BLU SPA™

BLU SPA HOLDINGS LIMITED

富麗花•譜控股有限公司

(Incorporated in the Cayman Islands with limited liability)








2002 Annual Report

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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 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 announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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This report, for which the directors of Blu Spa Holdings Limited collectively and individually accept full 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 for the purpose of giving information with regard to Blu Spa Holdings Limited. The directors, 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.

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COMPANY INFORMATION

LEGAL NAME OF THE COMPANY:
Blu Spa Holdings Limited

EXECUTIVE DIRECTORS:
Rajewski, Natalie N.
also known as Rajewski, Natasha *(Chairman)*
Chan Choi Har, Ivy
Law Kin Ming, Alfred
Wai Suk Chong, Helena

INDEPENDENT NON-EXECUTIVE DIRECTORS:
Wong Kang Yean,Clarence
Kam Kin Yat

COMPANY SECRETARY:
Law Kin Ming, Alfred

COMPLIANCE OFFICER:
Law Kin Ming, Alfred

QUALIFIED ACCOUNTANT:
Tsang Chi Wai AHKSA, AAIA

AUTHORISED REPRESENTATIVE(S):
Law Kin Ming, Alfred
Chan Choi Har, Ivy

AUDIT COMMITTEE:
Wong Kang Yean *(Committee Chairman)*
Kam Kin Yat

AUTHORISED PERSON(S) TO ACCEPT SERVICES OF PROCESS AND NOTICES:
Law Kin Ming, Alfred

REGISTERED OFFICE:
Century Yard,Cricket Square,
Hutchins Drive, P.O. Box 2681GT
George Town, Grand Cayman,
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS:
Room 2429-31,24th Floor
Sun Hung Kai centre
30 Harbour Road
Wanchai, Hong Kong.

AUDITORS:
Deloitte Touche Tohmatsu

SPONSOR:
DBS Asia Capital Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE:
Bank of Butterfield International (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRARAND TRANSFER OFFICE:
Secretaries Limited
5th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

PRINCIPAL BANKERS:
Hongkong & Shanghai Banking Corporation
Hang Seng Bank

WEBSITE ADDRESS:
www.bluspa.com.

On behalf of the board of directors, I am pleased to present to the Shareholders the audited consolidated results of the Company and its subsidiaries (together the "Group") for the year ended 30 June 2002 for their consideration.

OPERATING RESULTS

The listing of Blu Spa Holdings Limited (the "Company") on the GEM of the Stock Exchange of Hong Kong Limited on 19 February 2002 marked a milestone in the development of the Group. The Group recorded a total turnover of approximately HK$2.86 million, representing a 32% decrease as compared with the previous year. Loss attributable to shareholders for the year ended 30 June 2002 was approximately HK$10.9 million, representing approximately a 63% increase year-on-year. Loss per share for the year ended 30 June 2002 was HK3 cents. The gross profit margin for the year decreased from 67% to 63%.

MARKET OVERVIEW

The global economy coupled with the effects of the 9-11 terrorist attack in the United States continued to decline for the third consecutive year in the first six months of 2002 despite a series of interest rate cuts by the United States Federal Reserve. Propelled by the persistent global economic downturn, the changing consumer spending habits and declining consumer spending level continued to depress the prestige personal care product markets in the Asian Pacific Region and this has a significant impact on the performance of the Group. For the year ended 30 June 2002, the Group's revenues derived mainly from the sale of Blu Spa products to its selected distributors were lower than expected. However, the Group believes the signs that are emerging of a stronger economy towards the end of 2002, will assist with the Group's continuous business development in the botanical personal care product industry. The Group believes that an early economic recovery in the Asian Pacific Region will increase the level of consumer spending and in turn drive demand across a broad spectrum of consumer groups for new and innovative, quality and high performance personal care products that satisfy the consumers' needs for beauty care, anti-aging, stress reduction, comfort and relaxation.

OPERATING OVERVIEW

Built on its vision statement "Pure Plant and Sea Essences for Today's Lifestyle" the Group is dedicated to promote a holistic lifestyle approach to beauty and relaxation by offering a broad array of quality and high performance botanical personal care products for today's consumers. We place special emphasis on branding, customer service, product innovation, categories coverage, quality and performance to help build brand recognition among prestige personal care product and service providers.

As at 30 June 2002, the Group has developed over 300 Blu Spa branded botanical beauty products and cosmetics under eight broad categories which were distributed through selected distributors in Asian Pacific Region, particularly, the PRC market. The Group has also developed for its distributors to adhere to a uniform brand management system comprising of operating manuals, merchandizing, retail marketing and spa management services. All distributors of the Group adopt a uniform retail concept using identical store designs and layouts, selling products with identical product logo, trademark and packaging, providing identical spa treatment services and procedures and staff training.

During the financial year, the Group continued to demonstrate its ability to introduce new innovative and quality botanical personal care products to satisfy the different and changing market demand with the launch of the new whitening line in April 2002. At the same time, the Group collaborated with its distributors in the launch of a "Spa at Work" concept featuring the use of its products for stress relaxation at work. "Spa at Work" concept was introduced either at specially arranged workshop or on site at the offices of international professional firms.

During the financial year the Group was faced with challenges that emerged from the continuing economic recession in the Asian Pacific Region, the revenues of the Group derived mainly from the sale of Blu Spa products has dropped by 32% as compared with year 2000/2001.The results are mainly attributable to the general decline in the sale of Blu Spa products to Group's selected distributors in the Asian Pacific markets, particularly, the PRC market which has decreased by approximately 57% as compared to the previous financial year. Given the Group's receivables attributable to the three distributors representing respective the Hubei, Guangxi and Guangdong Province ("PRC Distributors") in the PRC (the "PRC Receivable"), the Group has taken a series of appropriate corrective measures to prevent the future occurrence of similar incident. The Group has, in addition, tightened the selection process by adopting more stringent requirements in the future recruitment of distributors. Mindful of the huge and highly fragmented personal care product market in the PRC, the Group also considers it necessary to revisit its present distribution strategy and structure and to explore other avenues that help expand its distribution network in a speedy, efficient and cost effective manner.

In spite of the lack luster performance of the Group in the Asian Pacific Region, the Taiwan and Hong Kong market segments performed far better than our expectation. The total number of licensed retail outlets operated and managed by the Group's Hong Kong distributor has grown from two to seven. The Hong Kong distributor is planning to open the eighth licensed retail outlet. Likewise, we are encouraged by the growth pattern of the Taiwan market (with a distribution network constituted by three licensed retail outlets and various points of sale). In collaboration with the Group, the Taiwan distributor has been awarded the tender for the first and business class inflight packages of China Airline. Encouraged by the success of the Taiwan distributor in penetrating the institutional sale inflight shop market segment, the Group has tendered for the first and business class inflight packages of one Canada based carrier and one US based carrier. These additional tenders, if successful, may help the Group build a strong customer base and high level of brand recognition among international consumers through deeper penetration into a worldwide inflight shop market segment. Simultaneously, the Group has submitted its proposal to a US based carrier for a bounce back web-site promotion arrangement whereby the latter will promote among its customers the Group's virtual spa for on-line shopping. This bounce back web-site promotion may be potential revenue source for the Group because of the carrier's huge customer base. Furthermore, such concept may be extended to international companies with broad customer base thus presenting to the Group a significant potential for new revenue stream.

With the persistent global economic downturn particularly in the Asian Pacific Region, the Group has adopted a series of austerity measures aimed at controlling the overall operating costs. They include relocation of the Hong Kong office to a smaller premises in Sun Hung Kai Centre, waiver of director fee by certain board members, centralizing and relocating the Toronto operation to a new warehouse facilities. The result of these measures even if not reflected in the Group's results for the coming financial year is going to have a positive impact on the overall performance of the Group in the longer term. Without compromising the product quality, the Group is also exploring various options for controlling the production cost including subcontracting the production process of certain product categories or certain part of the production process to independent third party qualified manufacturers operating in lower cost regions.

PROSPECTS AND APPRECIATION

In spite of the challenges faced by the Group in the PRC during the financial year as a result of the short-term problems related the Health Inspection Permits (as referred to the announcements made by the Company on 28 June 2002), the PRC receivables and the persistent global economic downturn, the Group remains optimistic about its future prospects in the its continuous efforts to identify and recruit suitable distributors in the PRC. The Group believes the signs that are emerging of a stronger economy towards the end of 2002, will assist with Group's continuous development in the botanical personal care product industry. The Group also believes that an early economic recovery in the Asian Pacific Region will increase the level of consumer spending and in turn drive demand across a broad spectrum of consumer groups for new and innovative , quality and high performance personal care products that satisfy the consumers' needs for beauty care, anti-aging, stress reduction, comfort and relaxation.

Year 2002/2003 will be a challenging year. More international brands will enter into the botanical personal care products market in the PRC following its accession to the World Trade Organization. The Group believes that it is well-positioned to face the intense competition and challenges ahead by leveraging its competitive strengths in unique brand positioning, uniform global brand management, categories coverage, product innovation, quality and performance and research and product development capability.

Faced with the ever changing market demand, the Group will continue to strengthen its product development capability and customer relation, develop and launch into the market new innovative and quality botanical personal care products, in order to propel the Group into one of the leading developers and marketers of botanical personal care products and expand its market share in the botanical personal care product and service market. The Group will introduce three new anti-aging eye and face treatement products, a new baby spa line (originally targeted for launch during the first half of 2002) to coincide with the debut of twenty one reformulated and repackaged personal care products in November 2002. A new sun care line is scheduled to be launched simultaneously with the new giner line during the first half of 2003.

We are encouraged by the healthy growth pattern of the Taiwan and Hong Kong market segments. The Taiwan distributor's success in penetrating the inflight shop market segment will help the Group build a strong customer base and high level of brand recognition among international consumers. The prospects of the inflight shop market segment will be good ,if the Group succeeds in the additional tenders with the two Canadian and US based carriers. The bounce back web site promotion arrangement proposed by the Group to the US carrier for on-line shopping at the Group's virtual spa, if materialized, could be potential income source for the Group. The austerity measures taken by the Group and the Group's continuous efforts to control the production cost will not only help the Group maintain its competitiveness but also have a positive impact on the overall performance of the Group in the years to come.

On behalf of the Board, I would like to express my sincere appreciation to our shareholders and customers for their continuous support and to our fellow directors and all staff of the Group for their dedication and contribution towards the successful performance of the Group. We will make our best effort in developing our business to produce good results and maximize return for our shareholders for the years to come.

