



BLU SPA™

富麗花 • 譜控股有限公司

BLU SPA HOLDINGS LIMITED
Annual Report 2007

(Incorporated in the Cayman Islands with limited liability)

(Stock Code :8176)



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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of this report.

This report, for which the directors (the “Directors”) of Blu Spa Holdings Limited (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to 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.

Contents

Company Information	2
Chairman's Statement	3
Management Discussion and Analysis	5
Directors and Senior Management Profile	9
Directors' Report	10
Corporate Governance Report	19
Independent Auditors' Report	23
Consolidated Income Statement	25
Consolidated Balance Sheet	26
Balance Sheet	27
Consolidated Statement of Changes in Equity	28
Consolidated Cash Flow Statement	29
Notes to the Financial Statements	30
Financial Summary	55

Company Information

Legal Name:

Blu Spa Holdings Limited

Board of Director

Executive Directors:

Chan Choi Har, Ivy (*Chairman and CEO*)
Chan Shun Kuen, Eric

Independent Non-executive Directors:

Chan Sze Hon
Lam Wai Pong
Yeung Mario Bercasio

Senior Management:

Keung Wai Fun, Samantha

Company Secretary & Qualified Accountant:

Huen Lai Chun, ACCA

Compliance Officer:

Chan Choi Har, Ivy

Authorised Representatives:

Chan Choi Har, Ivy
Huen Lai Chun

Audit Committee:

Chan Sze Hon (*Chairman of Committee*)
Lam Wai Pong
Yeung Mario Bercasio

Remuneration Committee:

Chan Sze Hon (*Chairman of Committee*)
Lam Wai Pong
Yeung Mario Bercasio

Authorised Person to Accept Services of Process and Notices:

Chan Choi Har, Ivy

Registered Office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business:

Room 2303, 23/F. World-Wide House,
19 Des Voeus Road Central, 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 results of the Company and its subsidiaries (together, the "Group") for the year ended 30 June 2007 for their consideration.

Operating Results

During the year under review, the Group recorded a total turnover of HK\$4,058,311, representing significant increase of 29.4 times as compared to the last year (2006: HK\$133,465). Loss for the year ended 30 June 2007 was HK\$3,734,818 representing a 24.2% decrease year-on-year (2006: HK\$4,927,964). Basic loss per share for the year ended 30 June 2007 was HK\$0.62 cents, decreased by HK\$0.19 cents (2006: HK\$0.81 cents). Gross profit for the year ended 30 June 2007 was HK\$1,190,690, representing an increase of 10 times as compared to the last year (2006: HK\$107,796).

Market Overview

For the year ended 30 June 2007, 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 product/service market will be exciting in the near term future with the strong rebound of the global economy and the continuing growth in the consumer spending, particularly, in the PRC market. Given this market trend, the Group continued to focus on the sale and promotion of Blu Spa products through selected distributors. At present, the Group has appointed three distributors in Hong Kong, Taiwan and the PRC to distribute Blu Spa products in their respective territories. The Group will continue its efforts to identify and recruit prospective distributors in overseas countries.

Operating Overview

During the year under review, the Group remained in need of financial resources otherwise required to pursue more aggressive marketing activities such as advertisements that help promote stronger market presence. Despite the 29.4 times increase in turnover the Group had been actively seeking fresh funding from substantial shareholders and inviting strategic investors to inject new funds to strengthen the current operations. The Group continued its efforts in shortlisting the potential 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.

Given the increasing attractions of Hong Kong, Macau and the PRC due to the buoyant casino market 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 placed special emphasis on the PRC market, which remained the fastest growing market for beauty care products and services. As a result of the intensive efforts of the PRC Distributor, a total of seven Blu Spa cosmetic sales outlets were opened in major cities such as Beijing, Shenzhen, Shenyang, Chongqing, Yixing, and Suzhou.

As a result of the continuing efforts of the Group, the turnover increased by 29.4 times from HK\$133,465 to HK\$4,058,311. Apart from the three distributors appointed in Hong Kong, the PRC and Taiwan, negotiations for new distributorship in other Asian and overseas countries are underway and the related agreements are expected to be finalized in the near future.

Chairman's Statement

As the same time, the Group had enlisted the service of a small group of manufacturers and co-packers of botanical beauty care products in Canada, which the Group had shortlisted after a prolonged screening process. The Group is satisfied with the quality of the products produced by these manufacturers and co-packers. They will manufacture the finished products in bulk based on 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 materials 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 57%, from HK\$467,387 to HK\$733,652.

Prospects and Appreciation

Given the robust and steady global economic recovery and the continuous economic growth in the PRC market, the Group is optimistic of its future prospects. Continuing efforts will be directed to development and introduction of new innovative botanical beauty care products and therapy/treatment services, brand building and advertisement with the aim 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 to collaborate with local co-operative partners in co-branding joint promotional campaigns designed to promote market recognition of Blu Spa brand products and services.

The Group will continue to concentrate its marketing efforts in 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. With the successful opening of the spa centre at AquaMarine, the Group will continue to seek additional spa facility management rights in high-end residential estates.

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 partnership between the Group with local distributors will help expand its geographical markets in the near future. The Group will continue to look for distributors in Asia and overseas countries by participating in international and regional cosmetics exhibitions and trade shows such as Cosmoprof Asia.

Faced with the keen 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. It is anticipated that the Group will introduce to the market new designs and packaging for Blu Spa products in the first quarter of 2008. The Group will 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.

Chan Choi Har, Ivy

Chairman

Hong Kong, 21 September 2007

Management Discussion and Analysis

Financial Review

Results

For the year ended 30 June 2007, the Group recorded a turnover of HK\$4,058,311, representing an increase of 29.4 times as compared to last year (2006: HK\$133,465). This significant increase in turnover was attributable to the Group's transition from retail business to distributorship business and re-deployment of its resources to the development of distributorship business pursuant to its revamped marketing strategy.

The Group's gross profit was HK\$1,190,690 for the year ended 30 June 2007, representing an increase of 10 times as compared to last year (2006: HK\$107,796).

Other revenue, which mainly comprised of incomes from beauty training courses in the PRC, earned by the Group for the year ended 30 June 2007 was HK\$539,644, representing an increase of 11.9% as compared to last year (2006: HK\$482,430).

The Group's administrative expense was HK\$4,702,588 for the year ended 30 June 2007, representing a decrease of 7% as compared to last year (2006: HK\$5,057,218).

The Group's finance cost was HK\$737,196 for the year ended 30 June 2007, representing an increase of 57.4% as compared to last year (2006: HK\$468,291). The increase in finance cost was due to the increase in directors' loans. As at 30 June 2007, there were shareholders' and directors' loans of HK\$9,334,391, 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 2007, the loss attributable to shareholders of the Group amounted to HK\$3,734,818, representing a decrease of HK\$1,193,146 as compared to last year (2006: HK\$4,927,964).

