



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

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 8176)

THIRD QUARTERLY REPORT
FOR THE NINE MONTHS ENDED
31 MARCH 2008

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

This report, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited. The directors of the Company, 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 aspects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

SUMMARY

- The unaudited consolidated turnover of the Group for the nine months ended 31 March 2008 was approximately HK\$9,613,000, representing an increase of approximately HK\$7,516,000 or approximately 3.6 times as compared with approximately HK\$2,097,000 for the corresponding period in 2007.
- The profit attributable to shareholders for the three months ended 31 March 2008 was approximately HK\$947,000 (2007: loss attributable to shareholders of approximately HK\$265,000). The loss attributable to shareholders for the nine months ended 31 March 2008 was approximately HK\$573,000, representing a decrease of loss of approximately HK\$2,509,000 or approximately 81.4% as compared with approximately HK\$3,082,000 for the corresponding period in 2007.
- The board did not recommend the payment of an interim dividend for the nine months ended 31 March 2008.

UNAUDITED QUARTERLY RESULTS

The board of directors (the “Board”) of Blu Spa Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the three months and nine months ended 31 March 2008 together with the comparative figures for the corresponding periods in 2007. The condensed consolidated quarterly results have not been audited, but have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	(Unaudited)		(Unaudited)	
		For the three months ended 31 March		For the nine months ended 31 March	
		2008	2007	2008	2007
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	3	3,725	1,342	9,613	2,097
Cost of sales		(1,384)	(827)	(5,589)	(1,944)
Gross profit		2,341	515	4,024	153
Other revenue		8	346	27	425
Administrative expenses		(1,262)	(940)	(4,147)	(3,109)
Profit/(Loss) from operations	4	1,087	(79)	(96)	(2,531)
Finance costs	5	(140)	(185)	(477)	(550)
Profit/(Loss) before taxation		947	(264)	(573)	(3,081)
Taxation	6	–	(1)	–	(1)
Profit/(Loss) attributable to shareholders		<u>947</u>	<u>(265)</u>	<u>(573)</u>	<u>(3,082)</u>
Profit/(Loss) per share (in HK cents)	8	<u>0.16</u>	<u>(0.04)</u>	<u>(0.09)</u>	<u>(0.51)</u>

NOTES

1. GENERAL AND BASIS OF PREPARATION

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.

Basis of Preparation

The Group incurred a loss attributable to the shareholders of approximately HK\$573,000 for the nine months ended 31 March 2008. In addition, the Group had net current liabilities and net liabilities of approximately HK\$20,724,000 and HK\$9,622,000, respectively, as at 31 March 2008. Notwithstanding this, the results 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 completion of the Resumption Proposal in near future. Accordingly, the Directors are satisfied that it is appropriate to prepare the accounts on a going concern basis.

The results 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 results as at 31 March 2008.

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated results for the nine months ended 31 March 2008 have been prepared under the historical cost convention.

The unaudited third quarterly results of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and interpretation (“INTs”) (collectively referred to as “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules. The accounting policies used in the unaudited consolidated results are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 30 June 2007.

Impact of New Hong Kong Financial Reporting Standards

The HKICPA has issued a number of new standards, amendments and interpretations (“New HKFRSs”), which are either effective for annual periods beginning on or after 1 November 2006, 1 January 2007 or 1 March 2007. The Group has adopted the following New HKFRSs, which are applicable to the Group’s results for the nine months ended 31 March 2008:

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment ²
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions ³

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

² *Effective for annual periods beginning on or after 1 November 2006.*

³ *Effective for annual periods beginning on or after 1 March 2007.*

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.

