



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, 2003**

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

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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.

SUMMARY

- The unaudited combined turnover of the Group for the three months ended 30 September, 2003 was approximately HK\$0.62 million, representing a decrease of approximately 11% as compared to the unaudited combined turnover of the Group of approximately HK\$0.69 million for the corresponding period in 2002.
- The net loss for the three months ended 30 September, 2003 was approximately HK\$1.14 million, and the corresponding period in 2002 had a net profit of approximately HK\$0.33 million.
- The Directors do not recommend the payment of an interim dividend for the three months ended 30 September, 2003.

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 three months ended 30 September, 2003 together with the comparative figures for the corresponding period in 2002 as follows:

UNAUDITED CONSOLIDATED INCOME STATEMENT

		Three months ended 30 September,	
		2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Turnover	3	615	692
Cost of sales		(97)	(379)
Gross profit		518	313
Other revenue	4	225	3,086
Distribution costs		(17)	(16)
Administrative expenses		(1,862)	(3,053)
(Loss)/profit from operations		(1,136)	330
Finance costs		–	–
(Loss)/profit before taxation		(1,136)	330
Taxation	5	–	–
(Loss)/profit attributable to shareholders		(1,136)	330
Dividend	6	–	–
Basic loss per share, in HK cents	7	(0.19)	0.08

NOTES

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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.

The Company is an investment holding company.

The condensed consolidated results for the three months ended 30 September, 2003 have been prepared on a going concern basis.

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. An analysis of the Group's turnover by business segments and geographical markets is as follows:

	The PRC (Unaudited) HK\$'000	Hong Kong (Unaudited) HK\$'000	Taiwan (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
For the three months ended 30 September, 2003					
Distribution	25	1	–	2	28
Retailing	–	587	–	–	587
	<u>25</u>	<u>588</u>	<u>–</u>	<u>2</u>	<u>615</u>
For the three months ended 30 September, 2002					
Distribution	256	211	225	–	692
Retailing	–	–	–	–	–
	<u>256</u>	<u>211</u>	<u>225</u>	<u>–</u>	<u>692</u>

4. OTHER REVENUE

Other Revenue for the three months ended 30 September, 2003 mainly represents the cash discount received from professional fee payment. Whilst the Other Revenue for the previous corresponding period in 2002 represented waiver of loans due to directors.

5. TAXATION

No provision for Hong Kong Profits Tax has been made for the three months ended 30 September, 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 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 an interim dividend for the three months ended 30 September, 2003 (2002: Nil).

7. BASIC (LOSS) PROFIT PER SHARE

The calculation of the basic loss per share for the three months ended 30 September, 2003 is based on the loss attributable to shareholders of approximately HK\$1,136,000 (2002: profit attributable to shareholders of approximately HK\$330,000) and the number of 606,800,000 (2002: 410,000,000) ordinary shares of the Company in issue during the period.

No diluted loss per share for the three months ended 30 September, 2003 and diluted profit per share for the three months ended 30 September, 2002 were 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 for both periods.

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	22,735	(49)	(29,739)	11,422
Profit for the period	–	–	–	330	330
Exchange differences arising from translation of operations outside Hong Kong	–	–	62	–	62
At 30 September, 2002	<u>18,475</u>	<u>22,735</u>	<u>13</u>	<u>(29,409)</u>	<u>11,814</u>
At 1 July, 2003	19,740	22,734	–	(38,620)	3,854
Loss for the period	–	–	–	(1,136)	(1,136)
Exchange differences arising from translation of operations outside Hong Kong	–	–	(8)	–	(8)
At 30 September, 2003	<u>19,740</u>	<u>22,734</u>	<u>(8)</u>	<u>(39,756)</u>	<u>2,710</u>

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Three months ended 30 September, 2003

For the three months ended 30 September, 2003, the Group recorded a turnover of approximately HK\$0.62 million representing a decrease of approximately 11% 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 achieved a gross profit margin of approximately 84% for the three months ended 30 September, 2003, representing an increase of approximately 39% as compared to that of the same period in previous year since the incorporation of retail business in Hong Kong region during current year.

Other revenue earned by the Group for the three months ended 30 September, 2003 amounted to approximately, HK\$0.23 million, which mainly represents the cash discount received from professional fee payment, representing a decrease of approximately 93% as compared to that of the same period in previous year. The amount in the same period of the previous year mainly represents the waiver of loan from directors amounting to approximately HK\$3.05 million.

Administrative expenses incurred by the Group for the three months ended 30 September, 2003 amounted to approximately HK\$1.86 million, representing a decrease of approximately 39% as compared to those of the previous year. The decrease was mainly due to the Group's tight cost control policy to reduce cost, such as legal and professional fees.

