



PURE PLANT AND SEA ESSENCES FOR TODAY'S LIFESTYLE

富麗花 • 譜控股有限公司
BLU SPA HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8176)



Annual Report 2006

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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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.

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Company Information

LEGAL NAME OF THE COMPANY:

Blu Spa Holdings Limited

BOARD OF DIRECTOR

EXECUTIVE DIRECTORS:

Wu Wenzhi (*Chairman*)
Chan Choi Har, Ivy (*Vice Chairman and CEO*)

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Chan Shun Kuen, Eric
Lam Wai Pong
Yeung Mario Bercasio

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Poon Kwok Hing, Albert, *CPA*

COMPLIANCE OFFICER:

Chan Choi Har, Ivy

AUTHORISED REPRESENTATIVES:

Chan Choi Har, Ivy
Poon Kwok Hing, Albert

AUDIT COMMITTEE:

Chan Shun Kuen, Eric
Lam Wai Pong
Yeung Mario Bercasio

REMUNERATION COMMITTEE

Chan Shun Kuen, Eric
Lam Wai Pong
Yeung Mario Bercasio

AUTHORISED PERSON TO ACCEPT SERVICES OF PROCESS AND NOTICES:

Chan Choi Har, Ivy

REGISTERED OFFICE:

Century Yard, Cricket Square,
Hutchins Drive, P.O. Box 268 1GT
George Town, Grand Cayman,
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS:

Room 2303, 23/F, World-Wide House,
19 Des Voeus Road, Central, Hong Kong.

AUDITORS:

HLM & Co.
Certified Public Accountants

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE:

Secretaries Limited
Level 25, Three Pacific Place,
1 Queen's Road East,
Hong Kong

PRINCIPAL BANKERS:

Hang Seng Bank
The Bank of East Asia Limited

WEBSITE ADDRESS:

www.bluspa.com

STOCK CODE

8176

Chairman's Statement

On behalf of the board of directors (the "Board"), I am pleased to present to the Shareholders the audited consolidated result of the Company and its subsidiaries (together, the "Group") for the year ended 30 June 2006 for their consideration.

OPERATING RESULTS

During the year under review, the Group recorded a total turnover of approximately HK\$133,000, representing a 91.5% decrease as compared to the last year (2005: HK\$1,564,000). Loss for the year ended 30 June 2006 was approximately HK\$4,928,000, representing a 13.0% decrease year-on-year (2005: HK\$5,668,000). Basic loss per share for the year ended 30 June 2006 was HK\$0.81 cents, decreased by HK\$0.12 cents on account of increase in profitability of approximately 12.9% (2005: HK\$0.93 cents). The gross profit margin for the year ended 30 June 2006 decreased from 88.3% to 80.8%.

MARKET OVERVIEW

For the year ended 30 June 2006, the competition in beauty care and skin care industry continued to be intense. However, the Group believes that the prospects for the prestige beauty care products/service market will be exciting in the near term future with the strong recovery of the global economy and the continuing growth in the consumer spending, particularly in the PRC market. In light of this market trend, the Group had revamped its marketing strategy by redirecting its focus from retail business to distributorship business. The Group entered into two distribution agreements with distributors in the PRC and the Taiwan respectively. The Group will continue its efforts to identify and recruit prospective distributors in key regional markets of the PRC and economically developed countries in the Asia Pacific region.

OPERATING OVERVIEW

During the period under review, the Group continued to be in need of financial resources otherwise required to pursue more aggressive marketing activities such as advertisements that help promote stronger market presence. The turnover declined by about 91.5%. The Group had been actively seeking fresh funding from substantial shareholders and inviting strategic investors to inject funds to strengthen the current operations. The new fund was intended to be applied to compete for market share and to invest in the research and development in order to improve the quality of Blu Spa branded products and services. Notwithstanding the less than satisfactory business performance, the Group continued to provide innovative products and valued-added quality services to the customers.

The Group's gross profit margin was approximately 80.8% for the year ended 30 June 2006 representing a decrease of approximately 7.5% as compared to 88.3% of last year.

Chairman's Statement

Given the increasing attractions of Hong Kong, Macau and China due to the booming casino industry in Macau, Hong Kong Disneyland, Hong Kong Ocean Park and the 2008 Olympic Games in Beijing, the Group is confident of future sustained and strong growth in the Group's turnover. The Group still directed its special focus to China market, which remained the fastest growing market for beauty care products and services. The Group continued to rely on its subsidiary, Zhuhai Fulihua Cosmetics Co., Limited ("ZHBS") as a cost effective means for penetrating the mainland market.

The retailing sales decreased by 95.7% from HK\$1,010,000 to HK\$43,000, as a result of the Group's revamped strategy of concentrating on distributorship business. The Group continued to tighten the selection process by adopting more stringent requirement for distributors in China. ZHBS is well positioned as the marketing arm of the Group to penetrate the PRC market and to better manage the distributors there. Given the terms of the distributor agreements entered into with new distributors, the performance in the distributorship business segment is expected to improve significantly in the near future. Apart from the two distributor agreements entered into with distributors in the PRC and Taiwan, negotiations for new distributorship are underway and the related agreements are expected to be finalized in the near future.

At the same time, the Group had achieved cost saving as a result of additional measures adopted during the year under review, the legal and professional fee, rent and rate expenses and salary decreased by 16.8%, 63.1% and 51.3% respectively. The Group had enlisted the service of several manufacturers and co-packers of the botanical beauty care products in Canada, after a long period of screening process. The Group is satisfied with quality of the products produced by these manufacturers and co-packers. They will manufacture the finished products in bulk according to the formulations provided by the Group against their undertaking of confidentiality. The bulk products will then be bottled either in Hong Kong or China with packaging material sourced in the Asian region.

However, due to the low level of turnover and high fixed operating cost, the Group continued to rely on loans from substantial shareholders that resulted in the increase of interest expenses by 91.3%, from HK\$245,000 to HK\$468,000.

PROSPECTS AND APPRECIATION

With the rebound of the global economy and continuous steady growth in the PRC market, the Group is optimistic of its future prospects. The Group will continue to develop and introduce new innovative beauty care products and therapy/treatments for the end-users. The Group will continue to concentrate its marketing efforts on brand building, promoting women new-age holistic lifestyle concepts and marketing new innovative prestige botanical beauty care products and services to the customers both directly and through franchising out to the distributors.

Chairman's Statement

The Group will continue its efforts to identify and recruit potential distributors with the aim to introduce its corporate image and innovative high performance beauty care products in the target markets. As the prospective distributors are required to have the capability and experience in marketing cosmetics and skin care products in their local markets, the formation of business co-operation by the Group with local distributors will definitely help expand its geographical markets in the near future.

Faced with the intense competition and ever changing market demand, the Group will continue to allocate significant resources to product research and development and to search for new and better ingredients. The Group will further continue to strengthen its customer relations particularly it will value customers' feedback and opinion to help shape the future corporate and product direction and development.

On behalf of the Board, I would like to express my sincere appreciation to our shareholders and customers for their continuous support and to our fellow directors and staff of the Group for their dedication and contribution towards the successful performance of the Group. We will make our best effort in developing our business to produce good results and maximize return for our shareholders in the years to come.

Wu Wenzhi

Chairman

Hong Kong, 26 September 2006

Management Discussion and Analysis

FINANCIAL REVIEW

Results

For the year ended 30 June 2006, the Group recorded a turnover of approximately HK\$133,000, representing a decrease of approximately 91.5% as compared to the last year (2005: HK\$1,564,000). This significant contraction in business during the financial year was attributable to the Group's transition from retail business to distributorship business pursuant to its revamped marketing strategy. During this transitional period, retail business recorded a minimal sale income, as a result of the Group re-deploying its resources to the development of distributorship business.

The Group's gross profit margin was approximately 80.8% for the year ended 30 June 2006 as compared to the last year (2005: 88.3%). Other revenue earned by the Group for the year ended 30 June 2006 was approximately HK\$482,000, representing an increase of approximately 20 times as compared to the last year (2005: HK\$23,000).

The Group's administrative expense was approximately HK\$5,057,000 for the year ended 30 June 2006, representing a decrease of approximately 25.9% as compared to the last year (2005: HK\$6,825,000).

The Group's finance cost was approximately HK\$468,000 for the year ended 30 June 2006, representing an increase of approximately 91.3% as compared to the last year (2005: HK\$245,000). As at 30 June 2006, there were shareholders' and directors' loans of approximately HK\$7,935,000, which were interest bearing at Hong Kong Dollar prime lending rate as quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time.

For the year ended 30 June 2006, the loss attributable to shareholders of the Group amounted to HK\$4,928,000, representing a decrease of approximately HK\$740,000 or an improvement of approximately 13.0% as compared to the last year (2005: HK\$5,668,000). This improvement was due to the effective control of the overall operating expenses of the Group.

