005,000 and HK\$31,364,000 respectively and on approximately 660,886,785 shares and 636,441,614 shares respectively, being the weighted average number of shares outstanding adjusted for the effect of the share options during those periods.

No diluted loss per share for the three months ended 31 December 2005 has been disclosed as there were no diluting events existed.

No diluted loss per share for the nine months ended 31 December 2005 has been disclosed as the share options outstanding during that period had an anti-dilutive effect on the basic loss per share.



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 31 December 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
As at 1 April 2005	6,569	41,527	(3,652)	12	-	46,945	91,401	(42)	91,359
Net loss for the period	-	-	-	-	-	(37,907)	(37,907)	2,102	(35,805)
Contribution from minority shareholders of subsidiaries	-	-	-	-	-	-	-	6,265	6,265
Share options cost	-	-	-	-	2,335	-	2,335	-	2,335
Translation differences	-	-	-	(16)	-	-	(16)	-	(16)
2004/05 final dividend paid	-	-	-	-	-	(7,226)	(7,226)	-	(7,226)
As at 31 December 2005	6,569	41,527	(3,652)	(4)	2,335	1,812	48,587	8,325	56,912
As at 1 April 2004	5,370	24,952	(3,652)	-	-	30,743	57,413	413	57,826
Net profit for the period	-	-	-	-	-	31,364	31,364	41	31,405
Reduction in minority interests on acquisition of additional interest in a subsidiary	-	-	-	-	-	-	-	(386)	(386)
Exercise of share options	1,199	16,575	-	-	-	-	17,774	-	17,774
2003/04 final and special dividends paid	-	-	-	-	-	(9,666)	(9,666)	-	(9,666)
2004/05 interim dividend paid	-	-	-	-	-	(5,255)	(5,255)	-	(5,255)
As at 31 December 2004	6,569	41,527	(3,652)	-	-	47,186	91,630	68	91,698



MANAGEMENT REVIEW AND ANALYSIS

Slimming Centres

Business Review

During the nine months ended 31 December 2005, the price war initiated by a number of players in the industry resulted in the decline in the revenue received from the slimming centres in Hong Kong. Coupled with the increase in costs incurred in exploring the PRC beauty market, the operation of slimming centres recorded a loss. Despite the severe competition of slimming industry in Hong Kong, the management is confident to maintain a substantial market share with its strong brand image and aggressive marketing strategies.

On the other hand, the slimming centres in Shanghai and Shenzhen, opened in October 2004 and September 2005 respectively, have recorded satisfactory results and revenue growth during the nine months ended 31 December 2005. The PRC operation contributed 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.

Outlook

Looking into the future, the Group will focus its resources in expanding the Mainland China market. The Group is now in the process of setting up new slimming centres in Hangzhou, Guangzhou, Shanghai and Beijing, which are scheduled to be opened in 2006. To maintain our growth and achieve our long-term objective to be the leading health, beauty and slimming products and service provider, we will further explore new markets in Hong Kong, Mainland China and other areas.

Health and Beauty Products

Business Review

During the nine months ended 31 December 2005, the Group introduced three health products namely "Sau San Tong One Minute Diet Tea", "Sau San Tong Healthy Mooncake" and "Easy Take – X-Fix Slim Tummy" to the market. These products were distributed through several large scale retail chains in Hong Kong. Coupled with the impressive advertising campaigns by means of using teenage idols Twins as spokespersons, TV commercials, magazines and imitators to increase the market awareness, the market response to these new products was satisfactory.



Outlook

In order to enlarge our customer base and increase the popularity of our products, the Group has invested resources for product diversification, product promotion, market research and the building up of a distribution network in Hong Kong and Mainland China. The management believes that the present investment will bring about positive return in the future and is confident at the future development of the Group's product sales business as benefited by the entrance to the PRC market.

Distribution Business in Mainland China

Business Review

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

The Sino-foreign 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 in September 2005. The venture, within four months of operation has recorded unaudited turnover and profit after taxation of approximately HK\$142,758,000 and HK\$2,276,000, respectively, during the nine months ended 31 December 2005.

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.

Outlook

As the PRC market shows immense potential for the P&G's products, the management anticipates that the revenue generated from the venture will experience satisfactory growth and become one of the major businesses and sources of income for the Group in the future.



