



BLU SPA HOLDINGS LIMITED

富麗花 • 譜 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

**THIRD QUARTERLY REPORT
FOR THE NINE MONTHS ENDED
31 MARCH, 2003**

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 unaudited combined turnover of the Group for the nine months ended 31 March, 2003 was approximately HK\$1,460,000, representing a decrease of approximately 63% as compared to the unaudited combined turnover of the Group for the corresponding period in 2002, and a decrease of approximately 48% if taking into account the 2002 year end audit adjustment to the turnover of such corresponding period.
- The net loss for the nine months ended 31 March, 2003 was approximately HK\$2,457,000, representing an improvement of approximately 53% as compared to the unaudited net loss of the Group for the corresponding period in 2002, and an improvement of approximately 60% if taking into account the 2002 year end audit adjustment to the net loss of such corresponding period.

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 nine months and three months ended 31 March, 2003 together with the comparative figures for the corresponding periods in 2002 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the three months ended 31 March, 2003 (Unaudited) HK\$'000	For the three months ended 31 March, 2002 (Unaudited) HK\$'000	For the nine months ended 31 March, 2003 (Unaudited) HK\$'000	For the nine months ended 31 March, 2002 (Unaudited) HK\$'000
	<i>Notes</i>				
Turnover	3	240	1,445	1,460	3,988
Cost of sales		(391)	(485)	(1,134)	(1,239)
Gross (loss) profit		(151)	960	326	2,749
Other revenue		23	115	3,787	152
Distribution costs		(2)	(27)	(398)	(516)
Administrative expenses		(1,463)	(3,060)	(6,172)	(7,527)
Loss from operations		(1,593)	(2,012)	(2,457)	(5,142)
Finance costs		–	(14)	–	(32)
Loss before taxation		(1,593)	(2,026)	(2,457)	(5,174)
Taxation	4	–	–	–	–
Loss attributable to shareholders	5	<u>(1,593)</u>	<u>(2,026)</u>	<u>(2,457)</u>	<u>(5,174)</u>
Loss per share – in HK cents					
– basic	7	<u>(0.37)</u>	<u>(0.53)</u>	<u>(0.59)</u>	<u>(1.48)</u>
– diluted		<u>N/A</u>	<u>(0.53)</u>	<u>N/A</u>	<u>(1.48)</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 "Reorganisation") in preparation for the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM") on 19 February, 2002, the Company became the holding company of the companies now comprising the Group on 10 December, 2001. Details of the Reorganisation are set out in the prospectus of the Company dated 4 February, 2002 (the "Prospectus"). The shares of the Company were successfully listed on GEM on 19 February, 2002.

The condensed consolidated results for the nine months ended 31 March, 2003 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. 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 as disclosed in the third quarterly report of the Group for the nine months ended 31 March, 2002. However, as the Group has admitted the adjustment from auditors at 2002 year end audit due to the non-fulfillment of the terms of the sales contract by the PRC distributors, and if taking into account such year end audit adjustment, the turnover for the nine months ended 31 March, 2002 was approximately HK\$2,786,000.

4. TAXATION

No provision for Hong Kong Profits Tax has been made for the nine months ended 31 March, 2003 and the corresponding period in 2002, as the Group had no assessable profits for the respective periods.

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

5. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders for the nine months ended 31 March, 2002 was extracted from the Group's 2002 third quarterly report. However, if taking into account the 2002 year end audit adjustment as mentioned in note 3 above, the loss attributable to shareholders for such corresponding period in 2002 was approximately HK\$6,125,000.

6. DIVIDEND

The directors do not recommend the payment of an interim dividend for the nine months ended 31 March, 2003 (2002: Nil).

7. LOSS PER SHARE

The calculation of the basic loss per share for the three months and nine months ended 31 March, 2003 is based on the respective losses attributable to shareholders of approximately HK\$1,593,000 and HK\$2,457,000 and the weighted average number of 427,493,333 and 415,745,985 ordinary shares of the Company during the respective periods, assuming 606,800,000 ordinary shares of the Company, comprising 410,000,000 shares in issue as at 1 July, 2002 and 196,800,000 shares allotted pursuant to the Open Offer on 24 March, 2003 were in issue throughout the respective periods.

The calculation of basic loss per share in respect of the three months and nine months ended 31 March, 2002 is based on respective losses attributable to shareholders of approximately HK\$2,026,000 and HK\$5,174,000 as disclosed in the Group's 2002 third quarterly report and the weighted average number of 380,975,333 and 348,872,482 ordinary shares of the Company during the respective periods, assuming 333,170,000 ordinary shares of the Company, comprising 270,000 shares in issue at the date of the prospectus on 4 February, 2002 and 332,900,000 shares issued pursuant to the capitalisation issue on 8 February, 2002 were in issue throughout the respective periods. If taking into account the 2002 year end audit adjustment to the loss attributable to shareholders of the Group as mentioned in note 5 above, the basic loss per share for the nine months ended 31 March, 2002 was approximately HK1.76 cents.