Management Discussion and Analysis

Loan structure of the Group

	Notes	2006 HK\$'000	2005 HK\$'000
XO-Holdings Ltd.	1	3,572	3,572
Amount due to a related party	2	2,500	2,500
Profit Trick Holdings Ltd.	3	1,550	1,550
Rocket High Investments Ltd.	3	3,850	3,750
Amounts due to directors	4	2,812	558
		<u>14,284</u>	<u>11,930</u>

Notes:

1. As at 30 June 2006 and 2005, the amount due to a shareholder, XO-Holdings Limited, amounted to approximately HK\$3,572,000, is 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\$3,572,000 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 30 June 2006 and 2005, the amount due to a related party, which has a common shareholder with Rocket High Investments Limited, a substantial shareholder of the Company, amounted to HK\$2,500,000, is unsecured, non-interest bearing and repayable upon demand.
3. As at 30 June 2006 and 2005, the amount due to Profit Trick Holdings Limited and Rocket High Investments Limited, being substantial shareholder of the Company, are repayable on demand and interest bearing at Hong Kong Dollar prime lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited.
4. As at 30 June 2006, the amounts due to directors including an amount of HK\$2,535,391 (2005: HK\$281,836) which is repayable on demand and bear interest at Hong Kong Dollar prime lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited. The remaining balances are unsecured, non-interest bearing and repayable on demand.

Saved as mentioned above, the Group did not have any outstanding loan capital, bank overdrafts and liabilities under acceptance or other similar indebtedness, debentures, mortgages, charges, or loans or acceptance credits, guarantees or other material contingent liabilities as at the close of the business on 30 June 2006 and 30 June 2005 respectively. The Group did not have any funding and treasury policies, or financial instruments for hedging purpose.

Management Discussion and Analysis

Significant investments and acquisitions

For the year ended 30 June 2006, the Group had no material significant investments and acquisitions of subsidiaries and affiliated companies (2005: Nil).

Charges on group assets

As at 30 June 2006, the Group did not have any charges on the Group's asset (2005: Nil).

Foreign exchange exposure

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

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, advance from a related party and loans from directors. As at 30 June 2006, the Group did not have any banking facilities.

As at 30 June 2006, there was a deficit in the shareholders' funds amounting to approximately HK\$5,301,000 (2005: HK\$380,000). Current assets amounted to approximately HK\$682,000, of which approximately HK\$6,000 were inventories, approximately HK\$80,000 were trade receivables; approximately HK\$526,000 were deposits and other receivables and approximately HK\$70,000 were bank balances and cash. The Group's current liabilities amounted to approximately HK\$15,265,000 which mainly comprised of accruals and other payables amounted to approximately HK\$4,280,000; amounts due to directors amounted to approximately HK\$2,812,000; amounts due to related companies amounted to approximately HK\$2,593,000; amounts due to shareholders amounted to approximately HK\$5,400,000 and obligation under finance lease amounted to approximately HK\$80,000.

Management Discussion and Analysis

Gearing ratio

As at 30 June 2006, the Group's gearing ratio, expressed as percentage of total borrowings (comprising amounts due to directors, shareholders and related companies of the Company) over total assets was 106.1% (2005: 77.3%). The Directors believe that the gearing ratio is at a high level for the Group and the Group was actively seeking strategic investors to inject fresh funds to repay the loans and increase its cash position.

Details of future plans for material investment or capital assets

The Directors currently do not have any future plans for material investment of capital assets.

Employees and Remuneration Policies

As at 30 June 2006, the Group had 14 employees (2005: 4) and staff costs (excluding directors' remuneration) amounted to approximately HK\$717,000 (2005: HK\$1,473,000) whilst the directors' remuneration amounted to approximately HK\$33,000 (2005: HK\$104,000). 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 the prospectus dated 4 February 2002, contributions to statutory mandatory provident fund scheme to its employees in Hong Kong.

Wu Wenzhi is the chairman of the Group, he is mainly responsible for the Group's expansion in the PRC market. The Executive Director, Chan Choi Har, Ivy, continues to manage the marketing to the global market via the distributorship.

The Group has continued and will continue to employ additional operational and business development personnel to strengthen the operation of the Group and to promote the Group's products.

Management Discussion and Analysis

BUSINESS REVIEW

With the aim to minimize operating costs, the Group terminated its retail business in Hong Kong by franchising out to a distributor who continued to provide Blu Spa brand products and services to the end-users. The distributor has been operating beauty care products and services business in Hong Kong for many years with retail outlets located in the Central, Tsim Sha Tsui and Mongkok. The distributor ceased its operation of the outlet in Beaute@Sogo in October 2005 when Beaute@Sogo was closed down for renovation. In the period under review, the Group had redirected its focus to the distributorship business. The Group is optimistic about the strong and steady economic recovery in Hong Kong retail market particularly in the beauty care products and service segment.

Given the relaxed travel policy applicable to the PRC tourists visiting Hong Kong, the number of visitors including both the group and individual travelers from the PRC continued to grow at a steady pace. The retail market in Hong Kong had particularly achieved a 25%-35% growth in business attributable mainly due to the more affluent individual travelers having stronger spending power as compared with group travelers.

By stepping up our brand building and promotional efforts in both Hong Kong and the PRC, the Group was able to attract potential distributors in the PRC, and South-east Asian region. The Group will continue to identify and actively seek prospective distributors in key cities such as Shenzhen, Guangzhou Beijing and Shanghai of China, South Korea, Thailand and Dubai.

At the same time, the Group continued its efforts to negotiating with China and oversea OEM manufacturers, sourcing high quality botanical beauty care products, using the Group's brand name with special focus on anti-aging, whitening fabric mask and hydrating and nutritifying face care products, while continuing its research and development on new and improved formulations for existing products. Having established initial contact with a small group of suppliers, the screening process was progressing. The Group continued to intensify its research and development efforts on high quality new innovative skin care products and improvement of product quality.

Prospects

Given the strong and steady global economic recovery and the continuous economic growth in the PRC market, the Group is optimistic about its future prospects. The Group will continue to develop and introduce new innovative botanical beauty care products and therapy/treatment services for the end users. In addition, the Group will continue its efforts in brand building and advertisement designed to promote women new-age holistic lifestyle concepts and to introduce new innovative prestigious botanical beauty care products and services to the consumers. The Group will continue its collaboration with local co-operative partners to organize co-branding joint promotional campaigns aimed at increasing market awareness of the Blu Spa brand.

In addition to carrying out product promotions and developing closer working relationship with our exclusive distributors, the Group has placed strong emphasis on market expansion both locally and internationally. In March and April 2006, the Group entered into two distributor agreements with distributors in the PRC and the Taiwan respectively. The Group is confident of its business prospects in the near future especially in view of the increasing attractions of Hong Kong, Macau and China attributable to the booming casino industry in Macau, Hong Kong Disneyland, Hong Kong Ocean Park and 2008 Olympic Games in Beijing. The Group is confident of its future sustained and strong growth in the turnover. The Group's Zhuhai subsidiary will continue to provide a strong supportive base for its expansion to the PRC market which will continue to be the fastest growing market for beauty care products and services in the future.

Furthermore, the Group plans to open three image stores (with beauty school) in Hong Kong, Shenzhen and Beijing and a bottling workshop in Guangdong respectively by July 2006. As of the latest practicable date, the Group has signed a letter of intent with a developer controlled club management company to provide beauty care product and service to residents of their respective high end residential estate.

The Group will strive to provide not only premium quality beauty care products and services to its end-users, but also training of our marketing staff with skill and product knowledge enhancement to commensurate their role as consultants for providing the users' beauty care needs. With confidence, the Group is expecting to realize stronger and better business performance in the coming future.

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Wu Wenzhi, holds a degree in engineering from Chengdu Electronic Technology University, China. He has over 35 years of experience in engineering and trading business. He is currently the General Manager of Star Bridge Development Limited, a private company specializing in property development. He will be responsible for advising the Company on the business development strategies for China market. He was appointed as the company's executive director on 15 May 2003 and redesignated as Chairman on 1 September 2003.

Chan Choi Har, Ivy, is one of the founders and an executive director and Vice-Chairman and CEO of the Group. She is responsible of the market development, general administration and financing of the Group. She has 16 years of experience in real estate development and related investments including hotel projects in the PRC and residential development in Macau. She has been the vice-chairman of TriNorth Capital Inc., a public company listed on the Toronto Stock Exchange, since 1994. She also has experience in and has been responsible for take-over, initial public offering, equity financing and public listing of several public listed companies in Hong Kong and Toronto.

INDEPENDENT NON-EXECUTIVE DIRECTORS ("INED")

Chan Shun Kuen, Eric, is the associate member of Hong Kong Institute of Certified Public Accountants. He was also appointed as the chairman of the Audit Committee and the Remuneration Committee. He is the Senior Vice President of investment banking of KGI Capital Asia Limited. He was appointed as the Company's INED on 28 September 2004.

Yeung, Mario Bercasio, is the degree holder for Bachelor of Engineering and graduated from Newcastle Upon Tyne Polytechnic, England. He is also with a degree in postgraduate certificate in Law from the University of Hong Kong. He is a member of the Law Society of Hong Kong. He has extensive experience in legal and corporate finance. He was appointed as the Company's INED on 28 December 2004.

Lam Wai Pong, graduated from University of London with a degree in Civil Engineering. He is a chartered civil engineer. He has extensive experience in civil engineering. He was appointed as the Company's INED on 12 August 2005.

Directors and Senior Management Profile

SENIOR MANAGEMENT

Keung Wai Fun, Samantha was appointed as the General Manager in July 2004 and was re-designated as Chief Executive Officer of Blu Spa (Hong Kong) Limited on 1 May 2006. She has 9-year experience in the beauty care industry, and an expert in beauty care therapy and treatment practice and professional training. She possesses the diploma of Aesthetician in the ITEC and CIBTAC, beauty professional bodies. She is also a capable manageress with actual working experience as demonstrated by her past track record, serving in the positions of Vice President of Chase Manhattan Bank, Director of L&D Holdings Ltd. and Managing Director of Center Pacific Holdings Ltd.

