



BLU SPA HOLDINGS LIMITED

富麗花 • 譜 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

**FIRST QUARTERLY REPORT
FOR THE THREE MONTHS ENDED
30 SEPTEMBER, 2002**

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

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

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

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

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

FINANCIAL HIGHLIGHTS

- Turnover of the Group for the three months ended 30 September, 2002 was approximately HK\$0.69 million representing an increase of approximately 13% as compared to the corresponding period in 2001.
- The net profit for the three months ended 30 September, 2002 was approximately HK\$0.33 million representing an increase in profit of approximately 118% as compared to the corresponding period in 2001.

The board (the “Board”) of directors (the “Directors”) of Blu Spa Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated financial statements of the Company and its subsidiaries (together, the “Group”) for the three months ended 30 September, 2002 together with the comparative figures for the corresponding period in 2001 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Three months ended	
		30 September	
		2002	2001
		(Unaudited)	(Unaudited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	692	612
Cost of sales		(379)	(266)
Gross profit		313	346
Other revenue	4	3,086	1
Distribution costs		(16)	(92)
Administrative expenses		(3,053)	(2,084)
Profit/(loss) from operations		330	(1,829)
Finance costs		—	—
Profit/(loss) before taxation		330	(1,829)
Taxation	5	—	—
Profit/(loss) attributable to shareholders		330	(1,829)
Profit/(loss) per share - in HK cents			
- basic	7	0.08	(0.55)
- diluted		(N/A)	(N/A)

NOTES TO COMBINED FINANCIAL STATEMENTS

1. GROUP REORGANISATION AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 30 August, 2001 as an exempted company with limited liability under the Companies Law Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

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

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

The consolidated results for the three months ended 30 September, 2001 have been prepared using the merger basis of accounting as a result of the Group Reorganisation. On this basis, the Company has been treated as the holding company of its subsidiaries for the period presented.

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

2. PRINCIPAL ACCOUNTING POLICIES

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

3. TURNOVER

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

4. OTHER REVENUE

Other revenue mainly represents the waiver of loan from directors amounting to approximately HK\$3.1 million.

5. TAXATION

No provision for Hong Kong Profits Tax has been made for the three months ended 30 September, 2002 and the corresponding period in 2001, as the Group had no assessable profits for the respective periods.

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

6. DIVIDEND

The directors do not recommend the payment of a dividend for the three months ended 30 September, 2002 (2001: Nil).

7. PROFIT/(LOSS) PER SHARE

The calculation of basic profit per share for the three months ended 30 September, 2002 is based on the profit attributable to shareholders of HK\$330,492 and the number of 410,000,000 ordinary shares of the Company in issue during the period.

The calculation of basic loss per share in respect of the three months ended 30 September, 2001 is based on the loss attributable to shareholders of HK\$1,829,066 and assuming 333,170,000 ordinary shares of the Company were in issue throughout the period.

No diluted profit per share for the three months ended 30 September, 2002 was presented as the Company did not assume the exercise of share option outstanding because the exercise prices of the Company's share options were higher than the average market price for shares.

No diluted loss per share for the three months ended 30 September, 2001 was presented as the Company did not have any diluted potential ordinary shares.

8. RESERVES

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

	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Surplus/ (Deficit) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July, 2002	18,475	22,735	(49)	(29,739)	11,422
Exchange differences arising from translation of operations outside Hong Kong	—	—	62	—	62
Profit for the period	—	—	—	330	330
At 30 September, 2002	<u>18,475</u>	<u>22,735</u>	<u>13</u>	<u>(29,409)</u>	<u>11,814</u>

BUSINESS REVIEW AND PROSPECTS

General

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

Management discussion and analysis of results of operations

Three months ended 30 September, 2002

For the three months ended 30 September, 2002, the Group recorded a turnover of HK\$0.69 million, representing an increase of approximately 13 per cent. compared to the turnover of same period in previous year. The increase in turnover was mainly due to the increase of orders from existing distributors.

