



**BLU SPA HOLDINGS LIMITED**

**富麗花 • 譜 控 股 有 限 公 司**

*(incorporated in the Cayman Islands with limited liability)*

**INTERIM REPORT  
FOR THE SIX MONTHS ENDED  
31 DECEMBER, 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.**

**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.**

*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.*

## SUMMARY

- The Group is a developer, promoter and distributor of a broad range of botanical personal care products, treatments and services.
- The unaudited combined turnover of the Group for the six months ended 31 December, 2002 was approximately HK\$1.2 million, representing a decrease of approximately 52% as compared to the unaudited combined turnover of the Group of approximately HK\$2.5 million for the corresponding period in 2001.
- The net loss for the six months ended 31 December, 2002 was approximately HK\$1.2 million, representing a decrease of approximately 62% as compared to approximately HK\$3.1 million for the corresponding period in 2001.

## CHAIRMAN'S STATEMENT

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

## CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>For the six months ended 31 December, 2002 (Unaudited) HK\$</b>	For the six months ended 31 December, 2001 (Unaudited) HK\$	<b>For the three months ended 31 December, 2002 (Unaudited) HK\$</b>	For the three months ended 31 December, 2001 (Unaudited) HK\$
	<i>Notes</i>				
Turnover	2	<b>1,224,406</b>	2,543,292	<b>532,550</b>	1,931,047
Cost of sales		<b>(839,758)</b>	(754,541)	<b>(461,357)</b>	(488,173)
Gross profit		<b>384,648</b>	1,788,751	<b>71,193</b>	1,442,874
Other revenue	3	<b>3,782,460</b>	36,911	<b>696,523</b>	36,492
Distribution costs		<b>(410,022)</b>	(489,017)	<b>(394,410)</b>	(397,471)
Administrative expenses		<b>(4,942,752)</b>	(4,467,303)	<b>(1,889,464)</b>	(2,383,487)
Loss from operations	4	<b>(1,185,666)</b>	(3,130,658)	<b>(1,516,158)</b>	(1,301,592)
Finance costs		–	(17,578)	–	(17,578)
Loss before taxation		<b>(1,185,666)</b>	(3,148,236)	<b>(1,516,158)</b>	(1,319,170)
Taxation	5	–	–	–	–
Loss attributable to shareholders		<b>(1,185,666)</b>	(3,148,236)	<b>(1,516,158)</b>	(1,319,170)
Loss per share					
– Basic (in cents)	7	<b>(0.29)</b>	(0.94)	<b>(0.37)</b>	(0.40)
– Diluted (in cents)		<b>(N/A)</b>	(N/A)	<b>(N/A)</b>	(N/A)

## CONDENSED CONSOLIDATED BALANCE SHEET

		As at <b>31 December, 2002</b> (Unaudited) <i>HK\$</i>	As at 30 June, 2002 (Audited) <i>HK\$</i>
<b>NON-CURRENT ASSETS</b>			
Intangible assets		<b>16,511,204</b>	17,005,340
Plant and equipment		<b>806,991</b>	767,197
		<b>17,318,195</b>	17,772,537
<b>CURRENT ASSETS</b>			
Inventories – cost		<b>4,262,653</b>	2,442,208
Trade receivables	8	<b>349,387</b>	305,249
Deposits and other receivables		<b>764,393</b>	1,409,143
Bank balances and cash		<b>653,112</b>	4,899,586
		<b>6,029,545</b>	9,056,186
<b>CURRENT LIABILITIES</b>			
Trade payables	9	<b>505,996</b>	61,556
Accruals and other payables		<b>2,183,427</b>	1,896,792
Amounts due to directors		<b>204,730</b>	226,133
		<b>2,894,153</b>	2,184,481
<b>NET CURRENT ASSETS</b>		<b>3,135,392</b>	6,871,705
		<b>20,453,587</b>	24,644,242
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>4,100,000</b>	4,100,000
Reserves	10	<b>10,281,311</b>	11,421,966
		<b>14,381,311</b>	15,521,966
<b>NON-CURRENT LIABILITIES</b>			
Amount due to a shareholder		<b>3,572,276</b>	3,572,276
Amounts due to directors		<b>1,666,667</b>	5,550,000
Amount due to a related party	11	<b>833,333</b>	–
		<b>6,072,276</b>	9,122,276
		<b>20,453,587</b>	24,644,242