Her major duty is to supervise the overall operation of the Group, business expansion and development plans for the Group's implementation. Under her leadership, the Group is expected to improve its profitability in the near future.

Directors' Report

The board of directors (the "Board") of Blu Spa Holdings Limited (the "Company") has pleasure in submitting the directors' report together with the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 30 June 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 29 to the financial statements.

RESULTS

Details of the Group's results for the year ended 30 June 2006 are set out in the consolidated income statement on page 31 of the annual report.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 19 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity in note 20 to the financial statements respectively.

PLANT AND EQUIPMENT

Details of movements in the plant and equipment of the Group during the year are set out in note 14 to the financial statements.

Directors' Report

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors who held office during the year and up to the date of this report were:

Executive directors

Wu Wenzhi (*Chairman*)

Chan Choi Har, Ivy (*Vice Chairman and CEO*)

Chan Kei Kon (Resigned on 1 October 2005)

Independent non-executive directors

Chan Shun Kuen, Eric

Lam Wai Pong (Appointed on 12 August 2005)

Yeung, Mario Bercasio

Louie Yuen Ki, Janet (Resigned on 12 August 2005)

In accordance with Articles 86 and 87 of the Company's Articles of Association, Mr. Chan Shun Kuen, Eric and Mr. Lam Wai Pong will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The independent non executive directors of the Company were appointed without specific terms but subject to retirement and re-election at the annual general meeting of the Company.

Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' Report

DIRECTORS' INTERESTS IN SHARES UNDERLYING SHARES AND DEBENTURES

As at 30 June 2006, the interests of the directors and 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%

Note:—

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

B. Short position in shares

No short position of directors and chief executives in the shares of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

Save as disclosed above, none of the directors and the chief executive of the Company had any interests or short position in share capital of the Company or its associated corporations as at 30 June 2006. There were no debt securities issued by the Group during the year.

Directors' Report

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 30 June 2006
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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Share Options Schemes", 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.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 28 to the financial information above, there were no other contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

Details of the disclosable connected transactions for the year are set out in note 28 to the financial information above. Save as disclosed therein, there were no other transactions which need to be disclosed as connected transactions in accordance with the GEM Listing Rules. In the opinion of the directors, such connected transactions were conducted in the normal course of business and the Company has complied with the relevant requirements under Chapter 20 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, 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.

Directors' Report

6. These shares are held by Profit Trick Holdings Limited. The entire issued share capital of Profit Trick Holdings Limited is beneficially owned by Wai Suk Chong, Helena.
7. These shares are held by Rocket High Investments Limited. The entire issued share capital of Rocket High Investments Limited is beneficially owned by David Chiu.

Save as disclosed above, the Company has not been notified of any other interests representing 5% or more or any short positions in the issued share capital of the Company as at 30 June 2006.

SHARE OPTION SCHEMES

On 30 January 2002, the Company adopted the Pre-IPO Share Option Scheme (the "Pre-IPO Scheme") and a new share option scheme (the "Scheme"), for the primary purpose of providing incentives or rewards to the directors and employees of the Group and to recognise the contribution of such eligible persons to the growth of the Group, and will expire on 29 January 2012. No options had been granted under the Pre-IPO Scheme and the Scheme during the year.

SHARE OPTIONS

(1) Pre-IPO Share Option Scheme

Under the Pre-IPO Scheme, the Board may grant options to directors and employees of the Company or any subsidiaries, to subscribe for shares in the Company at any time upon the adoption date of the Pre-IPO Scheme and prior to the listing date. Any grant of options to a connected person or any of its associates must be approved by all the independent non-executive directors of the Company.

As at 30 June 2006, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Scheme was 10,250,000, representing 1.69% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Pre-IPO Scheme and any other scheme is not permitted to exceed 30% of the issued share capital of the Company from time to time. Subject to the above rule, the total number of shares in respect of which options may be granted under the Pre-IPO Scheme and any other scheme is 41,000,000 shares, representing 10% of the total issued share capital of the Company as at the listing date, without prior approval from the Company's shareholders.

The number of shares issued and issuable in respect of which options may be granted under the Pre-IPO Scheme and any other scheme to any individual within 12-month period immediately preceding the date of such new grant is not permitted to exceed 1% of the issued share capital of the Company at the date of such new grant, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors, when aggregated with the options granted under the Pre-IPO Scheme and any other scheme in the past 12 months, in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders. Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per grant. The exercise price is HK\$0.30 representing the IPO placing price. 50% of the 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.

(2) Share Option Scheme

Under the Scheme, the Board may grant options to directors and employees of the Company or any subsidiaries, to subscribe for shares in the Company within 10 years from the adoption date of the Scheme. Any grant of options to a connected person or any of its associates must be approved by all the independent non-executive directors of the Company.

As at 30 June 2006, no options had been granted under the Scheme. The total number of shares in respect of which options may be granted under the Scheme and any other scheme is not permitted to exceed 30% of the issued share capital of the Company from time to time. Subject to the above rule, the total number of shares in respect of which options may be granted under the Scheme and any other scheme is 41,000,000 shares, representing 10% of the total issued share capital of the Company as at the listing date, without prior approval from the Company's shareholders.

The number of shares issued and issuable in respect of which options may be granted under the Scheme and any other scheme to any individual within 12-month period immediately preceding the date of such new grant is not permitted to exceed 1% of the issued share capital of the Company at the date of such new grant, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors, when aggregated with the options granted under the Scheme and any other scheme in the past 12 months, in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Directors' Report

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per grant. Options may be exercised at any time from the date of grant to the 10th anniversary of the date of grant. The exercise price is determined by the Board, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing price of the Company's shares for the five business days immediately preceding the date of grant.

The following table discloses movements in the Company's share options granted under the Pre-IPO Scheme during the year:

	Outstanding at 1 July 2005	Lapsed during the year	Outstanding at 30 June 2006
Directors			
Chan Choi Har, Ivy	10,250,000	–	10,250,000
Total for Directors	10,250,000	–	10,250,000
Employees	–	–	–
Grand Total	10,250,000	–	10,250,000

Details of the options are as follows:

Date of grant	Vesting period	Exercisable period	Exercise Price HK\$
30.1.2002	30.1.2002 – 29.1.2003	30.1.2003 – 29.1.2012	0.30

Note: 50% of the 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.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's major sales revenue was from its retail business and directly sold to the end users, thus, there were no major customers identified as related to the retail business. During the year, the Group was still selling the products taken over from BSC, few purchases were made during the year, so that the purchases from outsiders are not material.

None of the directors, their associates or any shareholders, which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital, had any interest in the share capital of any of the five largest customers of the Group.

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 for the year ended 30 June 2006.

RETIREMENT BENEFITS COSTS

Payments to the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

ADVANCES TO AN ENTITY

As at 30 June 2006, the Group did not have, in its normal and ordinary course of business, any relevant advance to an entity that is required to be disclosed pursuant to Rule 17.22 and 17.24 of the GEM Listing Rules.

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 business that competed or might compete with the business of the Group.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

The Board considers that the Company has complied with the Code on Corporate Governance Practices as set out in the GEM Listing Rules Appendix 15 with effective from the accounting periods from 1 January 2005. The Company prepared a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for the financial year ended 30 June 2006 which will be contained in the 2006 Annual Report.

BOARD OF DIRECTORS

The Board of the Company comprises five Directors, of which two are Executive Directors, namely Mr. Wu Wenzhi and Ms. Chan Choi Har, Ivy and three are INEDs, namely Mr. Chan Shun Kuen, Eric, Mr. Lam Wai Pong and Mr. Yeung, Mario Bercasio. The Directors are collectively responsible for the development of the Group's strategies and policies. The Executive Directors are responsible for the daily operation of the Group while the INEDs provide their professional advices to the Group.

The INEDs have professional experiences in legal, finance and accounting, property development and engineering respectively. The Company has received confirmation from each of the INEDs as regards to their independence to the Company and considers that each of the INEDs is independent of the Company.

One-third of all the Directors shall retire by rotation from office each year in accordance with the Company's Articles of Association. The term of office of the Directors is the period up to their retirement by rotation. Those Directors at any time appointed by the Board shall hold office only until the next following Annual General Meeting of the Company and shall be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting.

AUDIT COMMITTEE

As required by Rules 5.28 to 5.33 of the GEM Listing Rules, the Company has established an audit committee (the "Audit Committee") on 10 December 2001 with written terms of reference, which deal clearly with its authorities and duties. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group.

The Audit Committee comprises three independent non-executive directors, namely, Mr. Chan Shun Kuen, Eric, Mr. Lam Wai Pong, Mr. Yeung Mario Bercasio. Mr. Chan is the chairman of the Audit Committee.

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee on 30 March 2005 with written terms of reference, which comprises three independent non-executive directors of the Company, namely, Mr. Chan Shun Kuen, Eric, Mr. Lam Wai Pong, Mr. Yeung Mario Bercasio. Mr. Chan is the chairman of the Remuneration Committee.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this announcement, there is sufficient public float, as not less than 25% of the Company's issued shares are held by the public.

AUDITORS

Messrs. HLM & Co. were appointed as auditors of the Company for the year, a resolution will be submitted to the annual general meeting of the Company to re-appoint them.

