



BLU SPA HOLDINGS LIMITED

富麗花 • 譜 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8176)

**FIRST QUARTERLY REPORT
FOR THE THREE MONTHS ENDED
30 SEPTEMBER 2004**

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 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 (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, treatment and services.
- The unaudited consolidated turnover of the Group for the three months ended 30 September 2004 was approximately HK\$0.66 million, representing an increase of approximately 7% as compared to the unaudited consolidated turnover of the Group of approximately HK\$0.62 million for the corresponding period in 2003.
- The net loss for the three months ended 30 September 2004 was approximately HK\$1.02 million, representing a decrease of approximately 10% as compared to the net loss of approximately HK\$1.13 million for the corresponding period in 2003.

The board of directors (the “Board”) of Blu Spa Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 30 September 2004 together with the comparative figures for the corresponding period in 2003 as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

		Three months ended	
		30 September	
		2004	2003
		(Unaudited)	(Unaudited)
			(Restated)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	658	615
Cost of sales		<u>(102)</u>	<u>(97)</u>
Gross profit		556	518
Other revenue	4	1	225
Distribution costs		(93)	(17)
Administrative expenses		<u>(1,435)</u>	<u>(1,862)</u>
Loss from operations	5	(971)	(1,136)
Finance costs	6	<u>(45)</u>	-
Loss before taxation		(1,016)	(1,136)
Taxation	7	<u>-</u>	<u>7</u>
Loss attributable to shareholders		<u>(1,016)</u>	<u>(1,129)</u>
Basic loss per share, in HK cents	9	<u>(0.17)</u>	<u>(0.19)</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 Company is an investment holding company.

The unaudited condensed consolidated results for the three months ended 30 September 2004 have been prepared on a going concern basis.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD/CHANGES IN ACCOUNTING PRACTICE

In the current period, the Group has adopted the following Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), the term of HKFRSs is inclusive of Statement of Standard Accounting Practice ("SSAPs") and Interpretations approved by the HKICPA:

SSAP 12 (Revised) Income taxes

In the current period, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized 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 2003 have been restated accordingly. The effect of the change is a decreased credit to the income taxes on the current period of HK\$Nil (2003: HK\$7,000).

3. TURNOVER

Turnover represents the net amounts received and receivable for goods sold and therapy services performed, 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 People's Republic of China ("PRC") (Unaudited) HK\$'000	Hong Kong (Unaudited) HK\$'000	Taiwan (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Elimination (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
For the three months ended						
30 September 2004						
External sales						
- Distributorship	315	50	-	12	-	377
- Retailing	-	281	-	-	-	281
Inter-segment sales	-	15	-	-	(15)	-
	<u>315</u>	<u>346</u>	<u>-</u>	<u>12</u>	<u>(15)</u>	<u>658</u>
Total revenue	<u>315</u>	<u>346</u>	<u>-</u>	<u>12</u>	<u>(15)</u>	<u>658</u>
For the three months ended						
30 September 2003						
External sales						
- Distributorship	25	1	-	2	-	28
- Retailing	-	587	-	-	-	587
Inter-segment sales	-	-	-	-	-	-
	<u>25</u>	<u>588</u>	<u>-</u>	<u>2</u>	<u>-</u>	<u>615</u>
Total revenue	<u>25</u>	<u>588</u>	<u>-</u>	<u>2</u>	<u>-</u>	<u>615</u>

4. OTHER REVENUE

Other revenue for the three months ended 30 September 2004 mainly represents bank interest received and sundry income received. Whilst the other revenue for the previous corresponding period in 2003 represented cash discount received from professional fee payment.

5. LOSS FROM OPERATIONS

	Three months ended 30 September 2004 (Unaudited) HK\$'000	Three months ended 30 September 2003 (Unaudited) HK\$'000
Loss from operations has been arrived at after charging:		
Director's remuneration	28	49
Other staff costs	367	560
Retirement benefit scheme contributions	18	26
	<hr/>	<hr/>
Total staff costs	413	635
Amortisation of intangible assets included in administrative expenses	286	286
Auditors' remuneration	-	-
Depreciation	66	56
Loss on disposal of plant and equipment	-	-
Allowance for inventory	-	-
And after crediting:		
Written back for bad and doubtful debts	-	14
Bank interest income	-	-
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6. FINANCE COSTS

	Three months ended 30 September 2004 (Unaudited) HK\$'000	Three months ended 30 September 2003 (Unaudited) HK\$'000
Interest on:		
Loan from shareholders	45	-
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The finance costs being the interest expense payable to shareholders' loans from Profit Trick Holdings Limited and Rocket High Investments Limited. The loan is repayable on demand and bear interest at Hong Kong Dollar prime lending rate quoted by HSBC from time to time.

