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)

THIRD QUARTERLY RESULT REPORT
FOR THE NINE MONTHS ENDED
31 MARCH 2005

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 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 the Company. 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 nine months ended 31 March 2005 was approximately HK$1.25 million, representing a decrease of approximately HK$0.65 million, or approximately 34% as compared to the unaudited consolidated turnover of the Group of approximately HK$1.9 million for the corresponding period in 2004.

- The net loss for the nine months ended 31 March 2005 was approximately HK$3.8 million, representing an increase in loss of approximately HK$0.2 million, or approximately 5% as compared to a net loss of approximately HK$3.6 million for the corresponding period in 2004.

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 (together, the "Group") for the three months and nine months ended 31 March 2005 together with the comparative figures for the corresponding periods in 2004 as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	**For the three months ended 31 March 2005** ***HK$'000***	For the three months ended 31 March 2004 *(Restated)* *HK$'000*	**For the nine months ended 31 March 2005** ***HK$'000***	For the nine months ended 31 March 2004 *(Restated)* *HK$'000*
Turnover	*3*	**199**	554	**1,245**	1,944
Cost of sales		**(11)**	(65)	**(286)**	(494)
Gross profit		**188**	489	**959**	1,450
Other revenue	*4*	**14**	1	**15**	336
Distribution costs		**–**	(102)	**(31)**	(155)
Administrative expenses		**(1,496)**	(1,730)	**(4,576)**	(5,144)
Loss from operations	*5*	**(1,294)**	(1,342)	**(3,633)**	(3,513)
Finance costs	*6*	**(67)**	(39)	**(163)**	(75)
Loss before taxation		**(1,361)**	(1,381)	**(3,796)**	(3,588)
Taxation	*7*	**–**	7	**–**	20
Loss attributable to shareholders		**(1,361)**	(1,374)	**(3,796)**	(3,568)
Basic loss per share (in HK cents)	*9*	**(0.23)**	(0.23)	**(0.63)**	(0.59)

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 nine months ended 31 March 2005 have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the unaudited consolidated financial statements are consistent with accounting policies used in the preparation of the Group's annual report for the year ended 30 June 2004.

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 2004 have been restated accordingly. The effect of the change is a decreased credit to the income taxes on the current period of HK$Nil (2004: HK$20,000).

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 and contribution to operation results by business segments and geographical markets is as follows:

	The PRC	**Hong Kong**	**Taiwan**	**Others**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the nine months ended 31 March 2005 (Unaudited)					
Distribution	99	474	–	15	588
Inter-segment Elimination	(26)	(46)	–	–	(72)
Retailing	–	729	–	–	729
	73	1,157	–	15	1,245
For the nine months ended 31 March 2004 (Unaudited)					
Distribution	329	28	–	2	359
Inter-segment Elimination	(105)	–	–	–	(105)
Retailing	–	1,690	–	–	1,690
	224	1,718	–	2	1,944

4. OTHER REVENUE

Other Revenue for the nine months ended 31 March 2005 mainly represents joint promotion income with other vender. Whilst the Other Revenue for the previous corresponding period in 2004 represented the cash discount received from professional fee payment.

5. LOSS FROM OPERATIONS

Loss from operations is arrived at after charging:

	(UNAUDITED) Three months ended 31 March		**(UNAUDITED) Nine months ended 31 March**	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Director's remuneration	**25**	30	**79**	89
Other staff costs	**400**	499	**1,078**	1,628
Retirement benefit scheme contributions	**16**	23	**51**	73
Total staff costs	**441**	552	**1,208**	1,790
Auditors' remuneration	**–**	–	**3**	5
Depreciation	**68**	66	**201**	185
Amortization of intangible assets	**286**	286	**857**	857
And after crediting:				
Written back of allowance for bad and doubtful debt	**–**	–	**–**	243
Bank interest income	**–**	1	**1**	2

6. FINANCE COSTS

	(UNAUDITED) Three months ended 31 March		**(UNAUDITED) Nine months ended 31 March**	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Interest on:				
Others	**67**	39	**163**	75

The Finance Cost was resulted from the interest expenses incurred from the shareholders' loans due to Profit Trick Holdings Limited and Rocket High Investments Limited, 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) Three months ended 31 March		(UNAUDITED) Nine months ended 31 March	
	2005	2004	**2005**	2004
		(Restated)		*(Restated)*
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Current tax				
Hong Kong	–	–	–	–
PRC	–	–	–	–
	–	–	–	–
Deferred tax				
Credit of last corresponding period	–	(7)	–	(20)
Taxation attributable to the Group	–	(7)	–	(20)

No provision for Hong Kong Profits Tax has been made for the nine months ended 31 March 2005 and the corresponding period in 2004, as the Group has no assessable profits for the respective period.