On behalf of the Board
Blu Spa Holdings Limited

Wu Wenzhi
Chairman

Hong Kong, 26 September 2006

Corporate Governance Report

Corporate governance practices

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), which became effective on 1 January 2005 and in replacement of the Board Practices and Procedures set out in rules 5.35 to 5.45 of the GEM Listing Rules, as its own code of corporate governance practices.

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules during the year ended 30 June 2006.

Directors' securities transactions

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors of the Company (the "Directors"), the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 30 June 2006.

Board of directors

The board of Directors (the "Board") currently comprises five directors, of which two are executive directors and three are independent non-executive directors, namely,

Executive Directors:

Mr. Wu Wenzhi (*Chairman*)

Ms. Chan Choi Har, Ivy (*Vice Chairman and CEO*)

Independent Non-Executive Directors:

Mr. Chan Shun Kuen, Eric

Mr. Lam Wai Pong

Mr. Yeung Mario Bercasio

The independent non-executive directors were appointed without specific terms but subject to retirement and re-election at the annual general meeting of the Company. All the Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment.

Corporate Governance Report

The Board has four scheduled meetings at quarterly interval and meets as and when required. During the year ended 30 June 2006, the Board held 4 meetings.

The attendance of the Directors at the Board meetings is as follows:

Board of Directors	Number of attendance
Mr. Wu Wenzhi	2/4
Ms. Chan Choi Har, Ivy	4/4
Mr. Chan Shun Kuen, Eric	4/4
Mr. Lam Wai Pong	3/4
Mr. Yeung Mario Bercasio	4/4

The Board is responsible for the leadership and control of the Company and oversees the Company and its subsidiaries (the "Group")'s businesses, strategic planning and decisions making. The management of the Group is delegated the authority by the Board to take up the day-to-day operations and implementation of the different aspects of the Group's businesses.

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The Company appointed three independent non-executive directors ("INEDs") who have sufficient experience and qualification to carry out their duties. The qualification and experience of the INEDs are set out in the "Directors and Senior Management Profile" contained in the 2006 Annual Report. In addition, the Company has received annual confirmations of independence pursuant to the rule 5.09 of the GEM Listing Rules from all the INEDs. The Board has assessed their independence and concluded that all the INEDs are independent (as defined in the GEM Listing Rules).

To the best knowledge of the Company, there is no financial, business, family and other material relationship among members of the Board. All Directors are free to exercise their independent judgments.

Chairman and Chief Executive Officer

The board appointed Mr. Wu Wenzh as the chairman of the Group and Ms. Chan Choi Har, Ivy as the chief executive officer of the Group. The roles of the chairman and the chief executive officer are segregated and are not exercised by the same individual.

Remuneration of directors

The Company established the remuneration committee on 30 March 2005, namely Mr. Chan Shun Kuen, Eric, Mr. Lam Wai Pong and Mr. Yeung Mario Bercasio. Mr. Chan is the chairman of the Remuneration Committee. The committee comprises three INEDs. The role and function of the remuneration committee is to make recommendation to the Board on the Company's policy and structure for all remuneration of Directors, to establish a formal and transparent procedure for development the remuneration policy, to determine the specific remuneration packages of all executive directors and senior management, to review and approve the performance-based remuneration and the compensation payable to executive directors and senior management in connection with any loss or termination of their office, dismissal and removal, to ensure that no director or his associates is involved in decide his own remuneration, to consider other topics as defined by the Board and to ensure the chairman of the remuneration committee is available to attend the annual general meeting of the Company.

During the year under review, a meeting of the Remuneration Committee was held on 22 September 2005.

The attendance of the meeting of the Remuneration Committee is as follows:

Number of directors attendance

Members of the Remuneration Committee	Number of attendance
Mr. Chan Shun Kuen, Eric	1/1
Mr. Lam Wai Pong	1/1
Mr. Yeung Mario Bercasio	1/1

Auditors' remuneration

During the year, the remuneration paid to the auditors of the Company, Messer HLM & Co., CPA, is set out as follows:

Audit services rendered	100,000
Non-audit services rendered	–

Corporate Governance Report

Audit Committee

The Company established an audit committee (the "Audit Committee") on 10 December 2001 with written terms of reference which deal clearly with its authority and duties in compliance with rules 5.28 and 5.33 of the GEM Listing Rules.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls system of the Group and to review the Company's annual reports and accounts, half-year reports and quarterly reports and providing advice and comments to the Board. The audit committee comprises three members, namely, Mr. Chan Shun Kuen, Eric, Mr. Lam Wai Pong and Mr. Yeung Mario Bercasio. Mr. Chan is the chairman of the Audit Committee. All of the members of the Audit Committee are the INEDs of the Company.

The audit committee held four meetings for the year ended 30 June 2006.

The attendance of the audit committee meetings are as follows:

Members of the Audit Committee	Number of attendance
Mr. Chan Shun Kuen, Eric	4/4
Mr. Lam Wai Pong	3/4
Mr. Yeung Mario Bercasio	4/4

Internal control

The Board is responsible for the maintenance of a sound and effective internal control system of the Group.

The internal control system of the Group includes a well-defined management structure with limits of authority which is designed for the achievement of business objectives, safeguard assets against unauthorized use or disposition, ensure maintenance of proper books and records for the provision of reliable financial information for internal use or publication, and to ensure compliance with relevant legislations and regulations. The Directors conducted regular reviews of the Group's internal control system for the year ended 30 June 2006.

The management concluded that they are satisfied that the prevailing internal control systems as appropriate to the Group's operations are in place and have been implemented properly. No significant areas of improvement that are required to be brought to the attention to the Audit Committee are revealed.

Report of the Auditors

恒健會計師行
HLM & Co.
Certified Public Accountants

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TO THE MEMBERS OF BLU SPA HOLDINGS LIMITED

富麗花•譜控股有限公司

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Blu Spa Holdings Limited (the "Company") and its subsidiaries (the "Group") from pages 31 to 64 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS OF THE GROUP

In forming our opinion, we have considered the adequacy of the disclosures made in note 3 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As at 30 June 2006, the Group had net current liabilities and net liabilities of HK\$14,583,000 and HK\$5,300,995, respectively. The Group also incurred a loss attributable to the shareholders of HK\$4,927,964 for the year ended 30 June 2006. The financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available to meet its debts as and when they fall due in the foreseeable future. The financial statements do not include any adjustments that would result from the failure of such funding. We consider that appropriate estimates and disclosures have been made in the financial statements and our opinion is not qualified in this respect.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 June 2006 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLM & Co.

Certified Public Accountants

Hong Kong, 26 September 2006

Consolidated Income Statement

For the year ended 30 June 2006

	NOTES	2006 HK\$	2005 HK\$
Turnover	6	133,465	1,564,392
Cost of sales		(25,669)	(182,592)
Gross profit		107,796	1,381,800
Other revenue		482,430	23,070
Distribution costs		–	(31,555)
Administrative expenses		(5,057,218)	(6,825,289)
Loss from operations	7	(4,466,992)	(5,451,974)
Finance costs	8	(468,291)	(244,804)
Loss before taxation		(4,935,283)	(5,696,778)
Taxation	10	7,319	29,217
Loss for the year		(4,927,964)	(5,667,561)
Dividends	11	–	–
Loss per share, in HK cents	12	(0.81)	(0.93)

Consolidated Balance Sheet

As at 30 June 2006

	NOTES	2006 HK\$	2005 HK\$
Non-current assets			
Intangible assets	13	12,168,000	13,458,988
Plant and equipment	14	706,281	641,215
		<u>12,874,281</u>	<u>14,100,203</u>
Current assets			
Inventories	16	5,932	645,459
Trade receivables	17	79,989	41,551
Deposits and other receivables		525,833	482,667
Bank balances and cash		70,377	189,286
		<u>682,131</u>	<u>1,358,963</u>
Current liabilities			
Deposit received		96,003	–
Accruals and other payables		4,279,835	3,883,454
Amounts due to directors	18	2,811,981	558,426
Amounts due to shareholders	21	5,400,000	5,300,000
Amounts due to related companies	22	2,593,411	2,516,600
Obligation under finance lease	23	80,000	–
Provision for taxation		3,901	509
		<u>(15,265,131)</u>	<u>(12,258,989)</u>
Net current liabilities		<u>(14,583,000)</u>	<u>(10,900,026)</u>
		<u>(1,708,719)</u>	<u>3,200,177</u>
Capital and reserves			
Share capital	19	6,068,000	6,068,000
Reserves		(11,368,995)	(6,448,099)
		<u>(5,300,995)</u>	<u>(380,099)</u>
Non-current liabilities			
Amounts due to shareholders	21	3,572,276	3,572,276
Obligation under finance lease	23	20,000	–
Deferred tax liabilities	24	–	8,000
		<u>3,592,276</u>	<u>3,580,276</u>
		<u>(1,708,719)</u>	<u>3,200,177</u>

The financial statements on pages 31 to 64 were approved and authorised for issue by the Board of directors on 26 September 2006 and are signed on its behalf by:

Wu Wenzhi
Director

Chan Choi Har, Ivy
Director

Balance Sheet

As at 30 June 2006

	NOTES	2006 HK\$	2005 HK\$
Non-current asset			
Interests in subsidiaries	15	2,516,589	393,075
Current assets			
Deposits and other receivables		28,600	28,600
Bank balances		1,416	954
		30,016	29,554
Current liabilities			
Amounts due to directors		2,805,751	537,861
Amounts due to shareholders	21	5,400,000	5,300,000
Amounts due to a related company	22	2,500,000	2,500,000
Accruals and other payables		1,690,417	1,030,510
		12,396,168	9,368,371
Net current liabilities		(12,366,152)	(9,338,817)
		(9,849,563)	(8,945,742)
Capital and reserves			
Share capital	19	6,068,000	6,068,000
Reserves	20	(19,489,839)	(18,586,018)
		(13,421,839)	(12,518,018)
Non-current liability			
Amounts due to shareholders	21	3,572,276	3,572,276
		(9,849,563)	(8,945,742)