3. TURNOVER

Turnover represents the net amounts received and receivables for goods sold, therapy services performed and beauty training services rendered, less returns and allowances, by the Group to outside customers, and is analysed as follows:

For the nine months ended 31 March 2008 (Unaudited)

	The People’s Republic of China <i>HK\$’000</i>	Hong Kong <i>HK\$’000</i>	Others <i>HK\$’000</i>	Consolidated <i>HK\$’000</i>
TURNOVER				
External sales				
– Distributorship	7,209	–	–	7,209
– Retailing and therapy services	–	844	–	844
– Beauty training	1,500	60	–	1,560
Total revenue	<u>8,709</u>	<u>904</u>	<u>–</u>	<u>9,613</u>

For the nine months ended 31 March 2007 (Unaudited)

	The People's Republic of China <i>HK\$'000</i>	Hong Kong <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER				
External sales				
– Distributorship	1,630	101	13	1,744
– Retailing and therapy services	<u>37</u>	<u>316</u>	<u>–</u>	<u>353</u>
Total revenue	<u>1,667</u>	<u>417</u>	<u>13</u>	<u>2,097</u>

4. PROFIT/(LOSS) FROM OPERATIONS

	(Unaudited) Three months ended 31 March		(Unaudited) Nine months ended 31 March	
	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>	2008 <i>HK\$'000</i>	2007 <i>HK\$'000</i>
Profit/(Loss) from operations has been arrived at after charging:				
Directors' remuneration	–	3	1	8
Other staff costs	805	495	2,398	1,717
Retirement benefit scheme contributions	<u>29</u>	<u>4</u>	<u>70</u>	<u>47</u>
Total staff costs	<u>834</u>	<u>502</u>	<u>2,469</u>	<u>1,772</u>
Depreciation	44	50	124	148
Amortization of intangible assets	<u>234</u>	<u>234</u>	<u>702</u>	<u>702</u>

5. FINANCE COSTS

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	31 March		31 March	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on:				
Loans from shareholders and directors	139	184	476	547
Interest on finance lease	<u>1</u>	<u>1</u>	<u>1</u>	<u>3</u>
	<u>140</u>	<u>185</u>	<u>477</u>	<u>550</u>

6. TAXATION

	(Unaudited)		(Unaudited)	
	Three months ended		Nine months ended	
	31 March		31 March	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The charge (credit) comprises:				
Company and subsidiaries				
Current period profits tax				
– PRC	-	1	-	1
Deferred tax				
Credit of current period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Taxation attributable to the Group	<u>-</u>	<u>1</u>	<u>-</u>	<u>1</u>

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

No provision for Hong Kong Profits Tax has been made for the nine months ended 31 March 2008 and the corresponding period in 2007, as the Group has no assessable profits arising in Hong Kong for the respective periods.

7. DIVIDEND

No dividend was paid or proposed for the nine months ended 31 March 2008 (2007: HK\$Nil), nor has any dividend been proposed since the balance sheet date.

8. PROFIT/(LOSS) PER SHARE

The calculation of the basic profit per share for the three months ended 31 March 2008 and basic loss per share for the three months ended 31 March 2007 are based on the profit for the corresponding period of approximately HK\$947,000 and loss for the corresponding period of approximately HK\$265,000 respectively, and on the weighted average of 606,800,000 (2007: 606,800,000) shares in issue during the period.

The calculation of the basic loss per share for the nine months ended 31 March 2008 is based on the loss for the corresponding period of approximately HK\$573,000 (2007: approximately HK\$3,082,000) and on the weighted average of 606,800,000 (2007: 606,800,000) shares in issue during the period.

No diluted profit per share or loss per share for the three months and nine months ended 31 March 2008 and 2007 were presented as the Company did not assume the exercise of share options outstanding because the exercise prices of the Company's share options were higher than the average market price for shares.

