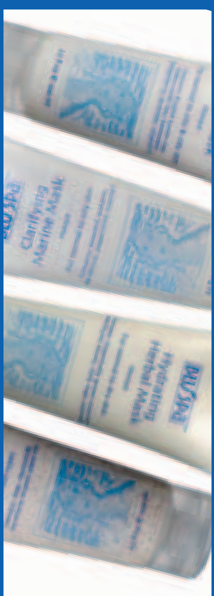
富麗花‧譜控股有限公司

BLU SPA HOLDINGS LIMITED

Annual Report 2008

(Incorporated in the Cayman Islands with limited liability)

(Stock Code :8176)



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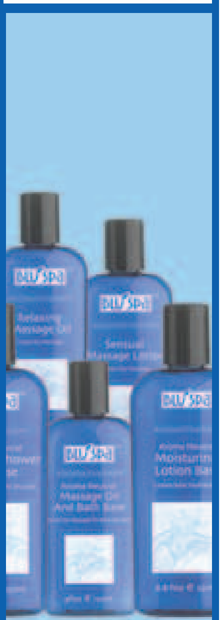

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole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

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

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COMPANY INFORMATION

LEGAL NAME:

Blu Spa Holdings Limited

BOARD OF DIRECTOR:

Executive Directors:
Cheung Tsun Hin, Samson *(Chairman)*
Chan Choi Har, Ivy *(Vice Chairman)*

Non-executive Directors:
Chan Shun Kuen, Eric

Independent non-executive Directors:
Chan Sze Hon
Lam Wai Pong
Yeung Mario Bercasio

SENIOR MANAGEMENT:

Keung Wai Fun, Samantha *(Chief Executive Officer)*

COMPANY SECRETARY & QUALIFIED ACCOUNTANT:

Huen Lai Chun, *FCCA*

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

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 Voeux Road Central, Central, Hong Kong

AUDITORS:

HLM & Co.
Certified Public Accountants

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE:

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

PRINCIPAL BANKERS:

Hang Seng Bank Limited
The Bank of East Asia Limited
Wing Hang Bank Limited

WEBSITE ADDRESS:

www.bluspa.com

STOCK CODE:

8176

CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors of the Company (the "Directors"), 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 2008 for their consideration.

OPERATING RESULTS

During the year under review, the Group experienced a turnaround in the financial results, the Group's turnover reached HK$16,173,772, representing a significant increase of 2.5 times as compared to the last year (2007: HK$4,558,311). Gross profit for the year ended 30 June 2008 was HK$7,823,931, representing an increase of 3.6 times as compared to the last year (2007: HK$1,690,690). Profit for the year ended 30 June 2008 was HK$1,282,244 (2007: Loss of HK$3,734,818). Thanks to the impressive growth for the product distribution business in Mainland China. Basic earnings per share for the year ended 30 June 2008 was HK1.77 cents (2007: loss per share of HK6.15 cents).

MARKET OVERVIEW

For the year ended 30 June 2008, the world faced a challenging year due to US subprime mortgage crisis, the appreciation of Renminbi and the roller-coastering of the international stock markets. Notwithstanding these challenges, the Group managed to achieve a 254.8% growth in terms of sales from HK$4,558,311 in 2007 to HK$16,173,772 for the year ended 30 June 2008. The Group believes that the continuing growth of the high-end beauty care product/service market will enable the Group to gain additional market share. At present, the Group has appointed four distributors in Hong Kong, Taiwan, the PRC and the Philippines respectively to distribute Blu Spa and Beauteca products in their respective territories. The Group will continue its efforts to identify and recruit potential distributors in overseas countries.

RESUMED TRADING OF SHARES AND CHANGE OF DIRECTORS

The Group resumed share trading on 23 July 2008 after all conditions set out in the principal approval letter issued by the Stock Exchange to the Company in relation to the resumption proposal of the Company had been fulfilled. With effect from 1 August 2008, the Board of the Company has been reconstituted in the following manner:–

– appointing Mr. Cheung Tsun Hin, Samson as Executive Director and Chairman;

– re-designating Ms. Chan Choi Har, Ivy, from Chairman to Vice Chairman; and

– re-designating Mr. Chan Shun Kuen, Eric from Executive Director to Non-Executive Director.

CHAIRMAN'S STATEMENT

OPERATING OVERVIEW

During the year under review, the Group continued to underpin its distributorship business and marketing and promotional support to distributors. Despite the 2.5 times increase in turnover which was largely attributed to the unwavering efforts from all staff of our Group and our distributors, the Group continued its efforts to source and recruit potential distributors in the Asian region. During the period under review, in addition to the three distributors appointed in Hong Kong, Taiwan and the PRC respectively, the Group appointed a new distributor in the Philippines.

During the year 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 broaden its specialist product line under Blu Spa brand featuring new product design, packaging and formulations.

PROSPECTS AND APPRECIATION

The Group will concentrate its efforts on research and development, timely introduction 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 continue to focus its customer service support and marketing and promotional efforts in the Mainland market which continued to prove as one of the world's greatest consumer markets with the greatest potential.

Faced with the intense competitions in the beauty care industry, the Group will continue its efforts in recruiting potential distributors to drive market recognition of Blu Spa brand products and services and to gain market share. The Group will continue its recruitment efforts in Asia and overseas countries such as Korea and USA by participating in international and regional cosmetics exhibitions and trade shows such as Cosmoprof.

On behalf of the Board, I would like to express my sincere appreciation to our shareholders and customers for their support and to our fellow directors and staff of the Group for their dedication and contribution towards the successful performance of the Group. We have every confidence that 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.

Cheung Tsun Hin, Samson
Chairman

Hong Kong, 19 September 2008

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Results

For the year ended 30 June 2008, the Group recorded a turnover of HK$16,173,772, representing an increase of 2.5 times as compared to last year (2007: HK4,558,311). This significant increase in turnover was mainly attributable to improved performance in product distribution and beauty care services in Hong Kong and the PRC.

The Group's gross profit for the year ended 30 June 2008 was HK$7,823,931, representing an increase of 3.6 times as compared to last year (2007: HK$1,690,690) which was mainly attributable to increased product distribution for the year.

The Group's administrative expense for the year ended 30 June 2008 was HK$5,503,955, representing an increase of 17.0% as compared to last year (2007: HK$4,702,588).

The Group's finance cost for the year ended 30 June 2008 was HK$572,097, representing a decrease of 22.4% as compared to last year (2007: HK$737,196). The finance costs for the year mainly comprised interests paid for loans from a director. The decrease in finance cost was due to reduction of interest rates during the year.

The Group shifted from loss attributable to shareholders of the Company of HK$3,734,818 for the year ended 30 June 2007 to profit attributable to shareholders of the Company for the year ended 30 June 2008 of HK$1,282,244.

Significant investments and acquisitions

For the year ended 30 June 2008, the Group had no significant investments and acquisitions of subsidiaries and affiliated companies (2007: Nil).

Charges on group assets

For the year ended 30 June 2008, the Group did not have any charges on the Group's assets (2007: Nil).

Foreign exchange risk exposure

The Group mainly earns revenue and incurs cost in Hong Kong dollars and Renminbi. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

The Group shifted from its net liabilities attributable to shareholders of HK$9,044,429 as at 30 June 2007 to net assets attributable to shareholders of HK$55,586,051 as at 30 June 2008. The Group had total assets of HK$69,896,959 (2007: HK$13,788,272), an increase of HK$56,108,687 or 4.1 times as compared with that at the beginning of the year. Total non-current assets were HK$10,970,652 (2007: HK$11,809,824), representing a decrease of 7.1% as compared with that at the beginning of the year and accounting for 15.7% of total assets. Total current assets were HK$58,926,307 (2007: HK$1,978,448), representing an increase of 28.8 times as compared with that at the beginning of the year and accounting for 84.3% of total assets.