Rajewski Natalie N.
Chairman

Hong Kong, 26 September, 2002

FINANCIAL REVIEW

Results

The Group has experienced a downturn in the operating results of the financial year. For the year ended 30 June 2002, the Group has recorded a turnover of approximately HK$2.86 million due to the decline in sales of the Group's products to its selected distributors in the Asian Pacific Region, particularly, the PRC market which has decreased by approximately 57% as compared to the previous financial year as a result of the non-fulfillment of the sales contracts regarding sales to distributors in Hubei, Guangxi and Guangdong Province (the "PRC Distributors") and upon the advice of the auditors, the Company's sales to the PRC Distributors of approximately HK$1.2 million (the "Adjusted Sales") pertaining to the PRC Receivables (as referred to in the announcements made by the Company respectively on 28 June 2002 and the 19 August 2002) have been excluded from recognition as the Group's turnover for the year ended 30 June 2002 (the "Adjustment"). Notwithstanding that the Adjusted Sales were supported by sales contracts and 30% deposits had been paid and that the Products were manufactured and shipped to Hong Kong, the Products have not been taken up and accepted in full by the PRC Distributors and the balance amount receivable under the sales contracts remained outstanding as at 30 June 2002. In view of such non-fulfillment of the terms of the sales contracts by the PRC Distributors and the Group's intention to terminate those sales contracts and to forfeit the relevant deposits, the Adjustment has been made.

Loss attributable to shareholders for the year ended 30 June 2002 was approximately HK$10.9 million. This represented an increase of approximately 63% in the net loss as compared with the previous financial year. The decline in the financial conditions of the Group was due to the continuing global economic downturn compounded by the effects of the 911 attack in the United States, the Adjustment and the provision for obsolete inventories.

Distribution costs incurred by the Group for the year ended 30 June, 2002 amounted to approximately HK$0.5 million, representing a decrease of approximately 72% 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 year ended 30 June,2002 amounted to approximately HK$12 million, representing an increase of approximately 88% as compared to those of previous year. The increase was mainly due to increase of rental, staff costs and legal and other professional fee during the post-listing period and the the Adjustment and the provision for obsolete inventories.

The finance costs incurred by the Group for the year ended 30 June,2002 decreased to approximately HK$38,716 which primarily arose from interest on the outstanding purchase consideration of CAD 242,177 payable to B.S. International Inc. for the acquisition of inventories of raw materials, finished goods and other moveable assets. The Group did not incur any interest on the shareholder loan of HK$ 4 million because the shareholder's loan became non-interest bearing on 1 July, 2001.

Due to the decrease in turnover as a result of the Adjustment, the provision for obsolete inventories and increase in administration expenses, the net loss attributable to shareholders amounted to approximately HK$10.9 million.

Financial Resources and Liquidity

As at 30 June 2002, the shareholders' funds of the Group amounted to approximately HK$15.5 million. Current assets amounted to approximately HK$9.1 million, of which approximately HK$4.9 million were cash and bank deposits and approximately HK$4.1 million were debtors, deposits and prepayments. The Group's current liabilities amounted to approximately HK$2.2, million mainly comprise of creditors, accruals and deposits and bills payable amounted to approximately HK$0.06 million and HK$1.9 million respectively.

Significant Investments and Acquisitions

During the year ended 30 June 2002 and the year ended 30 June 2001, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies.

As at 30 June 2002 and 30 June 2001, the Group had no material investment other than the acquisition from B.S. International Inc. of inventories of raw materials, finished goods and other moveable assets at a total consideration of Can $300,000 pursuant to an asset purchase agreement dated 27 September, 2001.

Capital Commitments

As at 30 June 2002 and 30 June 2001, the Group had no future plans for material investment.

Contingent Liabilities

As at 30 June 2002 and 30 June 2001, the Group had no material contingent liabilities.

Charges on Group Assets

As at 30th June 2002, the Group did not have any charges on Group's assets.

Foreign Exchange Exposure

The Group mainly earns revenue and incurs cost in Hong Kong dollars, Canadian dollars and US dollars. The Directors considers the impact of foreign exchange exposure of the Group is minimal.

Capital Structure of the Group

As at 30 June, 2002, the amount due to a shareholder, XO-Holdings Limited, amounted to approximately HK$3,572,000, which was unsecured and non-interest bearing (as at 30th June, 2001: the amount due to XO-Holdings amounted to approximately HK$ 8,172,000, of which HK$ 4,000,000 carried an interest at 30% per annum and the remaining balance was non-interest bearing).

XO-Holdings Limited has undertaken to the Company that (i) it will not demand repayment of the amount due to it of approximately HK $3,572,000 within one year from the listing of the shares of the Company on GEM; and (ii) it will not demand repayment of any outstanding amount due to it after one year from the date of listing of the shares of the Company on GEM unless the Group has positive cash flow from operations and retained earnings in a financial year and each of the independent non-executive Directors has given an opinion that such payment will not adversely affect the operations of the Group and the implementation of the business objectives of the Company as stated in the Prospectus.

As at 30 June, 2002, the amount due to the two directors of the Company, Ms. Chan Choi Har, Ivy and Mr. Law Kin Ming, Alfred amounted to approximately HK$ 5,550,000, which was unsecured and non-interest bearing (as at 30th June, 2001: the amount due to the two Directors amounted to approximately HK$ 5,550,000, which was unsecured and non-interest bearing).

Each of the two Directors has undertaken to the Company that (i) each of them will not demand repayment of the aggregate amount due to them of approximately HK$ 5,555,000 within one year from the listings of the shares of the Company on GEM; and (ii) each of them will not demand repayment of any outstanding amount due to them after one year from the date of listing of the shares of the Company on GEM unless the Group has positive cash flow from operations and retained earnings in a financial year and each of the independent non-executive directors has given an opinion that such repayment will not adversely affect the operations of the Group and the implementation of the business objectives of the Company as stated in the prospectus.

Save as mentioned above, the Group did not have any outstanding loan capital, bank overdrafts and liabilities under acceptance or other similar indebtedness, debentures, mortgages, charges, or loans or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities as at the close of the business on 30th June,2002 and 30th June,2001 respectively. The Group did not have any funding and treasury policies, financial instruments for hedging purpose.

As at 30 June,2002, the Group's gearing ratio, expressed as a percentage of total borrowings(comprising amounts due to directors and a shareholder of the Company) over total assets, was 34% (as at 30 June,2001 : 64%). The Directors believe that the gearing ratio is at an acceptable level for the Group and the Group would be able to create sufficient financial resources to discharge its debts.

Details of Future Plans for Material Investment or Capital Assets

The Directors currently do not have any future plans for material investment of capital assets.

Employees and Remuneration Policies

As at 30 June 2002, the Group had 17 employees (2000/2001: 12). Remuneration is determined by reference to market conditions and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid at the management's discretion to its employees in Hong Kong as recognition of and reward for their contributions. Other benefits include pre-IPO share option scheme as detailed in prospectus dated 4 February, 2002 , contributions to statutory mandatory provident fund scheme to its employees in Hong Kong and the mandatory government-run Canada Pension Plan to its employees in Canada.

As from 26 September 2002, Ms. Wai Suk Chong, Helena became the vice-chairman and executive director of the Company and Ms. Chan Choi Har, Ivy ceased to use the designation of vice-chairman but remains as executive director of the Company.

Waiver of Directors up to HK$3 million

On 26 September 2002, the two Directors confirmed to the Company that of the aggregate amount due to them of approximately HK$5,555,000 they waived HK$3 million, which will increase the net asset of the Group.

BUSINESS REVIEW

Sales Distribution and Marketing

The Group's market development efforts in China and Asia Pacific did not progress as satisfactorily as expected primarily due to the persistent economic recession in the Asian Pacific Region and the non-performance of the distributorship for the Hubei Province and Guangxi Province in the PRC. As per the announcement made by the Company on 19 August 2002 relating to the PRC Receivables, the Company ascertained from the PRC Distributors their reasons for not accepting the products stored in Hong Kong on their behalves and not paying the balance. The Hubei Distributor and Guangxi Distributors responded with their reasons including, the difficulty of securing acceptable retail locations and the Group's uncompromising stance and continuous neglect to match its deliveries according to their actual market development progress whereas the Guangdong Distributor responded with its reason that the Group only delivered 50% of the contract amount which they required to match their customers' orders. The Hubei Distributor and Guangxi Distributor had further confirmed of the surrender of their respective distributorship. However, the Directors did not agree with the reasons given by the Hubei Distributor and Guangxi Distributor as proper reasons for their default and accordingly treated the distributorship of their respective territories in the PRC as terminated. Despite the termination of the distributorship for these two provinces, the Group's unwavering efforts will continue in identifying and recruiting suitable distributors in the PRC.

Despite the on-going negotiations with potential distributors in the PRC and Asia Pacific region, no suitable distributors have been identified and recruited under the more stringent requirements adopted by the Group during its selection process. The Group has entered into distributor agreement with Shaping China for distribution of the Group's products within its chain of fitness centers on 22 May 2002. Establishment of retail concept and environment spa inside the selected hotels owned by a local hotel chain owner in the PRC has been delayed until end of 2002 due to the number of hotels and diversity of locations involved in the selection process. The Group has been under negotiations with Saks Department Store on Fifth Avenue since late last year. Despite the delay of these negotiations the parties are expected to resume meeting in about November 2002 when certain newly repackaged skin care products will be available for presentation to the management of Saks Department Store to demonstrate the quality and image of the Group's products. Despite the considerable efforts expended by the Group in identifying holiday resort, country club and hotel locations in the Asia-Pacific region and Hong Kong, no locations identified by the Group ha been selected by its distributors as suitable for committing the necessary capital investment.

The Group continued its advertising and promotion activities by registering as participant for the 2002 COSMOPROF in Hong Kong and joining its Guangdong distributor as participant for the Guangzhou Cosmetic Trade Fair 2002 both of which were due to be held in the second part of 2002.On 7 March 2002, the Group entered into a one-year sponsorship agreement with a Beijing based Music Television Station for promoting the Blu Spa brand name and products in specified MTV programmes, magazines and printed publications. Such sponsorship arrangement present the Group excellent opportunities for gaining brand recognition and promoting corporate image among young audience in China.

The Group collaborated with the Taiwan distributor in its successful tender for the first and business class inflight packages of China Airline. The Group further tendered for the first and business class inflight packages of one Canada based carrier and one US based carrier. Penetration to such target institutional sale inflight shop market segment is considered by the Directors to be tremendous opportunities for building a strong customer base and high level of brand recognition among international consumers.

Incidental to the Group's tender for the business and first class inflight packages, the Group submitted its proposal to a US based carrier a bounce back web-site promotion whereby the latter will promote among its customers the Group's virtual spa for on-line shopping. The Directors consider such bounce back web-site promotion to be potential revenue source for the Group in view of the huge customer base of the carrier. If similar arrangement can be extended to international companies with broad customer base, it may help grow the Group's future business by creating a new revenue stream for the Group.

Products and Services

In April 2002, the Group launched a new whitening line as an inline extension of the skin care category. At the same time, the Group collaborated with its distributors in the launch of a "Spa at Work" concept featuring the use of its products for stress relaxation at work. "Spa at Work" concept was introduced either at specially arranged workshop or on site at the offices of international professional firms.

Research and Development

The Group completed the experiments, tests and studies in respect of the new ginger line, the sun care line and three new anti-aging eye and face treatment formulae. Given the different and changing market demand, the Directors suspended the experiments of the muscle relaxation formula and aromatherapy spa formula and postponed the experiments relating to new colour lipstick formulae.

The Group has strengthened its product research and development capability by establishing its own dedicated research laboratory facilities in Canada to ensure the continuous development of new, innovative and quality products.