Financial Review

During the nine months ended 31 December 2005, the consolidated turnover increased by 84% to approximately HK\$223,800,000 compared to approximately HK\$121,652,000 for the nine months ended 31 December 2004. The increase was mainly contributed by the revenue generated from the distribution business in the Mainland China commenced in September 2005. The consolidated turnover for the nine months ended 31 December 2005 included revenue generated from slimming centres amounted to approximately HK\$72,205,000 (2004: HK\$106,422,000), revenue from the sale of health and beauty products amounted to approximately HK\$8,837,000 (2004: HK\$15,230,000) and revenue generated from the distribution business in the Mainland China amounted to approximately HK\$142,758,000 (2004: Nil).

The consolidated gross profit for the nine months ended 31 December 2005 was approximately HK\$70,690,000, a decrease of approximately HK\$33,281,000 compared to HK\$103,971,000 for the nine months ended 31 December 2004. The consolidated loss attributable to equity holders of the Company amounted to approximately HK\$37,907,000 for the nine months ended 31 December 2005 (2004: profit attributable to equity holders of the Company of approximately HK\$31,364,000). Such decrease and loss were primarily due to the decline in revenue received from slimming centres in Hong Kong and the increase in costs incurred in exploring the PRC beauty market.



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 1 April 2005	Granted during the period	Exercised during the period	Cancelled during the period	At 31 December 2005
Director								
Dr. Cheung Yuk Shan, Shirley ("Dr. 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 [#]	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
	3 October 2005	3 October 2005 – 2 October 2010	HK\$0.400	-	5,000,000	-	-	5,000,000
				<u>29,500,000</u>	<u>22,690,000</u>	<u>-</u>	<u>(9,800,000)</u>	<u>42,390,000</u>

Mr. Ho, Francis Man Kwong resigned as an executive director of the Company with effect from 4 October 2005.

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 31 December 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	
Dr. Cheung	293,200,000 <i>(Note 1)</i>	81,070,000	374,270,000	56.98%
Dr. Cheng Shing Lung, Edwin ("Dr. Cheng")	21,060,000 <i>(Note 2)</i>	5,000,000	26,060,000	3.97%

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 Dr. Cheung.

Note 2: The 21,060,000 shares of the Company were held by Kingwise Corporation Limited ("Kingwise"), a company incorporated in Hong Kong with limited liability. Dr. Cheng owned 30% of the issued 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
Dr. 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%

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 31 December 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 31 December 2005, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept under Section 336 of the SFO:

Long position in the Shares of the Company:

Substantial shareholder	Capacity	Number of shareholding		Number of share options held
		Share	Percentage	
Biochem	Beneficial owner (<i>Note 1</i>)	293,200,000	44.64%	–
Dr. Cheung	Beneficial owner	81,070,000	12.34%	5,000,000

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 Dr. Cheung, who is a sole director of the company.

Saved as disclosed above, as at 31 December 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 31 December 2005, so far as the Directors are aware, other than Dr. Cheung as disclosed above, there is no other person who is directly or indirectly interested in 5% or more of the issued share capital of the Company and who is able, as a practical matter, to direct or influence the management of the Company.



SPONSOR'S INTEREST

Pursuant to a sponsor agreement dated 10 November 2003 entered into between the Company and South China Capital Limited (the "Sponsor"), the Sponsor will receive a fee for acting as the Company's retained sponsor for the period from 19 November 2003 to 31 March 2006.

As at 31 December 2005, none of the Sponsor, its directors, employees or associates had any interest in the Shares of the Company, or any right to subscribe for or to nominate persons to subscribe for any Shares of the Company.

COMPETING INTERESTS

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

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 nine months ended 31 December 2005.

AUDIT COMMITTEE

The Group has established an audit committee on 4 November 2003 with written terms of reference in compliance with the relevant GEM Listing Rules. The audit committee comprises three independent non-executive directors of the Company, namely Mr. Hong Po Kui, Martin, Mr. Li Kuo Hsing and Mr. Ho Yiu Ming. The audit committee reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the Unaudited Quarterly Results of the Group.

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

Hong Kong, 10 February 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 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.