As at 30 June 2008, total liabilities of the Group were HK$14,310,908 (2007: HK$22,832,701), representing a decrease of HK$8,521,793 or 37.3% as compared with that at the beginning of the year. Total current liabilities were HK$14,310,908 (2007: HK$19,260,425), representing a decrease of HK$4,949,517 as compared with that at the beginning of the year. Total non-current liabilities were HK$ Nil (2007: HK$3,572,276), representing a decrease of HK$3,572,276 as compared with that at the beginning of the year.

The Group shifted from its total net current liabilities of HK$17,281,977 as at 30 June 2007 to total net current assets of HK$44,615,399 as at 30 June 2008.

As at 30 June 2008, the cash and bank balances of the Group were HK$48,189,700 (2007: HK$260,804).

For the year ended 30 June 2008, the Group mainly financed its operations with internally generated resources and loans from a director. Following the issue of Subscription Shares on 18 June 2008, the Company recorded a cash inflow of HK$49,000,000. The directors believe that the Group will have a sound and strong financial position as well as sufficient resources for meeting its working capital requirements.

As at 30 June 2008, the Group did not have any banking facilities.

Gearing Ratio

As at 30 June 2008, the Group's gearing ratio, expressed as a ratio of total borrowings (comprising loans from a director, substantial shareholders and a related company of the Company) to total assets, was 0% (2007: 113.9%). The improvement in gearing ratio was mainly attributable to the completion of the Resumption Proposal.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Structure

After the completion of the Resumption Proposal (involving, among other things, the Subscription, the Capitalisation, the Share Consolidation and the Franchise Agreement) (as defined in the Company's announcement dated 11 April 2008), the Company issued 245,000,000 Subscription Shares of par value of HK$0.10 each to the Offeror, Queensbury Global Limited, at an aggregate consideration of HK$49,000,000 and 88,000,000 Capitalisation Shares of par value of HK$0.10 each to a director, Ms. Ivy Chan, in consideration for the capitalization of the loans due from the Company to Ms. Ivy Chan of HK$17,600,000 on 18 June 2008. Also, Share Consolidation of every 10 issued and unissued ordinary shares of HK$0.01 each into one ordinary share of HK$0.10 each in the share capital of the Company was effective on 18 June 2008.

The cash and cash equivalents of the Group are mainly 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 2008, the Group had 26 employees (2007: 15) and staff costs (excluding directors' remuneration) amounted to HK$3,380,250 (2007: HK$2,549,805) whilst the directors' remuneration amounted to HK$995 (2007: HK$10,000). Remuneration is determined by reference to market conditions and the performance, qualification and experience of individual employee. Other benefits include share option schemes 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.

BUSINESS REVIEW

During the year under review, the turnover of the Group amounted to HK$16,173,772 representing an 254.8% increase from HK$4,558,311 in last year. Such increase was mainly contributed by improved performance in product distribution and beauty care services in Hong Kong and the PRC. The management believes that 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 the joint efforts between Beijing Tourism Administration and Hong Kong Tourism Board to promote Olympic travel in the two cities.

During the year under review, the Group successfully open two spa centres in high-end residential estates.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year under review, the Group continued to underpin its distributorship business and its marketing and promotional support to distributors. As part of its continuing marketing and promotional efforts, in March 2008, the Group in conjunction with the PRC distributor 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.

Following the successful operation of Blu Spa cosmetic sales counters in department stores in major cities in the PRC, the PRC distributor continued to strengthen its retail network by opening 5 cosmetic sales counters in ITAT in Shenzhen. In addition to the opening of an 8,000 sq. ft. image store/spa center at Beijing Chateau de Luze Hotel in the month of January 2008, a 20,000 sq. ft. image store/spa centre/beauty academy was opened at the Mayfair Hotel in Tianjin Economic – Technological Development Area (TEDA) in the month of April 2008 under the management of the PRC distributor.

PROSPECTS

The Group will continue to dedicate its efforts to research and development and timely debut of new botanical beauty care products such as the "Crystal line", a newly designed and formulated Blu Spa face care product line featuring crystal-like packaging which was launched during the year under review. The Group believes that new product introduction on a timely basis will help foster customer's loyalty and maintain its market share in the beauty care industry.

The Group will also continue ongoing negotiations with Hong Kong major developers for spa facility management right in high-end residential estates in expectation of building up the Group's spa management service portfolio. In addition to spa management, the Group is actively sourcing additional spa outlets in Hong Kong Island and Kowloon to meet the growing consumer needs for top quality spa treatments and services. Meanwhile, the Group is also seeking new opportunities to open sales counter in leading department stores in Hong Kong in the first half of 2009. The Group believes that opening sales counter in leading department stores will help promote its corporate image and gain its market presence.

Encouraged by the high turnout of guests visiting Blu Spa booth in Cosmoprof Asia 2007 and Guangzhou International Beauty & Cosmetic Import-Export Expo Spring '08, the Group will in conjunction with the PRC distributor participate in the forthcoming Guangzhou International Beauty & Cosmetic Import-Export Expo Autumn '08, the most comprehensive beauty trade show in China to be held at Pazhou Complex in Guangzhou in September 2008. The Group perceives these international and regional beauty industry events as a platform that allows the Group to efficiently and cost effectively promote market recognition of Blu Spa brand, products and services.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. Cheung Tsun Hin, Samson, aged 29, Chairman and executive Director of the Company, has obtained a bachelor of arts degree in economics by the University of British Columbia, Canada. He has also received a diploma in beauty therapy from the City & Guilds of UK. He has over 5 years of experience in beauty care industry and is an expert in beauty care therapy and treatment practice and professional training. He was appointed as Chairman and executive Director of the Company on 1 August 2008. He is a shareholder and director of the Company's franchisor, Garrick International Limited (formerly known as Geneda Skin Care International Limited) ("the Franchisor"). He has also acquired extensive experience in corporate management and finance while serving the position of director of Garrick International Limited since 2000. He is the son of Ms. Keung Wai Fun, Samantha, Chief Executive Officer of the Company.

Ms. Chan Choi Har, Ivy ("Ms. Ivy Chan"), aged 57, one of the founders of the Group and Vice Chairman and executive Director of the Company, 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.

NON-EXECUTIVE DIRECTORS

Mr. Chan Shun Kuen, Eric, aged 46, non-executive Director of the Company, 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 been in the investment banking industry for over 10 years. He is currently an independent non-executive director of Tianjin Tianlian Public Utilities Company Limited, a company listed on the Growth Enterprise Market of the Stock Exchange. He first joined the Company as independent non-executive Director and member of the Audit Committee on 28 September 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS ("INED")

Mr. Chan Sze Hon, aged 35, was appointed as INED and Chairman of the Audit Committee and Remuneration Committee of the Company on 7 September 2007. He holds a Bachelor of Arts Degree in Accountancy from City University of Hong Kong and a Master Degree in Corporate Finance from The Hong Kong Polytechnic University. 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 13 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 of Greater China Holdings Limited and INED of China Mining Resources Group Limited, both shares of which are listed on the Main Board of the Stock Exchange, and INED of Era Information & Entertainment Limited, whose shares are listed on the Growth Enterprise Market of the Stock Exchange.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. Yeung Mario Bercasio, aged 46, INED and member of Audit Committee and Remuneration Committee of the Company, holds a Bachelor of Engineering and a postgraduate certificate in Law from Newcastle Upon Tyne Polytechnic, England and the University of Hong Kong respectively. He is a member of the Law Society of Hong Kong and has extensive experience in corporate finance and direct investment. He was appointed as the Company's INED on 28 December 2004.