8. DIVIDEND

The directors do not recommend the payment of a dividend for the nine months ended 31 March 2005 (2004: Nil).

9. BASIC LOSS PER SHARE

The calculation of loss per share for the three months and nine months ended 31 March 2005 is based on the net loss attributable to the shareholders of approximately HK$1.4 million and HK$3.8 million respectively (2004: net loss attributable to shareholders of approximately HK$1.4 million and HK$3.6 million respectively) and on the weighted average of 606,800,000 (2004: on the weighted average of 606,800,000) ordinary shares of the Company in issue during the period.

No diluted loss per share for the nine months ended 31 March 2005 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. 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 2003	19,740	22,735	–	(38,620)	3,855
Adjustment on adoption of SSAP 12 (Revised)	–	–	–	(64)	(64)
At 1 July 2003 (Restated)	19,740	22,735	–	(38,684)	3,791
Loss for the period	–	–	–	(3,568)	(3,568)
Exchange differences arising from translation of operations outside Hong Kong	–	–	(7)	–	(7)
At 31 March 2004 (Restated)	19,740	22,735	(7)	(42,252)	216
At 1 July 2004	19,740	22,735	(7)	(43,248)	(780)
Loss for the period	–	–	–	(3,796)	(3,796)
Exchange differences arising from translation of operations outside Hong Kong	–	–	–	–	–
At 31 March 2005	19,740	22,735	(7)	(47,044)	(4,576)

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 (2004: 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

Nine months ended 31 March 2005

For the nine months ended 31 March 2005, the Group recorded a turnover of approximately HK$1.25 million, represented a decrease of approximately 34% when compared with those in the corresponding period in 2004. The decrease in turnover was mainly due to keen competition on different range of botanical personal care products for the relevant period and ineffective marketing activities performed by the Group. The performance from the distributorship remains unfavourable during the relevant period. The Group in turn concentrated more on the local market by opening shops or gaining joint marketing and selling with co-operative parties in Hong Kong.

The gross profit margin was approximately 77% for the nine months ended 31 March 2005 whereas it was approximately 75% in last corresponding period. The slightly increase of approximately 2% was attributable to the direct sales to the end customers, without profit sharing with the distributors.

Distribution costs incurred by the Group for the nine months ended 31 March 2005 amounted to approximately HK$31,000, represented a decrease of approximately 80% compared with that of the last corresponding period. The significant decrease was mainly due to the tight budget on advertising, promotion and exhibition events.

Administrative expenses incurred by the Group for the nine months ended 31 March 2005 amounted to approximately HK$4.6 million, representing a decrease of approximately 11% as compared to those of previous period. The decrease was mainly due to our Group's effective policy of reducing cost, such as legal and professional fees, staff salary, rent and rate, and printing and stationary expenses.

Finance Costs of approximately HK$163,000 incurred by the Group for the nine months ended 31 March 2005 as the shareholders' loans of HK$5.1 million bore interest at Hong Kong Dollar prime lending rate quoted by the Hongkong and Shanghai Banking Corporation Limited. As a result, loss attributable to shareholders amounted to approximately HK$3.8 million for the nine months ended 31 March 2005.

Contingent liabilities

As stated in Note 11 of Notes to the Financial Statements, the Group has disputed with its former distributors and Sponsor, but since no legal actions has been taken, the Group had no contingent liabilities.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the nine months ended 31 March 2005 (for the nine months ended 31 March 2004: Nil).

BUSINESS REVIEW

The Group currently operates two retail shops and one foot reflexology therapy in Hong Kong. In the period under review, the Group continues to aim at sustained and stable development of its own products and quality as well as the reputation of Blu Spa brand. The Group carried out various sales and promotional activities during the period, unfortunately, its still given the unsatisfactory performance from our expectation.