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Wu Wenzhi
Director

Chan Choi Har, Ivy
Director

Consolidated Statement of Changes in Equity

For the year ended 30 June 2006

	Share capital HK\$	Share premium HK\$	Merger difference HK\$	Translation reserve HK\$	Accumulated losses HK\$	Total HK\$
THE GROUP						
At 1 July 2004	6,068,000	19,740,134	22,734,577	(7,746)	(43,247,503)	5,287,462
Loss for the year	-	-	-	-	(5,667,561)	(5,667,561)
At 30 June 2005 and 1 July 2005	6,068,000	19,740,134	22,734,577	(7,746)	(48,915,064)	(380,099)
Exchange differences arising from translation of operations outside Hong Kong	-	-	-	7,068	-	7,068
Loss for the year	-	-	-	-	(4,927,964)	(4,927,964)
At 30 June 2006	<u>6,068,000</u>	<u>19,740,134</u>	<u>22,734,577</u>	<u>(678)</u>	<u>(53,843,028)</u>	<u>(5,300,995)</u>

Consolidated Cash Flow Statement

For the year ended 30 June 2006

	NOTES	2006 HK\$	2005 HK\$
OPERATING ACTIVITIES			
Loss before taxation		(4,935,283)	(5,696,778)
Adjustment for:			
Interest income		(563)	(735)
Interest expense		468,291	244,804
Depreciation on plant and equipment		177,150	265,356
Written off of fixed assets		442,197	57,364
Amortisation of intangible assets		1,142,191	1,142,191
Allowance for inventories		627,419	638,630
Written off of inventories		–	190,000
Written off of intangible assets		148,797	163,759
Operating cash flow before movements in working capital		(1,929,801)	(2,995,409)
Decrease (increase) in inventories		12,108	(305,551)
(Increase) decrease in trade receivables		(38,438)	34,134
(Increase) decrease in deposits and other receivables		(43,166)	25,163
Decrease in trade payables		–	(104,130)
(Decrease) increase in accruals and other payables		(84,232)	980,707
Increase in amounts due to directors		2,253,555	318,037
Increase in amounts due to a related company		93,411	16,600
Increase in deposit received		96,003	–
Cash generated from (used in) operations		359,440	(2,030,449)
Interest paid		(886)	–
PRC profit tax paid		(681)	(274)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES		357,873	(2,030,723)
INVESTING ACTIVITIES			
Interest received		563	735
Purchases of plant and equipment		(564,370)	(37,916)
Disposal of a subsidiary	26	–	–
NET CASH USED IN INVESTING ACTIVITIES		(563,807)	(37,181)
FINANCING ACTIVITIES			
Repayment of obligation under finance lease		(20,000)	–
Advance from a shareholder		100,000	1,950,000
NET CASH GENERATED FROM FINANCING ACTIVITIES		80,000	1,950,000
DECREASE IN CASH AND CASH EQUIVALENTS EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(125,934)	(117,904)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		189,286	307,190
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		70,377	189,286
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		70,377	189,286

Notes to the Financial Statements

For the year ended 30 June 2006

1. GENERAL

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. Particulars of the principal activities of its subsidiaries are set out in note 29.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005 and adopted by the Group with effect from 1 July 2005.

The applicable HKFRSs are set out below and the 2005 accounts have been restated in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 18	Revenue
HKAS 21	The Effect of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets

The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting years are prepared and presented. Accordingly, no prior year adjustment has been required.

Notes to the Financial Statements

For the year ended 30 June 2006

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Potential impact arising from the recently issued Accounting Standards

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosure ¹
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) – INT 8	Scope of HKFRS 2 ³
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives ⁴

¹ Effective for accounting periods beginning on or after 1 January 2007.

² Effective for accounting periods beginning on or after 1 March 2006.

³ Effective for accounting periods beginning on or after 1 May 2006.

⁴ Effective for accounting periods beginning on or after 1 June 2006.

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Group incurred a loss attributable to the shareholders of HK\$4,927,964 for the year ended 30 June 2006. In addition, the Group had net current liabilities and net liabilities of HK\$14,583,000 and HK\$5,300,995, respectively, as at 30 June 2006. Notwithstanding this, the financial statements have been prepared on the assumption that the Group will continue to operate as a going concern. In the opinion of the Directors, the Group will have sufficient working capital to continue its operations in the coming year, after taking into consideration of the following:

- (a) The Group has been undergoing serious negotiations with interested investors for new equity to be introduced to the Group;
- (b) The Group has been taking ongoing action to tighten cost controls over various general and administrative expenses;

Notes to the Financial Statements

For the year ended 30 June 2006

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

- (c) The Group will continue to promote and sell its products through selected distributors. At present, the Group engaged distributors for Hong Kong, the PRC and Taiwan markets respectively. The Group will continue to identify and negotiate with other prospective distributors in the Southeast Asia market;
- (d) In addition to its distributorship business, the Group rented a premises with a gross floor area of approximately 4,400 square feet in Central in May 2006 as its image store (with beauty school) and office in Hong Kong. The Group has plans to set up other image stores in major cities in the PRC;
- (e) The Group will set up a number of spa centers in the club house of prestige residential developments in Hong Kong.

In the opinion of the Directors, in light of the measures taken to date and on the basis of the above-mentioned assumptions, the Group would have sufficient working capital to finance its operation to maintain its operating existence in the foreseeable future. Accordingly, the Directors are satisfied that it is appropriate to prepare the accounts on a going concern basis.

The financial statements have not incorporated any adjustments for the possible failure of the Group to implement the aforesaid measures. Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The consequential effects of these potential adjustments have not been reflected in the financial statements as at 30 June 2006.

Notes to the Financial Statements

For the year ended 30 June 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention.

The financial statements have been prepared in accordance with the new HKFRSs issued by HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intra-group transactions and balances have been eliminated on consolidation.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

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.

Notes to the Financial Statements

For the year ended 30 June 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed. Treatment services income is recognized when therapy is performed. Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Patent and trademarks/tradenames

Patent and trademarks/tradenames represent purchase cost for the patent and trademarks/tradenames, initial fees for the registration of the trademarks/tradenames in the respective country/place of registration and fees for obtaining the relevant approvals for the sales and distribution of personal care products within the respective country/place, are stated at cost less amortisation and accumulated impairment loss. The cost of the patent and trademarks/tradenames is amortised over a period of 4 to 20 years.

Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and impairment loss. Depreciation is provided to write off the cost of plant and equipment over their estimated useful lives using the straight line method, at 20% per annum.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

Notes to the Financial Statements

For the year ended 30 June 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant assets is carried at a revalued amount under another accounting standards, in which case the impairment loss is treated as revaluation decrease under that accounting standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognized as an income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that accounting standard.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Group's development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life, where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Notes to the Financial Statements

For the year ended 30 June 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Notes to the Financial Statements

For the year ended 30 June 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised as a separate component of equity. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Operating leases

Rentals payable in respect of operating leases are charged to the income statement on a straight-line basis over the relevant lease terms.

Notes to the Financial Statements

For the year ended 30 June 2006

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefits scheme

The retirement benefit scheme contributions charged to the income statement represent the contributions payable to the Mandatory Provident Fund Scheme.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Cash and cash equivalents

Cash and cash equivalents represent cash at bank and on hand, time deposits with banks and other financial institutions, and short-term liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. For the purpose of the consolidated cash flow statement, bank overdrafts and bank loans, if any, which are repayable on demand and form an integral part of an enterprise's cash managements are also included as component of cash and cash equivalents.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Exposure to credit, interest rate, foreign exchange and liquidity risks arise in the normal course of business. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Notes to the Financial Statements

For the year ended 30 June 2006

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The risks are minimized by the financial management policies and practices described below.

Credit Risk

The Group's maximum exposure to credit risk in the event of the counter parties failure to perform their obligations as at 30 June 2006 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counter parties and customers.

Interest rate risk

The Group is exposed to interest rate risk through the impact of the Group's cash flows in respect of rate changes on variable interest bearing loans of Directors, shareholders and related parties. The interest rates and terms of repayment of Directors, shareholders and related parties loans of the Group are disclosed in note 28.

Foreign exchange risk

The Group operates mainly in Hong Kong. It did not have significant exposure to foreign exchange risk. The Group is exposed to foreign exchange risk arising from the exposure of Chinese Renminbi against Hong Kong dollars. The Group has not hedged foreign exchange rate risk.

Liquidity risk

The Group had deficit in equity of approximately HK\$5,300,995 as at 30 June 2006. Since the balance sheet date, the Directors of the Company have taken various active steps to obtain additional funding to the Group. The Directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

Notes to the Financial Statements

For the year ended 30 June 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Turnover and contribution to operating results and assets and liabilities by business segment has not been prepared as all the Group's turnover, assets and liabilities was derived from the development, distribution and marketing of personal care treatment products.