## CONSOLIDATED CASH FLOW STATEMENT

	<b>For the six months ended 31 December, 2002 (Unaudited) HK\$</b>	For the six months ended 31 December, 2001 (Unaudited) HK\$
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	<b>(1,109,109)</b>	(1,553,684)
NET CASH INFLOW (OUTFLOW) FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	<b>3,590</b>	(17,502)
NET CASH (OUTFLOW) INFLOW FROM INVESTING ACTIVITIES	<u><b>(135,966)</b></u>	<u>1,216,910</u>
NET CASH OUTFLOW BEFORE FINANCING	<b>(1,241,485)</b>	(354,276)
NET CASH (OUTFLOW) INFLOW FROM FINANCING	<u><b>(3,050,000)</b></u>	<u>400,173</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<b>(4,291,485)</b>	45,897
EFFECT OF FOREIGN RATE EXCHANGE	<b>45,011</b>	–
CASH AND CASH EQUIVALENTS BROUGHT FORWARD	<u><b>4,899,586</b></u>	<u>34,142</u>
CASH AND CASH EQUIVALENTS CARRIED FORWARD, REPRESENTED BY BANK BALANCE AND CASH	<u><b>653,112</b></u>	<u>80,039</u>

## 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”) 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 Company became the holding company of the companies now comprising the Group on 10 December, 2001. Details of the Group Reorganisation were set out in the prospectus (the “Prospectus”) of the Company dated 4 February, 2002. The shares of the Company were successfully listed on GEM on 19 February, 2002.

The consolidated results for the six months ended 31 December 2002, 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.

## 2. Segmental Information

Turnover and contribution to operating results 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:

*For the six months ended 31 December, 2002*

	The People's Republic of China (Unaudited) HK\$	Hong Kong (Unaudited) HK\$	Taiwan (Unaudited) HK\$	Malaysia (Unaudited) HK\$*	Philippines (Unaudited) HK\$	Others (Unaudited) HK\$	Elimination (Unaudited) HK\$	Combined (Unaudited) HK\$
REVENUE								
External sales	256,477	331,265	631,780	-	-	4,884	-	1,224,406
Inter-segment sales	-	2,078,698	-	-	-	-	(2,078,698)	-
Total revenue	<u>256,477</u>	<u>2,409,963</u>	<u>631,780</u>	<u>-</u>	<u>-</u>	<u>4,884</u>	<u>(2,078,698)</u>	<u>1,224,406</u>
RESULT								
Segment result	<u>118,964</u>	<u>118,114</u>	<u>145,727</u>	<u>-</u>	<u>-</u>	<u>1,843</u>	<u>-</u>	384,648
Unallocated corporate expenses								(1,573,904)
Operating loss								(1,189,256)
Interest expense								-
Interest income								<u>3,590</u>
Loss for the period								<u>(1,185,666)</u>
<i>Assets and liabilities at 31 December, 2002</i>								
ASSETS								
Segment assets	9,880	19,501	315,159	-	-	4,847		349,387
Unallocated corporate assets								<u>22,998,353</u>
Consolidated total assets								<u>23,347,740</u>
LIABILITIES								
Segment liabilities	-	-	-	-	-	505,996		505,996
Unallocated corporate liabilities								<u>8,460,433</u>
Consolidated total liabilities								<u>8,966,429</u>

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.

*For the six months ended 31 December, 2001*

	The People's Republic of China (Unaudited) HK\$	Hong Kong (Unaudited) HK\$	Taiwan (Unaudited) HK\$	Malaysia (Unaudited) HK\$	Philippines (Unaudited) HK\$	Others (Unaudited) HK\$	Elimination (Unaudited) HK\$	Combined (Unaudited) HK\$
REVENUE								
External sales	1,689,429	278,861	500,366	56,674	17,962	-	-	2,543,292
Inter-segment sales	-	2,087,437	-	-	-	-	(2,087,437)	-
Total revenue	<u>1,689,429</u>	<u>2,366,298</u>	<u>500,366</u>	<u>56,674</u>	<u>17,962</u>	<u>-</u>	<u>(2,087,437)</u>	<u>2,543,292</u>
RESULT								
Segment result	<u>1,268,799</u>	<u>175,903</u>	<u>299,737</u>	<u>32,873</u>	<u>11,439</u>	<u>-</u>	<u>-</u>	1,788,751
Unallocated corporate expenses								<u>(4,919,485)</u>
Operating loss								(3,130,734)
Interest expense								(17,578)
Interest income								<u>76</u>
Loss for the period								<u>(3,148,236)</u>