9. RESERVES

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

	Share Premium	Merger Difference	(Unaudited) Translation Reserve	Accumulated Losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 July 2006	19,740	22,735	(1)	(53,843)	(11,369)
Exchange differences arising from translation of operations outside Hong Kong	–	–	3	–	3
Loss for the period	–	–	–	(3,082)	(3,082)
At 31 March 2007	<u>19,740</u>	<u>22,735</u>	<u>2</u>	<u>(56,925)</u>	<u>(14,448)</u>
At 1 July 2007	19,740	22,735	(9)	(57,578)	(15,112)
Exchange differences arising from translation of operations outside Hong Kong	–	–	(5)	–	(5)
Loss for the period	–	–	–	(573)	(573)
At 31 March 2008	<u>19,740</u>	<u>22,735</u>	<u>(14)</u>	<u>(58,151)</u>	<u>(15,690)</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Results of operation

For the nine months ended 31 March 2008, the Group recorded a turnover of approximately HK\$9,613,000 which represented an increase of approximately 3.6 times when compared with that of the corresponding period last year. The increase in turnover was mainly due to the Group's transition from retail business to distributorship business and re-development of its resources to the development of distributorship business pursuant to its revamped marketing strategy.

The gross profit amounted to approximately HK\$4,024,000 for the nine months ended 31 March 2008 whereas the gross profit for the corresponding period last year amounted to approximately HK\$153,000.

Administrative expenses incurred by the Group for the nine months ended 31 March 2008 amounted to approximately HK\$4,147,000 (2007: approximately HK\$3,109,000), representing an increase of approximately 33.3% as compared to that of previous period.

Finance costs incurred by the Group for the nine months ended 31 March 2008 amounted to approximately HK\$477,000 (2007: approximately HK\$550,000), representing a decrease of approximately HK\$73,000 or approximately 13.3% as compared to that of previous period.

The loss attributable to shareholders amounted to approximately HK\$573,000 (2007: approximately HK\$3,082,000) for the nine months ended 31 March 2008, representing a decrease of approximately HK\$2,509,000 or approximately 81.4% as compared to that for the corresponding period in previous year.

Resumption Proposal

On 23 October 2007, the Company submitted an updated Resumption Proposal and supplemental to the Resumption Proposal to the Stock Exchange demonstrating that, upon implementation of the Resumption Proposal, amongst other things, the Company will have a sufficient level of operations that can be demonstrated to the Stock Exchange to warrant the continued listing of the Shares on the Stock Exchange. The Resumption Proposal involved, among other things, the conditional Subscription Agreement entered on 1 February 2007, the conditional Capitalisation Agreement entered on 3 January 2008, the proposed conditional Share Consolidation and the conditional Franchise Agreement entered on 1 February 2007. For details of the Resumption Proposal of the Company, please refer to the Joint Announcement published by the Company on 11 April 2008.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 31 March 2008 (2007: Nil).

BUSINESS REVIEW

During the period under review, the Group continued to underpin its distributorship business. The retail market including the beauty care segment continued to benefit from the strong and sustained economic growth of the region, growing number of visitor arrivals and stronger consumer spending largely due to Hong Kong's staging of the 2008 Olympic equestrian events and the joint efforts between Beijing Tourism Administration and Hong Kong Tourism Board to promote Olympic travel in the two cities. The Group continued to focus on identification and recruitment of prospective distributors in major cities such as Guangzhou, Shanghai and Chengdu in China and in Asian countries including South Korea, Philippines, Thailand, and Dubai. In an effort to attract potential distributors in the PRC and Asian region, the Group intensified its brand building and promotional activities in Hong Kong and the PRC.

In the period under review, the Group finalized the product design, packaging design and/or formulations of Blu Spa products targeted for product rollout in the first half of 2008. At the same time, the Group continued to direct its efforts to identify new innovative ingredients and premium quality botanical beauty care products, to promote its broader specialist product line under Blu Spa brand name featuring new product design, packaging and formulations. During the same period, the Group's research and development (covering sample testing) of new innovative formulations for current product lines was progressing smoothly. High performance and top quality new innovative skin care remained the main focus of the Group's research and development activities. With the opening of the spa centre in Lan Kuai Fong, Central, the Group was able to meet the after-office and week-end spa service needs of retail customers while adding office area for beauty training lessons at Worldwide House. With the successful opening of the spa center at AquaMarine and the second spa center at Hampton Place, the Group was given the opportunity to manage the third spa center at Long Beach, another luxurious residential apartment complex developed by Hang Lung Properties Limited in West Kowloon. The Long Beach spa center is scheduled to open in July 2008.