Computation of diluted loss per share for both the three months and nine months ended 31 March, 2003 and 31 March, 2002 does not assume the exercise of share option outstanding because the exercise prices of the Company's share options were higher than the average market price for shares.

8. RESERVES

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

	Share premium HK\$'000	Merger reserve HK\$'000	Translation reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
At 1 July, 2002	18,475	22,734	(49)	(29,739)	11,421
Issue of shares pursuant to Open Offer	1,574	-	-	-	1,574
Expenses for issue of shares	(309)	-	-	-	(309)
Loss for the period	-	-	-	(2,457)	(2,457)
Exchange differences arising from translation of operations outside Hong Kong	-	-	(284)	-	(284)
At 31 March, 2003	<u>19,740</u>	<u>22,734</u>	<u>(333)</u>	<u>(32,196)</u>	<u>9,945</u>

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Three months ended 31 March, 2003

For the three months ended 31 March, 2003, the Group recorded an unaudited turnover of approximately HK\$240,000 representing a decrease of approximately 83% as compared to the turnover of the same period in previous year. The decrease in turnover was mainly due to the continuous economic downturn which slowed down the business and the decrease in number of distributors as compared to the previous corresponding period.

The Group incurred a gross loss for the three months ended 31 March, 2003. This was because of the fixed overhead which incurred even there was small turnover.

Administrative expenses incurred by the Group for the three months ended 31 March, 2003 amounted to approximately HK\$1.5 million, representing a decrease of approximately 52% as compared to those of the corresponding in the previous year. The decrease was mainly due to the Group's effort to reduce cost, especially for legal and professional fees, staff costs and technical consulting fees.

Due to savings from administrative expenses, the net loss incurred by the Group was narrowed to approximately HK\$1.6 million, representing an improvement of approximately 21%.

As a result of the foregoing, the unaudited loss attributable to shareholders narrowed to approximately HK\$1,593,000 for the three months ended 31 March, 2003, represents an improvement of approximately 21%. to those of the corresponding period in the previous year.

Business review

During the three months ended 31 March, 2003, business environment remained difficult and challenging. Sales to the Group's distributors remained unsatisfactory due to various factors including slow receptiveness of the Group's products by consumers and the economic slow down in various markets.

To improve the cash flow position of the Group, the Company has successfully completed an open offer on 24 March, 2003 and raised approximately HK\$3.5 million for repayment of current liabilities and as general working capital.

Also during the three months ended 31 March, 2003, three more health permits were issued by the relevant PRC authorities and the total number of health permits granted increased to nine. The Group understands that the other applications for the outstanding health permits are still under process.

OUTLOOK

The Group remains focus on the various markets, particularly the PRC, which is the second largest market in Asia-Pacific region in terms of retail sales of personal care products. The Company has set up a wholly owned subsidiary in the PRC in April 2003 which serves as a trading company in selling the Group's products in the PRC. Further, the Group considers that Hong Kong being part of the PRC, is also an important strategic market for business development. The Group considers having its anchor store in Hong Kong as a more suitable mode of business which can facilitate better and direct promotion of the Group's products and the provision of services to customers. Hence the Group intends to operate its own retail stores in Hong Kong and is currently engaged in negotiation with the Hong Kong distributor relating to hand-over of its business to the Group. The Company will update the shareholders accordingly in this regard as and when appropriate.

The Directors consider that the business environment of the Group would remain challenging in the near future and expect the market conditions to gradually improve in the second half of 2003.

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	–	–	110,657,870 <i>(Note 2)</i>	110,657,870
Ms. Wai Suk Chong, Helena	–	–	107,132,600 <i>(Note 3)</i>	107,132,600

Notes:

1. These shares are held by Eastpoint Resources Limited. The entire issued share capital of Eastpoint 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..
2. These shares are held by XO-Holdings Limited. Ms. Chan Choi Har, Ivy is the beneficial owner as to 65% of the issued share capital of XO-Holdings Limited.
3. 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.

SHARE OPTIONS

Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme was adopted pursuant to a resolution passed on 30 January, 2002 for the primary purpose of providing incentives or reward to directors and employees of the Company and to recognise the contribution of such eligible persons to the growth of the Company or any subsidiaries, and will expire on 29 January, 2012.

As at 31 March, 2003, the number of Shares in respect of which Options had been granted and remained outstanding under the Pre-IPO Share Option Scheme was 21,935,000, representing 3.6% of the Shares in issue at that date.

