



**BLU SPA HOLDINGS LIMITED**

**富麗花•譜控股有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8176)**

**INTERIM REPORT  
FOR THE SIX MONTHS ENDED  
31 DECEMBER 2006**

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

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

## SUMMARY

- The Group is a developer, promoter and distributor of a broad range of botanical personal care products and services.
- The unaudited consolidated turnover of the Group for the six months ended 31 December 2006 was approximately HK\$755,000, representing an increase of approximately HK\$678,000 or approximately 8.8 times as compared to the unaudited consolidated turnover of the Group of approximately HK\$77,000 for the corresponding period in 2005.
- The net loss for the six months ended 31 December 2006 was approximately HK\$2,817,000, representing an increase of loss of approximately HK\$1,178,000 or approximately 72% as compared to a net loss of approximately HK\$1,639,000 for the corresponding period in 2005.

The board of directors (the “Board”) of Blu Spa Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months and three months ended 31 December 2006 together with the comparative figures for the corresponding periods in 2005. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

## CONDENSED CONSOLIDATED INCOME STATEMENT

		(Unaudited)		(Unaudited)	
		For the six months ended 31 December 2006	For the six months ended 31 December 2005	For the three months ended 31 December 2006	For the three months ended 31 December 2005
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	3	755	77	648	31
Cost of sales		<u>(1,117)</u>	<u>(17)</u>	<u>(1,098)</u>	<u>(9)</u>
Gross profit/(loss)		(362)	60	(450)	22
Other revenue		79	437	79	66
Distribution costs		–	–	36	–
Administrative expenses		<u>(2,169)</u>	<u>(1,935)</u>	<u>(671)</u>	<u>(901)</u>
Loss from operations	4	(2,452)	(1,438)	(1,006)	(813)
Finance costs	5	<u>(365)</u>	<u>(201)</u>	<u>(189)</u>	<u>(110)</u>
Loss before taxation		(2,817)	(1,639)	(1,195)	(923)
Taxation	6	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Loss attributable to shareholders		<u><b>(2,817)</b></u>	<u><b>(1,639)</b></u>	<u><b>(1,195)</b></u>	<u><b>(923)</b></u>
Basic loss per share (in HK cents)	8	<u><b>(0.46)</b></u>	<u><b>(0.27)</b></u>	<u><b>(0.20)</b></u>	<u><b>(0.15)</b></u>

## CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) As at 31 December 2006 <i>HK\$'000</i>	(Audited) As at 30 June 2006 <i>HK\$'000</i>
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Intangible assets		11,700	12,168
Plant and equipment		608	706
		<u>12,308</u>	<u>12,874</u>
<b>CURRENT ASSETS</b>			
Inventories		6	6
Trade receivables	9	138	80
Deposits and other receivables		562	526
Bank balances and cash		212	70
		<u>918</u>	<u>682</u>
<b>CURRENT LIABILITIES</b>			
Deposit received		352	96
Accruals and other payables		5,178	4,280
Amount due to directors	10	4,216	2,812
Amount due to shareholders	11	5,400	5,400
Amount due to related companies	12	2,563	2,593
Obligation under finance lease		60	80
Provision for taxation		-	4
		<u>(17,769)</u>	<u>(15,265)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(16,851)</u>	<u>(14,583)</u>
		<u>(4,543)</u>	<u>(1,709)</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	13	6,068	6,068
Reserves		(14,183)	(11,369)
		<u>(8,115)</u>	<u>(5,301)</u>
<b>NON-CURRENT LIABILITIES</b>			
Amount due to shareholders	11	3,572	3,572
Obligation under finance lease		-	20
		<u>3,572</u>	<u>3,592</u>
		<u>(4,543)</u>	<u>(1,709)</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)					
	Share Capital	Share Premium	Merger Difference	Translation Reserve	Accumulated Losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 July 2006	6,068	19,740	22,735	(1)	(53,843)	(5,301)
Exchange differences arising from translation of operations outside Hong Kong	-	-	-	3	-	3
Loss for the period	-	-	-	-	(2,817)	(2,817)
At 31 December 2006	<u>6,068</u>	<u>19,740</u>	<u>22,735</u>	<u>2</u>	<u>(56,660)</u>	<u>(8,115)</u>
At 1 July 2005	6,068	19,740	22,735	(8)	(48,915)	(380)
Exchange differences arising from translation of operations outside Hong Kong	-	-	-	7	-	7
Loss for the period	-	-	-	-	(1,639)	(1,639)
At 31 December 2005	<u>6,068</u>	<u>19,740</u>	<u>22,735</u>	<u>(1)</u>	<u>(50,554)</u>	<u>(2,012)</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited) For the six months ended 31 December 2006 <i>HK\$'000</i>	(Unaudited) For the six months ended 31 December 2005 <i>HK\$'000</i>
NET CASH USED IN OPERATING ACTIVITIES	(1,258)	(96)
NET CASH USED IN INVESTING ACTIVITIES	–	–
NET CASH GENERATED FROM FINANCING ACTIVITIES	<u>1,397</u>	<u>–</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	139	(96)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	70	189
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>3</u>	<u>–</u>
CASH AND CASH EQUIVALENTS AT ENDED OF PERIOD, represented by bank balances and cash	<u><u>212</u></u>	<u><u>93</u></u>