Significant investments and acquisitions

For the year ended 30 June 2007, the Group had no significant investments and acquisitions of subsidiaries and affiliated companies (2006: Nil).

Charges on group assets

For the year ended 30 June 2007, the Group did not have any charges on the Group's assets (2006: Nil).

Foreign exchange risk 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 risks of the Group is not significant as they will consider the foreign exchange effect of the terms of purchase and sale contracts dealt with foreign enterprises and will not bear unforeseeable foreign currency exchange risks.

Liquidity and financial resources

For the year ended 30 June 2007, the Group mainly financed its operations with internally generated resources, loans from directors and advances from substantial shareholders, namely, Profit Trick Holdings Limited and XO-Holdings Limited. As at 30 June 2007, the Group did not have any banking facilities.

Management Discussion and Analysis

As at 30 June 2007, there was a deficit in the shareholders' funds amounting to HK\$9,044,429 (2006: HK\$5,300,995). Current assets amounted to HK\$1,978,448, of which HK\$16,238 were inventories, HK\$1,144,231 were trade receivables; HK\$557,175 were deposits and other receivables and HK\$260,804 were bank balances and cash. The Group's current liabilities amounted to HK\$19,260,425 which comprised of accruals and other payables amounted to HK\$5,816,744; amounts due to directors amounted to HK\$10,576,161; amounts due to related companies amounted to HK\$616,817; amounts due to shareholders amounted to HK\$1,550,000; obligation under finance lease amounted to HK\$20,000; provision for taxation amounted to HK\$4,245 and deposit received amounted to HK\$676,458.

Capital Structure

As at 30 June 2007, the Group's gearing ratio, expressed as ratio of total borrowings (comprising amounts due to directors, shareholders and related companies of the Company) to total assets, was 113.9% (2006: 106.1%). 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.

As at 30 June 2007, the total amount of loan was HK\$15,698,437, representing an increase of HK\$1,414,180 compared to last year (2006: HK\$14,284,257). The loan structure of the Group is as follows:

	2007 HK\$'000	2006 HK\$'000
Amounts due to directors (Note 18)	10,576	2,812
Profit Trick Holdings Limited (Note 21)	1,550	1,550
Rocket High Investments Limited (Note 21)	-	3,850
XO-Holdings Limited (Note 21)	3,572	3,572
Amount due to related companies (Note 22)	-	2,500
	15,698	14,284

The cash and cash equivalents and loans of the Group are mostly denominated in Hong Kong dollars.

Details of future plans for material investment of 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 2007, the Group had 15 employees (2006: 14) and staff costs (excluding directors' remuneration) amounted to HK\$2,549,805 (2006: HK\$717,293) whilst the directors' remuneration amounted to HK\$10,000 (2006: HK\$32,500). 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 and contributions to statutory mandatory provident fund scheme to its employees in Hong Kong.

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

In the year under review, the Group continued to concentrate its resources on 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 group and individual travelers from the PRC continued to grow at a steady pace. The retail market had experienced a healthy growth attributable mainly to the stronger spending power of individual travelers as compared to group travelers.

By intensifying 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 other key cities in the PRC such as Guangzhou,, Shanghai and Chengdu as well as in countries such as South Korea, Thailand, and Dubai.

During the year under review, the Group had been working closely with Chinese and overseas OEM manufacturers in anticipation of the debut of new designs and packaging of Blu Spa products with new or enhanced formulations. At the same time, the Group continued its effort in sourcing high quality botanical beauty care products, using its brand name to promote anti-aging, whitening, fabric mask, hydrating and purifying face care products, which are targeted for relaunch with new designs and packaging in the first quarter of 2008, while continuing its research and development of new and improved formulations for existing products, of which samples are at the testing stage. The Group further continued its research and development efforts on high quality new innovative skin care products and product quality enhancement. Following a prolonged screening process, the Group had shortlisted a small group of OEM manufacturers in Canada and packaging suppliers in the PRC to work with.

In March 2007, a spa centre, managed by the Group, was opened in the clubhouse premises of AquaMarine. AquaMarine comprising of luxurious residential complexes is developed by Hang Lung Properties Limited. The opening of the spa centre at the clubhouse premises of AquaMarine was an instant success and incoming bookings for spa treatments and therapies soon exceeded the spa centre's capacity. In consequence, all spa treatments and services had to be provided against at least 2-week advance booking. In view of the growing demand from the residents of AquaMarine, the Group reached an agreement with the estate management to enlarge the spa centre area in order to augment the spa service offerings and to maintain the level of quality service to the residents. In March, the Group entered into an agreement with Cobes International Co., Limited, pursuant to which Cobes was appointed as an exclusive agent of Blu Spa (Hong Kong) Limited (the "BSHK") to distribute Blu Spa products in the Duty Free shop of Cobes in the PRC. The Group is currently in the process of designing and developing a new line of cosmetic products that cater for Duty Free shop customers. In view of the growing demand of retail customers for after-office and week-end spa services, the Group opened a 1,704 sq.ft. spa centre in Lan Kuai Fong, Central in June 2007. To facilitate efficient management and provide additional area for beauty training lessons, the spa services had been relocated from the Worldwide House to the Lan Kuai Fong spa centre. Following the opening of Blu Spa cosmetic sales counters in Shenyang and Chongqing respectively in the months of January and March 2007, the PRC distributor opened two additional cosmetic sales counters at Beijing Shin Kong Misukoshi (新光天地) department store and Beijing Sunlight department store (晨曦百貨) respectively in April 2007. In the same month, the PRC distributor opened its new office and spa centre in Century Plaza Hotel (新都酒店), Shenzhen. As part of the PRC Distributor's expansion programme Blu Spa cosmetic sales counters were opened in Yixing and Suzhou respectively in June 2007. As at 30 June 2007, the PRC Distributor had a total of seven retail outlets in Beijing, Shenzhen, Shenyang, Chongqing, Yixing and Suzhou respectively.

Management Discussion and Analysis

Prospects

Given the robust and steady global economic recovery and the continuous economic growth in the PRC market, the Group is optimistic of its future prospects. Continuing efforts will be directed to developing and introducing new innovative botanical beauty care products and therapy/treatment services for the end users, 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 to collaborate with local co-operative partners in co-branding joint promotional campaigns designed to promote market awareness of Blu Spa brand products and services.

In addition to continuous product promotions, the Group has directed its attention to customer service and support for both retails and wholesale customers. The Directors believe that the continuing opening of Blu Spa brand retail outlets in cities like Shenyang, Chongqing, Beijing, Shenzhen, Yixing, and Suzhou and additional cosmetic sales counters in other major cities in the PRC is a show of confidence by the PRC Distributor in the Group's products and quality service. On this regard, a spa centre and beauty academy, managed by the PRC distributor, is scheduled to open at the Mayfair Hotel in Tianjin in November 2007. 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 buoyant casino market in Macau, Hong Kong Disneyland, Hong Kong Ocean Park and 2008 Olympic Games in Beijing. The Group is optimistic of its future sustained and strong growth in the turnover. The Group will continue to look for distributors in Asia and overseas countries by participating in international and regional cosmetics exhibitions and trade shows such as Cosmoprof Asia.