In November 2007, the Group participated as exhibitor in Cosmoprof Asia 2007, a high profile international annual beauty industry event, held at the Hong Kong Convention & Exhibition Centre. As part of its continuing marketing and promotional efforts, in March 2008, the Group participated as exhibitor in Guangzhou international Beauty & Cosmetic Import-Export Expo Spring '08, one of the most influential beauty trade events in China, held at China Import And Export Fair LiuHua Complex in Guangzhou. The Group believes that the continuing participation in such high profile international and regional beauty industry events will help promote and enhance its corporate image and market recognition of Blu Spa brand, products and services.

Following the opening of Blu Spa cosmetic sales counters in Shenyang, Chongqing, Beijing Shin Kong Mitsukoshi (新光天地) department store, Beijing Sunlight department store (晨曦百貨), Yixing and Suzhou and a spa centre in Shenzhen Century Plaza Hotel (新都酒店), as of 31 December 2007, the PRC Distributor was operating a total of seven Blu Spa retail outlets in China. The PRC Distributor continued to strengthen its retail network in the PRC during the first half of 2008 with the opening of an 8,000 sq.ft. image store/spa center at Beijing Chateau de Luze Hotel (北京和喬麗緻酒店) in the month of January and a 20,000 sq. ft. image store/spa centre/beauty academy at the Mayfair Hotel located in Tianjin Economic – Technological Development Area (TEDA) in the month April under the management of the PRC Distributor. The Group is confident that PRC Distributor is committed to its market development plan for opening new retail locations and acquiring spa facility management right at hotels and luxurious residential projects in major Chinese cities during the rest of 2008.

PROSPECTS

The Group will dedicate its efforts to research and development and timely debut of new botanical beauty care products and therapies/treatments catering for the ever-changing needs of the consumer, brand building and advertising. The Group will also continue to work with local co-operative partners in co-branding joint promotional campaigns aimed to drive market recognition of Blu Spa brand products and services.

At the same time, the Group will concentrate on customer service and customer support (retail and wholesale). The continuing rollout of Blu Spa cosmetic retail outlets in Shenyang, Chongqing, Beijing, Shenzhen, Yixing, and Suzhou and the new opening of the spa centre at Beijing Chateau de Luze Hotel (北京和喬麗緻酒店) and Tianjin Mayfair Hotel is illustrative of the PRC Distributor's confidence level in the Group's products, service and professionalism. The PRC Distributor expanded their Shenzhen office in December 2007 to meet their growing management needs. The Group is confident of its near term business prospects in light of the growing attractions of Hong Kong, Macau and China as destination of choice for overseas tourists. This phenomenon is attributed to the buoyant casino market in Macau, Hong Kong Disneyland, Hong Kong Ocean Park, 2008 Beijing Olympics and the Hong Kong's co-hosting of the Olympic equestrian events. Being optimistic of its future strong and sustained growth in turnover, the Group will devote its efforts to identifying and recruiting distributors in Asia and overseas countries by taking advantage of international and regional cosmetics exhibitions and trade shows. Given the high turnout of visiting guests at Blu Spa booth in Cosmoprof Asia 2007 and Guangzhou international Beauty & Cosmetic Import-Export Expo Spring '08, the Group will continue to rely on these international and regional beauty industry events as an efficient and cost effective means to promote market awareness of Blu Spa brand, products and services.