## NOTES

### 1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands on 30 August 2001 as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company is an investment holding company.

The Group incurred a loss attributable to the shareholders of approximately HK\$2,817,000 for the six months ended 31 December 2006. In addition, the Group had net current liabilities and net liabilities of approximately HK\$16,851,000 and approximately HK\$8,115,000, respectively as at 31 December 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 year 2007, 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;
- (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 other major cities in the PRC;
- (e) A spa centre is scheduled to open in February 2007 in the clubhouse of AquaMarine. AquaMarine comprising of luxurious residential complexes is developed by Hang Lung Properties Limited. The Group will set up a number of spa centers in the clubhouse of other 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 abovementioned 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 31 December 2006.

## 2. PRINCIPAL ACCOUNTING POLICIES

The unaudited consolidated financial statements have been prepared on the historical cost basis.

The unaudited condensed consolidated financial statements for the six months ended 31 December 2006 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” and the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules. The accounting policies used in the unaudited consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 30 June 2006.

### **Impact of new Hong Kong Financial Reporting Standards**

The Hong Kong Institute of Certified Public Accountants has issued a number of new standards, amendments and interpretations (collectively the “New HKFRSs”), which are generally effective for annual periods beginning on or after 1 January 2006. The Group has adopted the following New HKFRSs, which are applicable to the Group in the interim financial statements for the six months ended 31 December 2006:

HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>1</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>2</sup>
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives <sup>3</sup>

<sup>1</sup> *Effective for accounting periods beginning on or after 1 March 2006.*

<sup>2</sup> *Effective for accounting periods beginning on or after 1 May 2006.*

<sup>3</sup> *Effective for accounting periods beginning on or after 1 June 2006.*

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.



### 3. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

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:

#### For the six months ended 31 December 2006 (Unaudited)

	The People's Republic of China <i>HK\$'000</i>	Hong Kong <i>HK\$'000</i>	Others <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>REVENUE</b>					
External sales					
– Distributorship	469	86	13	–	568
– Retailing	29	42	–	–	71
Service income	–	116	–	–	116
Inter-segment sales	–	–	–	–	–
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total revenue	498	244	13	–	755
<b>RESULT</b>					
Segment result	<u>411</u>	<u>(777)</u>	<u>4</u>	<u>–</u>	<u>(362)</u>
Unallocated corporate income					79
Unallocated corporate expenses					<u>(2,169)</u>
Operating loss					(2,452)
Interest expense					<u>(365)</u>
Loss for the period					<u><u>(2,817)</u></u>
<b>Assets and liabilities at 31 December 2006 (Unaudited)</b>					
<b>ASSETS</b>					
Segment assets	–	138	–	–	138
Unallocated corporate assets					<u>13,088</u>
Consolidated total assets					<u><u>13,226</u></u>
<b>LIABILITIES</b>					
Segment liabilities	–	–	–	–	–
Unallocated corporate liabilities					<u>21,341</u>
Consolidated total liabilities					<u><u>21,341</u></u>

