



BLU SPA HOLDINGS LIMITED

富麗花 • 譜 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

**THIRD QUARTERLY REPORT
FOR THE NINE MONTHS ENDED
31 MARCH, 2002**

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK 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.

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The Stock Exchange of Hong Kong Limited 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 this report.

This report, for which the directors of Blu Spa Holdings Limited collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the purpose of giving information with regard to Blu Spa Holdings Limited. The directors of Blu Spa Holdings Limited, 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 bases and assumptions that are fair and reasonable.

FINANCIAL HIGHLIGHTS

- Turnover of the Group for the three months ended 31 March, 2002 was approximately HK\$1,445,000 representing an increase of approximately 177% as compared to the corresponding period in 2001.
- The net loss for the three months ended 31 March, 2002 was approximately HK\$2,026,000, representing a decrease in loss of approximately 35% as compared to the corresponding period in 2001.

The board (the “Board”) of directors (the “Directors”) of Blu Spa Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated financial statements of the Company and its subsidiaries (together, the “Group”) for the three months and nine months ended 31 March, 2002 together with the comparative figures for the corresponding periods in 2001 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 31 March		Nine months ended 31 March	
		2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Turnover	3	1,445	521	3,988	2,618
Cost of sales		(485)	(205)	(1,239)	(823)
Gross profit		960	316	2,749	1,795
Other revenue		115	—	152	14
Distribution costs		(27)	(1,506)	(516)	(2,401)
Administrative expenses		(3,060)	(1,928)	(7,527)	(5,742)
Loss from operations		(2,012)	(3,118)	(5,142)	(6,334)
Finance costs		(14)	—	(32)	—
Loss before taxation		(2,026)	(3,118)	(5,174)	(6,334)
Taxation	4	—	—	—	—
Loss attributable to shareholders		(2,026)	(3,118)	(5,174)	(6,334)
Loss per share					
— in HK cents					
— basic	6	(0.53)	(0.94)	(1.48)	(1.90)
— diluted		(0.53)	N/A	(1.48)	N/A

NOTES TO COMBINED FINANCIAL STATEMENTS

1. GROUP REORGANISATION AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 30 August, 2001 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 reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 10 December, 2001.

The shares of the Company were listed on the GEM of the Stock Exchange on 19 February, 2002.

The consolidated results for the three months and nine months ended 31 March, 2001 have been prepared using the merger basis of accounting as a result of the Group Reorganisation. On this basis, the Company has been treated as the holding company of its subsidiaries for the periods presented.

Details of the Group Reorganisation were set out in the prospectus of the Company dated 4 February, 2002.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the unaudited consolidated income statement consistent with accounting policies used in the prospectus of the Company dated 4 February, 2002.

3. TURNOVER

Turnover represents the net amounts received and receivable for goods sold, less returns and allowances, by the Group to outside customers.

4. TAXATION

No provision for Hong Kong Profits Tax has been made for the three months and nine months ended 31 March, 2002 and the corresponding periods in 2001, as the Group had no assessable profits for the respective periods.

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

5. DIVIDEND

The directors do not recommend the payment of a dividend for the nine months ended 31 March, 2002 (2001: Nil).

6. LOSS PER SHARE

The calculation of basic loss per share for the three months and nine months ended 31 March, 2002 is based on the respective losses attributable to shareholders of HK\$2,026,000 and HK\$5,174,000 and the weighted average number of 380,975,333 and 348,872,482 ordinary shares of the Company during the respective periods, assuming 333,170,000 ordinary shares of the Company, comprising 270,000 shares in issue at the date of the prospectus on 4 February, 2002 and 332,900,000 shares issued pursuant to the capitalization issue on 8 February, 2002 were in issue throughout the respective periods.

The calculation of basic loss per share in respect of the three months and nine months ended 31 March, 2001 is based on respective losses attributable to shareholders of HK\$3,118,000 and HK\$6,334,000 and assuming 333,170,000 ordinary shares of the Company as described above were in issue throughout the respective periods.

Computation of diluted loss per share for the three months and nine months ended 31 March, 2002 does not assume the exercise of share option outstanding because the exercise prices of the Company's share options were higher than the average market price for shares.

