



2011

Third Quarterly Report
第三季度業績報告



修身堂控股有限公司
SAU SAN TONG HOLDINGS LIMITED
Stock Code 股份代號: 8200

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 the information contained in this report is accurate and complete in all material respects and not misleading or deceptive and 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 2011

The Board of Directors of the Company is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (the "Group") for the three months and nine months ended 31 December 2011 together with comparative figures of the corresponding period ended in 2010 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	For the three months ended 31 December		For the nine months ended 31 December	
		2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Turnover	2	291,478	161,789	739,375	430,153
Cost of sales		(250,097)	(140,812)	(604,730)	(368,248)
Gross profit		41,381	20,977	134,645	61,905
Other revenue	2	842	(1,699)	1,437	1,062
Selling and distribution expenses		(20,894)	(13,479)	(56,345)	(45,057)
General and administrative expenses		(16,081)	(10,721)	(47,766)	(30,186)
Profit/(loss) from operations		5,248	(4,922)	31,971	(12,276)
Finance costs		(271)	(189)	(662)	(536)
Share of losses of jointly controlled entities		(147)	(480)	(528)	(241)
Profit/(loss) before taxation		4,830	(5,591)	30,781	(13,053)
Income tax expenses	3	(1,451)	(624)	(3,566)	(1,509)
Profit/(loss) for the period		3,379	(6,215)	27,215	(14,562)
Attributable to:					
Owners of the Company		3,192	(6,462)	23,602	(15,077)
Non-controlling interests		187	247	3,613	515
		3,379	(6,215)	27,215	(14,562)
Profit/(loss) per share	4				
Basic, HK cents		1.29	(5.04)	9.51	(14.52)
Diluted, HK cents		1.05	N/A	7.80	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	For the three months ended 31 December		For the nine months ended 31 December	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit/(loss) for the period	3,379	(6,215)	27,215	(14,562)
Other comprehensive income for the period:				
Exchange differences on translation of financial statements of overseas subsidiaries, net of nil tax	(280)	1	174	—
Total comprehensive profit/(loss) for the period	3,099	(6,214)	27,389	(14,562)
Attributable to:				
Owners of the Company	2,813	(6,461)	23,674	(15,077)
Non-controlling interests	286	247	3,715	515
Total comprehensive profit/(loss) for the period	3,099	(6,214)	27,389	(14,562)

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 2011.

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 fee income. The amount of each significant category of revenue recognised in turnover during the period is as follows:

	For the nine months ended 31 December	
	2011	2010
	HK\$'000	HK\$'000
Turnover		
Provision of beauty and slimming services	85,100	46,936
Distribution sales of cosmetic and skin care products	609,105	381,041
Sales of other health and beauty products	1,223	2,176
Franchise fees income	43,947	—
	739,375	430,153
Other revenue		
Interest income	99	23
Management and consultancy fee income	53	125
Others	1,285	914
	1,437	1,062

3. Income tax expense

No provision for Hong Kong Profits Tax is made for the three months and nine months ended 31 December 2011 as the Companies in the Group either have sustained tax losses or no assessable profit for Hong Kong Profits Tax purpose (three months and nine months ended 31 December 2010: Nil). Taxation for subsidiaries outside Hong Kong is charged at the appropriate rate of taxation ruling in relevant tax jurisdictions.

The details of the taxation charge are as follows:

	For the nine months ended 31 December	
	2011 HK\$'000	2010 HK\$'000
Hong Kong profits tax	—	—
PRC enterprise income tax	3,566	1,509
	<hr/>	<hr/>
	3,566	1,509

4. Profit/(loss) per share

The calculation of basic profit/(loss) per share for the three months and the nine months ended 31 December 2011 are based on the unaudited profit attributable to owners of the Company of approximately HK\$3,192,000 and HK\$23,602,000 respectively (2010: loss of approximately HK\$6,462,000 and HK\$15,077,000 respectively) and on the weighted average number of approximately 248,293,750 shares in issue during the respective periods (2010: approximately 128,312,000 shares and approximately 103,812,000 shares in issue during the respective periods).

The calculation of diluted earnings per share for the three months and nine months ended 31 December 2011 is based on the unaudited profit attributable to owners of the Company for the three months and nine months ended 31 December 2011 of approximately HK\$3,192,000 and HK\$23,602,000 respectively and on 302,549,998 shares, being the weighted average number of ordinary shares outstanding during the respective periods, adjusted for the effects of the convertible notes and the share options during the periods.