### 3. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

#### For the six months ended 31 December 2005 (Unaudited)

	The People's Republic of China <i>HK\$'000</i>	Hong Kong <i>HK\$'000</i>	Others <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>REVENUE</b>					
External sales					
– Distributorship	27	–	–	–	27
– Retailing	–	50	–	–	50
Service income	–	–	–	–	–
Inter-segment sales	–	8	–	(8)	–
	<u>27</u>	<u>58</u>	<u>–</u>	<u>(8)</u>	<u>77</u>
Total revenue	<u>27</u>	<u>58</u>	<u>–</u>	<u>(8)</u>	<u>77</u>
<b>RESULT</b>					
Segment result	<u>20</u>	<u>40</u>	<u>–</u>	<u>–</u>	<u>60</u>
Unallocated corporate income					437
Unallocated corporate expense					<u>(1,935)</u>
Operating loss					(1,438)
Interest expense					<u>(201)</u>
Loss for the period					<u><u>(1,639)</u></u>
<b>Assets and liabilities at 31 December 2005 (Unaudited)</b>					
<b>ASSETS</b>					
Segment assets	–	60	–	–	60
Unallocated corporate assets					<u>14,113</u>
Consolidated total assets					<u><u>14,173</u></u>
<b>LIABILITIES</b>					
Segment liabilities	–	–	–	–	–
Unallocated corporate liabilities					<u>16,185</u>
Consolidated total liabilities					<u><u>16,185</u></u>

Inter-segment sales are charged at cost plus certain markup

#### 4. LOSS FROM OPERATIONS

	(Unaudited) Six months ended 31 December 2006		(Unaudited) Three months ended 31 December 2006	
	HK\$'000	2005 HK\$'000	HK\$'000	2005 HK\$'000
Loss from operations has been arrived at after charging:				
Director's remuneration	5	27.5	2	2.5
Other staff costs	1,222	231	618	137
Retirement benefit scheme contributions	43	9	21	4
Total staff costs	<u>1,270</u>	<u>267.5</u>	<u>641</u>	<u>143.5</u>
Depreciation	98	90	49	39
Amortization of intangible assets	468	571	234	285
Fixed assets written-off	-	268	-	-
And after crediting:				
Release of the obligation to the unperformed therapy course	<u>-</u>	<u>356</u>	<u>-</u>	<u>-</u>

#### 5. FINANCE COSTS

	(Unaudited) Six months ended 31 December 2006		(Unaudited) Three months ended 31 December 2006	
	HK\$'000	2005 HK\$'000	HK\$'000	2005 HK\$'000
Interest on:				
Loan from shareholders and directors	363	201	188	110
Interest on obligation under finance lease	2	-	1	-
	<u>365</u>	<u>201</u>	<u>189</u>	<u>110</u>

## 6. TAXATION

	(Unaudited) Six months ended 31 December 2006 HK\$'000		(Unaudited) Three months ended 31 December 2006 HK\$'000	
	2005 HK\$'000		2005 HK\$'000	
The charge (credit) comprises:				
Company and subsidiaries				
Current period profits tax				
– PRC	–	–	–	–
Deferred tax				
Credit of current period	–	–	–	–
Taxation attributable to the Group	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

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

No provision for Hong Kong Profits Tax has been made for the six months ended 31 December 2006 and the corresponding period in 2005, as the Group has no assessable profits for the respective periods.

## 7. DIVIDEND

The directors do not recommend the payment of a dividend for the six months ended 31 December 2006, nor has any dividend been proposed since this period ended date (2005: Nil).

## 8. BASIC LOSS PER SHARE

The calculation of the basis loss per share for the six months ended 31 December 2006 is based on the loss for the period of approximately HK\$2,817,000 (2005: HK\$1,639,000) and on the weighted average of 606,800,000 (2005: on 606,800,000) shares in issue during the period.

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

## 9. TRADE RECEIVABLES

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

	(Unaudited) As at 31 December 2006 HK\$'000	(Audited) As at 30 June 2006 HK\$'000
Aged:		
0-60 days	71	18
61-120 days	6	2
Over 180 days	61	60
	<u>138</u>	<u>80</u>

## 10. AMOUNT DUE TO DIRECTORS

As at 31 December 2006, the amounts due to directors including an amount of approximately HK\$3,934,000 (2005: 2,535,000) which is repayable on demand and bear interest at Hong Kong Dollar prime lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time. The remaining balances are unsecured, non-interest bearing and repayable on demand.