Mr. Lam Wai Pong, aged 53, INED and member of Audit Committee and Remuneration Committee of the Company, 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 ("Ms. Samantha Keung"), aged 54, is Chief Executive Officer of the Company. She was first 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") in May 2006. She is responsible for overseeing the Group's operation, business expansion and product developments. She has over 10 years of experience in beauty care industry and is an expert in beauty care therapy and treatment practice and professional training. She holds the diploma of aesthetician in the International Therapy Examination Council and Confederation of International Beauty Therapy, both are beauty professional bodies based in Europe. In addition, she was awarded the cosmetology diploma in aesthetic treatment by the British Association of Beauty Therapy and Cosmetology Limited as well as the diploma in aesthetician from Frederique Academy of Germany. In 2003, she received her accreditation as a qualified beauty therapist by the Labour and Social Bureau of Guangzhou. At the same time, she has acquired extensive experience in corporate management in the fields of banking, real estate and finance as demonstrated by her past track record, through serving the positions of the vice president of Chase Manhattan Bank from 1984 to 1990, the director of L&D Holding Limited from 1990 to 1994 and the managing director of Center Pacific Holdings Limited from 1994 to 1996. She is a controlling shareholder and director of the Company's Franchisor and a controlling shareholder of Million Fortune Group Limited, the Company's ultimate holding company. Mr. Samson Cheung, Chairman and executive Director of the Company, is son of Ms. Samantha Keung.

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 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 25 to the financial statements.

RESULTS

Details of the Group's results for the year ended 30 June 2008 are set out in the consolidated income statement on page 32 of the annual report.

DIVIDENDS

No dividends were paid or proposed to be paid for the year ended 30 June 2008 (2007: 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 2008, the Group did not grant 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.

PROPERTY, PLANT AND EQUIPMENT

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

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive Directors:
Mr. Cheung Tsun Hin, Samson *(Chairman)* (Appointed on 1 August 2008)
Ms. Ivy Chan *(Vice Chairman)* (Re-designated from Chairman to Vice Chairman on 1 August 2008)
Mr. Wu Wenzhi (Resigned on 8 August 2007)

Non-executive Directors:
Mr. Chan Shun Kuen, Eric
(Re-designated from Executive Director to Non-executive Director on 1 August 2008)

INEDs:
Mr. Chan Sze Hon
Mr. Lam Wai Pong
Mr. Yeung Mario Bercasio

The INEDs 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 OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2008, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of SFO), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of SFO); or (ii) to be entered in the register referred to therein pursuant to Section 352 of SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the GEM Listing Rules, were as follows:

A. Long position in shares

Name	Nature of interests	Number of shares	Approximate percentage of shareholding
Executive Director			
Ms. Ivy Chan	Beneficial owner	88,000,000 *(Note 1)*	22.35%
	Corporate interest	11,065,787 *(Note 2)*	2.81%
Chief Executive Officer			
Ms. Samantha Keung	Corporate interest	245,000,000 *(Note 3)*	62.23%

Note 1: These represent the Capitalisation Shares issued to Ms. Ivy Chan on 18 June 2008.

Note 2: These shares are held by XO-Holdings Limited. Ms. Ivy Chan is the beneficial owner as to 65% of the issued share capital of XO-Holdings Limited.

Note 3: These represent the Subscription Shares issued to Queensbury Global Limited on 18 June 2008. Queensbury Global Limited is owned as to 88.38% by Million Fortune Group Limited which is owned as to 87.0% by Ms. Samantha Keung.

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 HK$	Number of share options outstanding as at 1 July 2007	Number of share options lapsed during the year	Number of share options outstanding as at 30 June 2008
Executive Director					
Ms. Ivy Chan	30 January 2002	3.00	1,025,000	–	1,025,000

Note: The number of share options outstanding and exercise price were adjusted to reflect the effect of Share Consolidation effective on 18 June 2008. 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 2008, none of the Directors or chief executives of the Company had any interest or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO to be entered in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, 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 benefit 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 the Franchise Agreement disclosed under the heading "Continuing Connected Transaction" and in note 24 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.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2008, as far as is known to the Directors and chief executives of the Company, the following person (not being a Director or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO:

Long position in shares

Shareholder	Capacity	Number of Shares	Approximate percentage of shareholding
InterLeader Investments Inc. *(Note 1)*	Person having a security interest in shares	339,839,472	86.32%
Queensbury Global Limited *(Note 2)*	Beneficial owner	245,000,000	62.23%
Million Fortune Group Limited *(Note 2)*	Interest of controlled corporation	245,000,000	62.23%
Ms. Samantha Keung *(Note 2)*	Interest of controlled corporation	245,000,000	62.23%
Ms. Ivy Chan *(Note 3)*	Beneficial owner	88,000,000	22.35%
XO-Holdings Limited *(Note 4)*	Beneficial owner	11,065,787	2.81%
Ms. Ivy Chan *(Note 4)*	Interest of controlled corporation	11,065,787	2.81%
Wah Hing Consultants Limited *(Note 4)*	Interest of controlled corporation	11,065,787	2.81%
Heung See Wai, Angela *(Note 4)*	Interest of controlled corporation	11,065,787	2.81%

Note 1: The long position represents the shares charged by Queensbury Global Limited and Ms. Ivy Chan and XO-Holdings Limited pursuant to their respective share charges as security for a loan granted by InterLeader Investments Inc. to Queensbury Global Limited for the purpose of financing the subscription of Subscription Shares.

Note 2: These represent the Subscription Shares issued on 18 June 2008 to Queensbury Global Limited pursuant to the Subscription Agreement. Queensbury Global Limited is owned as to 88.38% by Million Fortune Group Limited and 11.62% by Regalia Global Limited. Million Fortune Group Limited is owned as to 87% by Ms. Samantha Keung and 13% by Ms. Manning Song Feng. Regalia Global Limited is beneficially owned as to 100% by Ms. Manning Song Feng.

Note 3: These represent the Capitalisation Shares issued on 18 June 2008 to Ms. Ivy Chan pursuant to the Capitalisation Agreement.

Note 4: These shares are held by XO-Holdings Limited which is beneficially owned as to 65% by Ms. Ivy Chan and as to 35% by Wah Hing Consultants Limited. Wah Hing Consultants Limited is beneficially owned as to 100% by Heung See Wai, Angela.

Save as disclosed above, the Directors and chief executives of the Company are not aware of any person (other than Director or chief executive of the Company) who, as at 30 June 2008, had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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 INEDs of the Company.

As at 30 June 2008, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Scheme was 1,025,000 shares (adjusted to reflect the effect of Share Consolidation effective on 18 June 2008), representing 0.26% 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 4,100,000 shares (adjusted to reflect the effect of Share Consolidation effective on 18 June 2008), representing 10% of the total issued share capital of the Company as at the listing date (adjusted to reflect the effect of Share Consolidation effective on 18 June 2008), 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$3.00 (adjusted to reflect the effect of Share Consolidation effective on 18 June 2008) 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 30 June 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 4,100,000 shares (adjusted to reflect the effect of Share Consolidation effective on 18 June 2008), representing 10% of the total issued share capital of the Company as at the listing date (adjusted to reflect the effect of Share Consolidation effective on 18 June 2008), 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 year:

	Number of share options outstanding at 1 July 2007	Lapsed during the year	Number of share options outstanding at 30 June 2008
Executive Director			
Ms. Ivy Chan	1,025,000	–	1,025,000
Total for Directors	1,025,000	–	1,025,000
Employees	–	–	–
Grand Total	1,025,000	–	1,025,000

Details of the options are as follows:

Date of grant	Vesting period	Exercisable period	Exercise Price HK$
30.1.2002	30.1.2002 – 29.1.2003	30.1.2003 – 29.1.2012	3.00

Note: The number of share options outstanding and exercise price were adjusted to reflect the effect of Share Consolidation effective on 18 June 2008. 50% of the options may be exercised at any time after the expiry of 12 months from the date of grant and the remaining 50% may be exercised at any time after 24 months from the date of grant, and in each case not later than 29 January 2012.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 30 June 2008, the amount of purchases attributable to the Group's five largest suppliers represented approximately 100% of the Group's total purchases and the amount of sales attributable to the Group's five largest customers represented approximately 92.1% of the Group's total turnover. The Group's total purchases and turnover attributable to its largest supplier and its largest customer were approximately 91.9% and 85.7% respectively.