The successful opening of the spa centre at AquaMarine has opened new business opportunities to the Group for managing additional spa centres at luxurious residential clubhouses of similar class such as the Hampton Place, a luxurious residential apartment project developed by Cheung Kong (Holding) Limited in West Kowloon, which is due to open in November 2007 under the Group's management. The Group is currently in negotiations with other estate management for spa facility management right in high-end residential estates. The Group is committed to provide premium quality beauty care products and services to the end users. The Group plans to introduce to the market new designs and packaging of Blu Spa products in the first quarter of 2008. With the introduction of the Beauteca skin care line, the Group is well positioned to support its distributors in developing new distribution channels such as Duty Free shops and cosmetic surgery clinics. In addition, the PRC Distributor is expected to manage spa centre at hotels and luxurious residential projects in major cities in the PRC as part of their ongoing efforts in developing new distribution channels for Blu Spa products and services. Given the on-going development mentioned above, the Directors are confident that the Group will realize stronger and better business performance in the coming future.

Directors and Senior Management Profile

Executive Directors

Ms. Chan Choi Har, Ivy, aged 56, is one of the founders, an executive Director, the Chairman and CEO of the Group. She became the Chairman of the Group on 7 September 2007. She is responsible for market development, general administration and financing of the Group. She has 20 years of experience in real estate development and related investments including hotel projects in the PRC and residential development in Macau. 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. She has been the vice-chairman of TriNorth Capital Inc., a public company listed on the Toronto Stock Exchange, since 1994.

Mr. Chan Shun Kuen, Eric, aged 45, holds a master degree in corporate finance and an LLB degree and is an associate member of the Hong Kong Institute of Certified Public Accountants. He has over 10 years of experience in the investment banking sector. He is currently an INED of Tianjin Tianlian Public Utilities Company Limited, a company listed on The Stock Exchange of Hong Kong Limited. He joined the Company on 28 September 2004 and was appointed as an INED and a member of the Audit Committee. He also became a member of the Remuneration Committee on 30 March 2005. He was re-designated as executive Director on 7 September 2007. Following the re-designation, he ceased to be a member and the Chairman of the Audit Committee and Remuneration Committee of the Company.

Independent Non-executive Directors (“INED”)

Mr. Chan Sze Hon, aged 34, graduated from City University of Hong Kong with a Bachelor of Arts Degree in Accountancy. He is a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. He has 12 years of experience in accounting and financial management and had worked for an international accounting firm in Hong Kong. He is currently the Executive Director and Company Secretary of a listed company in Hong Kong. He was appointed as the Company's INED on 7 September 2007. He also became a member and the Chairman of the Audit Committee and Remuneration Committee of the Company.

Mr. Yeung, Mario Bercasio, aged 45, is a degree holder for Bachelor of Engineering and graduated from Newcastle Upon Tyne Polytechnic, England. He also holds a 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.

Mr. Lam Wai Pong, aged 52, 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.

Senior Management

Ms. Keung Wai Fun, Samantha, aged 53, was appointed as the General Manager of the Company in July 2004 and was re-designated as Chief Executive Officer of Blu Spa (Hong Kong) Limited (“BSHK”) on 1 May 2006. She has 9-year experience in the beauty care industry, and is 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 the Company has pleasure in submitting the directors' report together with the audited financial statements of the Group for the year ended 30 June 2007.

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 2007 are set out in the consolidated income statement on page 25 of the annual report.

Dividends

No dividends were paid or proposed to be paid for the year ended 30 June 2007 (2006: HK\$ nil), nor has any dividend been proposed since the balance sheet date.

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.

Convertible Securities

For the year ended 30 June 2007, the Group has not granted any convertible securities, options, warrants or other similar rights.

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 and 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*) (Resigned on 8 August 2007)
 Chan Choi Har, Ivy (*Chairman and CEO*) (Became Chairman on 7 September 2007)
 Chan Shun Kuen, Eric (Re-designated as executive Director on 7 September 2007)

Independent Non-executive Directors

Chan Shun Kuen, Eric (Re-designated as executive Director on 7 September 2007)
 Chan Sze Hon (Appointed on 7 September 2007)
 Lam Wai Pong
 Yeung, Mario Bercasio

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

Save as disclosed above, none of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Disclosure of the Interests and Short Positions of Directors and Chief Executive in the Shares, Underlying Shares and Debentures

As at 30 June 2007, the interests and short positions of each Director and Chief Executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required to be entered in the register pursuant to section 352 of the SFO or interests or short positions which are required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange 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	110,657,870	18.24%

Note: 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.

Directors' Report

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 2007. There were no debt securities issued by the Group during the year.

C. *Share options*

Options to subscribe for shares in the Company:

Name	Date of grant	Exercise price HK\$	Number of shares options outstanding as at 30 June 2007
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.

Save as disclosed above, as at 30 June 2007, the Directors are not aware of any Director and Chief Executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to the Division 7 and 8 of Part XV of the SFO, or will be required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company, or will be required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors and Chief Executive of the Company to be notified to the Company and the Stock Exchange.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed under the heading "Share Option 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 statements, 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 Party Transactions

For the year ended 30 June 2007, the Group has no transaction which required to make connected transaction disclosures under the GEM Listing Rules.

Directors' Report

In relation to the related party transactions as set out in note 28 to the financial statements, the Board has confirmed that these transactions constitute connected transactions (within the meaning of the GEM Listing Rules) of the Company. However, the loan from a director, loans from shareholders and provision of finance lease from Garrick International Limited are financial assistance transactions exempted under GEM Listing Rule 20.65(4), and also the rental payment to and purchase of products from Garrick International Limited are de minimis transactions exempted under GEM Listing Rule 20.33(3)(b), from all the reporting, announcement and independent shareholders' approval requirements contained in Chapter 20 of the GEM Listing Rules.

Substantial Shareholders

For the year ended 30 June 2007, 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:

- The interests of Chan Choi Har, Ivy in the Company comprise 18.24% shareholding interest through her 65% interest in XO-Holdings Limited.
- 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.
- Wah Hing Consultants Limited is beneficially owned as to 100% by Heung See Wai, Angela.
- 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.
- 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.
- 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.
- 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.

Directors' Report

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 2007.

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 2007, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Scheme was 10,250,000 shares, 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.

Directors' Report

As at 30 June 2007, 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.

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 2006	Lapsed during the year	Outstanding at 30 June 2007
Directors			
Chan Choi Har, Ivy	<u>10,250,000</u>	<u>–</u>	<u>10,250,000</u>
Total for Directors	<u>10,250,000</u>	<u>–</u>	<u>10,250,000</u>
Employees	<u>–</u>	<u>–</u>	<u>–</u>
Grand Total	<u>10,250,000</u>	<u>–</u>	<u>10,250,000</u>

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.