## 11. AMOUNT DUE TO SHAREHOLDERS

		(Unaudited) As at 31 December 2006 HK\$'000	(Audited) As at 30 June 2006 HK\$'000
<b>Current liabilities</b>			
Profit Trick Holdings Limited	1	1,550	1,550
Rocket High Investments Limited	1	3,850	3,850
		<u>5,400</u>	<u>5,400</u>
<b>Non-current liabilities</b>			
XO-Holdings Limited	2	3,572	3,572
		<u>8,972</u>	<u>8,972</u>

Note:

- As at 31 December 2006 and 30 June 2006, the amounts due to Profit Trick Holdings Limited and Rocket High Investments Limited, being substantial shareholders of the Company, which are repayable on demand and bear interest at Hong Kong Dollar prime lending rate quoted by The HongKong and Shanghai Banking Corporation Limited.
- As at 31 December 2006 and 30 June 2006, the amount due to a shareholder, XO-Holdings Limited, amounted to approximately HK\$3,572,000, which was unsecured and non-interest bearing.

XO-Holdings Limited has undertaken to the Company that (i) it will not demand repayment of the amount due to it of approximately HK\$3,572,000 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.

## 12. AMOUNT DUE TO RELATED COMPANIES

The balance of HK\$2,500,000 (2005: HK\$2,500,000) represented amount due to a related company, which has a common shareholder of Rocket High Investments Limited, a substantial shareholder of the Company. The balance of approximately HK\$63,000 (2005: HK\$93,000) represented amount due to a related company, the controlling shareholder of which is the Chief Executive Director of a subsidiary of a Group. The amounts are unsecured, non-interest bearing and repayable upon demand.

### 13. SHARE CAPITAL

	<b>Number of Shares of HK\$0.01 each</b>	<b>Amount HK\$'000</b>
At 31 December (Unaudited) and 30 June (Audited) 2006	<u>10,000,000,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
At 31 December (Unaudited) and 30 June (Audited) 2006	<u>606,800,000</u>	<u>6,068</u>

### 14. OPERATING LEASE COMMITMENTS

	<b>(Unaudited) As at 31 December 2006 HK\$'000</b>	<b>(Audited) As at 30 June 2006 HK\$'000</b>
Accrued lease payments	<b>118</b>	1,289
Within one year	<b>1,056</b>	1,088
In the second to fifth year inclusive	<b>2,517</b>	3,050
	<u><b>3,691</b></u>	<u>5,427</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 years.

### 15. 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.

## 16. EMPLOYEE INFORMATION

As at 31 December 2006, the Group had 14 employees (2005: 4) and staff cost for the six months ended 31 December 2006 (excluding directors' remuneration) amounted to approximately HK\$1,222,000 (2005: HK\$231,000) whilst the directors' remuneration for the six months ended 31 December 2006 amounted to approximately HK\$5,000 (2005: HK\$27,500). Remuneration is determined by reference to market conditions and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid at the management's discretion to its employees in Hong Kong as recognition of and reward for their contributions. Other benefits include on 30 January 2002, the Company adopted a new share option scheme, contributions to statutory mandatory provident fund scheme to its employees in Hong Kong.

## 17. 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

As a result of unsatisfactory business performance, BSHK owed Sogo Hong Kong Company Limited ("Sogo") an amount of approximately HK\$1.2 million being outstanding dealership fee payable for the right to do business at Beaute@Sogo as of March 2006. However, due to shortage of fund, the Group was unable to settle the same. Hence, Sogo commenced High Court Action and Default Judgment was entered against BSHK on 7 June 2006. In response, the Company has reached a settlement with Sogo by way of monthly installment payments. As at the date of this report, the Company has paid three monthly installments in the aggregate of HK\$300,000 to Sogo, each of which was financed by way of director's loan.