Similar to the past few years, the key business issue for the Group remains unsolved. The Group needs working funds to sustain its business in the forthcoming years. The personal care treatment products and services business was operating in a much more combative market environment, especially in the past six months. Not only many giant multi-nation beauty and personal products companies have been maturely developed into the market, but also more and more new competitors jumped into the market and competition is seemed to be unhealthy. In order to enhance the overall awareness of its Groups' products and services in both existing and new markets, the Group have to be continually put much marketing resources into an advertising and promotion events. On one hand, we needed to maintain a healthy financial position with tight cost control measures, e.g. rental cost is always the key factor that will affect our network expansion, but on the other hand, we had to sustain our advertising and promotion budget for establishing brand loyalty and strengthening our market positioning in the long term.

OUTLOOK

Under the global economy recovery, the prevailing positive factors will remain. The growth in tourism, the rebound in local spending, as well as the unemployment is expected to improve significantly in 2005. The retail market in Hong Kong may become more attractive when increasing number of attractions such as casinos in Macau, Disneyland, the ASEAN games and the 2008 Olympic games in Beijing. The recovery in the local economy also makes us be optimistic about the future. Undoubtedly China is the world's fastest growing market for both retail and beauty services. The Group continues to view the Mainland as its principal market for its retail merchandise, direct distribution channel must be developed within the country. Hence, the Group's Zhuhai subsidiary will be a good navigator for its entrance to the PRC market.

The Group is determined to overturn its turnover situation in the year to come. Several strategic planning shall be formulated. For instant, we are employing more aggressive pricing strategies and marketing campaigns to promote the package sales of our products and beauty treatment services. In addition, we are broadening our service coverage to further enhance our one-stop service image. E.g. our newly established foot reflexology therapy situated in Cosmopolitan Hotel, Wanchai, providing not only foot reflexology services, but also beauty treatment services for our valuable customers. The Group is currently searching for good locations and we pay much attention in entering new leasing agreement with the landlords in order to keep the rental cost at a reasonable proportion of the Group's turnover.

The Group has an optimistic view on Hong Kong economic prospect. The sale in the second half of 2005 should be improved although the funding problems might still exist throughout the entire year. The Group will continue to reinforce its commitment in improving its performance in years ahead. The management of the Company will also continue to exercise stringent cost control, quality assurance, and expense control to minimize operating costs through enhanced flexibility and efficiency.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

As at 31 March 2005, 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 5.46 to 5.67 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 5.46 to 5.67 of the GEM Listing Rules.

Save as disclosed above, none of the Directors or their associates as well as the chief executives 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

Name of Director	Date of grant	Exercise Price *HK$*	Number of Shares options Outstanding as at 31 March 2005
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 March 2005, 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 March 2005, 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 *(Note 1)*	110,657,870	18.24%
XO-Holdings Limited (Note 2)	110,657,870	18.24%
Wah Hing Consultants Limited *(Notes 2 and 3)*	110,657,870	18.24%
Heung See Wai, Angela *(Note 3)*	110,657,870	18.24%
Rajewski, Natalie N. *(Note 4)*	84,099,330	13.86%
Eastpoint Resources Limited *(Note 4)*	84,099,330	13.86%
Well Arts Enterprises Limited *(Note 5)*	84,099,330	13.86%
Wai Suk Chong, Helena *(Note 6)*	107,132,600	17.66%
Profit Trick Holdings Limited *(Note 6)*	107,132,600	17.66%
David Chiu *(Note 7)*	146,151,360	24.09%
Rocket High Investments Limited *(Note 7)*	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 March 2005.

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 nine months ended 31 March 2005.

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, no material trade receivable as at 31 March 2005.

COMPETING INTERESTS

As at 31 March 2005, 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") had 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 2005 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 5.28 to 5.33 of the GEM Listing Rules. At the date of this report, the AC comprises Mr. Chan Shun Kuen, Eric, Ms. Louie Yuen Ki, Janet, and Mr. Yeung Mario Bercasio, who are the independent non-executive directors of the Company. The Group's third quarterly results for the period ended 31 March 2005 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 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
Blu Spa Holdings Limited
Chan Choi Har, Ivy
Director

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, Ms. Louie Yuen Ki, Janet and Mr. Yeung Mario Bercasio are independent non-executive directors.

Hong Kong, 12 May 2005