



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, 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.

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

SUMMARY

- The Group is a developer, promoter and distributor of a broad range of botanical personal care products, treatments and services.
- The unaudited consolidated turnover of the Group for the six months ended 31 December, 2003 was approximately HK\$1.4 million, representing an increase of approximately HK\$166,000, or approximately 14% as compared to the unaudited consolidated turnover of the Group of approximately HK\$1.2 million for the corresponding period in 2002.
- The net loss for the six months ended 31 December, 2003 was approximately HK\$2.2 million, representing an increase of loss of approximately HK\$1 million or approximately 84% as compared to a net loss of approximately HK\$1.2 million for the corresponding period in 2002.

The board (the "Board") of Directors is pleased to announce the unaudited consolidated financial statements of the Company and its subsidiaries (together, the "Group") for the six months and three months ended 31 December, 2003 together with the comparative figures for the corresponding periods in 2002 as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 31 December, 2003	For the six months ended 31 December, 2002 (Restated)	For the three months ended 31 December, 2003	For the three months ended 31 December, 2002 (Restated)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	1,390	1,224	774	532
Cost of sales		<u>(429)</u>	<u>(840)</u>	<u>(296)</u>	<u>(461)</u>
Gross profit		961	384	478	71
Other revenue	4	337	3,782	112	697
Distribution costs		(52)	(410)	(36)	(395)
Administrative expenses		<u>(3,416)</u>	<u>(4,941)</u>	<u>(1,589)</u>	<u>(1,889)</u>
Loss from operations	5	(2,170)	(1,185)	(1,035)	(1,516)
Finance costs	6	<u>(36)</u>	-	<u>(36)</u>	-
Loss before taxation		(2,206)	(1,185)	(1,071)	(1,516)
Taxation	7	<u>-</u>	<u>(16)</u>	<u>-</u>	<u>(16)</u>
Loss attributable to shareholders		<u><u>(2,206)</u></u>	<u><u>(1,201)</u></u>	<u><u>(1,071)</u></u>	<u><u>(1,532)</u></u>
Basic loss per share (in HK cents)	9	<u><u>(0.36)</u></u>	<u><u>(0.29)</u></u>	<u><u>(0.18)</u></u>	<u><u>(0.37)</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) As at 31 December, 2003	(Audited) As at 30 June, 2003 (Restated) <i>HK\$'000</i>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Intangible assets		15,336	15,907
Plant and equipment		997	904
		16,333	16,811
CURRENT ASSETS			
Inventories – cost		796	374
Trade receivables	10	125	226
Deposits and other receivables		573	647
Bank balances and cash		1,461	1,177
		2,955	2,424
CURRENT LIABILITIES			
Accruals and other payables		1,733	2,565
Amounts due to directors		673	676
		2,406	3,241
NET CURRENT ASSETS (LIABILITIES)		549	(817)
		16,882	15,994
CAPITAL AND RESERVES			
Share capital	11	6,068	6,068
Reserves		1,610	3,822
		7,678	9,890
NON-CURRENT LIABILITIES			
Amount due to shareholders		6,672	3,572
Amount due to a related party		2,500	2,500
Deferred tax liability	12	32	32
		9,204	6,104
		16,882	15,994