No diluted loss per share for the three months and nine months ended 31 March, 2001 was presented as the Company did not have any diluted potential ordinary shares.

7. RESERVES

The movements in the reserves of the Group are as follows:

	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Deficit <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July, 2001	—	—	(18,883)	(18,883)
Loss for the period	—	—	(5,174)	(5,174)
Special reserve arising on group reorganisation	—	22,716	—	22,716
Special reserve arises as a result of group reorganisation	—	18	—	18
Premium on issue of shares by means of placement	22,281	—	—	22,281
Capitalisation issue	(3,048)	—	—	(3,048)
Premium on issue of shares by means of a loan capitalisation	4,719	—	—	4,719
Expenses incurred in connection with the issue of shares	(5,477)	—	—	(5,477)
At 31 March, 2002	<u>18,475</u>	<u>22,734</u>	<u>(24,057)</u>	<u>17,152</u>

The special reserve represents:

- Difference between the nominal value of shares issued by a subsidiary, Blu Spa Group Limited and consideration for the issue of shares before the group reorganisation of HK\$22,716,000; and
- Difference between the nominal value of shares of Blu Spa Group Limited acquired and the nominal value of the Company's shares issued for share exchange at the time of the group reorganisation of HK\$18,000.

BUSINESS REVIEW AND PROSPECTS

General

The Group is a developer, promoter and distributor of a broad range of botanical personal care products, treatments and services. The Group aims to pioneer a holistic lifestyle approach to beauty and relaxation by offering its products and spa treatments and services for consumers.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Three months ended 31 March, 2002

For the three months ended 31 March, 2002, the Group recorded a turnover of approximately HK\$1.5 million representing an increase of approximately 177 per cent. compared to the turnover of same period in previous year. The increase in turnover was mainly due to the appointment of additional distributors in Taiwan and the People's Republic of China.

The Group achieved a gross profit margin of approximately 66 per cent. for the three months ended 31 March, 2002, representing a slight increase of approximately 5 per cent. as compared to that of same period in the previous year.

Distribution costs incurred by the Group for three months ended 31 March, 2002 amounted to approximately HK\$0.03 million, representing a decrease of approximately 98 per cent. as compared to those of the previous year which was attributable to the decrease in advertising and promotional expenses incurred in enhancing the brand recognition and in expanding distributorship network.

Administrative expenses incurred by the Group for the three months ended 31 March, 2002 amounted to approximately HK\$3.1 million, representing an increase of approximately 59 per cent. as compared to those of previous year. The increase was mainly due to increase of rental and staff costs during the period.

The finance costs incurred by the Group for the three months ended 31 March, 2002 decreased to approximately HK\$14,319 which primarily arose from interest on the outstanding purchase consideration of CAD 242,177 payable to B.S. International Inc. for the acquisition of assets. The Group did not incur any interest on the shareholder loan of HK\$4 million because the shareholder's loan became non-interest bearing on 1 July, 2001.

Due to increase in turnover and savings from distribution expenses, the net loss incurred by the Group was narrowed to approximately HK\$2.0 million, representing an improvement of approximately 35 per cent.

As a result of the foregoing, the loss attributable to shareholders amounted to approximately HK\$2,026,000 for the three months ended 31 March, 2002.

BUSINESS REVIEW

In April 2002, the Group launched a new whitening line consisting of Whitening Cleanser, Whitening Tonic and Whitening Moisture. Advertising campaign launched by its distributors focussed on this new product lines and was well received. In addition, the Group, through its distributors, launched a “Spa at Work” concept featuring the use of its products for stress relaxation at work.