Manufacturing

The Group continued to outsource the compounding and filling work of its products to five independent subcontractors in Toronto based on its self-developed product formulation and manufacture procedure.

Procurement

Since September 2002 the Group controls its procurement of the principal raw materials required for the manufacture of its products from suppliers in North America and Europe. In order to ensure the smooth operation of the Group's production process and shorten order/shipment lead time of 60-90 days, the Group built up its inventory base of principal raw materials and packaging materials according to the analysis of timely sales reports received from its distributors.

Logistics Supports and Customer Service

The Group has established a new 5,000-square-foot warehouse facilities in Toronto and relocated its Hong Kong warehouse facilities to a new 2000 square foot premises to maximise its logistics supports to its customers and to meet with the future growth in business.

In order to strengthen order processing, production scheduling, inventory management, accounting and other operation and administrative supports for its principal business activities, the Group has invested in and established a management information system. System software has been installed and the entire system is expected to be fully operational in the latter part of 2002 when staff training is completed and user requirements finalised.

The Group has strengthened its logistic workforce by recruiting one logistics coordinator in Toronto assigned with raw material sourcing and quality assurance duties and has enhanced its customer service by employing one customer service manager in Hong Kong to undertake all coordination and liaison functions between Toronto office and the Group's customers in respect of ordering and shipment.

Employment and Training

As at 30 June, 2002 the Group has a total of 17 staff of which 8 are based in Canada 9 are based in Hong Kong, the Group regularly provides internal and external training for its staff to enhance their technical and product knowledge. The Group has a training manager specially assigned to attend to the distributors' needs on product knowledge and other professional skill.

HEALTH INSPECTION PERMITS AND PRC RECEIVABLES

Subsequent to the announcement made by the Company on 28 June 2002 relating to the captioned matter, the Guangdong Distributor lodged an informal objection with the PRC Health Authority against the PRC Health Authority's requirement of retesting and resubmission of samples in respect of 26 products in July 2002. The Company has been assisting the Guangdong Distributor in following up on the PRC Health Authority's response regarding such objection which, if responded favourably, may shorten the time otherwise required for obtaining the relevant 38 health inspection permits and save the retesting and reassessment cost and expenses.If the PRC Health Authority should respond unfavourably, the Company will seek from the Guangdong Distributor reimbursement or contribution in respect of such retesting and reassessment expenses and will recommend to the Guangdong Distributor the engagement of a Hong Kong legal consultant to follow up with the PRC Health Authority on all outstanding health inspection permit applications. The matter is expected to be resolved within five months. The Company will continue to report to its shareholders the latest status of the granting of the health inspection permits in respect of the 38 products in the PRC as and when appropriate.

With regard to the PRC Receivables, demand letters have been issued by the Group and/or its PRC legal advisers whereby the PRC Distributors are required to accept the products and to pay the remaining balance, failing which, the Company would forfeit their deposits, sell the products on their behaves and terminate the sales contracts. As the PRC Distributors failed to meet such demand, the Directors intended to forfeit their deposit, sell their products and terminate the sales contracts. As a result of the Adjustment, the PRC Receivables had been reversed and no provision was required to be made in this regard.

In view of the PRC Receivables related problem, the Directors have taken a series of appropriate corrective measures within the Group in order to prevent the future occurrence of similar incident. Given the sluggish global economic environment particularly in the Asian Pacific region, the Directors have decided not to take immediate drastic measures such as increase of initial deposit and shortening the credit period against its distributors. The Directors consider the current credit term of 60 days are in line with the trade practice and reasonable. However, the Group has tightened the selection process by adopting more stringent requirements in the recruitment of distributors.

Business Objectives and Actual Business Progress Comparison

Business Objectives up to June 2002	Actual Business Progress up to 30 June, 2002
Research and development on product and services	
• Set up new research and laboratory facilities in Canada.	• Research and laboratory facilities set up in Canada.
• Conduct experiments of fragrance formulations, stability test and packaging compatibility studies and conduct focus group study.	• Completed new ginger line related experiments, tests and studies.
• Conduct experiments on sun care formulations, stability test, packaging compatibility studies and sun protection factors ("SPF") testing, label design compliance check and conduct focus group study.	• Completed experiments, tests and studies of sun care formulations. Label design compliance check is near completion. New sun care line is expected to be launched in first half next year.
• conduct experiments of anti-aging skin care formulae, stability test, packaging compatibility and focus group study.	• Experiments, tests and studies pertaining to new anti-aging eye and face treatment formulae completed. Production of these three new products is in progress.
• Conduct experiments on muscle relaxation formula, moisture retention factors, stability test and packaging compatibility studies and focus group study.	• Experiments on muscle relaxation formula were suspended as the Directors considered eye and face treatment products to be in greater demand.
• Conduct experiments on aromatherepy spa formula, stability test, packaging compatibility studies and focus group study.	• Experiments on aromatherapy spa formula were suspended as the Directors considered eye and face treatment products to be in greater demand.
• Conduct experiments on new colour lipstick formulae, colour fastness stability tests and focus group study.	• Experiments, test and study related to new colour lipstick formulae have been delayed as there is no clear direction for the market trend.

Business Objectives up to June 2002	Actual Business Progress up to 30 June, 2002
New product launch	
• The new baby spa line.	• Launch date of new baby spa line has been postponed until November 2002 to coincide with the debut of three new anti-aging eye and face treatment products and twenty one repackaged and reformulated personal care products.
Distribution network	
• Develop the China market and other Asia Pacific markets where the Group does not have a presence.	• No suitable distributors have been identified and recruited yet. However, the Group is under negotiations with potential distributors in the PRC and Asia Pacific region.
• Distribute spa products within a chain of fitness centers in the PRC in collaboration with a fitness center chain owner.	• Already signed distributor agreement with Shaping China on 22 May, 2002 for distribution of the Group's products within its chain of fitness centers.
• Establish retail concept and environment spa inside the selected hotels in the PRC in collaboration with a local hotel chain owner.	• Set up of retail concept and environment spa inside the selected hotel locations in the PRC has been delayed until end of 2002 due to the number of hotels and diversity of locations involved in the location selection process.
• Establish department store counter in Saks Department Store on Fifth Avenue.	• The Group has been negotiating with Saks Department Store on Fifth Avenue since late 2001. Negotiation is expected to resume in November this year when the Group will present samples of repackaged skin care products to demonstrate the quality and image of the Group's products.
• Establish a concept and spa store at a holiday resort or country club location in the Asia-Pacific region in collaboration with a major regional real estate development group.	• No suitable location has been selected yet as the Group's distributors do not consider the resort or country club locations identified by the Group to be suitable for committing the required capital investment.
• Establish a spa at an international hotel in Hong Kong in collaboration with a major regional real estate development group.	• No suitable location has been selected yet as the Group's distributors do not consider the hotels identified by the Group to be suitable locations for committing the required capital investment.

Business Objectives up to June 2002	Actual Business Progress up to 30 June, 2002
Advertising and promotion	
• Participate in international and regional cosmetic exhibitions and trade shows.	• Registered as participant for the 2002 COSMOPROF in Hong Kong. • Joining the Guangdong distributor as participant in the Guangzhou Cosmetic Trade Fair 2002. • Sponsored MTV programmes in China and other charity events. • Collaborated with the Taiwan distributor to bid for the tender of first and business class inflight packages of China Airline. • Tendered for the first and business class packages of a Canadian Carrier and a US Carrier.
Logistics facilities	
• Invest in and establish high capacity warehouse facilities in Toronto, Hong Kong, China.	• Established a 5,000-square-foot new warehouse facilities in Toronto.
• Invest in and establish a management information system.	• Hong Kong warehouse facilities relocated to a new 2000-square foot premises. • Software of management information system was installed. System is expected to be fully operational in November 2002 upon completing staff training and finalizing the Group's user requirements.

Business Objectives up to June 2002	Actual Business Progress up to 30 June, 2002
Purchase of raw materials	
• Build up inventory base of principal raw materials and packaging materials for its products.	• Build up of inventory base of principal raw materials and packaging materials progressing according to analysis of timely sales reports from distributors.
Human resources	
• Recruit additional staff.	• One logistics coordinator was recruited in Toronto to strengthen logistic workforce. • One customer service manager was employed in Hong Kong to enhance customer service.

Use of Proceeds

The net proceeds from the public listing was about HK$17.5 million and the remaining balance as at 30 June 2002 was approximately HK$4.9 million. During the period from 19 February 2002 (date of listing) to 30 June 2002, the Group has incurred the following amounts to achieve the business objectives as set out in the Prospectus:

Schedule of use of proceeds	**Amount Disclosed in the Prospectus** *(HK$ million)*	**Actual amount used up to 30 June 2002** *(HK$ million)*
For payment to existing creditors and of accrued rental expenses due to a related company	4.9	4.9
For advertising and promotion, enhancement of logistics facilities and human resources	1.4	1.4
For research and development and product launch	0.5	0.5
For purchase of raw materials and packaging materials	1.3	1.6
For market development	0.3	0.4
For payment for acquisition of assets from BSI	1.2	1.2
For general working capital	1.3	2.7
Total	10.9	12.7

Use of proceeds exceeds the estimation made in the Prospectus by HK$1.8 million. The differences between the amount disclosed in the Prospectus and the actual amount used are mainly due to the funding deficiencies created by the lower levels of internal cash flow generated by the Group's turnover than expected. These shortfalls resulted in the excess cost of HK$0.3 million in the purchase of raw materials and packaging materials, HK$0.1 million in market development and HK$1.4 million in general working capital.

The balance as of 30 June 2002 of about HK$4.9 million was used as working capital of the Group to support its ongoing operations and expansion.

PROSPECTS

In spite of the challenges faced by the Group in the PRC during the financial year ended 30 June, 2002 as a result of the short-term problems related to the Health Inspection Permits and the PRC Receivables, the Group remains optimistic about its future prospects in the Group's continuous efforts to identify and recruit suitable distributors in the PRC. The Group believes the signs that are emerging of a stronger economy towards the end of 2002, will assist with the Group's continuous development in the botanical personal care product industry. The Group also believes that an early economic recovery in the Asian Pacific Region will increase the level of consumer spending and in turn drive demand across a broad spectrum of consumer groups for new and innovative, quality and high performance personal care products that satisfy the consumers' needs for beauty care, anti-aging, stress reduction, comfort and relaxation. Year 2002/2003 will be a challenging year. More international brands will enter into the botanical personal care products market in the PRC following its accession to the World Trade Organization. The Group believes that it is well-positioned to face the intense competition and challenges ahead by leveraging its competitive strengths in unique brand positioning, uniform global brand management, categories coverage, product innovation, quality and performance and research and product development capability.

Faced with the ever changing market demand, the Group will continue to strengthen its product development capability and customer relation and develop and launch into the market new innovative and quality botanical personal care products in order to propel the Group into one of the leading developers and marketers of botanical personal care products and expand its market share in the botanical personal care product and service market. The Group will introduce three new anti-aging eye and face treatment products, a new baby spa line (originally targeted for launch during the first half of 2002) to coincide with the debut of twenty one reformulated and repackaged personal care products in November 2002. A new sun care line is scheduled to be launched simultaneously with the new ginger line during the first half of 2003.