Save as the Franchise Agreement entered between BSHK and Garrick International Limited, the largest supplier of the Company for the year, disclosed under Continuing Connected Transactions below and in note 24 to the financial statements, 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.

CONNECTED PARTY TRANSACTIONS

In relation to the related party transactions as set out in note 24 to the financial statements, the Board has confirmed that transactions of loan from a director, loans from shareholders and provision of finance lease from Garrick International Limited constitute connected transactions (within the meaning of the GEM Listing Rules) of the Company. However, these transactions are financial assistance transactions exempted under GEM Listing Rule 20.65(4), from all the reporting, announcement and independent shareholders' approval requirements contained in Chapter 20 of the GEM Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

On 1 February 2007, BSHK, being a wholly-owned subsidiary of the Company, entered into the Franchise Agreement with the Franchisor, Garrick International Limited, whereby the Franchisor agreed to appoint and BSHK agreed to act as the sole and exclusive distributor of its skin care products under the brand name of "Beauteca" worldwide except Taiwan for a period of three years from 1 July 2007 to 30 June 2010.

The Franchisor is a company incorporated in Hong Kong and is engaged in the trading of beauty and skin care products. As Ms. Samantha Keung, Chief Executive Officer of the Company and controlling shareholder of Million Fortune Group Limited (the Company's ultimate holding company), and Mr. Cheung Tsun Hin, Samson, Chairman and executive Director of the Company, are directors of the Franchisor, both of them are connected persons of the Company. In addition, as the entire issued share capital of the Franchisor is owned as to 90% by Ms. Samantha Keung and as to 10% by her son, Mr. Cheung Tsun Hin, Samson, the Franchisor is an associate of Ms. Samantha Keung and a connected person of the Company. Accordingly, the transaction contemplated under the Franchise Agreement constitutes non-exempt continuing connected transaction under Chapter 20 of the GEM Listing Rules.

Pursuant to the Franchise Agreement and Franchise Agreement Annual Caps approved at an extraordinary general meeting held on 5 June 2008, the annual caps are HK$7.80 million, HK$9.36 million and HK$11.23 million respectively for the three years ending 30 June 2010 for the amount payable by BSHK to the Franchisor for the goods purchased. Terms of payment of goods are 50% of the invoiced amount shall be payable upon making the purchase order and the remaining balance shall be payable upon collection of goods.

In relation to the related party transactions as set out in note 24 to the financial statements, for the year ended 30 June 2008, the amount of purchase by BSHK under the Franchise Agreement was HK$3,878,927, which is within the cap.

The continuing connected transactions mentioned above have been reviewed by the INEDs of the Company who have confirmed that the transactions have been entered into:

1. in the ordinary and usual course of business of the Company;

2. either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

3. in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company has provided a letter to the Company's board of directors confirming that the continuing connected transactions:

1. have received the approval of the Company's board of directors;

2. have been conducted on terms in accordance with the terms of the relevant agreements governing the transactions; and

3. have not exceeded the relevant annual cap as disclosed in the relevant press announcement.

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 2008.

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 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 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 competes or might compete with the business of the Group.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws, 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

For the year ended 30 June 2008, the Group had been in compliance with most of the provisions of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules, save as the deviations discussed below. The Company adopted the code provisions set out in the Code on Corporate Governance Practices as its own code of corporate governance practices.

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 Company) 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 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 once the Chairman and executive Director of the Company. On 8 August 2007, Mr. Wu Wenzhi resigned as the Chairman and executive Director of the Company, Ms. Ivy Chan, the executive Director and Chief Executive Officer of the Company, then took up the duty of Chairman. On 1 August 2008, Mr. Cheung Tsun Hin, Samson was appointed as executive Director and also Chairman of the Company in place of Ms. Ivy Chan. As Mr. Cheung Tsun Hin, Samson, the Chairman and executive Director of the Company, 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 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 Company should not be subject to retirement by rotation.

According to Code Provision A.2.1, the roles of the chairman and the chief executive shall be separate, and shall not be undertaken by the same individual. On 8 August 2007, Mr. Wu Wenzhi resigned as the Chairman and executive Director of the Company, Ms. Ivy Chan, the executive Director and Chief Executive Officer of the Company, then took up the duty of Chairman. On 24 June 2008, Ms. Samantha Keung was appointed as Chief Executive Officer of the Company in place of Ms. Ivy Chan. During the year under review, Ms. Ivy Chan, the executive Director of the Company, was the Chairman and Chief Executive Officer of the Company for the period from 8 August 2007 to 24 June 2008. As Ms. Ivy Chan is one of the founders and responsible for market development of the Group, the Board considers that it is in the best interests of the Company and its shareholders for Ms. Ivy Chan to fill the vacancy of Chairman.

DIRECTORS' REPORT

BOARD OF DIRECTORS

The Board of the Company comprises six Directors, of which two are executive Directors, namely Mr. Cheung Tsun Hin, Samson and Ms. Ivy Chan, one non-executive Director, namely 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 non-executive Directors provide their professional advices to the Group.

The non-executive Directors have professional experiences in legal, finance and accounting and engineering respectively. The Company has received confirmation from each of the INEDs as regards to their independence to the Company for the year uder review pursuant to Rule 5.09 of the GEM Listing Rules and considers that each of the INEDs is independent of the Company.

With the exception of the Chairman of the Company not subject to retirement by rotation or taken into account in determining the number of Directors to retire, one-third of all the Directors 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 established an audit committee (the "Audit Committee") on 10 December 2001 with written terms of reference which precisely specifies 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 results for the year ended 30 June 2008 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.

DIRECTORS' REPORT

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.

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

Cheung Tsun Hin, Samson
Chairman

Hong Kong, 19 September 2008

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

For the year ended 30 June 2008, the Group had been in compliance with most of the provisions of the Code on Corporate Governance Practices, save as the deviations discussed below. The Company adopted the code provisions set out in the Code on Corporate Governance Practices 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 six directors, of which two are executive Directors, one is non-executive Director and three are INEDs, namely,

Executive Directors:
Mr. Cheung Tsun Hin, Samson *(Chairman)* (Appointed on 1 August 2008)
Ms. Ivy Chan *(Vice Chairman)* (Re-designated from Chairman to Vice Chairman on 1 August 2008)

Non-executive Directors:
Mr. Chan Shun Kuen, Eric (Re-designated from executive Director to non-executive Director on 1 August 2008)

INEDs:
Mr. Chan Sze Hon
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 Company) 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 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 once the Chairman and executive Director of the Company. On 8 August 2007, Mr. Wu Wenzhi resigned as the Chairman and executive Director of the Company, Ms. Ivy Chan, the executive Director and Chief Executive Officer of the Company, then took up the duty of Chairman. On 24 June 2008, Ms. Samantha Keung was appointed as Chief Executive Officer of the Company in place of Ms. Ivy Chan. On 1 August 2008, Mr. Cheung Tsun Hin, Samson was appointed as executive Director and also the Chairman of the Company in place of Ms. Ivy Chan. As Mr. Cheung Tsun Hin, Samson, the Chairman and executive Director of the Company, 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 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 Company should not be subject to retirement by rotation.