Directors' Report

Major Customers and Suppliers

For the year ended 30 June 2007, the amount of purchases attributable to the Group's five largest suppliers represented approximately 100% of the Group's total sales cost and the amount of sales attributable to the Group's five largest customers represented approximately 88% of the Group's total turnover. The Group's total purchases and turnover attributable to its largest supplier and its largest customer were approximately 89% and 58% respectively.

As far as the directors are aware, neither the directors, their associates nor shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any interests in the Group's five largest customers or suppliers during the year.

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 2007.

Retirement Benefits Costs

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

Management Contracts

During the year under review, no management and administrative contracts regarding the entire or any major businesses of the Company have been entered into or have existed.

Advances to an Entity

As at 30 June 2007, 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 year under review, 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 (the "Code on Corporate Governance") with effect 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 2007 which will be contained in the 2007 Annual Report.

Directors' Report

Board of Directors

The Board of the Company comprises five Directors, of which two are executive Directors, namely Ms. Chan Choi Har, Ivy and Mr. Chan Shun Kuen, Eric and three are INEDs, namely Mr. Chan Sze Hon, 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 established an audit committee (the "Audit Committee") on 10 December 2001 with written terms of reference which precisely specify its powers 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 currently comprises three INEDs, namely, Mr. Chan Sze Hon, Mr. Lam Wai Pong and Mr. Yeung Mario Bercasio. Mr. Chan Sze Hon is the Chairman of the Audit Committee.

The Group's Annual Report and accounts for the year ended 30 June 2007 have been reviewed by the Audit Committee.

Remuneration Committee

The Company established a remuneration committee (the "Remuneration Committee") on 30 March 2005 with written terms of reference. The Remuneration Committee currently comprises three INEDs of the Company, namely, Mr. Chan Sze Hon, Mr. Lam Wai Pong and Mr. Yeung Mario Bercasio. Mr. Chan Sze Hon is the Chairman of the Remuneration Committee.

Board Practices and Procedures

During the year under review, the Company has been in compliance with the requirements for the Board Practices and Procedures as set out in Rule 5.34 of the GEM Listing Rules.

Directors' Report

Model Code for Securities Transactions by Directors

During the year under review, 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. After making specific enquiries to all Directors of the Company, the Company was not aware of any Directors who were in breach of the required standard of dealings and its code of conduct on securities transactions by Directors.

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.

Auditors

The financial statements have been audited by Messrs. HLM & Co.. A resolution will be submitted to the upcoming annual general meeting of the Company to re-appoint Messrs. HLM & Co. as the Company's auditors.

On behalf of the Board
Blu Spa Holdings Limited

Chan Choi Har, Ivy
Chairman

Hong Kong, 21 September 2007

Corporate Governance Report

Corporate Governance Practices

For the year ended 30 June 2007, the Group had been in compliance with most of the provisions of the Code on Corporate Governance, save as the deviations discussed below. The Company adopted the code provisions set out in the Code on Corporate Governance as its own code of corporate governance practices.

Model Code for Securities Transactions by Directors

During the year under review, 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. After making specific enquiries to all Directors of the Company, the Company was not aware of any Directors who were in breach of the required standard of dealings and its code of conduct on securities transactions by Directors.

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*) (Resigned on 8 August 2007)

Ms. Chan Choi Har, Ivy (*Chairman and CEO*) (Became Chairman on 7 September 2007)

Mr. Chan Shun Kuen, Eric (Re-designated as executive Director on 7 September 2007)

Independent Non-executive Directors:

Mr. Chan Shun Kuen, Eric (Re-designated as executive Director on 7 September 2007)

Mr. Chan Sze Hon (Appointed on 7 September 2007)

Mr. Lam Wai Pong

Mr. Yeung Mario Bercasio

According to Code Provision A.4.1, non-executive directors must be appointed for a specific term and subject to re-election. The existing non-executive directors of the Company do not have specific terms of appointment. However, pursuant to the Bye-laws of the Company, all directors of the Company (including executive and non-executive directors, except the Chairman of the Board and/or the Chief Executive Officer) shall be subject to retirement by rotation in every annual general meeting.

According to Code Provision A.4.2, every director is subject to retirement by rotation at least once every three years. Pursuant to the Bye-laws of the Company, at each annual general meeting, one-third of the directors must retire. Notwithstanding any requirements of that provision, the Chairman of the Board and/or the Chief Executive Officer of the Company is not subject to retirement by rotation or taken into account in determining the number of Directors to retire. During the year under review, Mr Wu Wenzhi was the Chairman and an executive director of the Company. He had resigned as the Chairman and an executive director on 8 August 2007, and Chan Choi Har, Ivy took up the duty of Chairman and Chief Executive Officer of the Company. As Chan Choi Har, Ivy is one of the founders of the Group and is responsible for market development of the Group, the Board believes that continuity is the key to implementing the long-term business plans successfully, and that with the Chairman or Chief Executive Officer continuing in office, it can provide the Group with strong and consistent leadership, thus long-term business strategies can be planned and implemented more effectively. The Board is of the view that the Chairman of the Board and/or the Chief Executive Officer should not be subject to retirement by rotation.

The Board has four scheduled meetings at quarterly interval and meets as and when required. During the year ended 30 June 2007, the Board held 4 meetings.

Corporate Governance Report

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

Board of Directors	Number of attendance
Mr. Wu Wenzhi (Resigned on 8 August 2007)	3/4
Ms. Chan Choi Har, Ivy	4/4
Mr. Chan Shun Kuen, Eric	4/4
Mr. Lam Wai Pong	4/4
Mr. Yeung Mario Bercasio	4/4
Mr. Chan Sze Hon (Appointed on 7 September 2007)	0/4

The Board is responsible for approving and monitoring the Group's overall strategies and policies, approving business plans, and assessing the Group's performance and the management's governance. The Board is also responsible for facilitating the success of the Group and its businesses by providing guidelines on and monitoring the Group's affairs.

The Board focuses on overall strategy and policy, in particular the growth and financial performance of the Group.

The day to day operations of the Group are delegated by the Board to the executive Directors and senior management. Certain material events are decided by the Board, which includes the annual operations plan, annual financial budget, annual remuneration plan, quarterly, interim and annual financial statements, quarterly, interim and annual profit pre-distribution plan, and material matters which involve corporate development, acquisition or organization adjustment. The Board, through the executive Directors who have attended the Board meeting, passes its decisions to the management. 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.

The Company appointed three 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 this 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

During the year ended 30 June 2007, Mr. Wu Wenzhi was the Chairman of the Group and Ms. Chan Choi Har, Ivy was the Chief Executive Officer. The roles of the Chairman and the Chief Executive Officer were segregated and were not exercised by the same individual.