In view of the PRC Receivables related problem, the Group has taken a series of appropriate corrective measures to prevent the future occurrence of similar incident and tightened the selection process by adopting more stringent requirements in the future recruitment of distributors and strictly enforcing the credit term. To address the huge and highly fragmented personal care product market in the PRC, the Group also considers it necessary to revisit the present distribution strategy and structure and to explore other avenues that help expand its distribution network in a speedy, efficient and cost effective manner. In spite of the lack luster performance of the Group in Asian Pacific markets particularly the PRC, the Group is encouraged by healthy growth of the Taiwan and Hong Kong market segments. The Taiwan distributor's success in penetrating the inflight shop market segment will help the Group build a strong customer base and high level of brand recognition among international consumers. The prospects of the inflight shop market segment will be good if the Group succeeds in additional tenders with the two Canadian and US based carriers. The bounce back web site promotion arrangement proposed by the Group to the US carrier for on-line shopping at the Group's virtual spa, if materialised, may be potential income source for the Group.

DIRECTORS

Executive Directors

Rajewski Natalie N. (also known as Rajewski, Natasha, aged 44, is an executive director and the Chairman of the Group. She co-founded the Group in June 1998 and appointed as a Director on 25 September, 2001. She is responsible for the overall strategic planning and management of the Company .She has more than 20 years of experience in the development, manufacture and marketing of botanical personal care and beauty products. She had developed merchandising, marketing, distribution and franchise systems for a broad range of botanical beauty products under another brand that she founded in 1982 and sold to an independent party in April 1997.

Chan Choi Har, Ivy, aged 51, is an executive director of the Group. She is responsible of the market development, marketing, general administration and financing of the Group. She has 15 years of experience in real estate development and related investments including hotel projects in the PRC and residential development in Macau. She has been the vice-chairman of TriNorth Capital Inc., a public company listed on the Toronto Stock Exchange, since 1994. She also has experience in and has been responsible for take-over, initial public offering, equity financing and public listing of several public listed companies in Hong Kong and Toronto. Ms. Chan is the spouse of Mr. Law Kin Ming, Alfred.

Law Kin Ming, Alfred, aged 53, is an executive director, a Vice-Chairman of the Group and the compliance officer, the company secretary and one of the authorized representatives of the Company. He joined in June 1998 and was appointed as a Director on 25 September, 2001.He is responsible for ov3erseeing all corporate and legal matters of the Group. He has been a practicing solicitor of Fred Kan & Co. in Hong Kong since 1990 and had been a barrister since 1975. He was previously a non-executive director of Yanzhou Coal Mining Company Limited, a public company listed in the United States, Hong Kong and the PRC, the legal adviser to TriNorth Capital Inc., a public company listed on the Toronto Stock Exchange and an independent director of HMJ China Investments Limited, a private property investment company. He has over 15 years of experience in corporate management and finance. Mr. Law is the spouse of Chan Choi Har, Ivy.

Wai Suk Chong, Helena, aged 54, is an executive Director, Vice-Chairman of the Group and one of the authorized representative of the Company, joined Credit Lyonnais Securities Asia ("CLSA") in 1989 and is now the managing director of the corporate marketing division. Ms. Wai was appointed as a Director on 25 September, 2001.She was the founder of the China Division of CLSA and played an important role in the business development of CLSA in the Greater China region. She has more than 20 years experience in the Hong Kong financial industry and has previously served Barings Securities as director of sales. She graduated from the Polytechnic University of Hong Kong with a Diploma of Business Administration.

Independent non-executive Directors

Wong Kang Yean, Clarence, aged 32, has more than 10 years of regional working experience in finance, accounts and treasury management. Mr. Wong is a fellow member of the Association of Chartered Certified Accountants of the United Kingdom and a registered accountant with Malaysian Institute of Accountants. He was appointed as the Company's independent non-executive Director on 4 June 2002.

Mr. Kam Kin Yat, aged 49, is an executive director of Quantum High-Tech Group Limited, a private company incorporated in Hong Kong and principally engages in manufacturing and trading of health products. He has more than 20 years of working experience in China trade. He was previously the senior vice-president for China investments of Sun Development Limited and the assistant executive president of Lai Sun Holdings Limited. Before joining the Lai Sun Group in 1991, he worked as a foreign investors relation officer of the People' Government of Jiangsu. He was appointed as the Company's independent non-executive director on 26 September 2002.

SENIOR MANAGEMENT

Cho Mang Yee, Jennifer, aged 33, is the accounting manager of the Group. She is a member of the Canadian Institute of Chartered Accountants specialized in taxation. Prior to joining the group in 1997, she worked with Deloitte and Touche, Toronto for over 10 years.

Reale, Dominic, aged 50, is the Chief Technical Officer of the group. He has over 20 years of experience in the development, manufacture and marketing of botanical beauty products. He primarily focuses on research and study of natural plant oils, marine algae and their long term effect on skin, the findings of which are incorporated in the Blu Spa product formulations.

Tsang Chi Wai, aged 33, is the accounting manger of the Group and the qualified accountant of the Company. He graduated from the Hong Kong Shue Yan College. He is responsible for the accounting and finance of the Group. He has about 8 years of experience in the audit and accounting field. He is an associate member of each of the Association of International Accountants and the Hong Kong Society of Accountants. He joined the Group in September 2001.

The directors present their first report and the audited financial statements of the Group for the year ended 30th June, 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 30 to the financial statements.

ARTICLES OF ASSOCIATION

By a special resolution in writing of the then sole shareholder of the Company dated 10th December, 2001, the Company adopted a new set of Articles of Association.

REORGANISATION AND LISTING ON THE GROWTH ENTERPRISE MARKET (THE "GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

The Company was incorporated in the Cayman Islands on 30th August, 2001 as an exempted company with limited liability. Pursuant to a group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on the GEM, the Company became the holding company of the Group on 10th December, 2001. The shares of the Company were listed on the GEM on 19th February, 2002.

RESULTS

Details of the Group's results for the year ended 30th June, 2002 are set out in the consolidated income statement on page 29 of the annual report.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 18 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 20 to the financial statements.

PLANT AND EQUIPMENT

Details of movements in the plant and equipment of the Group during the year are set out in note 10 to the financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company since incorporation and up to the date of this report were:

Executive directors

Rajewski, Natalie N. (Chairman)	(appointed on 25th September, 2001)
Wai Suk Chong, Helena (Vice-Chairman)	(redesignated on 26th September, 2002)
Law Kin Ming, Alfred (Vice-Chairman)	(appointed on 25th September, 2001)
Chan Choi Har, Ivy	(appointed on 25th September, 2001)
Neil T. Cox	(appointed on 11th September, 2001 and resigned on 25th September, 2001)
Loo Peck Hwee, Celene	(appointed on 25th September, 2001 and resigned on 9th August, 2002)

Non-executive director

Wai Suk Chong, Helena	(appointed on 25th September, 2001 and redesignated as executive director on 26th September, 2002)

Independent non-executive directors

Wong Kang Yean, Clarence	(appointed on 4th June, 2002)
Kam Kin Yat	(appointed on 26th September, 2002)
Moore, Douglas Howard	(appointed on 25th September, 2001 and resigned on 9th May, 2002)
Ng Kwok Tung	(appointed on 25th September, 2001 and resigned on 26th September, 2002)

In accordance with Articles 86 and 87 of the Company's Articles of Association, Messrs. Chan Choi Har, Ivy and Law Kin Ming, Alfred will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. The term of office of the non-executive directors is the period from the date of appointment up to his/her retirement as required by the Company's Articles of Association.

Each of Chan Choi Har, Ivy, Law Kin Ming, Alfred and Loo Peck Hwee, Celene has entered into a service agreement with the Company for an initial period of two years commencing 1st September, 2001, which will continue thereafter until terminated by either party by three months' prior written notice. Loo Peck Hwee, Celene resigned as director of the Company on 9th August, 2002 and her service agreement was terminated simultaneously.

Rajewski, Natalie N. has entered into a service agreement with the Company for an initial period of two years commencing 1st October, 2001, which will continue thereafter until terminated by either party by three months' prior written notice.

Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th June, 2002, the interests of the directors and their associates in the share capital of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or which required, pursuant to Rules 5.40 to 5.59 of the Rules Governing the Listing of Securities in the GEM of the Stock Exchange (the "GEM Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

	Number of ordinary shares of the Company held			
Name of director	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**
Rajewski, Natalie N.	—	—	—	84,099,330 *(Note 3)*
Chan Choi Har, Ivy	—	—	136,635,670 *(Note 1)*	—
Law Kin Ming, Alfred	—	136,635,670 *(Note 2)*	—	—
Wai Suk Chong, Helena	—	—	30,510,000 *(Note 4)*	—

Notes:

1. 105,657,870 of these shares are held by XO-Holdings Limited ("XO-Holdings") and 30,977,800 of these shares are held by All Rich Pacific Limited ("All Rich"). Chan Choi Har, Ivy is the beneficial owner as to 65% of the issued share capital of XO-Holdings and as to 50% of the issued share capital of All Rich and Chan Choi Har, Ivy is therefore deemed to have an interest in the 136,635,670 shares in the Company.

2. By virtue of his relationship as Chan Choi Har, Ivy's spouse, Law Kin Ming, Alfred is deemed to be interested in the 136,635,670 shares in the Company.

3. These shares are held by East Point Resources Limited ("East Point"). The entire issued share capital of East Point is held by Well Arts Enterprises Limited ("Well Arts") in its capacity as trustee of the Eastpoint Trust, a discretionary trust the discretionary objects of which include Rajewski, Natalie N. and certain of her family members.

4. These shares are held by Profit Trick Holdings Limited ("Profit Trick"). The entire issued share capital of Profit Trick is beneficially owned by Wai Suk Chong, Helena and Wai Suk Chong, Helena is therefore deemed to have an interest in 30,510,000 shares in the Company.

Save as disclosed above and other than certain nominee shares in the subsidiaries held in trust for the Company or its subsidiaries, at 30th June, 2002, none of the directors or that associates had any personal, family, corporate or other interests in any securities of the Company or any of its associated corporations within the meaning of the SDI Ordinance or which required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

Save as disclosed under the heading "Share options", at no time during the year was the Company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire by means of acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the directors or their spouses or children under the age 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 29 to the financial statements, there were no other contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in note 29 to the financial statements. Save as disclosed therein, there were no other transactions which need to be disclosed as connected transactions in accordance with the GEM Listing Rules. In the opinion of the directors, such connected transactions were conducted in the normal course of business and the Company has complied with the relevant requirements under Chapter 20 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2002, the register of substantial shareholders required to be maintained under Section 16(1) of the SDI Ordinance showed that, the following shareholders had an interest of 10% or more in the issued share capital of the Company:

Name of shareholders	Number of shares	Percentage of issued share capital
Chan Choi Har, Ivy *(Note 1)*	136,635,670	33.33%
Law Kin Ming, Alfred *(Note 2)*	136,635,670	33.33%
XO-Holdings *(Note 3)*	105,657,870	25.77%
Wah Hing Consultants Limited ("Wah Hing") *(Notes 3 and 4)*	105,657,870	25.77%
Heung See Wai, Angela *(Note 4)*	105,657,870	25.77%
Rajewski, Natalie N. *(Note 5)*	84,099,330	20.51%
East Point *(Note 5)*	84,099,330	20.51%
Well Arts *(Note 6)*	84,099,330	20.51%

Notes:

1. The interests of Chan Choi Har, Ivy in the Company comprise the 25.77% shareholding interest through her 65% interest in XO-Holdings, and 7.56% shareholding interest through her 50% interest in All Rich.