The Group achieved a gross profit margin of approximately 45 per cent. for the three months ended 30 September, 2002, representing a decrease of approximately 9 per cent. as compared to that of same period in the previous year.

Distribution costs incurred by the Group for three months ended 30 September, 2002 amounted to HK\$15,612, representing a decrease of approximately 83 per cent. as compared to those of the previous year which was attributable to the decrease in advertising and promotional expenses incurred in enhancing the brand recognition and in expanding distributorship network.

Administrative expenses incurred by the Group for the three months ended 30 September, 2002 amounted to approximately HK\$3.05 million, representing an increase of approximately 46 per cent. as compared to those of previous year. The increase was mainly due to increase of legal and other professional fees during the post-listing period.

For the three months ended 30 September, 2002 the Group did not incur any finance costs or any interest on the shareholder loan of approximately HK\$3.6 million because the shareholder's loan became non-interest bearing on 1 July, 2001.

Due to increase in turnover and the waiver of amount due to directors of HK\$3.1 million, the net profit incurred by the Group was increased to HK\$0.33 million, representing an improvement of approximately 118 per cent.

As a result of the foregoing, the profit attributable to shareholders amounted to approximately HK\$0.33 million for the three months ended 30 September, 2002.

Business review

During the three months ended 30 September 2002, the Group continued its unwavering efforts in identifying and recruiting suitable distributors in the PRC and Asia Pacific region. The Group faced slowdown in sales from distributors in South East Asia due to the depressed local retail markets under the persistent economic recession of the region. Despite the on-going negotiations with potential distributors in the PRC and South East Asia, no suitable distributors have been recruited under the Group's more stringent requirements applied in the selection process.

Following the success of the Taiwan distributor in penetrating the inflight shop market on China airline, the Group succeeded in its tender for the first and business class inflight packages of a US based carrier. Penetration to such target institutional sale inflight shop market segment present to the Group tremendous opportunities for building a strong customer base and high level of brand recognition among international consumers.

Potential and outlook

The Group is currently working out the details of the bounce back web-site promotion with the US carrier which 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.

To address the huge and highly fragmented personal care product market in the PRC, the Group is reviewing the present distribution strategy and structure and exploring various avenues that help expand its distribution network in a speedy, efficient and cost effective manner.

As continuing efforts to control the production cost, the Group is currently procuring alternative supply of certain packaging materials in the Asia Pacific region. In addition, the Group is in the course of outsourcing part of the production process of certain products to independent qualified manufacturers in the PRC meeting the Group's product quality requirements. The products of which part of the production process is being outsourced are in addition and without prejudice to the outstanding health inspection permits applications in respect of the 38 products in the PRC.

The Group has further strengthened its Hong Kong operation by recruiting two executives with strong retail background and extensive experience in cosmetic trade to undertake the sales distribution and marketing, raw materials procurement and outsourcing activities of the Group in the Asia Pacific region. At the same time, the Group has recruited a qualified chief accountant to oversee the overall accounting matters and financial control of the Group.

CLOSURE OF BEIJING STORE

Reference is made to announcement of the Company dated 8 October 2002 in relation to, inter alia, the termination of the Beijing distributorship by an independent distributor responsible for the Beijing area (the “Original Distributor”) and the closure of the Beijing licensed store. The Group is in the process of negotiating the terms of the formal distribution agreement with the new distributor identified by the Group (the “New Distributor”). The Group has sought the legal advice from its PRC legal advisers as to the possible action and remedies available against the Original Distributor, the measure of damages, the chance of success for recovery of damages as well as the cost and time required for undertaking such legal action and is awaiting their legal opinion.

HEALTH INSPECTION PERMITS

The Company was advised by the Guangdong Distributor that the PRC Health Authority had responded unfavourably to their objection against the requirement of retesting and resubmission of samples in respect of 26 products. As a result, the Company is now assisting the Guangdong Distributor in the supply of the requisite samples and will seek from them reimbursement or contribution in respect of the retesting and reassessment expenses. Meanwhile, the Company has recommended to the Guangdong Distributor the engagement of a legal consultant based in Beijing to follow up with the PRC Health Authority on all outstanding health inspection permit applications in respect of the 38 products in the PRC.

DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS IN SECURITIES

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

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

Notes:

1. These shares are held by East Point Resources Limited. The entire issued share capital of East Point Resources Limited is held by Well Arts Enterprises Limited in its capacity as trustee of the East Point Trust, a discretionary trust, the beneficiaries of which include certain family members of Ms. Rajewski Natalie, N.
2. 105,657,870 of these shares are held by XO-Holdings Limited and 30,977,800 of these shares are held by All Rich Pacific Limited. Ms. Chan Choi Har, Ivy is the beneficial owner as to 65 per cent. of the issued share capital of XO-Holdings and as to 50 per cent. of the issued share capital of All Rich Pacific Limited.

3. By virtue of his relationship as Ms. Chan Choi Har, Ivy's spouse, Mr. Law Kin Ming, Alfred is deemed under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) to be interested in the 136,635,670 shares of the Company in which Ms. Chan Choi Har, Ivy is interested.
4. These shares are held by Profit Trick Holdings Limited. The entire issued share capital of Profit Trick Holdings Limited is beneficially owned by Ms. Wai Suk Chong, Helena.

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

Name of Director	Number of shares	Approximate percentage of the issued share capital of the Company subject to the options
Ms. Chan Choi Har, Ivy	10,250,000	2.5%
Mr. Law Kin Ming, Alfred	4,100,000	1.0%
Ms. Rajewski, Natalie N.	8,200,000	2.0%
Ms. Loo Peck Hwee, Celene (<i>Note 1</i>)	8,200,000	2.0%
Ms. Wai Suk Chong, Helena	2,050,000	0.5%
Mr. Ng Kwok Tung (<i>Note 2</i>)	820,000	0.2%
Mr. Moore, Douglas Howard (<i>Note 3</i>)	820,000	0.2%

Notes:

1. Ms. Loo Peck Hwee, Celene resigned as the executive director on 9 August, 2002, the options granted to her under the Pre-IPO Plan will lapse in November 2002.
2. Mr. Ng Kwok Tung resigned as independent non-executive director on 26 September, 2002, the options granted to him under the Pre-IPO Plan will lapse in December 2002.
3. Mr. Moore, Douglas Howard resigned as independent non-executive director on 9 May 2002, the options granted to him under the Pre-IPO Plan has lapsed in August 2002.

Pursuant to the terms of the Pre-IPO Share Option Scheme, each of the grantees to whom options have been conditionally granted under the Pre-IPO Share Option Scheme will be entitled to exercise (i) 50% of the options so granted to him/ her (rounded to the nearest whole number) at any time after the expiry of 12 months from the date of listing of the shares of the Company on GEM (the "Listing Date"); and (ii) the remaining 50% of the options granted to him/ her (rounded down to the nearest whole number) at any time after 24 months from the Listing Date, and in each case, not later than 10 years from the date of the grant of options.

The fair value of the options granted in the current year measured as at 30 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.

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

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

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

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

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

SUBSTANTIAL SHAREHOLDERS

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

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

Notes:

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

SIGNIFICANT SHAREHOLDER

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

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

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

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

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

COMPETING INTERESTS

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

INTERESTS OF SPONSOR

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

As updated and notified by DBS Asia, DBS Asia, its directors, employees and associates (as defined in the GEM Listing Rules), as at 30 September, 2002, did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

AUDIT COMMITTEE

The Company has established an Audit Committee which comprises two Independent Non-executive Directors and reports to the Board of Directors. The written terms of reference include the authority and duties of the Audit Committee and amongst its principal duties are the review and supervision of the Company's financial reporting process and internal control procedures. The Audit Committee has reviewed the First Quarterly Report of the Company for the three months ended 30 September, 2002.

By order of the Board of
Blu Spa Holdings Limited
Chan Choi Har, Ivy
Director

Hong Kong, 12 November, 2002