

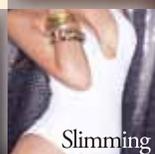
Facial



Spa



Massage



Slimming



SAU SAN TONG HOLDINGS LIMITED

修身堂控股有限公司

Stock Code 股份代號: 8200

2010 | Third Quarterly Report
第三季度業績報告

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; (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 AND NINE MONTHS ENDED 31 DECEMBER 2010

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 and nine months ended 31 December 2010 together with comparative figures of the corresponding period ended in 2009 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	For the three months ended 31 December		For the nine months ended 31 December	
		2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Turnover	2	161,789	119,669	430,153	338,518
Cost of sales		(140,812)	(97,932)	(368,248)	(280,817)
Gross profit		20,977	21,737	61,905	57,701
Other revenue	2	(1,699)	(491)	1,062	592
Selling and distribution expenses		(13,479)	(13,965)	(45,057)	(41,478)
General and administrative expenses		(10,721)	(11,050)	(30,186)	(31,876)
Loss from operations		(4,922)	(3,769)	(12,276)	(15,061)
Finance costs		(189)	(227)	(536)	(793)
Share of profits of jointly controlled entities		(480)	145	(241)	886
Loss before taxation		(5,591)	(3,851)	(13,053)	(14,968)
Income tax expenses	3	(624)	(1,121)	(1,509)	(1,839)
Loss for the period		(6,215)	(4,972)	(14,562)	(16,807)
Attributable to:					
Equity holders of the Company		(6,462)	(4,634)	(15,077)	(16,235)
Minority interests		247	(338)	515	(572)
		(6,215)	(4,972)	(14,562)	(16,807)
Loss per share	4				
Basic, HK cents		(5.04)	(5.23)	(14.52)	(21.41)
Diluted, HK cents		N/A	N/A	N/A	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	For the three months ended 31 December		For the nine months ended 31 December	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss for the period	(6,215)	(4,972)	(14,562)	(16,807)
Other comprehensive income for the period:				
Exchange differences on translation of financial statements of overseas subsidiaries, net of nil tax	1	(4)	—	(9)
Total comprehensive loss for the period	(6,214)	(4,976)	(14,562)	(16,816)
Attributable to:				
Equity shareholders of the Company	(6,461)	(4,634)	(15,077)	(16,244)
Minority interests	247	(338)	515	(572)
Total comprehensive loss for the period	(6,214)	(4,976)	(14,562)	(16,816)

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, 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 2010.

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; and service income from provision of beauty and slimming services, net of discounts.

	For the nine months ended 31 December	
	2010	2009
	HK\$'000	HK\$'000
Turnover		
Provision of beauty and slimming services	46,936	46,791
Distribution sales of cosmetic and skin care products	381,041	290,571
Sales of other health and beauty products	2,175	1,156
	430,152	338,518
Other revenue		
Interest income	23	16
Management and consultancy fee income	125	189
Others	914	387
	1,062	592

3. Income tax expense

No Hong Kong profits tax has been provided for the three months and nine months ended 31 December 2010 as the Group did not have any assessable profit (three months and nine months ended 31 December 2009: Nil). PRC enterprise income tax has been provided at the rate of 25% (three months and nine months ended 31 December 2009: 25%) on the estimated assessable profit.

The details of the taxation charge are as follows:

	For the nine months ended 31 December	
	2010	2009
	HK\$'000	HK\$'000
Hong Kong profits tax	—	—
PRC enterprise income tax	1,509	1,839
	1,509	1,839

4. Loss per share

The calculation of basic loss per share for the three months and the nine months ended 31 December 2010 are based on the unaudited loss attributable to equity holders of the Company of approximately HK\$6,462,000 and HK\$15,077,000 respectively (2009: loss of approximately HK\$4,634,000 and HK\$16,235,000 respectively) and on the weighted average number of approximately 128,312,000 shares and approximately 103,812,000 shares in issue during the respective periods (2009: approximately 88,543,000 shares and approximately 75,833,000 shares in issues during the periods). The weighted average number of shares for the purpose of calculating the basic loss per share has been retrospectively adjusted for both periods for the twenty-to-one and ten-to-one share consolidation which took place on 12 February 2010 and 2 November 2010 respectively and the rights issue on 3 December 2010.

No diluted loss per share for the three months and nine months ended 31 December 2010 and the corresponding period in 2009 have been presented because the exercise of the outstanding share option of the Company would result in reducing loss per share.