2. By virtue of his relationship as Chan Choi Har, Ivy's spouse, Law Kin Ming, Alfred is deemed to be 33.33% interested in the Company in which Chan Choi Har, Ivy is interested.

3. XO-Holdings is beneficially owned as to 65% by Chan Choi Har, Ivy and as to 35% by Wah Hing.

4. Wah Hing is beneficially owned as to 100% by Heung See Wai, Angela.

SUBSTANTIAL SHAREHOLDERS *(Continued)*

5. East Point is a company whose entire issued share capital is held by Well Arts in its capacity as trustee of the Eastpoint Trust, a discretionary trust the discretionary objects of which include Rajewski, Natalie N. and certain of her family members.

6. Well Arts holds the entire issued share capital of East Point in its capacity as trustee of the Eastpoint Trust, a discretionary trust and Well Arts is deemed to have an interest in the 84,099,330 shares in the Company in which East Point is interested.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company as at 30th June, 2002.

COMPETING INTERESTS

The directors believe that none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competes or may compete with the business of the Group.

SHARE OPTIONS

(1) Pre-IPO Share Option Scheme

The Company's Pre-IPO share option scheme ("Pre-IPO Scheme"), was adopted pursuant to a resolution passed on 30th January, 2002 for the primary purpose of providing incentives or reward to directors and employees and to recognise the contribution of such eligible persons to the growth of the Company or any subsidiaries, and will expire on 29th January, 2012. Under the Pre-IPO Scheme, the Board of Directors of the Company may grant options to directors and employees of the Company or any subsidiaries, to subscribe for shares in the Company at any time upon the adoption date of the Pre-IPO Scheme and prior to the listing date. Any grant of options to a connected person or any of its associates must be approved by all the independent non-executive directors of the Company.

As at 30th June, 2002, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Scheme was 37,720,000, representing 9.2% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Pre-IPO Scheme and any other scheme is not permitted to exceed 30% of the issued share capital of the Company from time to time. Subject to the above rule, the total number of shares in respect of which options may be granted under the Pre-IPO Scheme and any other scheme is 41,000,000 shares, representing 10% of the total issued share capital of the Company as at the listing date, without prior approval from the Company's shareholders.

The number of shares issued and issuable in respect of which options may be granted under the Pre-IPO Scheme and any other scheme to any individual within 12-month period immediately preceding the date of such new grant is not permitted to exceed 1% of the issued share capital of the Company at the date of such new grant, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors, when aggregated with the options granted under the Pre-IPO Scheme and any other scheme in the past 12 months, in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per grant. The exercise price is HK$0.30 representing the IPO placing price. 50% of the options may be exercised at any time after the expiry of 12 months from the date of grant and the remaining 50% may be exercised at any time after 24 months from the date of grant, and in each case not later than 29th January, 2012.

SHARE OPTIONS *(Continued)*

(2) **Share Option Scheme**

On 30th January, 2002, the Company adopted a new share option scheme (the "Scheme"), for the primary purpose of providing incentives or reward to directors and employees and to recognise the contribution of such eligible persons to the growth of the Company or any subsidiaries, and will expire on 29th January, 2012. Under the Scheme, the Board of Directors of the Company may grant options to directors and employees of the Company or any subsidiaries, to subscribe for shares in the Company within 10 years from the adoption date of the Scheme. Any grant of options to a connected person or any of its associates must be approved by all the independent non-executive directors of the Company.

As at 30th June, 2002, no options had been granted under the Scheme. The total number of shares in respect of which options may be granted under the Scheme and any other scheme is not permitted to exceed 30% of the issued share capital of the Company from time to time. Subject to the above rule, the total number of shares in respect of which options may be granted under the Scheme and any other scheme is 41,000,000 shares, representing 10% of the total issued share capital of the Company as at the listing date, without prior approval from the Company's shareholders.

The number of shares issued and issuable in respect of which options may be granted under the Scheme and any other scheme to any individual within 12-month period immediately preceding the date of such new grant is not permitted to exceed 1% of the issued share capital of the Company at the date of such new grant, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors, when aggregated with the options granted under the Scheme and any other scheme in the past 12 months, in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per grant. Options may be exercised at any time from the date of grant to the 10th anniversary of the date of grant. The exercise price is determined by the Board of Directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing price of the Company's shares for the five business days immediately preceding the date of grant.

The fair value of the options granted in the current year measured as at 30th January, 2002, the date of grant was HK$0.13 per option. The following significant assumptions were used to derive the fair values using the Black-Scholes option pricing model:

1) expected volatility of 0%;
2) no annual dividends;
3) Hong Kong Exchange Fund Notes rates of 5.97%; and
4) expected life of 10 years.

For the purposes of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited, due to lack of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

No charge is recognised in the income statement in respect of the value of options granted in the period.

SHARE OPTIONS *(Continued)*

(2) **Share Option Scheme** *(Continued)*

The following table discloses movements in the Company's share options granted under the Pre-IPO Scheme during the year:

	Outstanding at beginning of the year	Lapsed during the year	Outstanding at end of the year
Directors			
Chan Choi Har, Ivy	10,250,000	—	10,250,000
Law Kin Ming, Alfred	4,100,000	—	4,100,000
Rajewski, Natalie N.	8,200,000	—	8,200,000
Loo Peck Hwee, Celene	8,200,000	—	8,200,000
Wai Suk Chong, Helena	2,050,000	—	2,050,000
Ng Kwok Tung	820,000	—	820,000
Moore, Douglas Howard	820,000	—	820,000
Total for Directors	34,440,000	—	34,440,000
Employees	6,560,000	3,280,000	3,280,000
Grand Total	41,000,000	3,280,000	37,720,000

Details of the options are as follows:

Date of grant	Vesting period	Exercisable period	Exercise Price *HK$*
30.1.2002	30.1.2002 - 29.1.2003	30.1.2003 - 29.1.2012	0.30

Note: 50% of the options may be exercised at any time after the expiry of 12 months from the date of grant and the remaining 50% may be exercised at any time after 24 months from the date of grant, and in each case not later than 29th January, 2012.

SPONSOR'S INTERESTS

Neither the sponsor of the Company, DBS Asia Capital Limited ("DBS Asia"), nor its directors, employees or associates (as referred to Note 3 of Rule 6.35 of the GEM Listing Rules) had any interest in any class of securities of the Company or any other company in the Group (including options or right to subscribe for such securities) as at 30th June, 2002.

Pursuant to the agreement dated 18th February, 2002 entered into between the Company and DBS Asia, DBS Asia acts as the Company's continuing sponsor for a period commencing from 19th February, 2002 to 18th February, 2004 and DBS Asia received, and will receive, fees for acting as the Company's continuing sponsor.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers accounted for 86% of the Group's total sales and the sales attributable to the group's largest customer were approximately 37% of the Group's total sales. The aggregate purchases during the year attributable to the Group's five largest suppliers were less than 30% of the Group's total purchase.

None of the directors, their associates or any shareholders which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital had any interest in the share capital of any of the five largest customers of the Group.

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

The Company was listed on 19th February, 2002 and up to 30th June, 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the period from its listing date to 30th June, 2002.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDIT COMMITTEE

The Company established an audit committee on 10th December, 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. At the date of this report, the audit committee comprises Messrs. Kam Kin Yat and Wong Kan Yean, Clarance, who are the independent non-executive directors of the Company. The Group's financial statement for the year ended 30th June, 2002 have been reviewed by the audit committee, who was of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

Since its establishment, the audit committee had met once, reviewing the Company's reports and accounts, and providing advice and recommendations to the Board of Directors.

AUDITORS

Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company on 25th September, 2001. A resolution will be submitted to the annual general meeting of the Company to re-appoint them.

On behalf of the Board
Blu Spa Holdings Limited
Rajewski, Natalie N.
Chairman

Hong Kong, 26th September, 2002.

德勤 • 關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

Deloitte
Touche
Tohmatsu

TO THE MEMBERS OF BLU SPA HOLDINGS LIMITED
富麗花 • 譜控股有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 29 to 54 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30th June, 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26th September, 2002

Consolidated Income Statement

For the year ended 30th June, 2002

	NOTES	2002	2001
		HK$	HK$
Turnover	3	**2,856,445**	4,198,093
Cost of sales		**(1,062,431)**	(1,366,619)
Gross profit		**1,794,014**	2,831,474
Other revenue		**196,472**	21,335
Distribution costs		**(520,454)**	(1,833,836)
Administrative expenses		**(12,286,593)**	(6,522,999)
Loss from operations	4	**(10,816,561)**	(5,504,026)
Finance costs	5	**(38,707)**	(1,145,154)
Loss for the year		**(10,855,268)**	(6,649,180)
Loss per share, in HK cents	8	**(3.00)**	(2.00)

CONSOLIDATED BALANCE SHEET

At 30th June, 2002

	NOTES	2002	2001
		HK$	*HK$*
Non-Current Assets			
Intangible assets	9	**17,005,340**	17,285,130
Plant and equipment	10	**767,197**	68,340
		17,772,537	17,353,470
Current Assets			
Inventories	12	**2,442,208**	136,313
Trade receivables	13	**305,249**	1,755,359
Deposits and other receivables		**1,409,143**	37,578
Amount due from a shareholder	14	**—**	2,000,000
Bank balances and cash		**4,899,586**	34,142
		9,056,186	3,963,392
Current Liabilities			
Trade payables	15	**61,556**	—
Accruals and other payables		**1,896,792**	2,495,254
Amount due to a related company	16	**—**	1,245,794
Amounts due to directors	17	**226,133**	—
		2,184,481	3,741,048
Net Current Assets		**6,871,705**	222,344
		24,644,242	17,575,814
Capital and Reserves			
Share capital	18	**4,100,000**	21,060
Reserves	20	**11,421,966**	3,832,650
		15,521,966	3,853,710
Non-Current Liabilities			
Amount due to a shareholder	21	**3,572,276**	8,172,104
Amounts due to directors	17	**5,550,000**	5,550,000
		9,122,276	13,722,104
		24,644,242	17,575,814

The financial statements on pages 29 to 54 were approved and authorised for issue by the Board of Directors on 26th September, 2002 and are signed on its behalf by:

Rajewski, Natalie N.	**Chan Choi Har, Ivy**
DIRECTOR	*DIRECTOR*

Balance Sheet

At 30th June, 2002

	NOTES	*HK$*
Non-Current Asset		
Interests in subsidiaries	11	12,556,730
Current Assets		
Deposits and other receivables		181,983
Bank balances		12,682
		194,665
Current Liabilities		
Accruals and other payables		402,695
Net Current Liabilities		(208,030)
		12,348,700
Capital and Reserves		
Share capital	18	4,100,000
Reserves	20	4,676,424
		8,776,424
Non-Current Liability		
Amount due to a shareholder	21	3,572,276
		12,348,700

Rajewski, Natalie N.
DIRECTOR

Chan Choi Har, Ivy
DIRECTOR

Consolidated Statement of Recognised Gains and Losses

For the year ended 30th June, 2002

	2002	2001
	HK$	*HK$*
Exchange differences arising from translation of operations outside Hong Kong not recognised in the income statement	**(48,837)**	—
Loss for the year	**(10,855,268)**	(6,649,180)
Total recognised losses	**(10,904,105)**	(6,649,180)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30th June, 2002

	NOTES	2002	2001
		HK$	*HK$*
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	23	**(13,452,863)**	(4,817,878)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid		**(38,707)**	(1,145,154)
Interest received		**9,181**	14,085
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		**(29,526)**	(1,131,069)
INVESTING ACTIVITIES			
Repayment from (advance to) a shareholder		**2,000,000**	(2,000,000)
Purchases of plant and equipment		**(880,695)**	(9,065)
Purchase of patent and trademarks/tradenames		**(697,384)**	(316,653)
NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES		**421,921**	(2,325,718)
NET CASH OUTFLOW BEFORE FINANCING		**(13,060,468)**	(8,274,665)
FINANCING	24		
Proceeds from issue of shares, net of expenses		**17,572,361**	4,009,477
Advance from a shareholder		**400,172**	2,428,396
Increase in amounts due to directors		**—**	1,800,000
CASH INFLOW FROM FINANCING		**17,972,533**	8,237,873
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**4,912,065**	(36,792)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(46,621)**	—
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**34,142**	70,934
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**4,899,586**	34,142

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands on 30th 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 Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 10th December, 2001. The shares of the Company have been listed on the GEM with effect from 19th February, 2002. Details of the Group Reorganisation were set out in the prospectus issued by the Company dated 4th February, 2002.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared on the basis as if the Company had always been the holding company of the Group using the principles of merger accounting in accordance with the Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for Group Reconstructions".

The Company is an investment holding company. Particulars of the principal activities of its subsidiaries are set out in note 30.

In preparing the financial statements, the Directors have given careful consideration to the future liquidity of the Group. The Directors are currently actively seeking new external funding to improve the liquidity position of the Group. However, certain shareholders have confirmed that in view of the current liquidity difficulties experienced by the Group, it is their intention to provide the Group with sufficient financial support to enable the Group to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30th June each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intra-group transactions and balances have been eliminated on consolidation.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Turnover

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

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Intangible assets

Patent and trademarks/tradenames

Patent and trademarks/tradenames represent purchase cost for the patent and trademarks/tradenames, initial fees for the registration of the trademarks/tradenames in the respective country/place of registration and fees for obtaining the relevant approvals for the sales and distribution of personal care products within the respective country/place, are stated at cost less amortisation and accumulated impairment loss. The cost of the patent and trademarks/tradenames is amortised over a period of 4 to 20 years.

Plant and equipment

Plant and equipment is stated at cost less depreciation and accumulated impairment loss.

Depreciation is provided to write off the cost of plant and equipment over their estimated useful lives using the straight line method, at 20% per annum.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as an income immediately.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Group's development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life.

Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purpose of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations which are denominated in currencies other than Hong Kong dollars are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Operating leases

Rentals payable in respect of operating leases are charged to the income statement on a straight line basis over the relevant lease terms.

Retirement benefits scheme

The retirement benefit scheme contributions charged to the income statement represent the contributions payable to the Mandatory Provident Fund Scheme.

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Turnover and contribution to operating results and assets and liabilities by business segment has not been prepared as all the Group's turnover, assets and liabilities was derived from the development, distribution and marketing of personal care treatment products.

Geographical segments

An analysis of the Group's turnover and contribution to operating results and segment assets and liabilities by geographical market is as follows:

	The People's Republic of China ("PRC")	Hong Kong	Malaysia	Taiwan	Others	Elimination	Consolidated
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
For the year ended 30th June, 2002							
TURNOVER							
External sales	1,339,283	409,925	25,590	1,061,059	20,588	—	2,856,445
Inter-segment sales	—	4,292,145	—	—	—	(4,292,145)	—
Total revenue	1,339,283	4,702,070	25,590	1,061,059	20,588	(4,292,145)	2,856,445

Inter-segment sales are charged at cost plus certain markup.

RESULT							
Segment result	816,121	273,645	14,842	676,313	13,093	—	1,794,014
Unallocated corporate expenses							(12,619,756)
Operating loss							(10,825,742)
Interest expense							(38,707)
Interest income							9,181
Loss for the year							(10,855,268)
Assets and liabilities at 30th June, 2002							
ASSETS							
Segment assets	117,272	47,702	—	139,375	900		305,249
Unallocated total assets							26,523,474
Consolidated total assets							26,828,723
LIABILITIES							
Segment liabilities	—	—	—	—	61,556		61,556
Unallocated corporate liabilities							11,245,201
Consolidated total liabilities							11,306,757

Analysis of capital expenditure and depreciation by geographical market is not presented because, in the opinion of the directors, there is no direct relationship between geographical market and the capital assets which are located in Hong Kong and Canada.

3. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

	The PRC	Hong Kong	Malaysia	Others	Elimination	Consolidated
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
For the year ended 30th June, 2001						
TURNOVER						
External sales	3,128,757	399,604	412,075	257,657	—	4,198,093
Inter-segment sales	—	1,879,663	—	—	(1,879,663)	—
Total revenue	3,128,757	2,279,267	412,075	257,657	(1,879,663)	4,198,093

Inter-segment sales are charged at cost plus certain markup.

	The PRC	Hong Kong	Malaysia	Others	Elimination	Consolidated
RESULT						
Segment result	2,199,859	266,537	240,855	147,459	(23,236)	2,831,474
Unallocated corporate expenses						(8,349,585)
Operating loss						(5,518,111)
Interest expense						(1,145,154)
Interest income						14,085
Loss for the year						(6,649,180)
Assets and liabilities at 30th June, 2001						
ASSETS						
Segment assets	1,574,035	167,466	13,858	—	—	1,755,359
Unallocated total assets						19,561,503
Consolidated total assets						21,316,862
LIABILITIES						
Segment liabilities	—	—	—	—	—	—
Unallocated corporate liabilities						17,463,152
Consolidated total liabilities						17,463,152

3. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

The following is an analysis of the carrying amount of segment assets and additions to plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to plant and equipment and intangible assets	
	2002	2001	**2002**	2001
	HK$	*HK$*	***HK$***	*HK$*
Hong Kong	**22,875,588**	21,277,530	**1,178,821**	325,718
Canada	**3,953,135**	39,332	**399,258**	—
	26,828,723	21,316,862	**1,578,079**	325,718

4. LOSS FROM OPERATIONS

	2002	2001
	HK$	*HK$*
Loss from operations has been arrived at after charging:		
Directors' remuneration *(note 6 (a))*	**3,224,435**	1,800,000
Other staff costs	**1,703,243**	867,816
Retirement benefit scheme contributions	**58,711**	10,160
Total staff costs	**4,986,389**	2,677,976
Allowance for bad and doubtful debts	**521,306**	—
Amortisation of intangible assets included in administrative expenses	**977,174**	953,267
Auditors' remuneration	**400,000**	100,000
Depreciation	**81,315**	20,163
Loss on disposal of plant and equipment	**98,307**	—
Allowance for inventories	**643,000**	—
Research and development costs	**5,966**	78,000
and after crediting:		
Bank interest income	**9,181**	14,085

5. FINANCE COSTS

	2002	2001
	HK$	*HK$*
Interest on:		
Bank overdraft	**—**	120
Amount due to a shareholder	**—**	1,145,034
Others	**38,707**	—
	38,707	1,145,154

6. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

	2002	2001
	HK$	*HK$*
Fees:		
Executive directors	**—**	—
Non-executive director	**52,500**	—
Independent non-executive directors	**91,935**	—
	144,435	—
Other emoluments for executive directors		
Salaries and other benefits	**3,050,000**	1,800,000
Retirement benefit scheme contributions	**30,000**	—
	3,080,000	1,800,000
Total directors' remuneration	**3,224,435**	1,800,000

For the year ended 30th June, 2002, four executive directors received remuneration of approximately HK$840,000, HK$790,000, HK$790,000 and HK$630,000 respectively, one non-executive director received remuneration of approximately HK$52,000 and two independent non-executive directors received remuneration of approximately HK$52,000 and HK$39,000 respectively.

For the year ended 30th June, 2001, two executive directors received remuneration of approximately HK$1,200,000 and HK$600,000 respectively.

During the year, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. During the year, two executive directors have waived emoluments of approximately HK$280,000.

6. DIRECTORS' AND EMPLOYEES' REMUNERATION *(Continued)*

(b) **Employees' emoluments**

During the year, the five highest paid individuals in the Group included four (2001: two) directors of the Company, details of whose emoluments are set out above. The aggregate emoluments of the remaining one (2001: three) individuals were as follows:

	2002	2001
	HK$	*HK$*
Salaries and other benefits	**214,133**	691,396
Retirement benefit scheme contributions	**10,000**	5,800
	224,133	697,196

7. TAXATION

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits subject to Hong Kong Profits Tax for the year.

No provision for overseas taxation has been made as the subsidiaries of the Group operating in their respective jurisdictions had no assessable profits for the year.

Details of unrecognised deferred taxation are set out in note 22.

8. LOSS PER SHARE

The calculation of the basic loss per share for the year ended 30th June, 2002 is based on the loss for the year of approximately HK$10,855,000 and on the weighted average of 364,112,493 in issue during the year.

The calculation of the basic loss per share for the year ended 30th June, 2001 is based on the loss for the year of approximately HK$6,649,000 and assuming 333,170,000 shares of the Company were issued pursuant to the Group Reorganisation.

No diluted loss per share was presented as the exercise of the Company's share options would result in a decrease in loss per share.

9. INTANGIBLE ASSETS

	Patent and trademarks/ tradenames
	HK$
THE GROUP	
COST	
At 1st July, 2001	19,180,824
Additions	697,384
At 30th June, 2002	19,878,208
AMORTISATION	
At 1st July, 2001	1,895,694
Provided for the year	977,174
At 30th June, 2002	2,872,868
NET BOOK VALUE	
At 30th June, 2002	17,005,340
At 30th June, 2001	17,285,130

Patent and trademarks/tradenames represent the right and license to use all trademarks/tradenames related to "Blu Spa" personal care products and the provision of services including, but not limited to, retail store services and franchise services.

The cost of patent and trademarks/tradenames is amortised over a period of 20 years on a straight line basis. The registration fees of trademarks/tradenames in the respective country/place of registration and fees for obtaining the relevant approvals and for the sales and distribution of the Group's products in respective country/place is amortised on a straight line basis over the period of respective registration/approval of 4 to 15 years.