## 18. RELATED PARTY TRANSACTIONS

For six months ended 31 December 2006, the Group had the transactions with the following parties:

Name of party	Notes	Nature of transactions	(Unaudited)	(Audited)
			As at 31 December 2006 HK\$'000	As at 30 June 2006 HK\$'000
Ms. Chan Choi Har, Ivy	(i)	Loan from a director	3,934	2,535
Profit Trick Holdings Limited	(i)	Loan from shareholders	1,550	1,550
Rocket High Investments Limited	(i)	Loan from shareholders	3,850	3,850
Garrick International Limited	(ii)	Rental payment	-	71
Garrick International Limited	(ii)	Purchases of products	6	13
Garrick International Limited	(ii)	Provision of finance lease	42	21

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 period, the Group had not paid any interest but has accrued interest for the loans from Ms. Chan Choi Har, Ivy, Profit Trick Holdings Limited and Rocket High Investments Limited in amount of approximately HK\$146,000, HK\$62,000 and HK\$155,000 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 approximately HK\$42,000 including interest of approximately HK\$2,000 on behalf of the Group for six months ended 31 December 2006.



## MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

### Six months ended 31 December 2006

For the six months ended 31 December 2006, the Group recorded a turnover of approximately HK\$755,000 which represented an increase of approximately 8.8 times when compared with that of the corresponding period last year. It was because in the period under review, the Group has revamped its marketing strategy to redirect its focus to distributorship business, and the retailing outlets have been terminated to minimize its operating cost.

The gross loss amounted to approximately 362,000 for the six months ended 31 December 2006 whereas the gross profit amounted to approximately 60,000 in last corresponding period.

Administrative expenses incurred by the Group for the six months ended 31 December 2006 amounted to approximately HK\$2,169,000 (2005: HK\$1,935,000), representing an increase of approximately 12% as compared to those of previous period.

Finance costs incurred by the Group for the six months ended 31 December 2006 amounted to approximately HK\$365,000 (2005: HK\$201,000), representing an increase of approximately HK\$164,000 or 82% as compared to those of previous period. As at 31 December 2006, there were shareholders' and directors' loans of approximately HK\$9,334,000 (2005: 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.

The loss attributable to shareholders amounted to approximately HK\$2,817,000 (2005: HK\$1,639,000) for the six months ended 31 December 2006, representing an increase of approximately HK\$1,178,000 or 72% as compared to the loss attributable to shareholders for the corresponding period in previous year.

### Liquidity and financial resources

The Group generally finances its operations with its internal resources, advances from the substantial shareholders, namely, XO-Holdings Limited, Profit Trick Holdings Limited and Rocket High Investments Limited, advance from a director, Ms. Chan Choi Har, Ivy and advance from a related party. As at 31 December 2006, the Group did not have any banking facilities.

As at 31 December 2006, the shareholders' funds deficit of the Group amounted to approximately HK\$8,115,000. Current assets amounted to approximately HK\$918,000, of which inventories amounted to approximately HK\$6,000, deposits and other receivables amounted to approximately HK\$562,000, cash and bank balances amounted to approximately HK\$212,000 and trade receivables amounted to approximately HK\$138,000. The Group's current liabilities amounted to approximately HK\$17,769,000, of which shareholders loans amounted to approximately HK\$5,400,000, amount due to related companies amounted to approximately HK\$2,563,000, amount due to directors amounted to approximately HK\$4,216,000, accruals and other payables amounted to approximately HK\$5,178,000, deposit received amounted to approximately HK\$352,000 and obligation under finance lease amounted to approximately HK\$60,000.

## Gearing Ratio

As at 31 December 2006, the Group's gearing ratio, expressed as a percentage of total borrowings (comprising amounts due to directors, shareholders and a related company of the Company) over total assets, was 119% (30 June 2006: 106%). 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 cash position.