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital <i>HK\$'000</i>	Share Premium <i>HK\$'000</i>	Merger Reserve <i>HK\$'000</i>	Translation Reserve <i>HK\$'000</i>	Deficit <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July, 2002	4,100	18,475	22,735	(49)	(29,739)	15,522
Loss for the period	-	-	-	-	(1,201)	(1,201)
Exchange differences arising from translation of operations outside Hong Kong	-	-	-	45	-	45
At 31 December, 2002	<u>4,100</u>	<u>18,475</u>	<u>22,735</u>	<u>(4)</u>	<u>(30,940)</u>	<u>14,366</u>
At 1 July, 2003	6,068	19,740	22,735	-	(38,620)	9,923
Adjustment on adoption of SSAP 12 (Revised)	-	-	-	-	(32)	(32)
At 1 July, 2003 (Restated)	6,068	19,740	22,735	-	(38,652)	9,891
Loss for the period	-	-	-	-	(2,206)	(2,206)
Exchange differences arising from translation of operations outside Hong Kong	-	-	-	(7)	-	(7)
At 31 December, 2003	<u>6,068</u>	<u>19,740</u>	<u>22,735</u>	<u>(7)</u>	<u>(40,858)</u>	<u>7,678</u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 31 December, 2003 HK\$'000	For the six months ended 31 December, 2002 HK\$'000
NET CASH USED IN OPERATING ACTIVITIES	(2,563)	(1,109)
NET CASH USED IN INVESTING ACTIVITIES	(210)	(132)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	<u>3,064</u>	<u>(3,050)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	291	(4,291)
CASH AND CASH EQUIVALENTS AT 1 JULY, 2003/2002	1,177	4,899
EFFECT OF FOREIGN EXCHANGE CHANGES	<u>(7)</u>	<u>45</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, 2003/2002, represented by bank balances and cash	<u><u>1,461</u></u>	<u><u>653</u></u>

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 condensed consolidated results for the six months ended 31 December, 2003, have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the unaudited condensed consolidated interim financial statements are consistent with the accounting policies used in the preparation of the Group's annual report as at 30 June, 2003.

In the current period, the Group has adopted the revised Statement of Standard Accounting Practice ("SSAP") 12, Income Taxes, issued by the Hong Kong Society of Accountants, ("HKSA"). The principal effect of the implementation of SSAP 12 (Revised), is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. The effect of the change is an increased debit to the income taxes on the current period of HK\$Nil (2002: HK\$16,000).

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Turnover represents the net amounts received and receivable for goods sold, less returns and allowances, by the Group to outsiders. An analysis of the Group's turnover and contribution to operating results and segment assets and liabilities by business segments and geographical markets is as follows:

For the six months ended 31 December, 2003 (Unaudited)

	The People's Republic of China HK\$'000	Hong Kong HK\$'000	Taiwan HK\$'000	South Korea HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
REVENUE						
External sales						
– Distributorship	209	25	–	2	–	236
– Retailing	–	1,154	–	–	–	1,154
Inter-segment sales	105	–	–	–	(105)	–
Total revenue	<u>314</u>	<u>1,179</u>	<u>–</u>	<u>2</u>	<u>(105)</u>	<u>1,390</u>
RESULT						
Segment result						
– Distributorship	64	8	–	1	–	73
– Retailing	–	888	–	–	–	888
Unallocated corporate income						336
Unallocated corporate expenses						(3,468)
Operating loss						(2,171)
Interest expense						(36)
Interest income						1
Loss for the period						<u>(2,206)</u>

Assets and liabilities at 31 December, 2003 (Unaudited)

	The People's Republic of China HK\$'000	Hong Kong HK\$'000	Taiwan HK\$'000	South Korea HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
ASSETS						
Segment assets	125	-	-	-	-	125
Unallocated corporate assets						19,177
						<u>19,302</u>
LIABILITIES						
Segment liabilities	-	-	-	-	-	
Unallocated corporate liabilities						11,624
						<u>11,624</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 China.

For the six months ended 31 December, 2002 (Unaudited) (Restated)

	The People's Republic of China HK\$'000	Hong Kong HK\$'000	Taiwan HK\$'000	Malaysia HK\$'000	Philippines HK\$'000	Others HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
REVENUE								
External sales	256	331	632	-	-	5	-	1,224
Inter-segment sales	-	2,079	-	-	-	-	(2,079)	-
								<u>1,224</u>
Total revenue	<u>256</u>	<u>2,410</u>	<u>632</u>	<u>-</u>	<u>-</u>	<u>5</u>	<u>(2,079)</u>	<u>1,224</u>
RESULT								
Segment result	<u>119</u>	<u>118</u>	<u>146</u>	<u>-</u>	<u>-</u>	<u>2</u>	<u>-</u>	385
Unallocated corporate expenses								(1,573)
Operating loss								(1,188)
Interest expense								-
Interest income								3
Taxation								(16)
								<u>(1,201)</u>
Loss for the period								<u>(1,201)</u>