*Assets and liabilities at 30 June, 2001*

ASSETS								
Segment asset	117,272	47,702	139,375	-	-	900		305,249
Unallocated corporate assets								<u>26,523,474</u>
Consolidated total assets								<u>26,828,723</u>
LIABILITIES								
Segment liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,556</u>		61,556
Unallocated corporate liabilities								<u>11,245,201</u>
Consolidated total liabilities								<u>11,306,757</u>

### 3. Other Revenue

Other revenue mainly represents the waiver of loan from directors amounting to HK\$3,410,000 (2001: Nil).

#### 4. Loss From Operations

Loss from operations is arrived at after charging:

	Six months ended 31 December, 2002 (Unaudited) HK\$		Three months ended 31 December, 2002 (Unaudited) HK\$	
		2001 (Unaudited) HK\$		2001 (Unaudited) HK\$
Depreciation	96,171	24,606	49,114	18,565
Amortisation of intangible assets	494,136	539,018	248,578	270,054
Interest on borrowings	—	17,578	—	17,578

#### 5. Taxation

No provision for Hong Kong Profits Tax has been made for the six months ended 31 December, 2002 and the corresponding period in 2001, as the Group has 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 utilized in the foreseeable future.

#### 6. Dividend

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

#### 7. Loss Per Share

The calculation of loss per share for the six months ended 31 December, 2002 is based on the net loss attributable to the shareholders of HK\$1,185,666 and the number of 410,000,000 ordinary shares of the Company in issue during the period.

The calculation of loss per share for the six months ended 31 December, 2001 is based on the net loss attributable to the shareholders of HK\$3,148,236 and the number of 333,170,000 ordinary shares of the Company in issue during the period.

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

#### 8. 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:

	As at 31 December, 2002 (Unaudited) HK\$	As at 30 June, 2002 (Audited) HK\$
Aged:		
0–60 days	157,861	145,882
61–120 days	190,464	54,837
Over 120 days	1,062	104,530
	<u>349,387</u>	<u>305,249</u>

## 9. Trade Payables

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

	<b>As at 31 December, 2002 (Unaudited) HK\$</b>	As at 30 June, 2002 (Audited) HK\$
Aged:		
0–60 days	<b>238,446</b>	61,391
61–120 days	<b>267,249</b>	165
Over 120 days	<b>301</b>	–
	<b><u>505,996</u></b>	<b><u>61,556</u></b>

## 10. Reserves

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

	<b>Share premium HK\$</b>	<b>Merger reserve HK\$</b>	<b>Translation reserve HK\$</b>	<b>Deficit HK\$</b>	<b>Total HK\$</b>
At 1 July 2001	22,716,217	–	–	(18,883,567)	3,832,650
Loss for the period	–	–	–	(3,148,236)	(3,148,236)
Transfer to special reserve on group reorganization	(22,716,217)	22,716,217	–	–	–
Special reserve arises as a result of purchase of subsidiaries	–	18,360	–	–	18,360
At 31 December 2001	–	22,734,577	–	(22,031,803)	702,774
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 period	–	–	–	(7,707,032)	(7,707,032)
At 30 June 2002	18,475,061	22,734,577	(48,837)	(29,738,835)	11,421,966
Loss for the period	–	–	–	(1,185,666)	(1,185,666)
Exchange differences arising from translation of operations outside Hong Kong	–	–	45,011	–	45,011
At 31 December 2002	<u>18,475,061</u>	<u>22,734,577</u>	<u>(3,826)</u>	<u>(30,924,501)</u>	<u>10,281,311</u>

## **11. Amount due to a related party**

As at 31 December, 2002, the amount due to a related party, Mr. Law Kin Ming, Alfred, amounted to approximately HK\$0.8 million, which was unsecured and non-interest bearing (as at 30 June, 2002: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS**

### **Financial Review**

#### *Results*

For the six months ended 31 December, 2002, the Group recorded a turnover of approximately HK\$1.2 million which represented a decrease of approximately 52% when compared with those in the corresponding period last year. The drops in turnover were mainly contributed by the decrease in the numbers of PRC distributors.