## Loan structure of the Group

		(Unaudited) As at 31 December 2006 HK\$'000	(Audited) As at 30 June 2006 HK\$'000
	<i>Note</i>		
XO-Holdings Limited	<i>1</i>	3,572	3,572
Amount due to a related company	<i>2</i>	2,500	2,500
Profit Trick Holdings Limited	<i>3</i>	1,550	1,550
Rocket High Investments Limited	<i>3</i>	3,850	3,850
Amounts due to directors	<i>4</i>	4,216	2,812
		<b>15,688</b>	<b>14,284</b>

### Notes:

1. As at 31 December 2006 and 30 June 2006, the amount due to a shareholder, XO-Holdings Limited, amounted to approximately HK\$3.6 million, 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\$3.6 million within one year from the listing of the shares of the Company on GEM; and (ii) it will not demand repayment of any outstanding amount due to it after one year from the date of listing of the shares of the Company on GEM unless the Group has positive cash flow from operations and retained earnings in a financial year and each of the independent non-executive directors has given an opinion that such payment will not adversely affect the operations of the Group and the implementation of the business objectives of the Company as stated in the Prospectus.

2. As at 31 December 2006 and 30 June 2006, the amount due to a related party, which has a common shareholder of Rocket High Investments Limited, a substantial shareholder of the Company, amounted to HK\$2.5 million, is unsecured, non-interest bearing and repayable upon demand.
3. As at 31 December 2006 and 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 Hongkong and Shanghai Banking Corporation Limited from time to time.
4. As at 31 December 2006 and 30 June 2006, the amounts due to directors including an amount approximately HK\$3,934,000 and HK\$2,535,000 respectively, which is repayable on demand and bear interest at Hong Kong Dollar prime lending rate quoted by the Hongkong and Shanghai Banking Corporation Limited from time to time.

## **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2006 (for the six months ended 31 December 2005: Nil).

## **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 operated the Group's retail outlet in Beaute@Sogo until October 2005 when the mall was closed down for renovation. In the period under review, the Group had redirected its focus to the distributorship business. The Directors believe that the strong and steady economic recovery in Hong Kong will drive the growth of the 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 visitor arrivals including both the group and individual travelers from the PRC continued to grow at a steady pace. The retail market had experienced a 25%-35% business growth attributable mainly to the stronger spending power of individual travelers as compared to 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 in China such as Shenzhen, Guangzhou, Beijing and Shanghai as well as in countries such as, South Korea, Thailand and Dubai.

During the period under review, the Group continued its efforts in negotiating with Chinese and overseas OEM manufacturers, sourcing high quality botanical beauty care products, using its brand name to promote anti-aging, whitening, fabric mask, hydrating and purifying face care products, while continuing its research and development of new and improved formulations for existing products. Having established initial contact with a small circle of suppliers, the screening process was progressing well. The Group continued to step up its research and development efforts on high quality new innovative skin care products and product quality enhancement.

In February, a spa centre, managed by the Group, has been opened in the club house of AquaMarine. AquaMarine comprising of luxurious residential complexes is developed by Hang Lung Properties Limited. As a result of the intensive efforts of our PRC distributor, a Blu Spa sales counter has been opened in Shenyang, China in January 2007. The PRC distributor is due to set up an image store (with beauty school) in Shenzhen in February 2007 which is under renovation.

## **OUTLOOK**

Given the robust 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 and 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 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. Our PRC distributor will open a sales counter at Shin Kong Mitsukoshi, Beijing in March 2007 with the opening of new outlets in other major cities in China such as Chongqing and Xinjiang. The Group is confident of its business prospects in the near future owing to 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 particularly 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 remain the fastest growing market for beauty care products and services in the future.

Furthermore, the PRC distributor plans to open image store (with beauty school) in Beijing and a bottling workshop in Shenzhen respectively by March 2007. As of the latest practicable date, the Group has entered into co-operation agreements with Jones Lang LaSalle Management Service Limited and Residential Management Services Limited on and behalf of Long Beach and AquaMarine respectively for the setting up and operation of Spa centre at its club premises. Both Long Beach and AquaMarine are luxurious residential complexes developed by Hang Lung Properties Limited. The Group will continue to manage spa facilities located in private residential clubhouses. The Group will strive to provide not only premium quality beauty care products and services to its end users, but also training of marketing staff to prepare them with skill and product knowledge commensurate to their role as consultants for catering our customers' beauty care needs. With confidence, the Group is expecting to realize stronger and better business performance in the coming future.