10. PLANT AND EQUIPMENT

	Plant and machinery	Leasehold improvements	Furniture, fixtures and equipment	Total
	HK$	*HK$*	*HK$*	*HK$*
THE GROUP				
COST				
At 1st July, 2001	—	28,700	73,115	101,815
Additions	138,514	299,708	442,473	880,695
Disposals	—	(104,285)	(37,800)	(142,085)
At 30th June, 2002	138,514	224,123	477,788	840,425
DEPRECIATION				
At 1st July, 2001	—	8,945	24,530	33,475
Exchange realignment	493	1,420	303	2,216
Provided for the year	14,155	21,571	45,589	81,315
Eliminated on disposals	—	(24,394)	(19,384)	(43,778)
At 30th June, 2002	14,648	7,542	51,038	73,228
NET BOOK VALUE				
At 30th June, 2002	123,866	216,581	426,750	767,197
At 30th June, 2001	—	19,755	48,585	68,340

11. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2002	2001
	HK$	*HK$*
Unlisted shares, at cost	**2,700**	—
Amounts due from subsidiaries	**25,629,935**	—
	25,632,635	—
Less: Allowance on amounts due from subsidiaries	**(13,075,905)**	—
	12,556,730	—

In the opinion of the directors, the amounts due from subsidiaries are unsecured, non-interest bearing and are unlikely to be repaid within one year from the balance sheet date and are therefore shown in the balance sheet as non-current.

The directors of the Company consider that in the light of the recurring operating losses of these subsidiaries and unfavourable market conditions, the recoverable amount of its subsidiaries has been reduced to the estimated net realisable value of the identifiable net assets. Accordingly, an impairment loss of HK$13,075,905 has been recognised in the income statement for the year.

Particulars of the Company's subsidiaries at 30th June, 2002 are set out in note 30.

12. INVENTORIES

	THE GROUP	
	2002	2001
	HK$	*HK$*
Raw materials	**1,267,466**	—
Finished goods	**1,174,742**	136,313
	2,442,208	136,313

13. TRADE RECEIVABLES

The Group allows an average credit period of two months to four months to its trade customers. Details of the aged analysis of trade receivables are as follows:

	THE GROUP	
	2002	2001
	HK$	*HK$*
Aged:		
0 - 60 days	**145,882**	1,427,482
61 - 120 days	**54,837**	273,086
Over 120 days	**104,530**	54,791
	305,249	1,755,359

14. AMOUNT DUE FROM A SHAREHOLDER

The amount was unsecured, non-interest bearing and was repaid during the year.

15. TRADE PAYABLES

Details of the aged analysis of trade payables are as follows:

	THE GROUP	
	2002	2001
	HK$	*HK$*
Aged:		
0 - 60 days	**61,391**	—
61 - 120 days	**165**	—
	61,556	—

16. AMOUNT DUE TO A RELATED COMPANY

The amount represented amount due to Dutfield Realty Inc. ("Dutfield Realty"), which was unsecured, non-interest bearing and was repaid during the year.

Chan Choi Har, Ivy, a director of the Company, is a shareholder of Dutfield Realty.

17. AMOUNTS DUE TO DIRECTORS

The amounts are unsecured, non-interest bearing and repayable on demand except for an amount of HK$5,550,000 (2001: HK$5,550,000) which was classified as non-current since it was confirmed by the directors that they would not demand repayment of the amounts within one year from the balance sheet date. Included in the outstanding amount of HK$5,550,000, HK$3,000,000 was waived by the directors subsequent to the balance sheet date.

18. SHARE CAPITAL

	Notes	**Number of shares**	**Amount** *HK$*
Authorised:			
On incorporation (HK$0.1 each)	(a)	1,000,000	100,000
Subdivision of each unissued share into 10 shares of HK$0.01 each	(b)(i)	9,000,000	—
Increase in authorised share capital	(b)(ii)	9,990,000,000	99,900,000
At 30th June, 2002 (HK$0.01 each)		10,000,000,000	100,000,000
Issued and fully paid:			
Alloted and issued on 25th September, 2001 (HK$0.1 each)	(a)	1	—
Subdivision of each issued share into 10 shares of HK$0.01 each	(b)(i)	9	—
Issue of shares of HK$0.01 each pursuant to the Group Reorganisation	(c)	269,990	2,700
Issue of shares through placing	(e)	76,830,000	768,300
Issue of shares by capitalisation of share premium account ("Capitalisation Issue")	(d)(i)	304,830,000	3,048,300
Issue of shares by capitalisation of shareholder's advance ("Loan Capitalisation")	(d)(ii)	28,070,000	280,700
At 30th June, 2002 (HK$0.01 each)		410,000,000	4,100,000

As at 30th June, 2001, the share capital shown on the consolidated balance sheet represented the share capital of Blu Spa Group Limited, the former holding company of the Group prior to the Group Reorganisation.

18. SHARE CAPITAL *(Continued)*

Notes:

The following changes in the authorised and issued share capital of the Company took place during the period from 30th August, 2001 (date of incorporation) to 30th June, 2002:

(a) Upon incorporation on 30th August, 2001, the Company had authorised share capital of HK$100,000 divided into 1,000,000 shares of HK$0.1 each. On 25th September, 2001, one share was allotted and issued for cash at par.

(b) Pursuant to written resolutions of the sole shareholder of the Company passed on 27th September, 2001:

  (i) every share of HK$0.1 each was subdivided into 10 shares of HK$0.01 each; and

  (ii) the authorised share capital of the Company was increased from HK$100,000 to HK$100,000,000 by the creation of 9,990,000,000 additional shares of HK$0.01 each, ranking pari passu in all respects with the then existing issued share capital of the Company.

(c) The Group underwent the Group Reorganisation to rationalise the Group's structure in preparation for the listing of the shares on GEM of the Stock Exchange, pursuant to which the Company became the ultimate holding company within the Group. On 10th December 2001, the Company acquired the entire issued share capital of Blu Spa Group Limited, the former holding company of the Group, from its shareholders, XO-Holdings Limited, East Point Resources Limited and All Rich Pacific Limited and, in consideration for such acquisition, the Company allotted and issued 269,990 new shares in aggregate, credited as fully paid at HK$0.01 each, to the shareholders of Blu Spa Group Limited.

(d) Pursuant to written resolutions of the shareholders of the Company passed on 30th January, 2002:

  (i) conditional on the share premium account being credited as a result of the placing on 19th February, 2002, an amount of HK$3,048,300 was capitalised and applied to pay up in full at par 304,830,000 shares of HK$0.01 each on a pro-rata basis to the Company's shareholders immediately before the placing; and

  (ii) immediately following the issue of shares referred to in (d)(i) above having taken place, 28,070,000 shares of HK$0.01 each were alloted and issued by the Company, credited as fully paid up, to XO-Holdings Limited for settlement of an outstanding shareholder's advance of HK$5,000,000.

(e) Pursuant to an underwriting agreement entered into on 4th February, 2002 between the Company and underwriters, 76,830,000 shares of HK$0.01 each in the Company were placed to independent investors at a price of HK$0.3 per share. The net proceeds from the placing were used to provide working capital of the Company. The placing agreement was approved by written resolutions of the shareholders of the Company on 30th January, 2002, at which the directors of the Company were authorised to issue these shares.

19. SHARE OPTIONS

At 30th June, 2002, pursuant to the Pre-IPO share option scheme (the "Pre-IPO Scheme") and a share option scheme (the "Scheme") which were both adopted by the Company on 30th January, 2002, the options to subscribe for shares outstanding under the Company's Pre-IPO Scheme were as follows:

Exercisable period	**Exercise price**	**Outstanding at 30th June, 2002**
	HK$	
30.1.2003 to 29.1.2012	0.3	37,720,000

At 30th June, 2002, no option was granted under the Scheme.

20. RESERVES

	Share premium	Merger reserve	Translation reserve	Deficit	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
THE GROUP					
At 1st July, 2000	—	—	—	(12,234,387)	(12,234,387)
Issue of shares	22,716,217	—	—	—	22,716,217
Loss for the year	—	—	—	(6,649,180)	(6,649,180)
At 30th June, 2001	22,716,217	—	—	(18,883,567)	3,832,650
Reserve arising from the Group Reorganisation	(22,716,217)	22,734,577	—	—	18,360
Issue of shares through placing	22,280,700	—	—	—	22,280,700
Issue of shares pursuant to Capitalisation Issue	(3,048,300)	—	—	—	(3,048,300)
Issue of shares pursuant to Loan Capitalisation	4,719,300	—	—	—	4,719,300
Expenses for issue of shares	(5,476,639)	—	—	—	(5,476,639)
Exchange differences arising from translation of operations outside Hong Kong	—	—	(48,837)	—	(48,837)
Loss for the year	—	—	—	(10,855,268)	(10,855,268)
At 30th June, 2002	18,475,061	22,734,577	(48,837)	(29,738,835)	11,421,966
THE COMPANY					
Issue of shares through placing	22,280,700	—	—	—	22,280,700
Issue of shares pursuant to Capitalisation Issue	(3,048,300)	—	—	—	(3,048,300)
Issue of shares pursuant to Loan Capitalisation	4,719,300	—	—	—	4,719,300
Expenses for issue of shares	(5,476,639)	—	—	—	(5,476,639)
Loss for the year	—	—	—	(13,798,637)	(13,798,637)
At 30th June, 2002	18,475,061	—	—	(13,798,637)	4,676,424

20. RESERVES *(Continued)*

For the purpose of the preparation of the financial statements, the balance of the share premium account shown in the consolidated balance sheet at 30th June, 2001 represented the share premium of Blu Spa Group Limited, the entire interest of which was acquired by the Company on 10th December, 2001 pursuant to the Group Reorganisation.

The merger reserve of the Group represents the differences between the carrying amount of the share capital and share premium of Blu Spa Group Limited at the date on which it was acquired by the Company and the nominal amount of the Company's shares issued in exchange pursuant to the Group Reorganisation.

In the opinion of the directors, the Company had no reserves available for distribution as at 30th June, 2002 and 30th June, 2001.

21. AMOUNT DUE TO A SHAREHOLDER

	THE GROUP		**THE COMPANY**	
	2002	2001	**2002**	2001
	HK$	*HK$*	***HK$***	*HK$*
Interest bearing at 30% per annum	**—**	4,000,000	**—**	—
Non-interest bearing	**3,572,276**	4,172,104	**3,572,276**	—
	3,572,276	8,172,104	**3,572,276**	—

The balance represents unsecured amount due to XO-Holdings Limited.

During the year, an amount of HK$5,000,000 was capitalised and XO-Holdings Limited confirmed that it would not demand repayment of the remaining balance due to it within one year from the balance sheet date.