The successful opening of the spa centre at AquaMarine and Hampton Place offered the Group new business opportunity to manage the third spa centre at Long Beach (opening in July 2008), another luxurious residential apartment complex developed by Hang Lung Properties Limited in West Kowloon. Ongoing negotiations with other estate management for spa facility management right in high-end residential estates are expected to build up the Group's spa management service portfolio. To cater for the growing consumer needs for top quality spa treatments and experience across the harbour, the Group is actively sourcing additional spa outlets in Kowloon. The Group is committed to provide premium quality beauty care products and services to the end users. Market introduction of the Group's newly designed, packaged and formulated Blu Spa products in the first quarter will continue in the second quarter of 2008. Through the introduction of the Beauteca skin care line, the Group is positioned well to support its distributors in developing new distribution channels such as Duty Free Shops and cosmetic surgery clinics. After the rollout of the spa centre at Beijing Chateau de Luze Hotel and the Tianjin Mayfair Hotel, the PRC Distributor is negotiating for additional spa facility management right at hotels and luxurious residential projects in tier-one cities in China as part of their continuing market development efforts for Blu Spa products and services. In light of the above mentioned on-going development, the Directors are confident of the Group's continuing growth and stronger business performance in the coming future.

DISCLOSURE OF THE INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2008, 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 were required to be entered in the register pursuant to section 352 of the SFO or interests or short positions which were 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 of Directors	Nature of interests	Number of Shares	Approximate percentage of shareholding in issue
Chan Choi Har, Ivy	Corporate interest	110,657,870 (<i>Note 1</i>)	18.24%
	Beneficial owner	880,000,000 (<i>Note 2</i>)	145.02%

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

Note 2: These represents the Capitalisation Shares to be issued to Chan Choi Har, Ivy pursuant to the Capitalisation Agreement.

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.

C. Share options

Options to subscribe for shares in the Company:

Name	Date of grant	Exercise price <i>HK\$</i>	Number of shares options outstanding as at 31 March 2008
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 31 March 2008, 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.

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 period.

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 (the “INEDs”) of the Company.

As at 31 March 2008, 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 INEDs, 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 INEDs of the Company.

As at 31 March 2008, 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 INEDs, 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 period:

	Outstanding at 1 July 2007	Lapsed during the period	Outstanding at 31 March 2008
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><u>10,250,000</u></u>	<u><u>–</u></u>	<u><u>10,250,000</u></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' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2008, 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

Shareholder	Capacity	Number of Share	Approximate percentage of shareholding in issue
InterLeader Investments Inc.	Beneficial owner	3,398,394,722	560.05%
Keung Wai Fun Samantha (<i>Note 1</i>)	Interest of controlled corporation	2,450,000,000	403.80%
Million Fortune Group Limited (<i>Note 1</i>)	Interest of controlled corporation	2,450,000,000	403.80%

Shareholder	Capacity	Number of Shares	Approximate percentage of shareholding in issue
Queensbury Global Limited <i>(Note 1)</i>	Beneficial owner	2,450,000,000	403.80%
Chan Choi Har, Ivy <i>(Note 2)</i>	Interest of controlled corporation/ Beneficial owner	1,000,907,870	164.90%
XO-Holdings Limited <i>(Note 3)</i>	Beneficial owner	110,657,870	18.24%
Wah Hing Consultants Limited <i>(Note 3 and 4)</i>	Interest of controlled corporation	110,657,870	18.24%
Heung See Wai, Angela <i>(Note 4)</i>	Interest of controlled corporation	110,657,870	18.24%
Rajewski, Natalie N. <i>(Note 5)</i>	Interest of controlled corporation	84,099,330	13.86%
Eastpoint Resources Limited <i>(Note 5)</i>	Beneficial owner	84,099,330	13.86%
Well Arts Enterprises Limited <i>(Note 6)</i>	Interest of controlled corporation	84,099,330	13.86%
Wai Suk Chong, Helena <i>(Note 7)</i>	Interest of controlled corporation	107,132,600	17.66%
Profit Trick Holdings Limited <i>(Note 7)</i>	Beneficial owner	107,132,600	17.66%
David Chiu <i>(Note 8)</i>	Interest of controlled corporation	146,151,360	24.09%
Rocket High Investments Limited <i>(Note 8)</i>	Beneficial owner	146,151,360	24.09%