5. Condensed consolidated statement of changes in equity (unaudited)

	Attributable to equity holders of the Company										
	Distribution capital			Share-based			The PRC statutory		Total	Minority interests	Total equity
	Share capital	Share premium	reduction reserve	Merger reserve	Exchange reserve	payment reserve	surplus reserve	Accumulated losses			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2010	59,513	90,626	—	(3,637)	4,293	3,173	784	(98,987)	55,765	20,013	75,778
Change in equity for the period:											
Capital reorganisation	(59,215)	—	59,215	—	—	—	—	—	—	—	—
Issue of shares	1,785	51,776	—	—	—	—	—	—	53,561	—	53,561
Share issue expenses	—	(1,556)	—	—	—	—	—	—	(1,556)	—	(1,556)
Total comprehensive loss for the period	—	—	—	—	—	—	—	(15,077)	(15,077)	515	(14,562)
At 31 December 2010	2,083	140,846	59,215	(3,637)	4,293	3,173	784	(114,064)	92,693	20,528	113,221
As at 1 April 2009	9,599	90,926	—	(3,637)	4,293	3,315	784	(74,172)	31,108	23,878	54,986
Change in equity for the period:											
Open offer of new shares	47,994	—	—	—	—	—	—	—	47,994	—	47,994
Total comprehensive loss for the period	—	—	—	—	(9)	—	—	(16,235)	(16,244)	(572)	(16,816)
At 31 December 2009	57,593	90,926	—	(3,637)	4,284	3,315	784	(90,407)	62,858	23,306	86,164

INTERIM DIVIDEND

The Board does not recommend the payment of a dividend for the nine months ended 31 December 2010 (2009: Nil).

MAJOR EVENTS AND CAPITAL REORGANISATION

On 5 July 2010, the Company entered into the Placing Agreement with the Placing Agent to which the Placing Agent agreed to place, on a best effort basis, over a period of 60 days from the date the Capital Reorganisation becomes effective, the Placing Convertible Notes up to an aggregate principal amount of HK\$20,000,000;

On 5 July 2010, the Company entered into the Subscription Agreement with Dr. Cheung Yuk Shan, Shirley to which the Company agreed to issue, and Dr. Cheung Yuk Shan, Shirley agreed to subscribe, or procure the subscription by her nominee, for the Subscription Convertible Note in the principal amount of HK\$20,000,000 subject to the Capital Reorganisation becoming effective;

On 6 July 2010, the Company announced to propose on Capital Reorganisation which would involve (i) the Share Consolidation; (ii) the Capital Reduction; and (iii) the Increase in Authorised Capital. Subject to the Capital Reorganisation becoming effective, the Company proposed to change the board lot size for trading in the shares of the Company from 10,000 Shares to 4,000 Adjusted Shares;

On 6 July 2010, the Company further proposed to raise not less than HK\$53.5 million and not more than HK\$54.1 million, before expenses, by way of a rights issue of not less than 178,537,500 Rights Shares and not more than 180,263,910 Rights Shares at the Subscription Price of HK\$0.30 per Rights Share on the basis of six (6) Rights Shares for every Adjusted Share held on the Record Date subject to the Capital Reorganisation becoming effective;

On 29 October 2010 (Cayman time) at the petition hearing of the Company, the Grand Court of the Cayman Islands approved the Capital Reduction of the Company. The Capital Reorganisation of the Company has become effective on 2 November 2010 (Hong Kong time);

On 14 January 2011, the Company issued a two per cent. convertible note of principal amount of HK\$20,000,000, which is convertible into 40,000,000 Shares at the conversion price of HK\$0.50 per Share;

On 25 January 2011, principal amount of HK\$12,000,000 convertible notes were converted into 24,000,000 ordinary shares at the conversion price of HK\$0.50 per Shares; and

As at the date of this report, convertible notes not yet converted into Shares amounting to HK\$8,000,000.

Further details of the transactions have been disclosed on the announcements of the Company dated 6 July 2010, 18 August 2010 and 1 November 2010, 2 December 2010 and 31 December 2010, the circular of the Company dated 26 July 2010 and the prospectus of the Company dated 12 November 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the nine months ended 31 December 2010 (“the Period Under Review”), turnover amounted to approximately HK\$430,153,000, representing an increase of 27% from approximately HK\$338,518,000 in the corresponding period in last year. Such increase was mainly due to the satisfactory growth in the contribution from distribution sales by Shanghai Dong Fang Ri Hua Sales Co. Ltd. (“Dong Fang”). During the Period Under Review, turnover from such distribution business amounted to approximately HK\$381,041,000 (2009: approximately HK\$290,571,000).

During the Period Under Review, even our group is now facing to the difficult business environment, with domestic demand lost much of its momentum with weaker consumer and investor sentiments due to tighter credit market, gloomy job prospects and negative wealth effect from the correction in local asset markets. Our performance in provision of slimming and beauty service give us a satisfactory results. For the nine months ended 31 December 2010, turnover generated from all the beauty, slimming and spa centres in Hong Kong and in the People’s Republic of China (the “PRC”) amounted to approximately HK\$46,936,000 (2009: approximately HK\$46,791,000).

During the Period Under Review, the Group recorded an increase of approximately HK\$4,204,000 in gross profit and has generated a loss attributable to equity holders of the Company of approximately HK\$15,077,000, compared with a loss of approximately HK\$16,235,000 in the corresponding period in last year. As mentioned before, the business environment of the slimming and beauty market is drastic and extreme, in order to maintain our competitive edge, the Group strengthened its existing policy of exercising tight control over all its costs, and reducing these whenever possible.