7. TAXATION

	Three months ended 30 September 2004 (Unaudited) HK\$'000	Three months ended 30 September 2003 (Unaudited) (Restated) HK\$'000
Current tax		
Hong Kong	-	-
PRC	-	-
	<hr/>	<hr/>
Deferred tax		
Hong Kong	-	(7)
	<hr/>	<hr/>
Taxation attributable to the Group	-	(7)
	<hr/> <hr/>	<hr/> <hr/>

No provision for Hong Kong Profits Tax has been made for the three months ended 30 September 2004 and the corresponding period in 2003, as the Group had no assessable profits for the respective year.

Resulted from the adoption of the SSAP 12 (Revised), a deferred tax liability was resulted, which led to a credit to income taxes in the year of HK\$Nil (2003: HK\$7,000).

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.

8. DIVIDEND

The directors do not recommend the payment of a dividend for the three months ended 30 September 2004 (2003: Nil).

9. BASIC LOSS PER SHARE

The calculation of the basic loss per share for the three months ended 30 September 2004 is based on the loss attributable to shareholders of approximately HK\$1.02 million (2003: loss attributable to shareholders of approximately HK\$1.13 million) and on the weighted average of 606,800,000 (2003: on the weighted average 606,800,000) ordinary shares of the Company in issue during the period.

No diluted loss per share for the three months ended 30 September 2004 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.

10. RESERVES

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

	Share premium HK\$'000	Merger reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 July 2003	19,740	22,734	–	(38,620)	3,854
Adjustment on adoption of SSAP12 (Revised)	–	–	–	(64)	(64)
At 1 July 2003, as restated	19,740	22,734	–	(38,684)	3,790
Exchange differences arising from translation of operations outside Hong Kong	–	–	(8)	–	(8)
Loss for the period	–	–	–	(1,129)	(1,129)
At 30 September 2003, as restated	19,740	22,734	(8)	(39,813)	(2,653)
At 1 July 2004	19,740	22,734	(8)	(43,248)	(782)
Exchange differences arising from translation of operations outside Hong Kong	–	–	–	–	–
Loss for the period	–	–	–	(1,016)	(1,016)
At 30 September 2004	<u>19,740</u>	<u>22,734</u>	<u>(8)</u>	<u>(44,264)</u>	<u>(1,798)</u>

11. Contingent liabilities

(a) *Litigation Dispute with FCI*

The Group is engaged in a litigation with its former distributor, Fortune Chain Investments Limited ("FCI"). A writ of summons has been issued against the Company by FCI and was received by the Company on 9 March 2004. On that regard, the Company has made a detailed announcement on 12 March 2004. The Company has intended to contest these proceedings.

In the event that FCI's claims are successful, the Company would be liable to pay FCI:

- A sum of HK\$238,010.68 for buying back the “Blu Spa” brand inventory from FCI;
- HK\$4,536.00 for warehouse charges incurred up to February 2004;
- Damages to be assessed (for further warehouse charges to be incurred from March 2004 onwards);
- Interest on the amounts found due;
- Costs of the legal proceedings.

It is not possible to make an assessment on the final outcome of the case as the processes of exchange of documents and witness's statements are yet to be completed. As it was premature at such early stage of litigation to assess the outcome of the case, the Company, therefore, did not provide for any potential liabilities in relation to this litigation in current financial period (2003: Nil).

(b) *Dispute with DBS Asia*

The Group has received some unreasonable bills amounting to approximately HK\$245,000 from the immediate pass Sponsor, DBS Asia, which arose from the issue of reimbursement of legal cost incurred by DBS Asia who claimed that those legal expenses incurred was the obligation of the Group as they sought legal assistance from outside lawyers in relation to certain inquiries from the Stock Exchange.

However, the directors do not concur with DBS Asia that the Group is obliged to pay. The Group will liaise with DBS Asia and seek for the waiver of the expenses.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Three months ended 30 September 2004

For the three months ended 30 September 2004, the Group recorded a turnover of approximately HK\$0.66 million representing an increase of approximately 7% as compared to the turnover of the same period in previous year. The increase in turnover was mainly due to its maiden entry in the Hong Kong retail market.

Gross profit margin of approximately 84% for the three months ended 30 September 2004, representing nil change compared to that of the same period in previous year.

Other revenue earned by the Group for the three months ended 30 September 2004 amounted to approximately, HK\$1,000, which mainly represents the bank interest received and sundry income received, representing a decrease of approximately 99.6% as compared to that of the same period in previous year. The amount in the same period of the previous year mainly represents the cash discount received from professional fee payment amounting to approximately HK\$0.225 million.

Distribution cost incurred by the Group for the three months ended 30 September 2004 amounted to approximately HK\$93,000 representing an increase of approximately 547% as compared to those of the previous period (HK\$17,000) which was due to the Group carried out various selling and promotional campaigns to strengthening the retail brand recognition of the Group.