The gross profit margin was approximately 31% for the six months ended 31 December, 2002 whereas it was approximately 70% in the same period in previous year. The drops of approximately 39% were attributable to the decrease in sales and the unavoidable fixed overhead absorbed during the production process.

Distribution costs incurred by the Group for the six months ended 31 December, 2002 amounted to approximately HK\$0.4 million, representing a decrease of approximately 16% as compared to those of previous period. The decrease was mainly due to the decrease of promotion and exhibition costs.

Administrative expenses incurred by the Group for the six months ended 31 December, 2002 amounted to approximately HK\$4.9 million, representing an increase of approximately 11% as compared to those of previous period. The increase was mainly come from the legal and professional fees during the post-listing period.

No finance costs incurred by the Group for the six months ended 31 December, 2002 as the shareholder loan of approximately HK\$3.6 million had become non-interest bearing on 1 July, 2001. The finance costs incurred in the corresponding period in last year were primarily arose from interest on the outstanding purchase consideration of CAD242,177 payable to B.S. International Inc. for acquisition of assets.

As a result of the foregoing, the loss attributable to shareholders amounted to approximately HK\$1.2 million for the six months ended 31 December, 2002.

#### *Liquidity and financial resources*

The Group generally finances its operations with internally generated resources and advances from Directors and XO-Holdings Limited. As at 31 December, 2002, the Group did not have any banking facilities.

As at 31 December, 2002, the shareholders' funds of the Group amounted to approximately HK\$14 million. Current assets amounted to approximately HK\$6 million, of which approximately HK\$4.3 million were inventories, approximately HK\$1.1 million were debtors, deposits and prepayments and approximately HK\$0.6 million were cash and bank deposits. The Group's current liabilities amounted to approximately HK\$2.9 million mainly comprise of creditors, accruals and other payables amounted to approximately HK\$2.7 million.

#### *Significant investments and acquisitions*

During the period ended 31 December, 2002 and the year ended 30 June, 2002, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies.

As at 31 December, 2002 and 30 June, 2002, 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 CAD300,000 pursuant to an asset purchase agreement dated 27 September, 2001.

#### *Capital commitments*

As at 31 December, 2002 and 30 June, 2002, the Group had no material investment.

#### *Contingent liabilities*

As at 31 December, 2002 and 30 June, 2002, the Group had no contingent liabilities.

#### *Charges on Group assets*

As at 31 December, 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 31 December, 2002 and 30 June, 2002, the amount due to a shareholder, XO-Holdings Limited, amounted to approximately HK\$3.6 million, which was unsecured and 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\$3.6 million 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 31 December, 2002, the amounts due to the directors of the Company, Ms. Chan Choi Har, Ivy amounted to approximately HK\$1.7 million, which was unsecured and non-interest bearing (as at 30 June, 2002 : the amounts due to the two directors, Ms. Chan Choi Har, Ivy and Mr. Law Kin Ming, Alfred, amounted to approximately HK\$5.6 million, which was unsecured and non-interest bearing).

As at 31 December, 2002, the amount due to a related party, Mr. Law Kin Ming , Alfred, amounted to approximately HK\$0.8 million, which was unsecured and non-interest bearing (as at 30 June, 2002 : Nil).

### **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the six months ended 31 December, 2002 (for the six months ended 31 December, 2001: Nil).

## **BUSINESS REVIEW AND PROSPECTS**

The Group has undergone negotiation with the new distributors in the PRC and Asia Pacific region including the distributorship in Zhejiang Province and Thailand. No solid agreements have been signed yet as the Group are currently working out the terms with the potential distributors and reviewing the existing distribution strategy and structure so as to expand its distribution network in a speedy, efficient and cost effective manner.

Apart from the PRC and Asia Pacific market, the Group is also making efforts in business expansion by exploring the European market. In Moscow, sample products have been delivered to the health department for testing and the Group is waiting for the issuance of sales certificates. Meanwhile the negotiation with the US carrier is still processing as a new program is under consideration.

In order to control the production cost, the Group has searched for the independent qualified manufacturers in the PRC for outsourcing part of the production process of certain products. To facilitate the operations and achieve better control, the Group has decided to incorporate a new company in the PRC in the near future.