22. UNRECOGNISED DEFERRED TAXATION

The major components of deferred taxation (credit) charge not recognised for the year are as follows:

	THE GROUP	
	2002	2001
	HK$	*HK$*
Tax effect of timing differences attributable to:		
Difference of tax allowances and depreciation charged in the financial statements	**24,600**	(1,300)
Tax losses arising	**(1,156,000)**	(315,000)
	(1,131,400)	(316,300)

At the balance sheet date, the major components of the deferred taxation (asset) liability not recognised in the financial statements are as follows:

	2002	2001
	HK$	*HK$*
Tax effect of timing differences attributable to:		
Excess of tax allowances over depreciation charged in the financial statements	**32,000**	7,400
Unutilised tax losses	**(1,582,000)**	(426,000)
	(1,550,000)	(418,600)

The deferred taxation asset is not recognised because it is uncertain whether the tax benefit will be realised in the foreseeable future.

23. RECONCILIATION OF LOSS FOR THE YEAR TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2002	2001
	HK$	*HK$*
Loss for the year	**(10,855,268)**	(6,649,180)
Interest income	**(9,181)**	(14,085)
Interest expense	**38,707**	1,145,154
Depreciation	**81,315**	20,163
Loss on disposal of plant and equipment	**98,307**	—
Amortisation of intangible assets	**977,174**	953,267
Allowance for bad and doubtful debts	**521,306**	—
Allowance for inventories	**643,000**	—
Increase in inventories	**(2,948,895)**	(30,197)
Decrease in trade receivables	**928,804**	19,145
(Increase) decrease in deposits and other receivables	**(1,371,565)**	1,469,164
Increase in trade payables	**61,556**	—
Decrease in accruals and other payables	**(598,462)**	(2,201,181)
(Decrease) increase in amount due to a related company	**(1,245,794)**	469,872
Increase in amounts due to directors	**226,133**	—
Net cash outflow from operating activities	**(13,452,863)**	(4,817,878)

24. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital, share premium and merger reserve	**Amount due to a shareholder**	**Amounts due to directors**
	HK$	*HK$*	*HK$*
At 1st July, 2000	7,800	24,463,708	3,750,000
Proceeds from issue of shares	4,009,477	—	—
Increase in amount(s) due to a shareholder/directors	—	2,428,396	1,800,000
Capitalisation of shareholders’ advances	18,720,000	(18,720,000)	—
At 30th June, 2001	22,737,277	8,172,104	5,550,000
Proceeds from issue of shares	23,049,000	—	—
Expenses for issue of shares	(5,476,639)	—	—
Increase in amount due to a shareholder	—	400,172	—
Capitalisation of shareholders’ advances	5,000,000	(5,000,000)	—
At 30th June, 2002	45,309,638	3,572,276	5,550,000

25. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into the following major non-cash transactions:

(i) The capitalisation of share premium, details of which are set out in note 18(d)(i).

(ii) The Company issued shares to settle the shareholders' loan, details of which are set out in note 18(d)(ii).

26. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all employees. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme.

The retirement benefits cost charged to the income statement represents contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

27. OPERATING LEASE COMMITMENTS

	THE GROUP	
	2002	2001
	HK$	*HK$*
Minimum lease payments paid under operating leases in respect of rented premises	**1,067,147**	721,872

At the balance sheet date, the Group had commitments for future minimum lease payments for rented premises under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2002	2001
	HK$	*HK$*
Within one year	**535,000**	335,000
In the second to fifth year inclusive	**718,000**	1,317,000
Over five years	**—**	69,000
	1,253,000	1,721,000

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of 2 years.

The Company had no operating lease commitments at the balance sheet date.

28. OTHER COMMITMENTS

At 30th June, 2002, the Group and the Company had commitments for future consultancy fee of HK$300,000 payable under a non-cancellable consultancy agreement which will expire on 18th February, 2004.

29. RELATED PARTY TRANSACTIONS

During the year, the Group had the transactions with the following parties:

Name of party	**Notes**	**Nature of transactions**	**2002**	2001
			HK$	*HK$*
Dutfield Realty	(i)	Rental expenses paid by the Group	382,299	469,872
Dutfield International Group Company Limited ("Dutfield International")	(i)	Rental expenses paid by the Group	143,993	240,000
Rajewski, Natalie N.	(ii)	Management fee paid by the Group	183,600	745,110
XO-Holdings Limited	(iii)	Interest expenses paid by the Group	—	1,145,034

Chan Choi Har, Ivy, a director of the Company, is also a shareholder of Dutfield Realty, Dutfield International and XO-Holdings Limited.

Rajewski, Natalie N. is a director of the Company.

Notes:

(i) Rentals were charged in accordance with the lease terms mutually agreed between the relevant parties.

(ii) Management fee were paid at terms determined and agreed between the relevant parties. Management services provided in accordance with the agreement entered included the provision of product development, marketing, merchandising and training services to the Group.

(iii) Interest expenses were charged on a cost reimbursement basis.

During the year, the Group paid consultancy fee of HK$500,870 (2001: nil) to 2007489 Ontario Limited, a company in which the brother-in-law of Rajewski, Natalie N., a director of the Company, has beneficial interest.

In addition, the Group had certain balances with its shareholders, related company and directors, details of these are set out in notes 14, 16, 17 and 21.

30. SUBSIDIARIES

Particulars of the Company's subsidiaries at 30th June, 2002 are as follows:

Name of subsidiary	Place of incorporation/ operations	Issued and paid up share capital	Proportion of nominal value of issued capital held by the Company Directly %	Indirectly %	Principal activities
Blu Spa Group Limited	British Virgin Islands/ Hong Kong	Shares US$2,700	100	—	Investment holding
Blu Spa (Hong Kong) Limited	Hong Kong	Ordinary shares HK$2	—	100	Market development, product distribution and customer support services
Blu Spa International Limited	British Virgin Islands/ Hong Kong	Share US$1	—	100	Advertising, marketing and granting of distribution rights
Beachgold Assets Limited	British Virgin Islands/ Hong Kong	Shares US$2	—	100	Holding of patent and trademarks/tradenames
Clapton Holdings Limited	The Republic of Cyprus/ Canada	Shares C£1,000	—	100	Advertising, marketing and granting of distribution rights
Blu Spa Management Services Limited	British Virgin Islands/ Hong Kong	Share US$1	—	100	Provision of retail concept store, spa operation and related management services
Blu Spa Canada Inc.	Canada	Shares C$10	—	100	Product development, sourcing and quality control

	For the year ended 30th June,		
	2000	2001	**2002**
	HK$	*HK$*	***HK$***
RESULTS			
Turnover	2,293,091	4,198,093	**2,856,445**
Loss from ordinary activities attributable to shareholders	(12,234,387)	(6,649,180)	**(10,855,268)**

ASSETS AND LIABILITIES

	As at 30th June,		
	2000	2001	**2002**
	HK$	*HK$*	***HK$***
Total assets	21,459,478	21,316,862	**26,828,723**
Total liabilities	(33,686,065)	(17,463,152)	**(11,306,757)**
(Deficiency) balance of shareholders' funds	(12,226,587)	3,853,710	**15,521,966**

Note: Pursuant to a group reorganisation to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares on the Growth Enterprises Market (the "GEM") of The Stock Exchange of Hong Kong Limited, the Company became the holding company of the Group on 10th December, 2001. The shares of the Company have been listed on the GEM with effect from 19th February, 2002. The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared on the merger accounting basis as if the Company had always been the holding company of the Group. The results for the two years ended 30th June, 2000 and 2001, and the assets and liabilities as at 30th June, 2000 and 2001 have been extracted from the Company's prospectus dated 4th February, 2002.

NOTICE IS HEREBY GIVEN THAT the annual general meeting of the shareholders of Blu Spa Holdings Limited (the "Company") will be held at the Dynasty Club, Harbour Road No. 1 Convention Plaza, South West Tower, 7th Floor, Hong Kong on Monday, 21 October, 2002 at 10.30 a.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and the reports of the directors and the auditors of the Company (the "Directors" and the "Auditors" respectively) for the year ended 30 June 2002;

2. To re-elect retiring directors and to authorise the board (the "Board") of Directors to fix the Directors' remuneration;

3. To re-appoint Auditors and authorise the Board to fix their remuneration; and

4. As special business, to consider and, if thought fit, pass with or without amendments, the following resolutions as Ordinary Resolutions:-

(1) **"THAT**

(a) subject to paragraph (c) below the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) above shall authorize the Directors during the Relevant Period to make or grant offers, agreements and options and rights of exchange or conversion which might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (where pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as defined below); or (ii) the grant or exercise of any option under the share option schemes of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the memorandum and articles of association of the Company in force from time to time; or (iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company, shall not exceed the aggregate of:

(i) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and

(ii) (if the Directors are so authorized by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution), and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

(d) for the purpose of this Resolution:

"Relevant Period" means the period from the date of the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual meeting of the Company is required by the memorandum and articles of association of the Company, the Companies Law (2002 Revision) of the Cayman Islands or any other applicable laws of the Cayman Islands to be held; and

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this Resolution.

"Rights Issue" means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors to holders of shares in the Company on the register on a fixed record date in proportion to their then holdings of shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognized regulatory body or any stock exchange outside Hong Kong).

(2) **THAT**

(a) subject to paragraph (b) below, the exercise by the Directors during the Relevant Period (as defined below) of all powers of the Company to purchase its shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited or any other stock exchange outside Hong Kong on which the shares of the Company may be listed and recognized by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission of Hong Kong, The Stock Exchange of Hong Kong Limited, the memorandum and articles of association of the Company, the Companies Law (2002 Revision) of the Cayman Islands and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company which may be repurchased or agreed to be repurchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

(c) for the purpose of this Resolution, "Relevant Period" means the period from the date of the passing of this Resolution until whichever is earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company, the Companies Law (2002 Revision) of the Cayman Islands or any other applicable laws of the Cayman Islands to be held; and

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this Resolution.

(3) **THAT** conditional on the passing of resolutions numbered 4 (1) and 4 (2) above, the unconditional general mandate granted to the Directors of the Company pursuant to resolution numbered 4 (1) above be and it is hereby extended by the addition to the aggregate nominal amount of the shares of HK$0.01 each in the capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to or in accordance with the authority granted pursuant to resolution numbered 4(2) above.

By order of the Board of
Blu Spa Holdings Limited
Law Kin Ming, Alfred
Company Secretary

27 September, 2002

Registered Office:
Century Yard,
Cricket Square,
Hutchins Drive,
P.O. Box 2681 GT
George Town, Grand Cayman,
British West Indies

Head Office and principal place of business:
Room 2429-31, 24th Floor,
Sun Hung Kai Centre,
30 Harbour Road,
Wanchai, Hong Kong

Notes:-

(a) A shareholder entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not to be a shareholder of the Company.

(b) To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited with the Company's Branch share registrar in Hong Kong, Secretaries Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not less than 48 hours before the time for holding the meeting or at any adjournment thereof.

(c) In relation to proposed resolutions nos. 4 (1) and 4 (3) above, approval is being sought from the shareholders for the grant to the Directors of a general mandate to authorize the allotment and issue of shares under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

(d) In relation to proposed resolution set out in resolutions no. 4(2) of the notice, approval is being sought from shareholders of the Company for a general mandate to be given to the Directors to repurchase shares of the Company.

(e) An explanatory statement containing the information with respect to resolutions 4(1) to 4(3) of the notice will be sent to the shareholders of the Company together with the Company's 2002 annual report.