Outlook

Beauty, Slimming and Spa Centres

For Hong Kong, the Group providing not only slimming services but also a variety of non-slimming services. In addition to a range of comprehensive beauty and health services and the successfully launch of "M.Nano Cavitation slimming treatment" and "HA+ Hyaluronic Moisture treatment" as well as certain other innovative treatments in the past, the Group continues to explore the new cosmetological technology. Recently, the Group has launched a series of innovative technological cosmetic treatments, including "Lipo Fat Diminishing Treatment", "ThermaLift Ultra-Firm Treatment" and "PRP Plasmatic Derma-Revive Treatment", etc. "Lipo Fat Diminishing Treatment" using the hi-tech PPC fat-removal essence and the technique of LipoFit™ Cavitation to create an unique low frequency and stable cavitation force to dissolve fat painlessly, thoroughly and instantly. The Group believes that with these new treatments, the profitability as well as the market leadership can be strengthened.

China's vast slimming and beauty market is growing fast. The female population aged between 15 and 64 in China currently exceeds 470 million, which is larger than the combined total of Europe, the US and Japan. As income levels continue to rise, mainland female consumers' demands for high-end slimming and beauty services is bound to increase further. Besides, government supervision of the beauty sector is expected to tighten, further squeezing the low-end operators out of the market. The Group entered into PRC market long time ago, we built up our prestige brand, opened deluxe beauty, slimming and spa centres in major cities and developed the strong distribution sales network. All these moves proven our long-term vision and strategy are on the right track. The Group keeps on seeking opportunities to open new beauty, slimming and spa centres in potential cities in the PRC and the distribution of beauty products in order to capture the untapped market.

Management Consultation Services

Being the leading beauty and slimming services provider, our Group has accumulated a wealth of experience in the management and operation of beauty, slimming and spa 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 the setting up beauty and slimming centres.

In year 2008, our Group successful developed new income stream by partnered New World Group and Sinolink Group to develop clubhouses and spa beauty centres for luxury estates in PRC. Benefit from this experience, we are now confident in exploring further opportunities from such income in future.

The Group is confident that there will be an immense demand for this kind of services in the PRC since the beauty and slimming market there 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. Moving onwards, the Group is planning to distribute the health and beauty products to the major cities in the PRC, with satisfactory progress. 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

Apart from provision of slimming and beauty services, another major line of business is product distribution. We distribute mainly P&G personal care, cosmetic and skin care products, such as SK-II, Olay, etc. and also Gillette Men series and Philips Lighting products. With the Group's great effort, the sales of SK-II and Olay are very encouraging. Start from last year, we also distribute certain world famous brands of prestige fragrances, such as, Dunhill, BOSS, Gucci, ESCADA, etc. We believe that with the increasing variety of products, it will bring sizeable revenue for the Group in near future. Looking forward, as the PRC market continues to boom showing immense potential for high-end products, the management anticipates the revenues generated from the distribution business will experience further growth and will in turn provide the Group with stable source of income.

During the Period Under Review, the Company entered into the Consultancy Agreement with the Consultant to which the Consultant shall (i) provide at least 100 points of sale for the Group's products in the PRC before 31 December 2010; (ii) assist the Group in establishing, expanding and managing its own sales teams; (iii) assist the Group in building up its functional support team; (iv) assist in promotion, development and expansion of the Group's franchise business in the PRC; and (v) provide such other consultancy and management services as the Company may reasonably require from time to time. Further details of the Consultancy Agreement have been disclosed on the announcements of the Company dated 6 July 2010 and the circular of the Company dated 26 July 2010.

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

As at 31 December 2010, 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	31,332,000 <i>(Note 1)</i>	21,014,700	52,346,700	25.13%

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

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
Dr. Cheung Yuk Shan, Shirley	10 September 2004	10 September 2004 — 3 November 2013	HK\$7.9226	323,124	0.16%
Mr. Cheung Ka Heng, Frankie	10 September 2004	10 September 2004 — 3 November 2013	HK\$7.9226	323,124	0.16%

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 31 December 2010, 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 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 31 December 2010, 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		
		Share	Percentage	Number of share options held
Biochem	Beneficial owner	31,332,000	15.04%	—
Dr. Cheung Yuk Shan, Shirley	Beneficial owner	21,014,700	10.09%	323,124

Save as disclosed above, as at 31 December 2010, 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 Period Under Review, except that:

Under the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Dr. Cheung Yuk Shan, Shirley is both the Chairman and chief executive officer of the Company. The Board is of the view that it is in the best interests of the Group to have Dr. Cheung, who is the founder of the Group with vast and solid experience in the beauty sector, to perform the dual role so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is most capable to guide discussions and brief the Board in a timely manner on pertinent issues. With Dr. Cheung being the chief executive officer, the Group can also benefit from having strong connection and network in the beauty market.

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 and nine months ended 31 December 2010.

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 nine months ended 31 December 2010.

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

Hong Kong, 14 February 2011

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

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

12/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12樓