Notes:

- 1: These represent the Subscription Shares to be issued to Queensbury Global Limited (or to its order) which is owned as to 88.38% by Million Fortune Group Limited. Million Fortune Group Limited is owned as to 87% by Keung Wai Fun Samantha.
- 2: The interests of Chan Choi Har, Ivy comprise of 110,657,870 Shares held through her 65% interest in XO-Holdings Limited, 880,000,000 Shares to be issued personally to Chan Choi Har, Ivy pursuant to the Capitalisation Agreement and share options held personally by Chan Choi Har, Ivy to subscribe for 10,250,000 shares.
- 3: 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.
- 4: Wah Hing Consultants Limited is beneficially owned as to 100% by Heung See Wai, Angela.
- 5: 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.
- 6: 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 which Eastpoint Resources Limited is interested.
- 7: 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.
- 8: These shares are held by Rocket High Investments Limited. The entire issued share capital of Rocket High Investments Limited is beneficially owned by David Chiu.

Save as disclosed above, the Company has not been notified of any other interests representing 5% or more or any short positions in the issued share capital of the Company as at 31 March 2008.

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 nine months ended 31 March 2008.

ADVANCES TO AN ENTITY

As at 31 March 2008, the Group did not have, in its normal and ordinary course of business, any relevant advance to an entity that is required to be disclosed pursuant to Rule 17.22 and 17.24 of the GEM Listing Rules.

COMPETING INTERESTS

During the period under 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.

CORPORATE GOVERNANCE

The Company had complied with the Code on Corporate Governance Practices (the “CCGP”) contained in Appendix 15 of the GEM Listing Rules during the period ended 31 March 2008 except the following deviations.

According to Code Provision A.4.1 of the CCGP, 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 of the CCGP 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 period under review, Mr. Wu Wenzhi was the Chairman of the Board and executive Director of the Company. He had resigned as the Chairman of the Board and executive Director on 8 August 2007, and Ms. Chan Choi Har, Ivy took up the duty of Chairman of the Board and Chief Executive Officer of the Company. As Ms. Chan Choi Har, Ivy is one of the founders of the Group and is responsible for the overall 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.

According to Code Provision A.2.1 of the CCGP, the roles of chairman and chief executive should be separate and should not be performed by the same individual. During the period from 8 August 2007 to 31 March 2008, Ms. Chan Choi Har, Ivy held the positions of Chairman and Chief Executive Officer of the Company. Ms Chan Choi Har, Ivy is one of the founders of the Group and is responsible for the overall market development of the Group. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person is beneficial to the business development of the Group. The Board will review the effectiveness of such management structure and arrangement from time to time.

The Board’s annual review of the effectiveness of the system of internal control of the Group pursuant to C.2.1 of the CCGP will be reported in the forthcoming corporate governance report to be contained in the Company’s annual report for the financial year ending 30 June 2008.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the period 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. Having made specific enquiry of all Directors of the Company, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the directors throughout the period ended 31 March 2008.

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.

One-third of all the Directors, except the Chairman of the Board and/or the Chief Executive Officer, shall retire by rotation from office each year in accordance with the Company's Bye-laws. The term of office of the Directors is the period up to their retirement by rotation. Those Directors at any time appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting.

AUDIT COMMITTEE

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

The Audit Committee comprises three INEDs, namely, Mr. Chan Sze Hon, Mr. Lam Wai Pong, Mr. Yeung Mario Bercasio. Mr. Chan Sze Hon is the chairman of 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, 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.

PUBLIC FLOAT

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

BOARD PRACTICES AND PROCEDURES

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

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

As at the date hereof, the Board comprises two executive Directors, namely, Ms. Chan Choi Har, Ivy and Mr. Chan Shun Kuen, Eric; and three INEDs, namely, Mr. Chan Sze Hon, Mr. Lam Wai Pong and Mr. Yeung Mario Bercasio.

Hong Kong, 2 May 2008