Corporate Governance Report

Remuneration Committee

The Company established a Remuneration Committee on 30 March 2005. The Remuneration Committee currently comprises three INEDs, namely Mr. Chan Sze Hon, Mr. Lam Wai Pong and Mr. Yeung Mario Bercasio. Mr. Chan Sze Hon is the Chairman of the Remuneration Committee.

The Remuneration Committee is largely responsible for making recommendations to the Board on all Company's policies and structures in connection with the remuneration of Directors, establishing a set of formal and transparent procedures for the formulation of the remuneration policy. It is also responsible for determining the specific remuneration packages of all executive Directors and senior management, reviewing and approving the performance-based remuneration and the compensation payable to executive Directors and senior management as a result of their departure from office, termination of their employment, dismissal and removal, and ensuring that no directors or their associates are involved in determining their own remuneration.

During the year under review, the Remuneration Committee had reviewed the remuneration of the Directors and held one meeting, and the attendance record of the members present at the meeting of the Remuneration Committee is set out as follows:

	Number of attendance
Mr. Chan Shun Kuen, Eric (<i>Chairman</i>) (Re-designated as executive Director on 7 September 2007)	1/1
Mr. Chan Sze Hon (<i>Chairman</i>) (Appointed on 7 September 2007)	0/1
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., Certified Public Accountants, is set out as follows:

Audit services rendered	HKD100,000
Non-audit services rendered	-

Audit Committee

The Company established the Audit Committee on 10 December 2001 with written terms of reference which precisely specify its powers and duties.

The Audit Committee currently comprises three members, namely Mr. Chan Sze Hon, Mr. Lam Wai Pong and Mr. Yeung Mario Bercasio. Mr. Chan Sze Hon is the Chairman of the Audit Committee. All of the members of the Audit Committee are INEDs of the Company. The primary duties of the Audit Committee are to advise the Board on the appointment and removal of external auditors, approve the remuneration and terms of appointment of the external auditors, as well as review and supervise the financial reporting process and internal control system of the Group and review the Company's annual reports and accounts and interim and quarterly reports, and provide advice and recommendations to the Board thereon.

During the year under review, the Audit Committee had reviewed the Group's unaudited quarterly reports for the three months ended 30 September 2006 and 31 March 2007 respectively and half-year report for the six months ended 31 December 2006. The Audit Committee considers that these reports had been prepared in compliance with the accounting standards and GEM Listing Rules. The Audit Committee had also reviewed the Group's annual report and accounts for the year ended 30 June 2007.

Corporate Governance Report

The Audit Committee held four meetings during the year under review.

The attendance of the audit committee meetings are as follows:

Members of the Audit Committee	Number of attendance
Mr. Chan Shun Kuen, Eric (<i>Chairman</i>) (Re-designated as executive Director on 7 September 2007)	4/4
Mr. Chan Sze Hon (<i>Chairman</i>) (Appointed on 7 September 2007)	0/4
Mr. Lam Wai Pong	4/4
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, to 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 a review of the Group's internal control system for the year ended 30 June 2007. The Directors 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.

Responsibility of the Directors and Auditors towards the Accounts

The Directors confirms that it is their responsibilities for preparing the Group's financial statements. The Directors shall ensure that the financial statements of the Group have been prepared in accordance with statutory requirements and applicable accounting standards.

The statement of the auditors of the Company regarding their responsibilities for reporting the Group's financial statements is set out in the Independent Auditor's Report on page 23 of this annual report.

Relations with Shareholders

The management undertakes that it will maintain transparency of the highest standard, and adopts a policy of disclosing relevant information to its shareholders in an open and timely manner. The Company also communicates with its shareholders via its annual, interim and quarterly reports.

Independent Auditors' Report

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

Room 305, Arion Commercial Centre
 2-12 Queen's Road West, Hong Kong.
 香港皇后大道西2-12號聯發商業中心305室
 Tel 電話: (852) 3103 6980
 Fax 傳真: (852) 3104 0170
 E-mail 電郵: hlm@hlm.biz.com.hk

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 consolidated financial statements of Blu Spa Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 53, which comprise the consolidated balance sheet as at 30 June 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Consolidated Financial Statements

The Directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report

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 2007, the Group had net current liabilities and net liabilities of HK\$17,281,977 and HK\$9,044,429, respectively. The Group also incurred a loss attributable to the shareholders of HK\$3,734,818 for the year ended 30 June 2007. The Group's 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 2007 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, 21 September 2007

Consolidated Income Statement

For the year ended 30 June 2007

	Notes	2007 HK\$	2006 HK\$
Turnover	6	4,058,311	133,465
Cost of sales		(2,867,621)	<u>(25,669)</u>
Gross profit		1,190,690	107,796
Other revenue		539,644	482,430
Distribution costs		(24,379)	-
Administrative expenses		(4,702,588)	(5,057,218)
Finance costs	7	(737,196)	<u>(468,291)</u>
Loss before taxation		(3,733,829)	(4,935,283)
Taxation	9	(989)	<u>7,319</u>
Loss for the year	10	<u>(3,734,818)</u>	<u>(4,927,964)</u>
Dividends	11	-	<u>-</u>
Loss per share, in HK cents	12	<u>(0.62)</u>	<u>(0.81)</u>

Consolidated Balance Sheet

At 30 June 2007

	Notes	2007 HK\$	2006 HK\$
Non-current assets			
Intangible assets	13	11,232,000	12,168,000
Plant and equipment	14	577,824	706,281
		11,809,824	12,874,281
Current assets			
Inventories	16	16,238	5,932
Trade receivables	17	1,144,231	79,989
Deposits and other receivables		557,175	525,833
Bank balances and cash		260,804	70,377
		1,978,448	682,131
Current liabilities			
Deposit received		676,458	96,003
Accruals and other payables		5,816,744	4,279,835
Amounts due to directors	18	10,576,161	2,811,981
Amounts due to shareholders	21	1,550,000	5,400,000
Amounts due to related companies	22	616,817	2,593,411
Obligation under finance lease	23	20,000	80,000
Provision for taxation		4,245	3,901
		19,260,425	15,265,131
Net current liabilities		(17,281,977)	(14,583,000)
Total assets less current liabilities		(5,472,153)	(1,708,719)
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	-	-
		3,572,276	3,592,276
Net liabilities		(9,044,429)	(5,300,995)
Capital and reserves			
Share capital	19	6,068,000	6,068,000
Reserves		(15,112,429)	(11,368,995)
		(9,044,429)	(5,300,995)

The financial statements on pages 25 to 53 were approved and authorised for issue by the Board of directors on 21 September 2007 and are signed on its behalf by:

 DIRECTOR

 DIRECTOR

Balance Sheet

At 30 June 2007

	<i>Notes</i>	2007 HK\$	2006 <i>HK\$</i>
Non-current asset			
Interests in subsidiaries	15	<u>3,700,536</u>	<u>2,516,589</u>
Current assets			
Deposits and other receivables		<u>28,600</u>	28,600
Bank balances		<u>875</u>	<u>1,416</u>
		<u>29,475</u>	<u>30,016</u>
Current liabilities			
Amounts due to directors		10,564,751	2,805,751
Amounts due to shareholders	21	1,550,000	5,400,000
Amounts due to a related company	22	-	2,500,000
Accruals and other payables		<u>2,716,687</u>	<u>1,690,417</u>
		<u>14,831,438</u>	<u>12,396,168</u>
Net current liabilities		(14,801,963)	(12,366,152)
Total assets less current liabilities		(11,101,427)	(9,849,563)
Non-current liability			
Amounts due to shareholders	21	<u>3,572,276</u>	<u>3,572,276</u>
Net liabilities		(14,673,703)	(13,421,839)
Capital and reserves			
Share capital	19	6,068,000	6,068,000
Reserves	20	<u>(20,741,703)</u>	<u>(19,489,839)</u>
		<u>(14,673,703)</u>	<u>(13,421,839)</u>

Consolidated Statement of Changes in Equity

For The Year Ended 30 June 2007

	Share capital HK\$	Share premium HK\$	Merger difference HK\$	Translation reserve HK\$	Accumulated losses HK\$	Total HK\$
THE GROUP						
At 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 and 1 July 2007	6,068,000	19,740,134	22,734,577	(678)	(53,843,028)	(5,300,995)
Exchange differences arising from translation of operations outside Hong Kong	-	-	-	(8,616)	-	(8,616)
Loss for the year	-	-	-	-	(3,734,818)	(3,734,818)
At 30 June 2007	<u>6,068,000</u>	<u>19,740,134</u>	<u>22,734,577</u>	<u>(9,294)</u>	<u>(57,577,846)</u>	<u>(9,044,429)</u>

Consolidated Cash Flow Statement

For The Year Ended 30 June 2007

	Notes	2007 HK\$	2006 HK\$
OPERATING ACTIVITIES			
Loss before taxation		(3,733,829)	(4,935,283)
Adjustment for:			
Interest income		(639)	(563)
Interest expense		737,196	468,291
Depreciation on plant and equipment		177,541	177,150
Written off of fixed assets		-	442,197
Amortisation of intangible assets		936,000	1,142,191
Allowance for inventories		-	627,419
Written off of intangible assets		-	148,797
Operating cash flow before movements in working capital		(1,883,731)	(1,929,801)
(Increase) decrease in inventories		(10,306)	12,108
Increase in trade receivables		(1,064,242)	(38,438)
Increase in deposits and other receivables		(31,342)	(43,166)
Increase (decrease) in accruals and other payables		803,601	(84,232)
Increase in amounts due to directors		7,764,180	2,253,555
(Decrease) increase in amounts due to related company		(1,976,594)	93,411
Increase in deposit received		580,455	96,003
Cash generated from operations		4,182,021	359,440
Interest paid		(3,544)	(886)
PRC Profit Tax paid		(989)	(681)
NET CASH GENERATED FROM OPERATING ACTIVITIES		4,177,488	357,873
INVESTING ACTIVITIES			
Interest received		639	563
Purchases of plant and equipment		(48,700)	(564,370)
Disposal of a subsidiary	26	-	-
NET CASH USED IN INVESTING ACTIVITIES		(48,061)	(563,807)
FINANCING ACTIVITIES			
Repayment of obligation under finance lease		(80,000)	(20,000)
Decrease in amounts due to shareholders		(3,850,000)	-
Advance from a shareholder		-	100,000
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES		(3,930,000)	80,000
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		199,427	(125,934)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(9,000)	7,025
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		70,377	189,286
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		260,804	70,377
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		260,804	70,377

Notes to the Financial Statements

For The Year Ended 30 June 2007

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 New And Revised Hong Kong Financial Reporting Standards (“HKFRSs”)

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are either effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKAS 23 (Revised)	Borrowing Costs ²
HKFRS 7	Financial instruments: Disclosures ¹
HKFRS 8	Operating Segments ²
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment ³
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions ⁴
HK(IFRIC) – Int 12	Service Concession Arrangements ⁵

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

² Effective for annual periods beginning on or after 1 January 2009.

³ Effective for annual periods beginning on or after 1 November 2006.

⁴ Effective for annual periods beginning on or after 1 March 2007.

⁵ Effective for annual periods beginning on or after 1 January 2008.

Notes to the Financial Statements

For The Year Ended 30 June 2007

3. Basis of Preparation of Financial Statements

The Group incurred a loss attributable to the shareholders of HK\$3,734,818 for the year ended 30 June 2007. In addition, the Group had net current liabilities and net liabilities of HK\$17,281,977 and HK\$9,044,429, respectively, as at 30 June 2007. 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 is undergoing serious negotiations with interested investors for new equity to be introduced to the Group;
- (b) The Group has taken 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) The Group will continue to negotiate to set up more 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 2007.

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 Hong Kong Companies Ordinance.

Notes to the Financial Statements

For The Year Ended 30 June 2007

4. Summary of Significant Accounting Policies (Continued)

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.

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.

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.

Investments in subsidiaries

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

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.

Borrowing cost

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized as expenses in the year in which they are incurred.

Notes to the Financial Statements

For The Year Ended 30 June 2007

4. Summary of Significant Accounting Policies (Continued)

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.

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 2007

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.

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.

Notes to the Financial Statements

For The Year Ended 30 June 2007

4. Summary of Significant Accounting Policies (Continued)

Foreign currencies (Continued)

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.

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.

Notes to the Financial Statements

For The Year Ended 30 June 2007

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.

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 2007 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 and the PRC. It did not have significant exposure to foreign exchange risk. The Group is mainly 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 HK\$9,044,429 as at 30 June 2007. 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 2007

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 2007					
TURNOVER					
External sales					
– Distributorship	3,255,815	353,766	12,612	–	3,622,193
– Retailing and therapy services	–	436,118	–	–	436,118
Inter-segment sales	<u>47,877</u>	<u>–</u>	<u>–</u>	<u>(47,877)</u>	<u>–</u>
Total revenue	<u>3,303,692</u>	<u>789,884</u>	<u>12,612</u>	<u>(47,877)</u>	<u>4,058,311</u>
Inter-segment sales are charged at cost plus certain markup.					
RESULT					
Segment results	<u>2,772,527</u>	<u>(1,592,130)</u>	<u>10,293</u>	<u>–</u>	<u>1,190,690</u>
Unallocated corporate incomes					539,005
Unallocated corporate expenses					(4,726,967)
Interest income					639
Finance costs					(737,196)
Taxation					<u>(989)</u>
Loss for the year					<u>(3,734,818)</u>
Assets and liabilities at 30 June 2007					
ASSETS					
Segment assets	–	1,144,231	–	–	1,144,231
Unallocated total assets					<u>12,644,041</u>
Consolidated total assets					<u>13,788,272</u>
LIABILITIES					
Segment liabilities					–
Unallocated corporate liabilities					<u>(22,832,701)</u>
Consolidated total liabilities					<u>(22,832,701)</u>