Administrative expenses incurred by the Group for the three months ended 30 September 2004 amounted to approximately HK\$1.44 million, representing a decrease of approximately 23% as compared to those of prior period. The decrease was mainly due to the Group's tight cost control policy to reduce cost, such as legal and professional fees, staff salary, and printing & stationary expenses.

The loss attributable to shareholders amounted to approximately HK\$1.02 million for the three months ended 30 September 2004, representing an improvement of approximately HK\$0.113 million, 10% decrease as compared to the loss attributable to shareholders for the corresponding period in previous year. This improvement was due to the effective control of overall operating cost of the Group.

Business review

The Group currently operates two retail shops in Hong Kong. In the period under review, the Group carried out various selling and promotional campaigns to strengthening the retail brand recognition of Blu Spa and the overall awareness of its Groups' products in both existing and new markets, gradually converting existing stores to our new and appealing "younger customer" store format, and projecting a clear quality image and reputation for reliability to our customer. With the direct selling to the end users through our stores, the Group was able to achieve a higher profit margin without the intervention of any intermediaries such as distributors. The Group was in addition able to provide a comprehensive range of beauty care services to the end users by integrating unique beauty care therapy and treatment experience with its beauty care products meeting the ever changing demand of consumers.

Whereas for the relaxed travel policy for PRC tourist visiting Hong Kong will be further extended in 2004. In addition to the residents of Guangdong province, Shanghai, Beijing, and other three provinces altogether a population of 43 million people will be allowed to travel to Hong Kong from 1st July 2004. The projected benefits for retail stores are huge and those individual travelers will have higher spending power than those of group travelers.

With the effect of its brand building and promotional efforts both in Hong Kong and PRC, the Group had been able to attract potential distributors in the PRC, and South-east Asian region. By July 2004, the Group has concluded several distributor agreements in countries/territories including, Guangzhou, Macau, Taiwan and Vietnam. The Group will continue to identify and seek prospective distributors in China, South Korea, Thailand, Malaysia and Japan.

The Group also continues to negotiate with China and oversea OEM manufacturers for sourcing of products using the Group's brand name; the focus is on anti-aging, fabric mask and hydrating and nourishing facial caring productions, as well as research on new line of products including ginger and cool muscles skin caring products. Some of the suppliers have been contacted and we are doing the screening process. The Group also continues to expand its research and development effort to enhance the testing of new products and improve their respective quality.

OUTLOOK

The Group has successfully emphasized its market expansion locally and internationally. With the opening of various retail stores and carrying out of product promotions and developing closer relationships with our exclusive distributorship business. We strongly believe our business is expected to be fruitful in the near future especially under the global economy recovery, the relaxation of travel policy for PRC tourists visiting Hong Kong, the consumer spending is increasing and the prestige beauty care products will achieve higher turnover. The Group's Zhuhai subsidiary will provide a strong supportive base for its entrance to the PRC market in the future.

The Group will also try its best to providing not only excellence beauty care products to its customers, but also training our sales staffs in terms of Mandarin skill and product knowledge in order to act as personal consultants to our customers for their beauty needs. The Group is expecting the business performance to improve in the coming future.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

As at 30 September 2004, 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%

Notes:

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 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 Share Options Outstanding as at 30 September 2004
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 2004, 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 2004, the register of substantial shareholders required to be maintained under Section 336 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 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 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 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 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 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 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 2004.

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 period ended 30 September 2004.

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, a major amount of about HK\$68,000 as trade receivables due from Sogo Hong Kong Co., Ltd was recorded as at 30 September 2004. This amount has not yet taken the effect of the accrued dealership commission outstanding to it.

COMPETING INTERESTS

During the period under view, 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 2004 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 established an audit committee (the "AC") on 10 December 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. At the date of this report, the AC comprises Mr. Chan Shun Kuen, Eric and Ms. Louie Yuen Ki, Janet, both of whom are independent non-executive directors (the "INED") of the Company. The Group's financial statement for the year ended 30 September 2004 have been reviewed by the AC, 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 18 August 2004, there has been only two INEDs and AC member; the Group has breached the requirement of the GEM Listing Rules of 5.05 (subject to transitional provision of Rule 5.08) and 5.28 to retain at all times three INEDs and a minimum of three members to comprise the AC. The Stock Exchange indicated that, it reserves the right to take actions against the Company and the directors.

Since its establishment, the AC 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 5.34 to 5.45 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, 15 November 2004

As at the date hereof, the Board comprises of Ms. Chan Choi Har, Ivy, Mr. Wu Wenzhi, and Mr. Chan Kei Kon are executive directors, Mr. Chan Shun Kuen, Eric and Louie Yuen Ki, Janet, both of whom are independent non-executive directors.