Assets and liabilities at 31 December, 2002 (Unaudited) (Restated)

	The People's Republic of China HK\$'000	Hong Kong HK\$'000	Taiwan HK\$'000	Malaysia HK\$'000	Philippines HK\$'000	Others HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
ASSETS								
Segment assets	10	20	315	-	-	5	-	350
Unallocated corporate assets								22,998
Consolidated total assets								<u>23,348</u>
LIABILITIES								
Segment liabilities	-	-	-	-	-	506	-	506
Unallocated corporate liabilities								8,476
Consolidated total liabilities								<u>8,982</u>

4. OTHER REVENUE

Other Revenue for the six months ended 31 December, 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. LOSS FROM OPERATIONS

Loss from operations is arrived at after charging:

	(UNAUDITED) Six months ended 31 December, 2003 HK\$'000		(UNAUDITED) Three months ended 31 December, 2002 HK\$'000	
Director's remuneration	59	872	1	269
Other staff costs	1,129	860	568	566
Retirement benefit scheme contributions	50	45	24	21
Total staff costs	<u>1,238</u>	<u>1,777</u>	<u>593</u>	<u>856</u>
Auditors' remuneration	5	101	5	0
Depreciation	119	96	63	49
Amortisation of intangible assets	<u>571</u>	<u>494</u>	<u>286</u>	<u>249</u>
And after crediting:				
Written back of allowance for bad and doubtful debt	243	-	229	-
Bank interest income	<u>1</u>	<u>4</u>	<u>1</u>	<u>-</u>

6. FINANCE COSTS

	(UNAUDITED) Six months ended 31 December, 2003		(UNAUDITED) Three months ended 31 December, 2003	
	2002 (Restated)	2002 (Restated)	2002 (Restated)	2002 (Restated)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:				
Others	<u>36</u>	<u>-</u>	<u>36</u>	<u>-</u>

The Finance Cost was resulted from the interest expenses incurred from the shareholders' loans due to Profit Trick Holdings Ltd. and Rocket High Investments Ltd., being substantial shareholders of the Company, which are repayable on demand and bear interest at Hong Kong Dollar prime lending rate quoted by the Hongkong and Shanghai Banking Corporation Limited.

7. TAXATION

	(UNAUDITED) Six months ended 31 December, 2003		(UNAUDITED) Three months ended 31 December, 2003	
	2002 (Restated)	2002 (Restated)	2002 (Restated)	2002 (Restated)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax				
Hong Kong	-	-	-	-
PRC	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	-	-	-	-
Deferred tax				
Debit of last corresponding period	<u>-</u>	<u>16</u>	<u>-</u>	<u>16</u>
Taxation attributable to the Group	<u>-</u>	<u>16</u>	<u>-</u>	<u>16</u>

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

8. DIVIDEND

The directors do not recommend the payment of a dividend for the six months ended 31 December, 2003 (2002: Nil).

9. BASIC LOSS PER SHARE

The calculation of loss per share for the six months ended 31 December, 2003 is based on the net loss attributable to the shareholders of approximately HK\$2.2 million (2002: loss attributable to shareholders of approximately HK\$1.2 million) and the 606,800,000 (2002: 410,000,000) ordinary shares of the Company in issue during the period.

No diluted loss per share for the six months ended 31 December, 2003 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.

10. 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:

	(UNAUDITED) As at 31 December, 2003 HK\$'000	(AUDITED) As at 30 June, 2003 HK\$'000
Aged:		
0–60 days	66	226
61–120 days	1	–
Over 120 days	58	–
	<u>125</u>	<u>226</u>

11. SHARE CAPITAL

	Number of Shares of HK\$0.01 each	Amount HK\$'000
Authorised:		
At 31 December (Unaudited) and 30 June (Audited) 2003	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 31 December (Unaudited) and 30 June (Audited) 2003	<u>606,800,000</u>	<u>6,068</u>

12. DEFERRED TAX LIABILITY

At the balance sheet date, the Group has deferred tax liability of HK\$32,000 (2002: HK\$32,000) which represents the excess of tax allowances over depreciation charged in the financial statements.