Notes to the Financial Statements

For The Year Ended 30 June 2007

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 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 results	<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
Interest expense					(468,291)
Taxation					<u>7,319</u>
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					<u>13,476,423</u>
Consolidated total assets					<u>13,556,412</u>

LIABILITIES

Segment liabilities					–
Unallocated corporate liabilities					<u>(18,857,407)</u>
Consolidated total liabilities					<u>(18,857,407)</u>

Notes to the Financial Statements

For The Year Ended 30 June 2007

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	
	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$
Hong Kong	13,748,054	13,494,706	48,700	684,370
PRC	40,218	61,706	-	-
	<u>13,788,272</u>	<u>13,556,412</u>	<u>48,700</u>	<u>684,370</u>

7. Finance Costs

	2007 HK\$	2006 HK\$
Interest on:		
Loan from shareholders and Directors (Note 28)	733,652	467,387
Interest on obligation under finance lease	3,544	886
Others	-	18
	<u>737,196</u>	<u>468,291</u>

Notes to the Financial Statements

For The Year Ended 30 June 2007

8. Directors' and Employees' Remuneration

(a) Directors' remuneration

The emolument paid or payable to each of the five (2006: six) directors were as follows:

2007	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 Shun Kuen, Eric	-	-	-	-
Yeung Mario Bercasio	-	-	-	-
Lam Wai Pong	-	-	-	-
	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>10,000</u>

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	-	-	-	-
Louie Yuen Ki, Janet	-	-	-	-
	<u>-</u>	<u>32,500</u>	<u>-</u>	<u>32,500</u>

Notes to the Financial Statements

For The Year Ended 30 June 2007

8. Directors' and Employees' Remuneration (Continued)

(b) Employees' emoluments

The aggregate emoluments of the five highest paid (2006: five) individuals are as follows:

	2007 HK\$	2006 HK\$
Salaries and other benefits	1,432,968	545,500
Retirement benefit scheme contributions	52,310	23,525
	<u>1,485,278</u>	<u>569,025</u>

9. Taxation

	2007 HK\$	2006 HK\$
The charge (credit) comprises:		
Company and subsidiaries		
Current year profits tax – PRC	989	681
Deferred tax		
Credit of current year	<u>–</u>	<u>(8,000)</u>
Taxation attributable to the Group	<u>989</u>	<u>(7,319)</u>

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

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

	2007 HK\$	2006 HK\$
Loss before taxation	<u>(3,733,829)</u>	<u>(4,935,283)</u>
Tax at applicable rate	(653,420)	(863,675)
Tax effect of non-deductible expenses	401,646	400,882
Tax effect of non-taxable revenues	(97,516)	1,678
Tax effect on temporary differences not recognised	20,831	(15,102)
Effect of different tax rate of subsidiary in other jurisdiction	(3,589)	42,915
Tax effect of tax losses not recognised	<u>333,037</u>	<u>433,983</u>
Tax charge for the year	<u>989</u>	<u>681</u>

At the balance sheet date, the Group has unused estimated tax losses of HK\$31,403,584 (2006: HK\$29,505,676) 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.

Notes to the Financial Statements

For The Year Ended 30 June 2007

10. Loss for the year

	2007 HK\$	2006 HK\$
Loss for the year has been arrived at after charging:		
Directors' remuneration (Note 8(a))	10,000	32,500
Other staff costs	2,549,805	717,293
Retirement benefit scheme contributions	88,664	<u>30,083</u>
Total staff costs	<u>2,648,469</u>	<u>779,876</u>
Amortisation of intangible assets included in administrative expenses	936,000	1,142,191
Auditors' remuneration	100,000	101,923
Depreciation	177,541	177,150
Written off of fixed assets	-	442,197
Allowance for inventory	-	627,419
Written off of intangible assets	-	148,797
And after crediting:		
Bank interest income	<u>639</u>	<u>563</u>

11. Dividends

No dividend was paid or proposed for the year ended 30 June 2007, nor has any dividend been proposed since the balance sheet date (2006: HK\$ nil).

12. Loss per Share

The calculation of the basic loss per share for the year ended 30 June 2007 is based on the loss for the year of HK\$3,734,818 (2006: HK\$4,927,964) and on 606,800,000 (2006: 606,800,000) shares in issue during the year.

No diluted loss per share for the year ended 30 June 2007 and 2006 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 2007

13. Intangible Assets

	2007 HK\$	2006 HK\$
THE GROUP		
COST		
At 1 July	18,720,000	19,714,449
Written off	<u>-</u>	<u>(994,449)</u>
At 30 June	<u>18,720,000</u>	<u>18,720,000</u>
AMORTISATION		
At 1 July	6,552,000	6,255,461
Provided for the year	936,000	1,142,191
Eliminated on written off	<u>-</u>	<u>(845,652)</u>
At 30 June	<u>7,488,000</u>	<u>6,552,000</u>
NET BOOK VALUE		
At 30 June	<u>11,232,000</u>	<u>12,168,000</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.

Notes to the Financial Statements

For The Year Ended 30 June 2007

14. Plant and Equipment

	Plant and machinery <i>HK\$</i>	Leasehold improvement <i>HK\$</i>	Furniture, fixture and equipment <i>HK\$</i>	Total <i>HK\$</i>
THE GROUP				
COST				
At 1 July 2006	203,000	359,368	464,204	1,026,572
Exchange difference	–	208	755	963
Additions	–	48,700	–	48,700
	<u>203,000</u>	<u>408,276</u>	<u>464,959</u>	<u>1,076,235</u>
At 30 June 2007	<u>203,000</u>	<u>408,276</u>	<u>464,959</u>	<u>1,076,235</u>
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
At 1 July 2006	4,767	19,187	296,337	320,291
Exchange difference	–	133	446	579
Provided for the year	40,600	73,524	63,417	177,541
	<u>45,367</u>	<u>92,844</u>	<u>360,200</u>	<u>498,411</u>
At 30 June 2007	<u>45,367</u>	<u>92,844</u>	<u>360,200</u>	<u>498,411</u>
NET BOOK VALUE				
At 30 June 2007	<u>157,633</u>	<u>315,432</u>	<u>104,759</u>	<u>577,824</u>

Notes to the Financial Statements

For The Year Ended 30 June 2007

14. Plant and Equipment (Continued)

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

The net book value of the Group's plant and machinery held under finance leases included in the total amount of HK\$94,000 (2006: HK\$118,000).

Notes to the Financial Statements

For The Year Ended 30 June 2007

15. Interests in Subsidiaries

	THE COMPANY	
	2007	2006
	HK\$	HK\$
Unlisted shares, at cost	482,700	482,700
Impairment loss	(312,554)	(312,554)
	170,146	170,146
Amounts due from subsidiaries	38,081,120	36,897,173
	38,251,266	37,067,319
Less: Allowance on amounts due from subsidiaries	(34,550,730)	(34,550,730)
	3,700,536	2,516,589

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 2007 are set out in note 29.