No diluted loss per share for the three months and nine months ended 31 December 2010 have been presented as the assumed exercise of the outstanding share options has anti-dilutive effect.

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

	Attributable to owners of the Company												
	Share capital	Share premium	Distribution capital reduction reserve	Merger reserve	Exchange reserve	Share-based payment reserve	Convertible notes reserve	The PRC statutory surplus		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	HK\$'000
At 1 April 2011	2,483	160,072	–	(3,637)	5,533	9,337	1,315	1,744	(85,073)	91,774	19,632	111,406	
Change in equity for the period:													
Total comprehensive profit for the period	–	–	–	–	72	–	–	–	23,602	23,674	3,715	27,389	
At 31 December 2011	2,483	160,072	–	(3,637)	5,605	9,337	1,315	1,744	(61,471)	115,448	23,347	138,795	
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	

INTERIM DIVIDEND

The Board does not recommend the payment of a dividend for the nine months ended 31 December 2011 (2010: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the nine months ended 31 December 2011 (“the Period Under Review”), turnover amounted to approximately HK\$739,375,000, representing a significant increase of 72% from approximately HK\$430,153,000 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 such distribution business amounted to approximately HK\$609,105,000 (2010: approximately HK\$381,041,000).

During the Period Under Review, even though the global economy is roughly fluctuating and the rivalry in the slimming and beauty industry is so intense, the Group still can manage to sustain the revenue performance of all the slimming centres in both Hong Kong and in the People’s Republic of China (the “PRC”). During the Period Under Review, the turnover generated from all the beauty, slimming and spa centres in Hong Kong and in the PRC amounted to approximately HK\$85,100,000 (2010: approximately HK\$46,936,000). During the Period Under Review, the franchise co-operation business contributed HK\$43,947,000 turnover to the Group (2010: HK\$Nil).

During the Period Under Review, the Group recorded an increase of approximately HK\$72,740,000 in gross profit and has generated a profit attributable to owners of the Company of approximately HK\$23,602,000, compared with a loss of approximately HK\$15,077,000 in the corresponding period in last year. As mentioned before, the competition and 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

In 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 “Lipo Fat Diminishing Treatment” and “PRP Plasmatic Derma-Revive Treatment” as well as certain other innovative treatments in last year, the Group continues to explore the new cosmetological technology. This year, the Group also focuses on launching a new series of anti-aging treatment in addition to the research and development of new slimming and beauty treatment. The Group foresees the anti-aging treatment will be another highly praised beauty treatment following the medical cosmetology treatments. The Group wishes to provide satisfactory services to extensive customers through these kind of treatments.

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.

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

The Group's ability of introducing innovative and quality products has been proven in the past and earned a leading status in Hong Kong market. The management believes by leveraging on "Sau San Tong" brand name and the customer confidence built up over the years, these health and beauty products will be well received in the market. In 2010, with the introduction of the Consultant, more than 100 points of sales of the Group's products in the PRC have been located. The Group is confident that with such list of potential customers, the products sales business line will be another major stream of business of 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, as well as 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.

Franchise Co-operation Business in the PRC

Since when the Group tapped in the PRC market in 2004, the Group was undoubtedly believed that the PRC market is so vast and full of opportunities. In order to grab the market share and to build up the brand rapidly, we believe that franchising co-operation model should be the best way. A few years ago, the Group attempted the franchise co-operation business with internal available resources. However, due to the lack of allocated resources and expertise, the performance is still thankless even after years of effort. We learnt a precious lesson.

In June 2010, the Group appointed the Consultant to promote, develop and expand the Group's franchise co-operation business in the PRC. The Consultant is well-experienced in PRC franchise co-operation business, after a few months preparation, the results start to come out. Although the franchise co-operation business still in its infant stage, the pace of development is very encouraging. During the Period Under Review, the performance is satisfactory, contribution to the Group's turnover reaches over HK\$40 million. Such impressive results showing 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.

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

As at 31 December 2011, 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>	40,322,700	71,654,700	28.86%

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	0.13%
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 31 December 2011, 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 2011, 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 31 December 2011, 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 2011.

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 2011.

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

Hong Kong, 10 February 2012

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

4/F, SANDS BUILDING, 17 HANKOW ROAD,

TSIMSHATSUI, KOWLOON, HONG KONG

香港九龍尖沙咀漢口道17號新聲大廈4樓