According to Code Provision A.2.1, the roles of the chairman and the chief executive shall be separate, and shall not be undertaken by the same individual. On 8 August 2007, Mr. Wu Wenzhi resigned as the Chairman and executive Director of the Company, Ms. Ivy Chan, the executive Director and Chief Executive Officer of the Company, then took up the duty of Chairman. On 24 June 2008, Ms. Samantha Keung was appointed as Chief Executive Officer of the Company in place of Ms. Ivy Chan. During the year under review, Ms. Ivy Chan, the executive Director of the Company, was the Chairman and Chief Executive Officer of the Company for the period from 8 August 2007 to 24 June 2008. As Ms. Ivy Chan is one of the founder and responsible for market development of the Group, the Board considers that it is in the best interests of the Company and its shareholders for Ms. Ivy Chan to fill the vacancy of Chairman.

The Board has four scheduled meetings at quarterly interval and meets as and when required. During the year ended 30 June 2008, the Board held fifteen meetings.

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

	Number of attendance
Mr. Wu Wenzhi (Resigned on 8 August 2007)	1/1
Ms. Ivy Chan	14/15
Mr. Chan Shun Kuen, Eric	14/15
Mr. Lam Wai Pong	15/15
Mr. Yeung Mario Bercasio	14/15
Mr. Chan Sze Hon (Appointed on 7 September 2007)	13/13

CORPORATE GOVERNANCE REPORT

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 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).

Save as disclosed elsewhere in this annual report, to the best knowledge of the Directors, there is no other financial, business, family and other material relationship among members of the Board, and between Chairman and chief executive officer of the Company.

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 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 of the members of the Remuneration Committee at the meeting is as follows:

	Number of attendance
Mr. Chan Shun Kuen, Eric (Re-designated as from INED to executive Director and ceased to be member of Remuneration Committee on 7 September 2007)	0/0
Mr. Chan Sze Hon *(Chairman)* (Appointed on 7 September 2007)	1/1
Mr. Lam Wai Pong	1/1
Mr. Yeung Mario Bercasio	1/1

AUDITORS' REMUNERATION

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

	HK$
Audit services rendered	200,000
Non-audit services rendered	1,100,000

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 and nine months ended 30 September 2007 and 31 March 2008 respectively and half-year report for the six months ended 31 December 2007. 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 2008.

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

The attendance of the members of the Audit Committee at the meetings are as follows:

	Number of attendance
Mr. Chan Shun Kuen, Eric (Chairman) (Re-designated from INED to executive Director and ceased to be member of Audit Committee on 7 September 2007)	0/0
Mr. Chan Sze Hon (Chairman) (Appointed on 7 September 2007)	4/4
Mr. Lam Wai Pong	4/4
Mr. Yeung Mario Bercasio	3/4

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 Company appointed an independent accountant to conduct a review of the Group's internal control system in August 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 30 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

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2-12 Queen's Road West, Hong Kong.
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TO THE MEMBERS OF BLU SPA HOLDINGS LIMITED
富麗花•譜控股有限公司
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Blu Spa Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 65, which comprise the consolidated balance sheet as at 30 June 2008, 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.

INDEPENDENT AUDITORS' REPORT

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 consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 June 2008 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLM & Co.
Certified Public Accountants

Hong Kong, 19 September 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2008

	NOTES	2008 HK$	2007 HK$
TURNOVER	6	**16,173,772**	4,558,311
COST OF SALES		**(8,349,841)**	(2,867,621)
Gross profit		**7,823,931**	1,690,690
Other revenue		**18,441**	39,644
Distribution costs		**(483,916)**	(24,379)
Administrative expenses		**(5,503,955)**	(4,702,588)
Finance costs	7	**(572,097)**	(737,196)
Profit (loss) before taxation		**1,282,404**	(3,733,829)
Taxation	9	**(160)**	(989)
Profit (loss) for the year	10	**1,282,244**	(3,734,818)
Dividends	11	**–**	–
		HK cents	HK cents (Restated)
Earnings (loss) per share			
Basic	12	**1.77**	(6.15)
Diluted	12	**N/A**	N/A

CONSOLIDATED BALANCE SHEET

At 30 June 2008

	NOTES	2008 HK$	2007 HK$
Non-current assets			
Intangible assets	13	**10,296,000**	11,232,000
Property, plant and equipment	14	**674,652**	577,824
		10,970,652	11,809,824
Current assets			
Inventories	16	**50,436**	16,238
Trade receivables	17	**9,630,501**	1,144,231
Deposits and other receivables		**1,055,670**	557,175
Bank balances and cash		**48,189,700**	260,804
		58,926,307	1,978,448
Current liabilities			
Deposits from customers		**1,385,398**	676,458
Accruals and other payables		**7,752,385**	5,816,744
Amounts due to a director	18	**651,795**	10,576,161
Amounts due to a shareholder		**–**	1,550,000
Amounts due to a related company	21	**4,516,630**	616,817
Obligation under finance lease		**–**	20,000
Provision for taxation		**4,700**	4,245
		14,310,908	19,260,425
Net current assets (liabilities)		**44,615,399**	(17,281,977)
Total assets less current liabilities		**55,586,051**	(5,472,153)
Non-current liability			
Amounts due to a shareholder		**–**	3,572,276
Net assets (liabilities)		**55,586,051**	(9,044,429)
Capital and reserves			
Share capital	19	**39,368,000**	6,068,000
Reserves		**16,218,051**	(15,112,429)
		55,586,051	(9,044,429)

The financial statements on pages 32 to 65 were approved and authorised for issue by the Board of directors on 19 September 2008 and are signed on its behalf by:

DIRECTOR *DIRECTOR*

BALANCE SHEET

At 30 June 2008

	NOTES	2008 HK$	2007 HK$
Non-current asset			
Interests in subsidiaries	15	**3,334,559**	3,700,536
Current assets			
Deposits and other receivables		**28,600**	28,600
Bank balances		**48,103,311**	875
		48,131,911	29,475
Current liabilities			
Amounts due to a director	18	**254,540**	10,564,751
Amounts due to a shareholder		**–**	1,550,000
Accruals and other payables		**3,756,858**	2,716,687
		4,011,398	14,831,438
Net current assets (liabilities)		**44,120,513**	(14,801,963)
Total assets less current liabilities		**47,455,072**	(11,101,427)
Non-current liability			
Amounts due to a shareholder		**–**	3,572,276
Net assets (liabilities)		**47,455,072**	(14,673,703)
Capital and reserves			
Share capital	19	**39,368,000**	6,068,000
Reserves	20	**8,087,072**	(20,741,703)
		47,455,072	(14,673,703)

DIRECTOR *DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2008

	Share capital HK$	Share premium HK$	Merger difference HK$	Translation reserve HK$	Accumulated losses HK$	Total HK$
THE GROUP						
At 1 July 2006	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 and 1 July 2007	6,068,000	19,740,134	22,734,577	(9,294)	(57,577,846)	(9,044,429)
Issue of new shares pursuant to the subscription agreement dated 1 February 2007	24,500,000	24,500,000	–	–	–	49,000,000
Issue of new shares upon capitalisation of the loans due to a director	8,800,000	8,800,000				17,600,000
Transactions costs attributable to issue of new shares	–	(3,254,770)	–	–	–	(3,254,770)
Exchange differences arising from translation of operations outside of Hong Kong	–	–	–	3,006	–	3,006
Profit for the year	–	–	–	–	1,282,244	1,282,244
At 30 June 2008	**39,368,000**	**49,785,364**	**22,734,577**	**(6,288)**	**(56,295,602)**	**55,586,051**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2008