Geographical segments

An analysis of the Group's turnover and contribution to operating results and segment assets and liabilities by geographical market is as follows:

	The People's Republic of China ("PRC") HK\$	Hong Kong HK\$	Others HK\$	Elimination HK\$	Consolidated HK\$
For the year ended 30 June 2006					
TURNOVER					
External sales					
– Distributorship	59,227	22,290	8,798	–	90,315
– Retailing	–	43,150	–	–	43,150
Inter-segment sales	–	9,500	–	(9,500)	–
Total revenue	<u>59,227</u>	<u>74,940</u>	<u>8,798</u>	<u>(9,500)</u>	<u>133,465</u>
Inter-segment sales are charged at cost plus certain markup.					
RESULT					
Segment result	<u>48,288</u>	<u>57,704</u>	<u>1,804</u>	<u>–</u>	107,796
Unallocated corporate incomes					481,867
Unallocated corporate expenses					(5,057,218)
Interest income					563
Operating loss					(4,466,992)
Interest expense					(468,291)
Taxation					7,319
Loss for the year					<u>(4,927,964)</u>
Assets and liabilities at 30 June 2006					
ASSETS					
Segment assets	–	79,989	–	–	79,989
Unallocated total assets					13,476,423
Consolidated total assets					<u>13,556,412</u>
LIABILITIES					
Segment liabilities					–
Unallocated corporate liabilities					(18,857,407)
Consolidated total liabilities					<u>(18,857,407)</u>

Notes to the Financial Statements

For the year ended 30 June 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

	The People's Republic of China ("PRC") HK\$	Hong Kong HK\$	Others HK\$	Elimination HK\$	Consolidated HK\$
For the year ended 30 June 2005					
TURNOVER					
External sales					
– Distributorship	442,822	87,491	24,024	–	554,337
– Retailing	–	1,010,055	–	–	1,010,055
Inter-segment sales	3,629	67,367	–	(70,996)	–
Total revenue	<u>446,451</u>	<u>1,164,913</u>	<u>24,024</u>	<u>(70,996)</u>	<u>1,564,392</u>
Inter-segment sales are charged at cost plus certain markup.					
RESULT					
Segment result	<u>349,830</u>	<u>1,011,690</u>	<u>20,280</u>	<u>–</u>	1,381,800
Unallocated corporate incomes					22,335
Unallocated corporate expenses					(6,856,844)
Interest income					<u>735</u>
Operating loss					(5,451,974)
Interest expense					(244,804)
Taxation					<u>29,217</u>
Loss for the year					<u>(5,667,561)</u>
Assets and liabilities at 30 June 2005					
ASSETS					
Segment assets	–	41,551	–	–	41,551
Unallocated total assets					<u>15,417,615</u>
Consolidated total assets					<u>15,459,166</u>
LIABILITIES					
Segment liabilities					–
Unallocated corporate liabilities					<u>(15,839,265)</u>
Consolidated total liabilities					<u>(15,839,265)</u>

Notes to the Financial Statements

For the year ended 30 June 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

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 PRC.

The following is an analysis of the carrying amount of segment assets and additions to plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to plant and equipment and intangible assets	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Hong Kong	13,494,707	15,159,537	684,370	37,916
PRC	61,706	299,629	–	–
	<u>13,556,413</u>	<u>15,459,166</u>	<u>684,370</u>	<u>37,916</u>

7. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging:

	2006 HK\$	2005 HK\$
Directors' remuneration (<i>note 9(a)</i>)	32,500	103,702
Other staff costs	717,293	1,472,821
Retirement benefit scheme contributions	30,083	60,729
Total staff costs	<u>779,876</u>	<u>1,637,252</u>
Amortisation of intangible assets included in administrative expenses	1,142,191	1,142,191
Auditors' remuneration	101,923	105,287
Depreciation	177,150	265,356
Written off of fixed assets	442,197	57,364
Allowance for inventory	627,419	638,630
Written off of inventory	–	190,000
Written off of intangible assets	148,797	163,759
And after crediting:		
Bank interest income	<u>563</u>	<u>735</u>

Notes to the Financial Statements

For the year ended 30 June 2006

8. FINANCE COSTS

	2006 HK\$	2005 HK\$
Interest on:		
Loan from shareholders and Directors (<i>note 28</i>)	467,387	229,510
Interest on obligation under finance lease	886	–
Others	18	15,294
	468,291	244,804

9. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

The emolument paid or payable to each of the two (2005: four) directors were as follows:

2006	Fees HK\$	Other emoluments		Total emoluments HK\$
		Salaries and other benefits HK\$	Retirement benefit scheme contributions HK\$	
Chan Choi Har, Ivy	–	–	–	–
Wu Wenzhi	–	10,000	–	10,000
Chan Kei Kon	–	22,500	–	22,500
Chan Shun Kuen, Eric	–	–	–	–
Yeung Mario Bercasio	–	–	–	–
Lam Wai Pong	–	–	–	–
Louie Yuen Ki, Janet	–	–	–	–
	–	32,500	–	32,500

Notes to the Financial Statements

For the year ended 30 June 2006

9. DIRECTORS' AND EMPLOYEES' REMUNERATION (Continued)

(a) Directors' remuneration (Continued)

2005	Fees HK\$	Other emoluments		Total emoluments HK\$
		Salaries and other benefits HK\$	Retirement benefit scheme contributions HK\$	
Chan Choi Har, Ivy	-	-	-	-
Wu Wenzhi	-	10,000	-	10,000
Chan Kei Kon	-	90,000	-	90,000
Chan Shun Kuen, Eric	-	-	-	-
Hui Kwong Wai, Eric	2,404	-	-	2,404
Kam Kin Yat	1,298	-	-	1,298
Yeung Mario Bercasio	-	-	-	-
Louie Yuen Ki, Janet	-	-	-	-
	<u>3,702</u>	<u>100,000</u>	<u>-</u>	<u>103,702</u>

(b) Employees' emoluments

The aggregate emoluments of the five highest paid (2005: five) individuals are as follows:

	2006 HK\$	2005 HK\$
Salaries and other benefits	545,500	877,920
Retirement benefit scheme contributions	23,525	33,174
	<u>569,025</u>	<u>911,094</u>

10. TAXATION

The charge (credit) comprises:

	2006 HK\$	2005 HK\$
Company and subsidiaries		
Current year profits tax – PRC	681	783
Deferred tax		
Credit of current year	(8,000)	(30,000)
Taxation attributable to the Group	<u>(7,319)</u>	<u>(29,217)</u>

Taxes arising in other jurisdictions of the PRC are calculated at the rates of tax prevailing in the PRC.

Notes to the Financial Statements

For the year ended 30 June 2006

10. TAXATION (Continued)

The charge for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2006 HK\$	2005 HK\$
Loss before taxation	<u>(4,935,283)</u>	<u>(5,696,778)</u>
Tax at applicable rate	(863,675)	(996,936)
Tax effect of non-deductible expenses	400,882	445,197
Tax effect of non-taxable revenues	1,678	(12,263)
Tax effect on temporary differences not recognised	(15,102)	36,965
Effect of different tax rate of subsidiary in other jurisdiction	42,915	37,347
Tax effect of tax losses not recognised	<u>433,983</u>	<u>490,473</u>
Tax charge for the year	<u>681</u>	<u>783</u>

At the balance sheet date, the Group has unused estimated tax losses of HK\$29,505,676 (2005: HK\$27,025,776) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profit streams.

11. DIVIDENDS

No dividend was paid or proposed for the year ended 30 June 2006, nor any dividend been proposed since the balance sheet date (2005: Nil).

12. LOSS PER SHARE

The calculation of the basic loss per share for the year ended 30 June 2006 is based on the loss for the year of approximately HK\$4,927,964 (2005: HK\$5,667,561) and on the weighted average of 606,800,000 (2005: 606,800,000) shares in issue during the year.

No diluted loss per share for the year ended 30 June 2006 and 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.

Notes to the Financial Statements

For the year ended 30 June 2006

13. INTANGIBLE ASSETS

	2006 HK\$	2005 HK\$
THE GROUP		
COST		
At beginning of the year	19,714,449	19,878,208
Written off	(994,449)	(163,759)
At end of the year	<u>18,720,000</u>	<u>19,714,449</u>
AMORTISATION		
At beginning of the year	6,255,461	5,113,270
Provided for the year	1,142,191	1,142,191
Eliminated on written off	(845,652)	–
At end of the year	<u>6,552,000</u>	<u>6,255,461</u>
NET BOOK VALUE		
At 30 June	<u>12,168,000</u>	<u>13,458,988</u>

Patent and trademarks/tradenames represent the right and license to use all trademarks/tradenames related to “Blu Spa” personal care products and the provision of services including, but not limited to, retail store services and franchise services.

The cost of patent and trademarks/tradenames is amortised over a period of 20 years on a straight line basis. The registration fees of trademarks/tradenames in the respective country/place of registration and fees for obtaining the relevant approvals and for the sales and distribution of the Group’s products in respective country/place is amortised on a straight line basis over the period of respective registration/approval of 4 to 15 years.