The Group has also unused tax losses of HK\$3,686,000 (2002: HK\$2,899,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

13. OPERATING LEASE COMMITMENTS

	(UNAUDITED) As at 31 December, 2003 HK\$'000	(AUDITED) As at 30 June, 2003 HK\$'000
Minimum lease payments payable under operating leases in respect of rented premises	<u>3,894</u>	<u>1,319</u>
Within one year	2,015	1,100
In the second to fifth year inclusive	<u>1,436</u>	<u>170</u>
	<u>3,451</u>	<u>1,270</u>

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

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

14. RETIREMENT BENEFIT SCHEME

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

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

15. EMPLOYEE INFORMATION

As at 31 December, 2003, the Group had 13 employees (2002: 13) and staff cost (excluding directors' remuneration) amounted to approximately HK\$1 million (2002: HK\$0.86 million) whilst the directors' remuneration amounted to approximately HK\$59,000 (2002: HK\$0.87 million). Remuneration is determined by reference to market conditions and the performance, qualification and experience of individual employee. Other benefits include pre-IPO share option scheme as detailed in prospectus dated 4 February, 2002, contributions to statutory mandatory provident fund scheme to its employees in Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Six months ended 31 December, 2003

For the six months ended 31 December, 2003, the Group recorded a turnover of approximately HK\$1.4 million which represented an increase of approximately 14% when compared with those in the corresponding period last year. The increase in turnover was mainly contributed by the opening of two retail shops in Hong Kong. The performance from the distributorship was poor as the business environment around the world was not good for the relevant period and the Group was focus more in the local market by opening shops or gaining joint marketing and selling with major department stores or chain shops.

The gross profit margin was approximately 69% for the six months ended 31 December, 2003 whereas it was approximately 31% in the same period in previous year. The jump of approximately 38% was attributable to the direct selling to the end customers and the profit was not shared with the distributors.

Distribution costs incurred by the Group for the six months ended 31 December, 2003 amounted to approximately HK\$52,000, representing a decrease of approximately 87% as compared to those of previous period. The decrease was mainly due to the decrease of advertising, promotion and exhibition costs as the Group is pursuing cost saving strategy.

Administrative expenses incurred by the Group for the six months ended 31 December, 2003 amounted to approximately HK\$3.4 million, representing a decrease of approximately 31% as compared to those of previous period. The decrease was mainly come from the reduction of directors' salaries amounting to approximately HK\$820,000; the drop in the legal and professional fees, as the Group sought less expensive consultants in order to trim the expenditure, and the amount decreased in this regard was about HK\$545,000; and a write back of provision of doubtful debts on the return of stock valued approximately HK\$243,000 from a Taiwan distributor.

Finance cost of approximately HK\$36,000 was incurred by the Group for the six months ended 31 December, 2003 as the shareholders' loans of HK\$3.1 million was interest bearing at Hong Kong Dollar prime lending rate quoted by the Hongkong and Shanghai Banking Corporation Limited. Whilst there was no finance cost in previous corresponding period as the shareholders' loans were non-interesting bearing then.

As a result of the foregoing, the loss attributable to shareholders amounted to approximately HK\$2.2 million for the six months ended 31 December, 2003.

Liquidity and financial resources

The Group generally finances its operations with internally generated resources and advances from substantial shareholders, namely, XO-Holdings Limited, Profit Trick Holdings Limited and Rocket High Investments Limited; and advance from a related party. As at 31 December, 2003, the Group did not have any banking facilities.