During the six months ended 31 December, 2002, one more health permit was issued by the relevant PRC authorities and the total number of health permits obtained increased to six. The Group understand that the other applications for outstanding health permits are under processing.

For the termination of the Beijing distributorship, the Group has sought the legal advice from its PRC legal advisers and decided not to undertake legal action against the original distributor as the chance of success for recovery of damages is remote. The Group is still negotiating the terms with the new distributor in Beijing.

To improve the cash flow position of the Group, the Company has proposed to effect an open offer (on the basis of 12 offer shares for every 25 Shares held) to raise funding for repayment of current liabilities and general working capital. Details of the open offer are contained in the relevant announcement made by the Company on 28 January, 2003. The open offer prospectus is expected to be despatched to Shareholders by 18 February, 2003.

## **COMPARISON OF BUSINESS PROGRESS**

The following is the summary of the actual business progress in comparison with the business objectives set out in the Prospectus of the Company dated 4 February 2002.

### **Business objectives up to December 2002 as disclosed in the Prospectus**

### **Actual Business Progress up to December 2002**

#### *Research & Development*

Conduct experiments of cell rejuvenator formula, stability test, packaging compatibility studies and conduct focus group study.

Conduct experiments, tests and studies of cell rejuvenator formula. New product has been launched in the second half of 2002.

Conduct experiments of nutrient formula, stability test, packaging stability studies and conduct focus group study.

Completed experiments, tests and studies of nutrient formulations.

**Business objectives up to December 2002 as disclosed in the Prospectus**

Conduct experiments of aromatic body rub lotion, slimming wrap or massage lotion formula for lower body, stability test, packaging compatibility studies and conduct focus group study.

Conduct coverage and fastness experiments and colour stability test of new colour foundation formulae. Conduct focus group study.

Conduct water proof test, colour match experiments and stability test for eye mascara. Conduct focus group study.

Conduct scent selections and experiments for man's fragrance formula. Conduct aging alcohol lab testing and focus group study.

Conduct experiments of men's bath soak formula, packaging compatibility test and conduct focus group study.

Conduct staff training and compile training materials on spa management and operations and spa treatment.

Conduct trails run on spa operations and spa services.

*Product and Service launch*

The new fragrance line, the sun care line, anti-aging skin treatment, body rub and lotion, spa aromatherapy and Vitamin E colour lipsticks.

The new spa treatments and anti-aging treatments, facials (oxygen spray), massages (hot stone massage), aromatherapy baths, slimming treatment, bridal, hair and foot care.

**Actual Business Progress up to December 2002**

Conduct experiments, tests and studies of aromatic body lotion, slimming wrap or massage lotion formula for lower body.

Experiments were abandoned since there is no clear market trend. Directors considered home spa treatments and facial treatments products to be in greater demand.

Experiments were abandoned since there is no clear market trend. Directors considered home spa treatments and facial treatments products to be in greater demand.

No experiments were conducted as the men's fragrance line was replaced by ginger line.

Conduct experiments, tests and studies of men's soak formula.

Training material was developed for the new products such as the Ginger Range, Night Remedy Firming Eye Balm, Age Delay Eye Cream, Daily Firming Contour Gel.

Due to no clear market demand, the conduction of trails run spa operations and spa services has been postponed.

Anti-aging treatments and baby line were launched. Sun care line will be launched in Spring 2003. Ginger line has been completed and ready to launch. Vitamin E lipsticks did not proceed due to no local market demand.

Due to no clear market demand, the launch of these products have been postponed.

**Business objectives up to December 2002 as disclosed in the Prospectus**

**Actual Business Progress up to December 2002**

*Distribution Network*

Develop the China and Asia Pacific markets.

The Group is under negotiations with new potential distributors in the PRC and Asia Pacific markets.

*Advertising and Promotion*

Participate in international and regional Cosmetic exhibitions and trade shows.

Exhibition for the 2002 COSMOPROF has been launched in November 2002.

Tendered for the first and business class packages of a US Carrier.

Signed up a famous singer – Yumiko Cheng as the spoke person for promotion. New print advertisements have just been launched at the end of 2002.

*Human Resources*

Recruit additional staff.

In view of the market development, there is no planning for recruiting additional staff.