	2008 HK$	2007 HK$
OPERATING ACTIVITIES		
Profit (loss) before taxation	**1,282,404**	(3,733,829)
Adjustment for:		
Interest income	**(955)**	(639)
Interest expense	**572,097**	737,196
Depreciation on property, plant and equipment	**183,536**	177,541
Loss on disposal of property, plant and equipment	**1,999**	–
Amortisation of intangible assets	**936,000**	936,000
Written back of allowance for inventories	**(79,035)**	(1,188,473)
Operating cash flow before movements in working capital	**2,896,046**	(3,072,204)
Decrease in inventories	**44,837**	1,178,167
Increase in trade receivables	**(8,486,270)**	(1,064,242)
Increase in deposits and other receivables	**(498,495)**	(31,342)
Increase in accruals and other payables	**1,252,628**	803,601
Increase in amounts due to directors	**702,791**	7,764,180
Increase (decrease) in amounts due to related company	**3,899,813**	(1,976,594)
Increase in deposits from customers	**708,940**	580,455
Cash generated from operations	**520,290**	4,182,021
Interest paid	**(572,097)**	(3,544)
PRC profits tax paid	**(160)**	(989)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES	**(51,967)**	4,177,488
INVESTING ACTIVITIES		
Interest received	**955**	639
Proceeds from disposal of property, plant and equipments	**1,136**	–
Purchases of property, plant and equipment	**(283,358)**	(48,700)
NET CASH USED IN INVESTING ACTIVITIES	**(281,267)**	(48,061)
FINANCING ACTIVITIES		
Repayment of obligation under finance lease	**(20,000)**	(80,000)
Repayment of shareholders loan	**–**	(3,850,000)
Proceed from issuing of new shares upon subscription	**49,000,000**	–
Payment of transaction costs attributable to issue of shares	**(721,190)**	–
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	**48,258,810**	(3,930,000)
INCREASE IN CASH AND CASH EQUIVALENTS	**47,925,576**	199,427
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**3,320**	(9,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**260,804**	70,377
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**48,189,700**	260,804
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**48,189,700**	260,804

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

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. Its parent and ultimate holding company is Million Fortune Group Limited (incorporated in the British Virgin Islands). The addresses of the registered office and principal place of business of the Company are disclosed in the corporation information section of the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company is an investment holding company. Particulars of the principal activities of its subsidiaries are set out in note 25.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for accounting periods of the Company beginning on 1 July 2007.

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

The adoption of the new HKFRSs had no material effect on how the results and financial position of the Group for the current or prior accounting periods have been prepared. 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 new standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 12	Service Concession Arrangements[3]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

[1] *Effective for annual periods beginning on or after 1 January 2009*
[2] *Effective for annual periods beginning on or after 1 July 2009*
[3] *Effective for annual periods beginning on or after 1 January 2008*
[4] *Effective for annual periods beginning on or after 1 July 2008*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with the new HKFRSs issued by HKICPA. In addition, the consolidated 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.

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, therapy services and training course services provided, less returns and allowances, by the Group to outside customers. Turnover also includes royalty fee income charged to the distributors for use of the Group's trademarks/tradenames.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

Royalty fee income is recognized on the accrual basis in accordance with the relevant agreements when the event giving rise to such royalty fee income materialized.

Investments in subsidiaries

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

Trademarks/tradenames

Trademarks/tradenames represent purchase cost for the 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 accumulated amortisation and impairment loss. The cost of the 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.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortisation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Furniture, fixture and equipment	20%
Leasehold improvement	20%
Plant and machinery	20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Impairment of tangible and intangible assets other than goodwill

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 standard, 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 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, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development expenditure (Continued)

Subsequent to initial recognition, internally generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Inventories

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

Trade and other receivables

Trade and other receivables are stated at cost less allowance for impairment of bad and doubtful debts.

Trade and other payables

Trade and other payables are initially recognised at cost and subsequently measured at amortised cost, using the effective interest method.

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 consolidated 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet dates, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(A) Depreciation and amortisation

The Group depreciates the property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect the directors' estimated amount that the Group would currently obtain from disposal of the assets, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life.

(B) Allowance for bad and doubtful debts

The Group's provision policy for bad and doubtful debts is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk management

One subsidiary of the Company has foreign currency income, which expose the Group to foreign currency risk. Certain other receivables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's major foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets 2008 HK$	Liabilities 2008 HK$
Renminbi ("RMB")	36,622	138,137

The following table shows the sensitivity analysis of a 5% increase/decrease in RMB against the Hong Kong dollars, the effect in the profit for the year is as follows:

	Impact of RMB 2008 HK$
Increase/decrease in profit for the year	5,076

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk management

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 30 June 2008 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise 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 regularly the recoverable amount of each individual trade debt to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced.

The credit policy of the customers is assessed based on their financial positions, past experience and other factors. The Group has policies in place to ensure that sales of products are made to customers with appropriate credit histories.

Interest rate risk management

The Group is exposed to both cash flow interest rate risk and fair value interest rate risk through the impact of rate changes on interest bearing assets. The Group does not have borrowings. The Group currently does not have any interest rate hedging policy. However, the management monitors interest rate exposure.

Price risk management

The Group's investments held for trading are measured at fair value at each balance sheet date. Therefore, the Group is exposed to debt security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business and Geographical segments

An analysis of the Group's turnover and contribution to operating results by business segment and geographical segment are 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 2008					
TURNOVER					
External sales					
– Sales of products	**11,723,336**	**97,512**	**942**	**–**	**11,821,790**
– Royalty fee income	**1,169,547**	**–**	**–**	**–**	**1,169,547**
– Therapy services	**–**	**1,182,435**	**–**	**–**	**1,182,435**
– Provision of training courses	**2,000,000**	**–**	**–**	**–**	**2,000,000**
Total revenue	**14,892,883**	**1,279,947**	**942**	**–**	**16,173,772**
RESULT					
Segment result	**10,409,889**	**(2,586,900)**	**942**	**–**	**7,823,931**
Unallocated corporate incomes					**17,486**
Unallocated corporate expenses					**(5,987,871)**
Interest income					**955**
Finance costs					**(572,097)**
Taxation					**(160)**
Profit for the year					**1,282,244**
For the year ended 30 June 2007					
TURNOVER					
External sales					
– Sales of products	3,255,815	353,766	12,612	–	3,622,193
– Therapy services	–	436,118	–	–	436,118
– Provision of training course	500,000	–	–	–	500,000
Inter-segment sales	47,877	–	–	(47,877)	–
Total revenue	3,803,692	789,884	12,612	(47,877)	4,558,311
RESULT					
Segment result	3,272,527	(1,592,130)	10,293	–	1,690,690
Unallocated corporate incomes					39,005
Unallocated corporate expenses					(4,726,967)
Interest income					639
Finance costs					(737,196)
Taxation					(989)
Loss for the year					(3,734,818)

Inter-segment sales are charged at cost plus certain markup.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business and Geographical segments (Continued)

An analysis of the Group's assets and liabilities by business segment and geographical segment are as follows:–

BUSINESS SEGMENT	Sales of products HK$	Therapy services HK$	Provision of training courses HK$	Consolidated HK$
2008				
ASSETS				
Segment assets	**9,630,501**	**–**	**–**	**9,630,501**
Unallocated corporate assets				**60,266,458**
Consolidated total assets				**69,896,959**
LIABILITIES				
Segment liabilities	**–**	**(1,385,398)**	**–**	**(1,385,398)**
Unallocated corporate liabilities				**(12,925,510)**
Consolidated total liabilities				**(14,310,908)**
2007				
ASSETS				
Segment assets	1,144,231	–	–	1,144,231
Unallocated corporate assets				12,644,041
Consolidated total assets				13,788,272
LIABILITIES				
Segment liabilities	–	(676,458)	–	(676,458)
Unallocated corporate liabilities				(22,156,243)
Consolidated total liabilities				(22,832,701)

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business and Geographical segments (Continued)