As at 31 December, 2003, the shareholders' funds of the Group amounted to approximately HK\$7.7 million. Current assets amounted to approximately HK\$3 million, of which approximately HK\$0.8 million were inventories, approximately HK\$0.7 million were debtors, deposits and prepayments and approximately HK\$1.5 million were cash and bank deposits. The Group's current liabilities amounted to approximately HK\$2.4 million mainly comprised of accruals and other payables amounted to approximately HK\$1.7 million.

Significant investments and acquisitions

During the period ended 31 December, 2003 and the year ended 30 June, 2003, the Group had no material acquisitions other than the acquisition of the inventory from the Receiver of the bankruptcy of Blu Spa Canada Inc. ("BSC") amounting to approximately HK\$300,000, plus, additional cost of transportation for about HK\$178,000, therefore, the total amount was about \$478,000.

Capital commitments

As at 31 December, 2003 and 30 June, 2003, the Group had no material investment.

Contingent liabilities

The Group had no contingent liabilities as at 31 December, 2003.

Charges on Group's assets

As at 31 December, 2003, there were no any charges on the Group's assets.

Foreign exchange exposure

The Group mainly earns revenue and incurs cost in Hong Kong dollars, Canadian dollars, US dollars and RMB. The Directors consider the impact of foreign exchange exposure of the Group is not significant as the terms of purchases and sales contracts dealt with foreigners will consider the foreign exchange effect and will not bear unforeseeable exchange risk.

Loan structure of the Group

		As at 31 December, 2003 (Unaudited) HK\$'000	As at 30 June, 2003 (Audited) HK\$'000
	<i>Note</i>		
XO-Holdings Limited	1	3,572	3,572
Amount due to a related party	2	2,500	2,500
Profit Trick Holdings Limited	3	1,550	–
Rocket High Investments Limited	3	1,550	–
		<u>9,172</u>	<u>6,072</u>

Notes:

1. As at 31 December, 2003 and 30 June, 2003, 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.

2. As at 31 December, 2003 and 30 June, 2003, the amount due to a related party, which has a common shareholder of Rocket High Investments Limited, a substantial shareholder of the Company, amounted to HK\$2.5 million, which was unsecured, non-interest bearing and repayable upon demand.
3. As at 31 December, 2003, the amounts due to Profit Trick Holdings Ltd. and Rocket High Investments Ltd., being substantial shareholders of the Company, which are repayable on demand and bear interest at Hong Kong Dollar prime lending rate quoted by the Hongkong and Shanghai Banking Corporation Limited.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 31 December, 2003 (for the six months ended 31 December, 2002: Nil).

BUSINESS REVIEW

The Group currently operates two retail shops in Hong Kong. It will open other outlets soon, namely bargain centres for low valued products, counters at chain stores, such as Watson's, and department stores, such as Jusco. This local selling and promotion campaign will definitely attract more market attention and arise better customers' receptiveness of the Group's products.

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

To improve the cash flow position of the Group, the Group has obtained the irrevocable undertaking letter for twelve months starting from 6 October, 2003 of financial support from a substantial shareholder, Profit Trick Holdings Ltd, and certain substantial shareholders 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 BSC, the receiver has about to finish the whole transaction; it is expected to be settled in the near future.

The Group also continues to negotiate with overseas OEM manufacturers for sourcing of products using the Group's brand name; the focus is on the anti-aging, fabric mask and hydrating and nutrifying facial caring products. The Group also continues to expand its research and development effort to enhance the testing of new products and improve products' respective quality.

OUTLOOK

The Group has successfully emphasised its market expansion locally and internationally. With the opening of various outlets and carrying out of product promotions, the business is expected to be fruitful in the near future especially under the worldwide economy recovery. Its Zhuhai subsidiary will provide a strong supportive base for its entrance to the PRC market in the future, with the sound reaction from the potential distributors in Beijing and Shanghai, the Group is expecting the business performance will improve in the following year.

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 (the "Prospectus").