The following table discloses movements of Options granted under the Pre-IPO Share Option Scheme following the date of grant:

	Granted on 30 January, 2002	Lapsed before exercise	Outstanding at 31 March, 2003
Directors			
Ms. Chan Choi Har, Ivy	10,250,000	–	10,250,000
Mr. Law Kin Ming, Alfred*	4,100,000	(4,100,000)	–
Ms. Rajewski, Natalie N.	8,200,000	–	8,200,000
Ms. Loo Peck Hwee, Celene*	8,200,000	(8,200,000)	–
Ms. Wai Suk Chong, Helena*	2,050,000	–	2,050,000
Mr. Ng Kwok Tung*	820,000	(820,000)	–
Mr. Moore, Douglas Howard*	820,000	(820,000)	–
	<u>34,440,000</u>	<u>(13,940,000)</u>	<u>20,500,000</u>
Total for Directors			
Employees	<u>6,560,000</u>	<u>(5,125,000)</u>	<u>1,435,000</u>
Grand total	<u>41,000,000</u>	<u>(19,065,000)</u>	<u>21,935,000</u>

* *resigned Directors*

Details of the Options are as follows:

Date of grant	Vesting period	Exercisable period	Exercise price HK\$
30 January, 2002	30 January, 2002 to 18 February, 2003	19 February, 2003 to 29 January, 2012	0.30

Note: 50% of the Options may be exercised at any time after the expiry of 12 months from the date on which dealings of the Shares commenced on GEM and the remaining 50% may be exercised at any time after 24 months from the date on which dealings of the Shares commenced on GEM, and in each case not later than 29 January, 2012.

Share Option Scheme

On 30 January, 2002, the Company also adopted the Share Option Scheme for the primary purpose of providing incentives or reward to directors and employees of the Company and to recognise the contribution of such eligible persons to the growth of the Company and its subsidiaries, and will expire on 29 January, 2012. Under the Share Option Scheme, the Board may grant Options to directors and employees of the Company or any subsidiaries, to subscribe for Shares within 10 years from the adoption date of the Share Option Scheme. Any grant of options to a connected person or any of its associates must be approved by all the independent non-executive Directors. As at 31 March, 2003, no Options had been granted under the Share Option Scheme.

Save as disclosed herein, as at 31 March, 2003, 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 31 March, 2003, 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>)	110,657,870	18.24%
XO-Holdings Limited (<i>Note 2</i>)	110,657,870	18.24%
Wah Hing Consultants Limited (<i>Notes 2 & 3</i>)	110,657,870	18.24%
Ms. Heung See Wai, Angela (<i>Note 3</i>)	110,657,870	18.24%
Ms. Rajewski, Natalie N. (<i>Note 4</i>)	84,099,330	13.86%
Eastpoint Resources Limited (<i>Note 4</i>)	84,099,330	13.86%
Well Arts Enterprises Limited (<i>Note 5</i>)	84,099,330	13.86%
Ms. Wai Suk Chong, Helena (<i>Note 6</i>)	107,132,600	17.66%
Profit Trick Holdings Limited (<i>Note 6</i>)	107,132,600	17.66%
Mr. David Chiu (<i>Note 7</i>)	146,151,360	24.09%
Rocket High Investments Limited (<i>Note 7</i>)	146,151,360	24.09%

Notes:

1. The interests of Ms. Chan Choi Har, Ivy in the Company comprise the 18.24% shareholding interest through her 65% interest in XO-Holdings Limited.
2. These shares are held by XO-Holdings Limited which is beneficially owned as to 65% by Ms. Chan Choi Har, Ivy and as to 35% by Wah Hing Consultants Limited.
3. Wah Hing Consultants Limited is beneficially owned as to 100% by Ms. Heung See Wai, Angela.
4. These shares are held by Eastpoint Resources Limited 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.
5. 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.
6. 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.
7. These shares are held by Rocket High Investments Limited. The entire issued share capital of Rocket High Investments Limited is beneficially owned by Mr. David Chiu.

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

For the three months ended 31 March, 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

ADVANCES TO AN ENTITY

As at 31 March, 2003, the Group remained in a net deficit position. Thus the following disclosure is made pursuant to Rule 17.15 and 17.22 of the GEM Listing Rules. The Group has, in its normal and ordinary course of business, various trade receivables due from customers namely, An Bang International Co. Ltd., 深圳市美達行貿易有限公司 and Fortune Chain Investments Ltd. for approximately HK\$315,165, HK\$132,282 and HK\$30,166, respectively as at 31 March, 2003. These trade receivables are unsecured and their repayment terms range from two months to four months. No collateral is made by these customers and no interest is charged on any of these trade receivables.

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 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 31 March, 2003 (being the latest practicable date for ascertaining such information), did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

AUDIT COMMITTEE

The Company has established an audit committee 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. Kam Kin Yat and Yao Hon Ching.

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

Hong Kong, 13 May, 2003