16. Inventories

	THE GROUP	
	2007	2006
	HK\$	HK\$
Finished goods at cost	16,238	5,932

Notes to the Financial Statements

For The Year Ended 30 June 2007

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	
	2007	2006
	HK\$	HK\$
Aged:		
0-60 days	779,662	18,446
61-120 days	306,649	2,257
Over 120 days	57,920	59,286
	<u>1,144,231</u>	<u>79,989</u>

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

18. Amounts due to Directors

As at 30 June 2007, the amounts due to Directors including an amount of HK\$7,784,391 (2006: HK\$2,535,391) 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 2007 and 30 June 2006	<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 2007 and at 30 June 2006	<u>606,800,000</u>	<u>6,068,000</u>

Notes to the Financial Statements

For The Year Ended 30 June 2007

20. Reserves

	Share premium HK\$	Accumulated losses HK\$	Total HK\$
THE COMPANY			
At 1 July 2005	19,740,134	(38,326,152)	(18,586,018)
Loss for the year	—	(903,821)	(903,821)
At 30 June 2006 and 1 July 2006	19,740,134	(39,229,973)	(19,489,839)
Loss for the year	—	(1,251,864)	(1,251,864)
At 30 June 2007	<u>19,740,134</u>	<u>(40,481,837)</u>	<u>(20,741,703)</u>

21. Amounts due to Shareholders

	Note	THE GROUP 2007 HK\$	2006 HK\$
Current liabilities			
Profit Trick Holdings Limited	2	1,550,000	1,550,000
Rocket High Investments Limited	2	—	3,850,000
		1,550,000	5,400,000
Non-current liabilities			
XO-Holdings Limited	1	<u>3,572,276</u>	<u>3,572,276</u>
		<u>5,122,276</u>	<u>8,972,276</u>

Note:

- As at 30 June 2007 and 2006 the amount due to a shareholder, XO-Holdings Limited, amounted to approximately HK\$3,572,276, 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 HK\$3,572,276 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.

The directors considered the amount approximate to their fair value.

- As at 30 June 2007, the amount due to Profit Trick Holdings Limited, being a substantial shareholder of the Company, is repayable on demand and bear interest at Hong Kong Dollar prime lending rate quoted by The Hong Kong and Shanghai Banking Corporation Limited. As at 30 June 2007, the amount due to Rocket High Investments Limited was assigned to a director of the Company.

Notes to the Financial Statements

For The Year Ended 30 June 2007

22. Amounts due to Related Companies

As at 30 June 2007, the amount due to a related company, the controlling shareholder of which is the chief executive of a subsidiary of the Group, amounted to HK\$616,817 (2006: HK\$93,411) is unsecured, non-interest bearing and repayable on demand. As at 30 June 2007, the amount of HK\$2,500,000 (2006: HK\$2,500,000) represented a loan from a related company, which has a common shareholder with Rocket High Investments Limited, a substantial shareholder of the Company, was assigned to a director of the Company.

23. Obligation under Finance Lease

	Minimum lease payments		Present value of minimum lease payment	
	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$
Amounts payable under finance leases:				
Within one year	20,886	83,544	20,000	80,000
In the second to fifth years inclusive	-	20,886	-	20,000
	20,886	104,430	20,000	100,000
Less: future finance charges	(886)	(4,430)	N/A	N/A
Present value of lease obligations	20,000	100,000		
Less: Amount due within one year shown under current liabilities			(20,000)	(80,000)
Amount due after one year			-	20,000

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 2007

24. Deferred Tax

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

	Accelerated tax allowance over depreciation HK\$
At 1 July 2005	8,000
Credit to income for the year	<u>(8,000)</u>
At 1 July 2006	-
Credit to income for the year	<u>-</u>
At 30 June 2007	<u>-</u>

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 2007

26. Disposal of Subsidiary

	2007 HK\$	2006 HK\$
Bank balances and cash	<u>-</u>	<u>2</u>
Satisfied by:		
Cash	<u>-</u>	<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>-</u>	<u>(2)</u>
	<u>-</u>	<u>-</u>

27. Operating Lease Commitments

	THE GROUP	
	2007 HK\$	2006 HK\$
Accrued lease payments	975,447	1,289,025
Within one year	1,502,466	1,088,308
In the second to fifth year inclusive	2,428,888	3,050,185
	<u>4,906,801</u>	<u>5,427,518</u>

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

Notes to the Financial Statements

For The Year Ended 30 June 2007

28. Related Party Transactions

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

Name of party	Notes	Nature of transactions	2007 HK\$	2006 HK\$
Ms. Chan Choi Har, Ivy	(i)	Loan from a director	10,576,161	2,535,391
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
Garrick International Limited	(ii)	Rental payment	-	71,089
Garrick International Limited	(ii)	Purchases of products	515,659	13,008
Garrick International Limited	(ii)	Provision of finance lease	83,544	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	
	2007 HK\$	2006 HK\$
Short-term employee benefits	550,000	122,500

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\$336,249, HK\$124,000 and HK\$273,403 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\$83,544 including interest of HK\$3,544 on behalf of the Group during the year.

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

Notes to the Financial Statements

For The Year Ended 30 June 2007

29. Subsidiaries

Particulars of the Company's subsidiaries at 30 June 2007 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

Financial Summary

	FOR THE YEAR ENDED 30 JUNE				2007 HK\$
	2003 HK\$ (Restated)	2004 HK\$	2005 HK\$	2006 HK\$	
Results					
Turnover	<u>1,818,151</u>	<u>2,051,972</u>	<u>1,564,392</u>	<u>133,465</u>	<u>4,058,311</u>
Loss from ordinary activities attributable to shareholders	<u>(8,913,543)</u>	<u>(4,563,125)</u>	<u>(5,667,561)</u>	<u>(4,927,964)</u>	<u>(3,734,818)</u>

Assets and liabilities

	FOR THE YEAR ENDED 30 JUNE				2007 HK\$
	2003 HK\$ (Restated)	2004 HK\$	2005 HK\$	2006 HK\$	
Total assets	19,235,990	17,770,043	15,459,166	13,556,412	13,788,272
Total liabilities	<u>(9,377,657)</u>	<u>(12,482,581)</u>	<u>(15,839,265)</u>	<u>(18,857,407)</u>	<u>(22,832,701)</u>
(Deficiency) balance of shareholders' funds	<u>9,858,333</u>	<u>5,287,462</u>	<u>(380,099)</u>	<u>(5,300,995)</u>	<u>(9,044,429)</u>

Note:

Pursuant to a group reorganisation to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares on the Growth Enterprises Market (the "GEM") of The Stock Exchange of Hong Kong Limited, the Company became the holding company of the Group on 10 December 2001. The shares of the Company have been listed on the GEM with effect from 19 February 2003. The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared on the merger accounting basis as if the Company had always been the holding company of the Group.