GEOGRAPHICAL SEGMENT	PRC	Hong Kong	Others	Consolidated
	HK$	HK$	HK$	HK$
2008				
ASSETS				
Segment assets	**9,972,324**	**5,222**	**917**	**9,978,463**
Unallocated corporate assets				**59,918,496**
Consolidated total assets				**69,896,959**
LIABILITIES				
Segment liabilities	**–**	**(1,385,398)**	**–**	**(1,385,398)**
Unallocated corporate liabilities				**(12,925,510)**
Consolidated total liabilities				**(14,310,908)**
2007				
ASSETS				
Segment assets	–	1,144,231	–	1,144,231
Unallocated corporate assets				12,644,041
Consolidated total assets				13,788,272
LIABILITIES				
Segment liabilities	–	(676,458)	–	(676,458)
Unallocated corporate liabilities				(22,156,243)
Consolidated total liabilities				(22,832,701)

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business and Geographical segments (Continued)

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 property, plant and equipment and intangible assets	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
Hong Kong	**69,857,525**	13,748,054	**283,358**	48,700
PRC	**39,434**	40,218	**–**	–
	69,896,959	13,788,272	**283,358**	48,700

7. FINANCE COSTS

	2008	2007
	HK$	HK$
Interest on:		
Loan from shareholders and a director (note 24)	**571,211**	733,652
Interest on obligation under finance lease	**886**	3,544
	572,097	737,196

8. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

The emolument paid or payable to each of the six (2007: five) directors were as follows:

2008		**Other emoluments**		
	Fees	**Salaries and other benefits**	**Retirement benefit scheme contributions**	**Total emoluments**
	HK$	**HK$**	**HK$**	**HK$**
Chan Choi Har, Ivy	**–**	**–**	**–**	**–**
Wu Wenzhi	**–**	**995**	**–**	**995**
Chan Shun Kuen, Eric	**–**	**–**	**–**	**–**
Yeung Mario Bercasio	**–**	**–**	**–**	**–**
Lam Wai Pong	**–**	**–**	**–**	**–**
Chan Sze Hon	**–**	**–**	**–**	**–**
	–	**995**	**–**	**995**

2007		Other emoluments		
	Fees	Salaries and other benefits	Retirement benefit scheme contributions	Total emoluments
	HK$	HK$	HK$	HK$
Chan Choi Har, Ivy	–	–	–	–
Wu Wenzhi	–	10,000	–	10,000
Chan Shun Kuen, Eric	–	–	–	–
Yeung Mario Bercasio	–	–	–	–
Lam Wai Pong	–	–	–	–
	–	10,000	–	10,000

8. DIRECTORS' AND EMPLOYEES' REMUNERATION (Continued)

(b) Employees' emoluments

The aggregate emoluments of the five highest paid (2007: five) individuals are as follows:

	2008 HK$	2007 HK$
Salaries and other benefits	**1,472,025**	1,432,968
Retirement benefit scheme contributions	**54,975**	52,310
	1,527,000	1,485,278

9. TAXATION

	2008 HK$	2007 HK$
The charge comprises:		
Company and subsidiaries		
Current year profits tax – PRC	**160**	989
Deferred tax		
Current year	**–**	–
Taxation attributable to the Group	**160**	989

No tax is payable on the profit for the year arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

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 profit (loss) before taxation per the consolidated income statement as follows:

	2008 HK$	2007 HK$
Profit (loss) before taxation	**1,282,404**	(3,733,829)
Tax at applicable rate	**224,421**	(653,420)
Tax effect of non-deductible expenses	**383,914**	401,646
Tax effect of non-taxable revenues	**(155)**	(97,516)
Tax effect on temporary differences not recognised	**9,959**	20,831
Utilisation of tax losses previously not recognised	**(621,627)**	–
Effect of different tax rate of subsidiary in other jurisdiction	**3,648**	(3,589)
Tax effect of tax losses not recognised	**–**	333,037
Tax charge for the year	**160**	989

9. TAXATION (Continued)

At the balance sheet date, the Group has unused estimated tax losses of HK$27,851,432 (2007: HK$31,403,584) 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.

10. PROFIT (LOSS) FOR THE YEAR

	2008	2007
	HK$	HK$
Profit (loss) for the year has been arrived at after charging:		
Directors' remuneration (Note (8a))	**995**	10,000
Other staff costs	**3,380,250**	2,549,805
Retirement benefit scheme contributions	**147,057**	88,664
Total staff costs	**3,528,302**	2,648,469
Amortisation of intangible assets	**936,000**	936,000
Auditors' remuneration	**200,000**	100,000
Depreciation	**183,536**	177,541
And after crediting:		
Bank interest income	**955**	639

11. DIVIDENDS

No dividend was paid or proposed for the year ended 30 June 2008, nor has any dividend been proposed since the balance sheet date (2007: HK$ Nil).

12. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share for the year ended 30 June 2008 is based on the profit for the year of HK$1,282,244 (2007: loss of HK$3,734,818) and the weighted average number of 72,507,869 (2007 (restated): 60,680,000 being adjusted to reflect the effect of share consolidation on 18 June 2008) ordinary shares in issue during the year.

No diluted earnings (loss) per share for the year ended 30 June 2008 and 2007 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.

13. INTANGIBLE ASSETS

	2008 HK$	2007 HK$
THE GROUP		
Trademarks/ Tradenames		
COST		
At 1 July	**18,720,000**	18,720,000
Written off	**–**	–
At 30 June	**18,720,000**	18,720,000
AMORTISATION		
At 1 July	**7,488,000**	6,552,000
Provided for the year	**936,000**	936,000
Eliminated on written off	**–**	–
At 30 June	**8,424,000**	7,488,000
NET BOOK VALUE		
At 30 June	**10,296,000**	11,232,000

14. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery HK$	Leasehold improvement HK$	Furniture, fixture and equipment HK$	Total HK$
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
At 30 June 2007 and 1 July 2007	203,000	408,276	464,959	1,076,235
Exchange difference	–	105	381	486
Disposal	–	(2,671)	(9,703)	(12,374)
Additions	–	179,735	103,623	283,358
At 30 June 2008	**203,000**	**585,445**	**559,260**	**1,347,705**
ACCUMULATED DEPRECIATION				
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
At 30 June 2007 and 1 July 2007	45,367	92,844	360,200	498,411
Exchange difference	–	75	270	345
Written back on disposal	–	(2,088)	(7,151)	(9,239)
Provided for the year	40,600	101,580	41,356	183,536
At 30 June 2008	**85,967**	**192,411**	**394,675**	**673,053**
NET BOOK VALUE				
At 30 June 2008	**117,033**	**393,034**	**164,585**	**674,652**
At 30 June 2007	157,633	315,432	104,759	577,824

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2008	2007
	HK$	HK$
Unlisted shares, at cost	**482,700**	482,700
Impairment loss	**(312,554)**	(312,554)
	170,146	170,146
Amounts due from subsidiaries	**37,715,143**	38,081,120
	37,885,289	38,251,266
Less: Allowance on amounts due from subsidiaries	**(34,550,730)**	(34,550,730)
	3,334,559	3,700,536

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 the carrying amounts due from subsidiaries approximate their fair values.

Particulars of the Company's subsidiaries at 30 June 2008 are set out in note 25.

16. INVENTORIES

	2008 HK$	2007 HK$
Raw materials	**527,417**	523,236
Finished goods	**113,505**	162,523
Less: Provision for inventories	**(590,486)**	(669,521)
	50,436	16,238

Inventories of the Group were carried at net realisable value of HK$Nil (2007: HK$Nil) at the balance sheet date.