POTENTIAL AND OUTLOOK

The Group continues to focus in China, the second largest market in Asia-Pacific region in terms of retail sales of personal care products. The Group faces slowdown in sales from Japan and Malaysia distributors due to the depressed local retail markets. It will hence continue to expand its distribution network in new markets.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at the date hereof, the interests of the Directors and chief executives of the Company in the share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”) as recorded in the register maintained under Section 29 of the SDI Ordinance or as notified to the Company and the Stock Exchange were as follows:

Name	Number of shares of the Company			Total
	Personal interests	Family Interests	Corporate interests	
Ms. Rajewski, Natalie N.	—	—	84,099,330 <i>(Note 1)</i>	84,099,330
Ms. Chan Choi Har, Ivy	—	—	136,635,670 <i>(Note 2)</i>	136,635,670
Mr. Law Kin Ming, Alfred	—	136,635,670 <i>(Note 3)</i>	—	136,635,670
Ms. Wai Suk Chong, Helena	—	—	30,510,000 <i>(Note 4)</i>	30,510,000

Notes:-

1. These shares are held by East Point Resources Limited. The entire issued share capital of East Point Resources Limited is held by Well Arts Enterprises Limited in its capacity as trustee of the East Point Trust, a discretionary trust, the beneficiaries of which include certain family members of Ms. Rajewski Natalie, N.
2. 105,657,870 of these shares are held by XO-Holdings Limited and 30,977,800 of these shares are held by All Rich Pacific Limited. Ms. Chan Choi Har, Ivy is the beneficial owner as to 65 per cent. of the issued share capital of XO-Holdings and as to 50 per cent. of the issued share capital of All Rich Pacific Limited.
3. By virtue of his relationship as Ms. Chan Choi Har, Ivy's spouse, Mr. Law Kin Ming, Alfred is deemed under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) to be interested in the 136,635,670 shares of the Company in which Ms. Chan Choi Har, Ivy is interested.
4. These shares are held by Profit Trick Holdings Limited. The entire issued share capital of Profit Trick Holdings Limited is beneficially owned by Ms. Wai Suk Chong, Helena.

Pursuant to the pre-IPO share option scheme (the “Pre-IPO Share Option Scheme”) adopted by the shareholders of the Company on 30 January, 2002, the Directors have been granted options to subscribe for shares of the Company at an exercise price per share of HK\$0.30, details of which are set out below:-

Name of Director	Number of shares subject to the options	Approximate percentage of the issued share capital of the Company
Ms. Chan Choi Har, Ivy	10,250,000	2.5%
Mr. Law Kin Ming, Alfred	4,100,000	1.0%
Ms. Rajewski, Natalie N.	8,200,000	2.0%
Ms. Loo Peck Hwee, Celene	8,200,000	2.0%
Ms. Wai Suk Chong, Helena	2,050,000	0.5%
Mr. Ng Kwok Tung	820,000	0.2%
Mr. Moore, Douglas Howard	820,000	0.2%

Pursuant to the terms of the Pre-IPO Share Option Scheme, each of the grantees to whom options have been conditionally granted under the Pre-IPO Share Option Scheme will be entitled to exercise (i) 50% of the options so granted to him/ her (rounded to the nearest whole number) at any time after the expiry of 12 months from the date of listing of the shares of the Company on GEM (the “Listing Date”); and (ii) the remaining 50% of the options granted to him/ her (rounded down to the nearest whole number) at any time after 24 months from the Listing Date, and in each case, not later than 10 years from the date of the grant of options. The Directors consider that it is inappropriate to disclose the value of options because the Directors are not able to formulate the assumptions for determining the fair value of the options as information regarding the expected volatility of the shares of the Company, being one of the many variables used under the valuation model, is unavailable due to the short period of time from the Listing Date and up to the date hereof.

The Company has also adopted a share option scheme of 30 January, 2002 (the “Share Option Scheme”) pursuant to which options to subscribe for shares of the Company may be granted to the Directors and other employees of the Group. Other than the Pre-IPO Share Option Scheme, no options had been granted to the Directors or employees up to date hereof.

Details of the Pre-IPO Share Option Scheme and the Share Option Scheme have been disclosed in the prospectus dated 4 February, 2002.