Notes to the Financial Statements

For the year ended 30 June 2006

14. PLANT AND EQUIPMENT

For the year ended 30 June 2006

	Plant and machinery HK\$	Leasehold improvement HK\$	fixture and equipment HK\$	Total HK\$
THE GROUP				
COST				
At 1 July 2005	416,265	453,638	339,844	1,209,747
Additions	203,000	357,010	124,360	684,370
Written off	(416,265)	(451,280)	–	(867,545)
At 30 June 2006	203,000	359,368	464,204	1,026,572
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
At 1 July 2005	172,562	166,753	229,217	568,532
Provided for the year	74,144	35,853	67,153	177,150
Eliminated on written off	(241,939)	(183,409)	–	(425,348)
Exchange difference	–	(10)	(33)	(43)
At 30 June 2006	4,767	19,187	296,337	320,291
NET BOOK VALUE				
At 30 June 2006	198,233	340,181	167,867	706,281

Notes to the Financial Statements

For the year ended 30 June 2006

14. PLANT AND EQUIPMENT (Continued)

For the year ended 30 June 2005

	Plant and machinery HK\$	Leasehold improvement HK\$	Furniture, fixture and equipment HK\$	Total HK\$
THE GROUP				
COST				
At 1 July 2004	414,599	588,585	325,094	1,328,278
Additions	1,666	21,500	14,750	37,916
Written off	–	(156,447)	–	(156,447)
	<u>416,265</u>	<u>453,638</u>	<u>339,844</u>	<u>1,209,747</u>
At 30 June 2005				
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
At 1 July 2004	89,475	145,427	167,357	402,259
Provided for the year	83,087	120,409	61,860	265,356
Eliminated on written off	–	(99,083)	–	(99,083)
	<u>172,562</u>	<u>166,753</u>	<u>229,217</u>	<u>568,532</u>
At 30 June 2005				
NET BOOK VALUE				
At 30 June 2005	<u>243,703</u>	<u>286,885</u>	<u>110,627</u>	<u>641,215</u>

The net book value of the Group's plant and machinery held under finance leases included in the total amount of HK\$118,000 (2005: Nil).

Notes to the Financial Statements

For the year ended 30 June 2006

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2006	2005
	HK\$	HK\$
Unlisted shares, at cost	482,700	482,700
Impairment loss	(312,554)	(312,554)
	<hr/>	<hr/>
	170,146	170,146
Amounts due from subsidiaries	36,897,173	34,773,659
	<hr/>	<hr/>
	37,067,319	34,943,805
Less: Allowance on amounts due from subsidiaries	(34,550,730)	(34,550,730)
	<hr/>	<hr/>
	2,516,589	393,075
	<hr/>	<hr/>

In the opinion of the Directors, the amounts due from subsidiaries are unsecured, non-interest bearing and are unlikely to be repaid within one year from the balance sheet date and are therefore shown in the balance sheet as non-current.

The Directors of the Company consider that in light of the recurring operating losses of these subsidiaries and unfavourable market conditions, the recoverable amount of its subsidiaries has been reduced to the estimated net realisable value of the identifiable net assets.

Particulars of the Company's subsidiaries at 30 June 2006 are set out in note 29.

16. INVENTORIES

	THE GROUP	
	2006	2005
	HK\$	HK\$
Raw materials	–	347,837
Finished goods at cost	5,932	297,622
	<hr/>	<hr/>
	5,932	645,459
	<hr/>	<hr/>

Notes to the Financial Statements

For the year ended 30 June 2006

17. TRADE RECEIVABLES

The Group allows average credit period of two months to four months to its customers. Details of the aging analysis of trade receivable are as follows:

	THE GROUP	
	2006 HK\$	2005 HK\$
Aged:		
0 – 60 days	18,446	18,167
61 – 120 days	2,257	10,269
Over 180 days	59,286	13,115
	<u>79,989</u>	<u>41,551</u>

The Directors consider that the carrying amount of trade receivables approximates their fair value.

18. AMOUNTS DUE TO DIRECTORS

As at 30 June 2006, the amounts due to Directors including an amount of HK\$2,535,391 (2005: HK\$281,836) which is repayable on demand and bear interest at Hong Kong Dollar prime lending rate quoted by The Hong Kong and Shanghai Banking Corporation Limited. The remaining balances are unsecured, non-interest bearing and repayable on demand.

19. SHARE CAPITAL

	Number of shares of HK\$0.01 each	Amount HK\$
Authorised:		
At 30 June 2006 and 30 June 2005	<u>10,000,000,000</u>	<u>100,000,000</u>
	Number of shares of HK\$0.01 each	Amount HK\$
Issued and fully paid:		
At 30 June 2006 and at 30 June 2005	<u>606,800,000</u>	<u>6,068,000</u>

Notes to the Financial Statements

For the year ended 30 June 2006

20. RESERVES

	Share premium HK\$	Accumulated losses HK\$	Total HK\$
THE COMPANY			
At 1 July 2004	19,740,134	(35,253,660)	(15,513,526)
Loss for the year	—	(3,072,492)	(3,072,492)
	<u>19,740,134</u>	<u>(38,326,152)</u>	<u>(18,586,018)</u>
At 30 June 2005 and 1 July 2005	19,740,134	(38,326,152)	(18,586,018)
Loss for the year	—	(903,821)	(903,821)
	<u>19,740,134</u>	<u>(39,229,973)</u>	<u>(19,489,839)</u>

21. AMOUNTS DUE TO SHAREHOLDERS

	Note	THE GROUP		THE COMPANY	
		2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Current liabilities					
Profit Trick Holdings Limited	1	1,550,000	1,550,000	1,550,000	1,550,000
Rocket High Investments Limited	1	3,850,000	3,750,000	3,850,000	3,750,000
		<u>5,400,000</u>	<u>5,300,000</u>	<u>5,400,000</u>	<u>5,300,000</u>
Non-current liabilities					
XO-Holdings Limited	2	3,572,276	3,572,276	3,572,276	3,572,276
		<u>8,972,276</u>	<u>8,872,276</u>	<u>8,972,276</u>	<u>8,872,276</u>

Notes to the Financial Statements

For the year ended 30 June 2006

21. AMOUNTS DUE TO SHAREHOLDERS (Continued)

Note:

1. As at 30 June 2006 the amounts due to Profit Trick Holdings Limited and Rocket High Investments Limited, being substantial shareholders of the Company, are repayable on demand and bear interest at Hong Kong Dollar prime lending rate quoted by The Hong Kong and Shanghai Banking Corporation Limited.
2. As at 30 June 2005 and 2006 the amount due to a shareholder, XO-Holdings Limited, amounted to approximately HK\$3,572,000, 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\$3,572,000 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.

22. AMOUNTS DUE TO RELATED COMPANIES

The amount of HK\$2,500,000 (2005: HK\$2,500,000) represented loan from a related company, which has a common shareholder with Rocket High Investments Limited, a substantial shareholder or the Company. The balance of HK\$93,411 (2005: HK\$16,600) represented amount due to a related company the controlling shareholder of which is the Chief Executive Director of a subsidiary of the Group. The amounts are unsecured, non-interest bearing and repayable upon demand.

Notes to the Financial Statements

For the year ended 30 June 2006

23. OBLIGATION UNDER FINANCE LEASE

The Group	Minimum lease payment		Present value of minimum lease payment	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Amounts payable under finance leases:				
Within one year	83,544	–	80,000	–
In the second to fifth years inclusive	20,886	–	20,000	–
	<u>104,430</u>	<u>–</u>	<u>100,000</u>	<u>–</u>
Less: future finance charges	(4,430)	–		
Present value of lease obligations	<u>100,000</u>	<u>–</u>		
Less: Amount due within one year shown under current liabilities			(80,000)	–
Amount due after one year			<u>20,000</u>	<u>–</u>

It is the Group's policy to lease certain of its equipment under financial leases. The lease term is 18 months. Interest rates are fixed at the contract dates, and thus expose the Group to fair value interest rate risk.

All lease obligations are denominated in Hong Kong dollars.

The fair value of the Group's lease obligations approximates their carrying amount.

The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

Notes to the Financial Statements

For the year ended 30 June 2006

24. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognized by the Group and movements thereon during the current and prior years:

	Accelerated tax allowance over depreciation HK\$
At 1 July 2004	38,000
Credit to income for the year	(30,000)
At 1 July 2005	8,000
Credit to income for the year	(8,000)
At 30 June 2006	—

25. 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.

Notes to the Financial Statements

For the year ended 30 June 2006

26. DISPOSAL OF SUBSIDIARY

On 7 December 2005, the Group was disposed its subsidiary, Legend Well International Limited at a consideration of HK\$2.

The net assets of Legend Well International Limited at the date of disposal were follows:

	HK\$
Bank balances and cash	<u>2</u>
Satisfied by:	
Cash	<u>2</u>

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

Cash consideration	2
Bank balances and cash disposal of	<u>(2)</u>
	<u>-</u>

27. OPERATING LEASE COMMITMENTS

	THE GROUP	
	2006 HK\$	2005 HK\$
Accrued lease payments	1,289,025	1,308,740
Within one year	1,088,308	176,669
In the second to fifth year inclusive	<u>3,050,185</u>	<u>36,981</u>
	<u>5,427,518</u>	<u>1,522,390</u>

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of 4 year.

Notes to the Financial Statements

For the year ended 30 June 2006

28. RELATED PARTY TRANSACTIONS

During the year, the Group had the transactions with the following parties:

Name of party	Notes	Nature of transactions	2006 HK\$	2005 HK\$
Ms. Chan Choi Har, Ivy	(i)	Loan from a director	2,535,391	200,000
Profit Trick Holdings Limited	(i)	Loan from shareholders	1,550,000	1,550,000
Rocket High Investments Limited	(i)	Loan from shareholders	3,850,000	3,750,000
Garrick International Limited	(ii)	Rental payment	71,089	16,600
Garrick International Limited	(iii)	Purchases of products	13,008	–
Garrick International Limited	(ii)	Provision of finance lease	20,886	–
			20,886	–

Remuneration for key management personnel

The remuneration of directors and other members of key management personnel during the year are as follows:

	THE GROUP	
	2006 HK\$	2005 HK\$
Short-term employee benefits	122,500	103,702

The remuneration of directors and key management personnel is determined or proposed by the remuneration committee having regard to the performance of individuals and market trends.