Movements in provision for inventories

	2008 HK$	2007 HK$
Balance at beginning of the year	**(669,521)**	(1,857,994)
Written back on provision for inventories during the year	**79,035**	1,188,473
	(590,486)	(669,521)

17. TRADE RECEIVABLES

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

	2008 HK$	2007 HK$
Age:		
0-60 days	**5,773,211**	779,662
61-120 days	**1,650,961**	306,649
121-180 days	**664,573**	521
181-365 days	**1,541,756**	57,399
Over 365 days	**47,963**	47,963
	9,678,464	1,192,194
Provision for doubtful debts	**(47,963)**	(47,963)
	9,630,501	1,144,231

17. TRADE RECEIVABLES (Continued)

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

The Group assesses the credit status and imposes credit limits for the customers in accordance with the Group's credit policy. The credit limits are closely monitored and subject to periodic reviews.

As at 30 June 2008, trade receivables over 60 days amounted to HK$3,857,290 were past due but not impaired as the balances were related to debtors with sound repayment history and no recent history of default.

The movements in the provision for doubtful debts during the year are set out below:

	2008	2007
	HK$	HK$
Balance at the beginning of the year	**47,963**	47,963
Impairment losses recognised on trade receivables	**–**	–
Amount written off as uncollectible	**–**	–
Balance at the end of the year	**47,963**	47,963

18. AMOUNTS DUE TO A DIRECTOR

The Group and the Company

As at 30 June 2008, the amounts due to a Director including an amount of HK$651,795 and HK$254,540 of the Group and the Company respectively, which are non-interest bearing (2007: HK$10,576,161 and HK$10,564,751 of the Group and the Company respectively, part of which bears interest at Hong Kong Dollar prime lending rate quoted by The Hong Kong and Shanghai Banking Corporation Limited), and is unsecured and repayable on demand.

19. SHARE CAPITAL

	Number of shares of HK$0.1 each	Number of shares of HK$0.01 each	Amount
			HK$
Authorised:			
At 1 July 2006, 30 June 2007 and 1 July 2007	–	10,000,000,000	100,000,000
Share consolidation (Note (i))	1,000,000,000	(10,000,000,000)	–
At 30 June 2008	**1,000,000,000**	**–**	**100,000,000**
Issued and fully paid:			
At 1 July 2006, 30 June 2007 and 1 July 2007	–	606,800,000	6,068,000
Share consolidation	60,680,000	(606,800,000)	–
Issue of new shares pursuant to the subscription agreement dated 1 February 2007 (Note (ii))	245,000,000	–	24,500,000
Issue of new shares upon capitalisation of the loans due to a director (Note (iii))	88,000,000	–	8,800,000
At 30 June 2008	**393,680,000**	**–**	**39,368,000**

Notes:

(i) On 18 June 2008, the consolidation of every 10 issued and unissued shares of HK$0.01 each in the share capital of the Company into one ordinary shares(s) of HK$0.10 each in the share capital of the Company.

(ii) On 18 June 2008, Queensbury Global Limited and the Company jointly announced that all the conditions of the subscription agreement dated 1 February 2007 and capitalisation agreement dated 3 January 2008 have been fulfilled and the completion took place on the same date. Upon the completion, Queensbury Global Limited was allotted and issued 245,000,000 consolidated shares. Also Ms. Ivy Chan, an executive director of the Company, held an additional 88,000,000 consolidated shares personally.

(iii) Details of the Company's share option scheme and outstanding share options are disclosed in the Directors' Report.

20. RESERVES

	Share premium HK$	Accumulated losses HK$	Total HK$
THE COMPANY			
At 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 and 1 July 2007	19,740,134	(40,481,837)	(20,741,703)
Issue of new shares pursuant to the subscription agreement dated 1 February 2007	24,500,000	–	24,500,000
Issue of new shares upon capitalisation of the loans due to a director	8,800,000	–	8,800,000
Transactions cost attributable to issue of new shares	(3,254,770)	–	(3,254,770)
Loss for the year	–	(1,216,455)	(1,216,455)
At 30 June 2008	**49,785,364**	**(41,698,292)**	**8,087,072**

The Company's reserves available for distribution to shareholders as at 30 June 2008 was HK$8,087,072 (2007: HK$Nil).

21. AMOUNTS DUE TO A RELATED COMPANY

As at 30 June 2008, the amounts due to a related company, the controlling shareholder of which is the chief executive director of the Company, amounted to HK$4,516,630 (2007: HK$616,817) is unsecured, non-interest bearing and repayable upon demand.

The Directors consider that the carrying amount of amounts due to a related company approximates their fair value.

22. 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.

23. OPERATING LEASE COMMITMENTS

	2008	2007
	HK$	HK$
Accrued lease payments	**794,236**	975,447
Within one year	**1,876,872**	1,502,466
In the second to fifth year inclusive	**893,131**	2,428,888
	3,564,239	4,906,801

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average terms of 2 years.

24. RELATED PARTY TRANSACTIONS

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

Name of party	Notes	Nature of transactions	2008 HK$	2007 HK$
Balance as at 30 June 2008:				
Ms. Chan Choi Har, Ivy	(i)	Loan from a director	–	10,576,161
Ms. Chan Choi Har, Ivy	(ii)	Reimbursement claimed	651,795	–
			651,795	10,576,161
Profit Trick Holdings Limited	(i)	Loan from a shareholder	–	1,550,000
Garrick International Limited	(iii)	Purchases of products and expenses paid on behalf	4,516,630	616,817
Ms. Keung Wai Fun, Samantha	(iii)	Salary	1,170,000	630,000
Transactions arose in the ordinary course of the Group's business:				
Ms. Chan Choi Har, Ivy	(i)	Interest expense on loan	571,211	336,249
Garrick International Limited	(iii)	Purchases of products	3,878,927	515,659
Garrick International Limited	(iii)	Provision of finance lease	20,866	83,544

Compensation for key management personnel

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

	The Group 2008 HK$	The Group 2007 HK$
Short-term employee benefits	720,000	550,000

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.

24. RELATED PARTY TRANSACTIONS (Continued)

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, interest on director's loan of HK$571,211 was incurred and the total balance of director's and shareholder's loan and accrued interest were settled by issuing of shares according to the Capitalization Agreement announced on 18 June 2008.

ii. The amount of expenses paid in advance by a director is unsecured, interest free and has no fixed repayment terms.

iii. Ms. Keung Wai Fun, Samantha, who is the chief executive officer of Blu Spa Holdings Limited, is the controlling shareholder and director of Garrick International Limited. Garrick International Limited has signed the contract of purchasing machine on behalf of the Group, amounting to HK$120,000 under finance lease. Garrick International Limited has paid an amount of HK$20,866 including interest of HK$866 on behalf of the Group during the year. Also, the Group purchased products at arm's length from Garrick International Limited during the year. Moreover, the outstanding balance of salary is included in other payables.

25. SUBSIDIARIES

Particulars of the Company's subsidiaries at 30 June 2008 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 Directly %	Indirectly %	Principal activities
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

25. SUBSIDIARIES (Continued)

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 %	
Zhuhai Fulihua Cosmetics Co. Ltd.	PRC	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

26. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.

FINANCIAL SUMMARY

			FOR THE YEAR ENDED 30 JUNE		
	2004	2005	2006	2007	**2008**
	HK$	HK$	HK$	HK$	**HK$**
Results					
Turnover	2,051,972	1,564,392	133,465	4,558,311	**16,173,772**
Profit (loss) from ordinary activities attributable to shareholders	(4,563,125)	(5,667,561)	(4,927,964)	(3,734,818)	**1,282,244**

Assets and Liabilities

			FOR THE YEAR ENDED 30 JUNE		
	2004	2005	2006	2007	**2008**
	HK$	HK$	HK$	HK$	**HK$**
Total assets	17,770,043	15,459,166	13,556,412	13,788,272	**69,896,959**
Total liabilities	(12,482,581)	(15,839,265)	(18,857,407)	(22,832,701)	**(14,310,908)**
Balance (deficiency) of shareholders' funds	5,287,462	(380,099)	(5,300,995)	(9,044,429)	**55,586,051**