Save as disclosed herein, as at the date hereof, none of the Directors or chief executives of the Company had any interests in the share capital of the Company or its associated corporations as recorded in the register maintained under Section 29 of the SDI Ordinance or as notified to the Company and the Stock Exchange.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Save as disclosed herein, and other than in connection with the Reorganisation prior to the listing of the Company's shares on GEM, as at the date hereof, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and/or the chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors, chief executives or their respective spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at the date hereof, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following persons were interested in 10 per cent or more of the issued share capital of the Company:

Name	Number of shares	Percentage of issued share capital of the Company
Ms. Chan Choi Har, Ivy (<i>Note 1</i>)	136,635,670	33.33%
Mr. Law Kin Ming (<i>Note 2</i>)	136,635,670	33.33%
XO-Holdings Limited (<i>Note 3</i>)	105,657,870	25.77%
Wah Hing Consultants Limited (<i>Notes 3&4</i>)	105,657,870	25.77%
Ms. Heung See Wai, Angela (<i>Note 4</i>)	105,657,870	25.77%
Ms. Rajewski, Natalie N. (<i>Note 5</i>)	84,099,330	20.51%
East Point Resources Limited (<i>Note 5</i>)	84,099,330	20.51%
Well Arts Enterprises Limited (<i>Note 6</i>)	84,099,330	20.51%

Notes:-

1. The interests of Ms. Chan Choi Har, Ivy in the Company comprise the 25.77% shareholding interest through her 65% interest in XO-Holdings Limited, and 7.56% shareholding interest through her 50% interest in All Rich Pacific Limited.
2. By virtue of his relationship as Ms. Chan Choi Har, Ivy's spouse, Mr. Law Kin Ming, Alfred is deemed under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) to be interested in the 136,635,670 shares of the Company in which Ms. Chan Choi Har, Ivy is interested.
3. XO-Holdings Limited is beneficially owned as to 65% by Ms. Chan Choi Har, Ivy and as to 35% by Wah Hing Consultants Limited.
4. Wah Hing Consultants Limited is beneficially owned as to 100% by Ms. Heung See Wai, Angela.
5. East Point Resources Limited is a company whose entire issued share capital is held by Well Arts Enterprises Limited in its capacity as trustee of the Eastpoint Trust, a discretionary trust, the beneficiaries of which include certain family members of Ms. Rajewski, Natalie N.
6. Well Arts Enterprises Limited holds the entire issued share capital of Eastpoint Resources Limited in its capacity as trustee of the Eastpoint Trust, a discretionary trust, the beneficiaries of which include certain family members of Ms. Rajewski, Natalie N.

SIGNIFICANT SHAREHOLDER

Saved as disclosed above, the register of shareholders maintained under Section 16(1) of the SDI Ordinance showed that, as at the date hereof, the following person was interested in 5 per cent. or more of the issued share capital of the Company:

Name	Number of shares	Percentage of issued share capital of the Company
Ms. Chan Yuen Ling, Vivian (<i>Note</i>)	30,977,800	7.56%

Note: Ms. Chan Yuen Ling, Vivian owns 50 per cent. of the shares of All Rich Pacific Limited, which owns approximately 7.56 per cent of the issued share capital of the Company. Ms. Chan Yuen Ling, Vivian does not have any senior management role in the group nor any board representation in the Company. She is a cousin of Ms. Chan Choi Har, Ivy and the office administration manager of the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company was listed on 19 February, 2002 and up to the date hereof, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

COMPETING INTERESTS

During the period from 1 July, 2001 and up to the date hereof, none of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had any interest in a business that competed or might compete with the business of the Group.

INTERESTS OF SPONSOR

DBS Asia Capital Limited ("DBS Asia") has been appointed as the continuing sponsor of the Company for the purpose of the GEM Listing Rules. Pursuant to the sponsorship agreement between the Company and DBS Asia, for a fee, DBS Asia acts as the Company's sponsor for the period up to 30 June, 2004.

As updated and notified by DBS Asia, DBS Asia, its directors, employees and associates (as defined in the GEM Listing Rules), as at 9 May, 2002 (being the latest practicable date for ascertaining such information), did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

AUDIT COMMITTEE

The Company has established an Audit Committee which comprises two Independent Non-executive Directors and reports to the Board of Directors. The written terms of reference include the authority and duties of the Audit Committee and amongst its principal duties are the review and supervision of the Company's financial reporting process and internal control procedures. The Audit Committee has reviewed the Third Quarterly Report of the Company for the nine months ended 31 March, 2002.

By order of the Board of
Blu Spa Holdings Limited
Law Kin Ming, Alfred
Vice Chairman

Hong Kong, 10 May, 2002