As a result of the significant decrease of other revenue, the loss attributable to shareholders amounted to approximately HK\$1.14 million for the three months ended 30 September, 2003, and the corresponding period in 2002 had a net profit of approximately HK\$0.33 million.

Business review

The Group currently operates two retail shops in Hong Kong. Due to seasonal factor, turnover from retail sales in September is usually lower as compared to other months during the year.

On the other hand, owing to the overall unfavorable economic conditions and slow receptiveness of the Group's products by consumers, sales to the Group's distributors remained unsatisfactory. The negotiation with potential distributors in the PRC, Korea and Thailand is still under progress.

To improve the cash flow position of the Group, the Group has obtained the irrevocable undertaking letter of financial support from a substantial shareholder, Profit Trick Holdings Ltd, and certain substantial shareholders have granted and will grant, should circumstances necessitate, financial assistance to the Group for business development and as the Group's working capital.

Given the receiving order of Blu Spa Canada Inc. ("BSC"), the Group has bought all the goods, including finished goods, bulk products and packaging materials from the Trustee of the Receiver of BSC. The goods have arrived Hong Kong in October and November 2003, respectively.

The Group also continues to negotiate with overseas OEM manufacturers for sourcing of products using the Group's brand name.

OUTLOOK

The Group tries to explore different business opportunities to enhance the Group's business performance. With the setting up of Zhuhai subsidiary, the commencement of retail business in Hong Kong this year, the identification of new distributors in potential market and the on-going feasibility study in operating new modes of business, like opening spa house, and the effort to reduce operating cost, the Group expects its performance will improve in coming future.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

As at 30 September, 2003, the interests of the directors and their associates as well as the chief executive of the Group in the share capital of the Company and its associated corporations within the meaning of part XV of the Securities and Future Ordinance (the "SFO") as recorded in the register maintained under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules were as follows:

A. Long position in shares

Name	Type of interests	Number of shares	Percentage of issued share capital
Chan Choi Har, Ivy	Corporate interest (Note 1)	110,657,870	18.24%

Note:

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

B. Short position in shares

No short position of directors and chief executives in the shares of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 to 5.49 of the GEM Listing Rules.

Save as disclosed above, none of the Directors or their associates as well as the chief executive of the Group had any interests or short position in share capital of the Company or its associated corporations during the reporting periods. There were no debt securities issued by the Group at any time.

C. Share options

Options to subscribe for shares in the Company

Name of Directors	Date of grant	Exercise Price HK\$	Number of Shares Options Outstanding As at 30 September, 2003
Chan Choi Har, Ivy	30 January, 2002	0.30	10,250,000

Note: 50% of the outstanding share 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 29 January, 2012.

SHARE OPTION SCHEME

On 30 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 29 January, 2012. As at 30 September, 2003, no options had been granted under the Scheme.

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.

SUBSTANTIAL SHAREHOLDERS

As at 30 September, 2003, the register of substantial shareholders required to be maintained under Section 16(1) of the SFO showed that, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Long position in shares

Name of shareholders	Number of shares	Percentage of issued share capital
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 and 3</i>)	110,657,870	18.24%
Heung See Wai, Angela (<i>Note 3</i>)	110,657,870	18.24%
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%
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%
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 Chan Choi Har, Ivy in the Company comprise 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 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 Heung See Wai, Angela.
4. These shares are held by Eastpoint Resources Limited, 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 discretionary objects of which include Rajewski, Natalie N. and certain of her family members.

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 and Well Arts Enterprises Limited is deemed to have an interest in the 84,099,330 shares in the Company in which Eastpoint Resources Limited is interested.
6. These shares are held by Profit Trick Holdings Limited. The entire issued share capital of Profit Trick Holdings Limited is beneficially owned by 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 David Chiu.

Save as disclosed above, the Company has not been notified of any other interests representing 5% or more or any short positions in the issued share capital of the Company as at 30 September, 2003.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the three months ended 30 September, 2003.

ADVANCES TO AN ENTITY

Pursuant to Rules 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 Sogo Hong Kong Co. Limited and 深圳市美達行貿易有限公司 for HK\$76,316 and HK\$17,790 respectively as at 30 September, 2003. These trade receivables are unsecured and will be repayable within one month and two months respectively from the period end. No collateral is made by them and no interest is charged on any of these trade receivables.

COMPETING INTERESTS

As at 30 September, 2003, 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.

SPONSOR'S INTERESTS

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, 2003 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

At the date of this report, the audit committee comprises Messrs. Kam Kin Yat and Hui Kwong Wai, Eric, who are the independent non-executive directors of the Company. The Group's first quarterly results for the period ended 30 September, 2003 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 reviewed the Company's reports and accounts, and providing advice and recommendations to the Board of Directors.

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 throughout the year.

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

Hong Kong, 12 November, 2003