Notes:

- i. In accordance to the shareholders' and director's loan agreements, the loans are repayable on demand and bear interest at Hong Kong Dollar prime lending rate quoted by The Hong Kong and Shanghai Banking Corporation Limited from time to time. During the year, the Group had not paid any interest for the loan from shareholders and a director but the Group has accrued interest for the loan from Ms. Chan Choi Har, Ivy, Profit Trick Holdings Limited and Rocket High Investments Limited in amount of HK\$81,444, HK\$128,180 and HK\$257,763 respectively.
- ii. Ms. Keung Wai Fun, Samantha, who is the chief executive officer of Blu Spa (Hong Kong) Limited, is the controlling shareholder and director of Garrick International Limited. Garrick International Limited has signed the contract of purchasing machine on behalf of the Group, amounting to HK\$120,000 under finance lease. Garrick International Limited has paid an amount of HK\$20,886 including interest of HK\$886 on behalf of the Group during the year.

In addition, the Group had certain balances with its shareholders and related companies, details of these are set out in notes 21 and 22 respectively.

Notes to the Financial Statements

For the year ended 30 June 2006

29. SUBSIDIARIES

Particulars of the Company's subsidiaries at 30 June 2006 are as follows:

Name of subsidiary	Place of incorporation/ operations	Issued and paid up share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
Blu Spa Group Limited	British Virgin Islands/ Hong Kong	Shares US\$2,700	100	–	Investment holding
Blu Spa (Hong Kong) Limited	Hong Kong	Ordinary shares HK\$2	–	100	Market development, product distribution and customer support services
Blu Spa International Limited	British Virgin Islands/ Hong Kong	Share US\$1	–	100	Advertising, marketing and granting of distribution rights
Beachgold Assets Limited	British Virgin Islands/ Hong Kong	Shares US\$2	–	100	Holding of patent and trademarks/ tradenames
Clapton Holdings Limited	The Republic of Cyprus/Canada	Shares C£1,000	–	100	Advertising, marketing and granting of distribution rights
Blu Spa Management Services Limited	British Virgin Islands/ Hong Kong	Share US\$1	–	100	Provision of retail concept store, spa operation and related management services
Zhuhai Fulihua Cosmetics Co. Ltd.	China	RMB500,000	–	100 through trustees	Advertising, marketing and granting of distribution right
Kingsbury Asia Limited	British Virgin Islands/ Hong Kong	Shares US\$2	–	100	Administration and operation

Notes to the Financial Statements

For the year ended 30 June 2006

30. CONTINGENT LIABILITIES

(a) Dispute with DBS Asia

The Group has received certain bills amounting to approximately HK\$245,000 from the former Sponsor, DBS Asia Capital Limited ("DBS Asia"), which were purported to be reimbursement of legal cost incurred by DBS Asia in connection with legal assistance sought by DBS Asia from outside lawyers in relation to certain inquiries from the Stock Exchange. DBS Asia suggested that the Group is under obligation to reimburse such legal expenses. However, the directors do not agree with DBS Asia's suggestion that the Group is under any obligation to pay. The Group will liaise with DBS Asia to resolve the dispute.

(b) Arrears of dealership fee to Sogo Hong Kong Company Limited

Blu Spa (Hong Kong) Limited ("BSHK") has owed an amount of approximately HK\$1.1 million to Sogo Hong Kong Company Limited ("Sogo") for the dealership fee to do business at Beaute@Sogo due to the unsatisfactory business performance. This amount should be fully settled in March 2005. However, due to shortage of fund the Group has not yet paid the same. If no settlement is reached in the near future, Sogo is likely to take legal action against BSHK and BSHK will then have to bear additional legal cost, which Sogo may incur in recovering its claim. The Group has attempted to seek additional loans from shareholders to meet the payment. It is not, however, expected that they will bear the additional legal cost. During the year, BSHK has not yet settled the debt and has entered the agreement with Sogo in 25 July 2006. BSHK will repay the debt by monthly equal installments of HK\$100,000 starting from 5 July 2006.

31. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current years presentation.

Financial Summary

	FOR THE YEAR ENDED 30 JUNE				
	2002 HK\$	2003 HK\$ (Restated)	2004 HK\$	2005 HK\$	2006 HK\$
Results					
Turnover	<u>2,856,445</u>	<u>1,818,151</u>	<u>2,051,972</u>	<u>1,564,392</u>	<u>133,465</u>
Loss from ordinary activities attributable to shareholders	<u>(10,855,268)</u>	<u>(8,913,543)</u>	<u>(4,563,125)</u>	<u>(5,667,561)</u>	<u>(4,927,964)</u>

Assets and liabilities

	FOR THE YEAR ENDED 30 JUNE				
	2002 HK\$	2003 HK\$ (Restated)	2004 HK\$	2005 HK\$	2006 HK\$
Total assets	<u>26,828,723</u>	<u>19,235,990</u>	<u>17,770,043</u>	<u>15,459,166</u>	<u>13,556,412</u>
Total liabilities	<u>(11,306,757)</u>	<u>(9,377,657)</u>	<u>(12,482,581)</u>	<u>(15,839,265)</u>	<u>(18,857,407)</u>
(Deficiency) balance of shareholders' funds	<u>15,521,966</u>	<u>9,858,333</u>	<u>5,287,462</u>	<u>(380,099)</u>	<u>(5,300,995)</u>

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the annual general meeting of the shareholders of Blu Spa Holdings Limited (the "Company") will be held at the Dynasty Club, 7th Floor, South West Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong on Friday, 27 October 2006 at 9:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and the reports of the directors and the auditors of the Company (the "Directors" and the "Auditors" respectively) for the year ended 30 June 2006;
2. To re-elect the retiring directors and to authorise the board of Directors (the "Board") to fix the Directors' remuneration;
3. To re-appoint the Auditors and to authorise the Board to fix their remuneration;
4. To consider as special business and, if thought fit, pass with or without amendments, the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

(1) "THAT

- (a) subject to paragraph (c) below the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options and rights of exchange or conversion which might require the exercise of such powers after the end of the Relevant Period;

Notice of Annual General Meeting

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (where pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as defined below); or (ii) the grant or exercise of any option under the share option schemes of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the memorandum and articles of association of the Company in force from time to time; or (iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company, shall not exceed the aggregate of:

- (i) 20% of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this resolution; and
- (ii) (if the Directors are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this resolution (up to a maximum equivalent to 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this resolution), and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(d) for the purpose of this resolution:

“Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company, the Companies Law of the Cayman Islands or any other applicable laws of the Cayman Islands to be held; and
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution.

Notice of Annual General Meeting

“Rights Issue” means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors to holders of shares in the Company on the register on a fixed record date in proportion to their then holdings of shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong).

(2) “THAT

- (a) subject to paragraph (b) below, the exercise by the Directors during the Relevant Period (as defined below) of all powers of the Company to purchase its shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited or any other stock exchange outside Hong Kong on which the shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission of Hong Kong, The Stock Exchange of Hong Kong Limited, the memorandum and articles of association of the Company, the Companies Law of the Cayman Islands and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company which may be repurchased or agreed to be repurchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of this Resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and
- (c) for the purpose of this resolution, “Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company, the Companies Law of the Cayman Islands or any other applicable laws of the Cayman Islands to be held; and

Notice of Annual General Meeting

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution."

(3) "THAT conditional on the passing of resolutions numbered 4(1) and 4(2) above, the unconditional general mandate granted to the Directors pursuant to resolution numbered 4(1) above be and it is hereby extended by the addition to the aggregate nominal amount of the shares of HK\$0.01 each in the capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to or in accordance with the authority granted pursuant to resolution numbered 4(2) above."

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

Executive Directors:

Wu Wenzhi
Chan Choi Har, Ivy

Independent Non-Executive Directors:

Chan Shun Kuen, Eric
Lam Wai Pong
Yeung Mario Bercasio

29 September 2006

Registered Office:

Century Yard,
Cricket Square,
Hutchins Drive,
P.O. Box 2681 GT
George Town, Grand Cayman,
British West Indies

Head Office and principal place of business:

2303, 23/F, World-Wide House,
19 Des Voeux Road Central,
Hong Kong

Notice of Annual General Meeting

Notes:

- (a) A shareholder entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a shareholder of the Company.
- (b) To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited with the Company's branch share registrar in Hong Kong, Secretaries Limited, at Level 25, Three Pacific Place, 1 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the meeting or at any adjournment thereof.
- (c) In relation to proposed resolutions nos. 4(1) and 4(3) above, approval is being sought from the shareholders of the Company for the grant to the Directors of a general mandate to authorise the allotment and issue of shares under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.
- (d) In relation to proposed resolution no. 4(2) above, approval is being sought from the shareholders of the Company for a general mandate to be given to the Directors to repurchase shares of the Company.
- (e) An explanatory statement containing the information with respect to resolutions 4(1) to 4(3) of the notice will be sent to the shareholders of the Company together with the Company's 2006 annual report.