**COMPARISON OF USE OF PROCEEDS**

The net proceeds from the public listing were about HK\$17.5 million. During the period from 19 February, 2002 (date of listing) to 31 December, 2002, the Group has incurred the following amounts to achieve the business objectives as set out in the Prospectus:

<b>Schedule of use of proceeds</b>	<b>Amount Disclosed in the Prospectus (HK\$ million)</b>	<b>Actual amount used up to 31 December 2002 (HK\$ million)</b>
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	2.5	2.7
For research and development and product launch	1.0	0.5
For purchase of raw materials and packaging materials	1.3	2.8
For market development	0.6	0.6
For payment for acquisition of assets from BSI	1.2	1.2
For general working capital	2.0	4.8
<b>Total</b>	<b>13.5</b>	<b>17.5</b>

Use of proceeds exceeds the estimation made in the Prospectus by HK\$4 million. The differences are mainly attributable to the extra expenditures spent for the general working capital and purchase of raw materials and packaging materials. All the net proceeds from public listing has been used up to 31 December, 2002.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

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

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

Notes:

- 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 Eastpoint Trust, a discretionary trust, the beneficiaries of which include certain family members of Ms. Rajewski Natalie, N..
- 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.
- Mr. Law Kin Ming, Alfred has resigned as the executive director on 12 November, 2002. 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.
- Ms. Wai Suk Chong, Helena has resigned as the non-executive director on 12 February, 2003. These shares are held by Profit Trick Holdings Limited. The entire issued share capital of Profit Trick Holdings Limited is beneficially owned by Ms. Wai Suk Chong, Helena.

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

Name of Director	Number of shares subject to the options	Approximate percentage of the issued share capital of the Company
Ms. Chan Choi Har, Ivy	10,250,000	2.5%
Mr. Law Kin Ming, Alfred <i>(Note 1)</i>	4,100,000	1.0%
Ms. Rajewski, Natalie N.	8,200,000	2.0%
Ms. Loo Peck Hwee, Celene <i>(Note 2)</i>	8,200,000	2.0%
Ms. Wai Suk Chong, Helena <i>(Note 3)</i>	2,050,000	0.5%
Mr. Ng Kwok Tung <i>(Note 4)</i>	820,000	0.2%
Mr. Moore, Douglas Howard <i>(Note 5)</i>	820,000	0.2%

*Notes:*

1. Mr. Law Kin Ming, Alfred has resigned as the executive director on 12 November, 2002, the options granted to him under the Pre-IPO Plan will lapse in February 2003.
2. Ms. Loo Peck Hwee, Celene resigned as the executive director on 9 August, 2002, the options granted to her under the Pre-IPO Plan has lapsed in November 2002.
3. Ms. Wai Suk Chong, Helena has resigned as the non-executive director on 12 February, 2003, the options granted to her under the Pre-IPO Plan will lapse in May 2003.
4. Mr. Ng Kwok Tung resigned as independent non-executive director on 26 September, 2002, the options granted to him under the Pre-IPO Plan has lapsed in December 2002.
5. 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 director's 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 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 of the Company 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:

<b>Name</b>	<b>Number of shares</b>	<b>Percentage of issued share capital of the Company</b>
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 &amp; 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:*

- 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.
- Mr. Law Kin Ming, Alfred has resigned as the executive director on 12 November, 2002. 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.
- XO-Holdings Limited is beneficially owned as to 65% by Ms. Chan Choi Har, Ivy and as to 35% by Wah Hing Consultants Limited.
- Wah Hing Consultants Limited is beneficially owned as to 100% by Ms. Heung See Wai, Angela.
- 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.
- Well Arts Enterprises Limited holds the entire issued share capital of East Point 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:

<b>Name</b>	<b>Number of shares</b>	<b>Percentage of issued share capital of the Company</b>
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. Ms. Chan 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 under review, 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 will continue to act as the Company's sponsor for the period up to 28 February, 2004.

As updated and notified by DBS Asia, DBS Asia, its directors, employees and associates (as defined in the GEM Listing Rules), as at 31 December, 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 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee comprises the two independent non-executive Directors, namely Messrs. Yao Hon Ching and Kam Kin Yat.

## **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 since listed on the GEM of the Stock Exchange of Hong Kong Limited.

By order of the Board of  
**Blu Spa Holdings Limited**  
**Rajewski, Natasha N.**  
*Chairman*

Hong Kong, 12 February, 2003