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 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 ( <i>Note 1</i> )	110,657,870	18.24%

*Note:-*

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

### B. Short position in shares

No short position of directors and 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 31 December 2006. There were no debt securities issued by the Group during the period.

### C. Share options

#### *Options to subscribe for shares in the Company*

Name of Director	Date of grant	Exercise Price <i>HK\$</i>	Number of Shares Options Outstanding as at 31 December 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.

## 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. As at 31 December 2006, no options had been granted under the Pre-IPO Scheme and the Scheme save as disclosed above.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Share Options Schemes", at no time during the period was the Company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire by means of acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the directors or their spouses or children under the age 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 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 ( <i>Note 1</i> )	110,657,870	18.24%
XO-Holdings Limited ( <i>Note 2</i> )	110,657,870	18.24%
Wah Hing Consultants Limited ( <i>Notes 2 and 3</i> )	110,657,870	18.24%
Heung See Wai, Angela ( <i>Note 3</i> )	110,657,870	18.24%
Rajewski, Natalie N. ( <i>Note 4</i> )	84,099,330	13.86%
Eastpoint Resources Limited ( <i>Note 4</i> )	84,099,330	13.86%
Well Arts Enterprises Limited ( <i>Note 5</i> )	84,099,330	13.86%
Wai Suk Chong, Helena ( <i>Note 6</i> )	107,132,600	17.66%
Profit Trick Holdings Limited ( <i>Note 6</i> )	107,132,600	17.66%
David Chiu ( <i>Note 7</i> )	146,151,360	24.09%
Rocket High Investments Limited ( <i>Note 7</i> )	146,151,360	24.09%

### Notes:

1. The interests of Chan Choi Har, Ivy in the Company comprise 18.24% shareholding interest through her 65% interest in XO-Holdings Limited.
2. These shares are held by XO-Holdings Limited which is beneficially owned as to 65% by Chan Choi Har, Ivy and as to 35% by Wah Hing Consultants Limited.
3. Wah Hing Consultants Limited is beneficially owned as to 100% by Heung See Wai, Angela.
4. These shares are held by Eastpoint Resources Limited, a company whose entire issued share capital is held by Well Arts Enterprises Limited in its capacity as trustee of the Eastpoint Trust, a discretionary trust the discretionary objects of which include Rajewski, Natalie N. and certain of her family members.
5. Well Arts Enterprises Limited holds the entire issued share capital of Eastpoint Resources Limited in its capacity as trustee of the Eastpoint Trust, a discretionary trust and Well Arts Enterprises Limited is deemed to have an interest in the 84,099,330 shares in the Company in which Eastpoint Resources Limited is interested.
6. These shares are held by Profit Trick Holdings Limited. The entire issued share capital of Profit Trick Holdings Limited is beneficially owned by Wai Suk Chong, Helena.
7. These shares are held by Rocket High Investments Limited. The entire issued share capital of Rocket High Investments Limited is beneficially owned by David Chiu.

Save as disclosed above, the Company has not been notified of any other interests representing 5% or more or any short positions in the issued share capital of the Company as at 31 December 2006.

## **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 31 December 2006.

## **ADVANCES TO AN ENTITY**

As at 31 December 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.

## **CORPORATE GOVERNANCE**

In the opinion of the Board, the Company has complied with the Code on Corporate Governance Practices (the "CG Code") 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") during the period ended 31 December 2006.

The Board's annual review of the effectiveness of the system of internal control of the Group pursuant to C.2.1 of the CG Code will be reported in the forthcoming corporate governance report to be contained in the Company's annual report for the financial year ending 30 June 2007.

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 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 period ended 31 December 2006.

## **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 report, there is sufficient public float, as not less than 25% of the Company's issued shares are held by the public.

## **BOARD PRACTICES AND PROCEDURES**

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules during the period.

By order of the Board  
**Blu Spa Holdings Limited**  
**Ivy Chan**  
*Director*

*As at the date hereof, the Board comprises of two executive directors, namely, and Ms. Chan Choi Har, Ivy and Mr. Wu Wenzhi; and three independent non-executive directors, namely, Mr. Chan Shun Kuen, Eric, Mr. Lam Wai Pong and Mr. Yeung Mario Bercasio.*

Hong Kong, 9 February 2007