Business objectives up to 31 December, 2003

Actual business progress up to 31 December, 2003

Research and development on product

- Upgrade testing and experimental related equipment.
- Conduct a focus group study on the face serum formulas. Test and experiment with vitamin C & E rich ingredients on penetration dynamics and moisture retention factors are carried out.
- Conduct a focus group study on the facemask formula. Test and experiment on quick drying, deep cleansing and heat activating ingredients are carried out.
- Develop or research on anti-aging formulas to improve existing quality upon cell rejuvenation on moisture retention factors, stability test and packaging compatibility.
- Hong Kong head office will contact the manufacturers with high-tech machinery.
- Studies, testing and experiments are carried out with new Canadian subcontractors to secure product quality and room for improvements.
- The experiments are carried out with the help by chemists and consultants in the Asian Pacific region, new products will be launched when test is successful.
- The Group is recruiting experts on the anti-aging formula to upgrade the product quality to suit the Asian population.

Product and service launch

- Research on new line of products including ginger and cool muscles skin caring products.
- Research on new line of products such as fabric masks, hydrating and nutfying, and hydrating and anti-aging on the facial caring products.
- The cool muscle skin caring products have been launched with good market reaction. Experiments and testing are conducted for the ginger products, which will be launched to the market very soon.
- In negotiation with suppliers from the USA, Switzerland as well as other OEM suppliers on new products, is taking place.

**Business objectives up to
31 December, 2003**

**Actual business progress up to
31 December, 2003**

Distribution network

- Continue its market presence in the international markets, such as, China, Southeast Asia and other geographical markets where the Group does not have a presence.
- Continue its market penetration in Hong Kong via retail shops.
- Continue to identify prospective distributors in China and Korea.
- The Group will continue to enhance its sales by means such as direct sales, bargain centres and counters at chain stores and department stores to increase its market presence.

Advertising and promotion

- Continue to participate in international and regional cosmetic exhibitions and trade shows.
- In view of the unfavourable market condition, the Group did not participate in these events for the six months ended 31 December, 2003.

Purchase of raw materials

- To achieve good product quality and image, the Group continues to increase its level of raw materials and packaging materials to support product range and market expansion.
- The Group seeks potential suppliers to increase product variety.

COMPARISON OF USE OF PROCEEDS

The net proceeds from the public listing in February, 2002 were approximately HK\$17.5 million. During the period from 19 February, 2002 (date of listing) to 31 December, 2003, the Group has incurred the following amounts to achieve the business objectives as set out in the Prospectus:

Schedule of use of proceeds	Amount disclosed in the Prospectus <i>(HK\$ million)</i>	Actual amount used up to 31 December, 2003 <i>(HK\$ million)</i>
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	3.3	4.9
For research and development and product launch	2.5	0.9
For purchase of raw materials and packaging materials	1.8	3.2
For market development	1.2	1.1
For payment for acquisition of assets from B.S. International Inc.	1.2	1.2
For general working capital	2.0	8.5
Total	<u>16.9</u>	<u>24.7</u>

Use of proceeds exceeded the estimation made in the Prospectus by approximately HK\$7.8 million. The differences mainly came from the extra expenditures spent for general working capital, purchase of raw materials and packaging materials, and human resources. All the net proceeds from public listing has been used up to 31 December, 2002. The deviations of use of proceeds from the IPO compared to that as stated in the Prospectus were disclosed in the annual reports of the Company for the year ended 30 June, 2002 and 30 June, 2003, and the interim report of the Company for the six months ended 31 December, 2002.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

As at 31 December, 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 <i>(Note 1)</i>	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 the chief executive 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 Rules 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 Director	Date of grant	Exercise Price HK\$	Number of
			Shares Options Outstanding as at 31 December, 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 31 December, 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 31 December, 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 31 December, 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 31 December, 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 深圳市美達行貿易有限公司 for HK\$63,000 as at 31 December, 2003. The trade receivable is unsecured and will be repayable within two months from the period end. No collateral is made by it and no interest is charged on any of the trade receivable.

COMPETING INTERESTS

As at 31 December, 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 31 December, 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 interim results for the period ended 31 December, 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 provided 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
Blu Spa Holdings Limited
Chan Choi Har, Ivy
Director

Hong Kong, 9 February, 2004