



BLU SPA HOLDINGS LIMITED

富麗花 • 譜 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)



Annual Report **2003**

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

CONTENTS

Company Information	2
Chairman's Statement	3-4
Management Discussion and Analysis	5-8
Business Objectives and Actual Business Progress Comparison	9-10
Use of Proceeds	11
Prospects	12
Directors and Senior Management Profile	13-14
Directors' Report	15-24
Auditors' Report	25
Consolidated Income Statement	26
Consolidated Balance Sheet	27
Balance Sheet	28
Consolidated Statement of Changes in Equity	29
Consolidated Cash Flow Statement	30
Notes to the Financial Statements	31-51
Financial Summary	52
Notice of Annual General Meeting	53-56

COMPANY INFORMATION

LEGAL NAME OF THE COMPANY:

Blu Spa Holdings Limited

EXECUTIVE DIRECTORS:

Wu Wenzhi (*Chairman*)
Chan Choi Har, Ivy
Chan Kei Kon

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Kam Kin Yat
Hui Kwong Wai, Eric

COMPANY SECRETARY:

Man Tuen Tuen

COMPLIANCE OFFICER:

Chan Choi Har, Ivy

QUALIFIED ACCOUNTANT:

Man Tuen Tuen AHKSA, ACCA

AUTHORISED REPRESENTATIVE(S):

Chan Choi Har, Ivy
Man Tuen Tuen

AUDIT COMMITTEE:

Kam Kin Yat
Hui Kwong Wai, Eric

AUTHORISED PERSON(S) TO ACCEPT SERVICES OF PROCESS AND NOTICES:

Chan Choi Har, Ivy

REGISTERED OFFICE:

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS:

Room 2429–31, 24th Floor
Sun Hung Kai Centre
30 Harbour Road
Wanchai, Hong Kong.

AUDITORS:

HLM & Co.

SPONSOR:

DBS Asia Capital Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE:

Secretaries Limited
28/F, BEA Harbour View Centre,
56 Gloucester Road, Wanchai,
Hong Kong

PRINCIPAL BANKERS:

Hang Seng Bank
The Bank of East Asia, Limited

WEBSITE ADDRESS:

www.bluspa.com.

On behalf of the board of directors (the "Board"), I am pleased to present to the Shareholders the audited consolidated results of the Company and its subsidiaries (together the "Group") for the year ended 30 June 2003 for their consideration.

OPERATING RESULTS

During the year under review, the Group recorded a total turnover of approximately HK\$1.8 million, representing a 36% decrease as compared with the previous year. Loss for the year ended 30 June 2003 was approximately HK\$8.9 million, representing an improvement of approximately 18% year-on-year. Basic loss per share for the year ended 30 June 2003 was HK 1.92 cents. The gross profit margin for the year decreased from 63% to 44%.

MARKET OVERVIEW

The global economy continued to remain stagnant for this financial year. Propelled by the persistent global economic downturn, the changing consumer spending habits and declining consumer spending level continued to depress the prestige personal care product markets in the Asian Pacific Region and this has a significant impact on the performance of the Group. For the year ended 30 June 2003, the Group's revenues derived mainly from the sale of Blu Spa products to its selected distributors were lower than expected. However, the Group notes the signs which shows the emergence of a stronger economy towards the end of 2003, will assist the Group's continuous business development in the botanical personal care product industry. The Group believes that an early economic recovery in the Asian Pacific Region will increase the level of consumer spending and in turn drive demand across a broad spectrum of consumer groups for new and innovative, quality and high performance personal care products that satisfy the consumers' needs for beauty care, anti-aging, stress reduction, comfort and relaxation.

OPERATING OVERVIEW

During the financial year the Group was faced with challenges that emerged from the continuing economic recession in the Asian Pacific Region, the revenues of the Group derived mainly from the sale of Blu Spa products has dropped by 36% as compared with the previous year. The results are mainly attributable to the general decline in the sale of Blu Spa products to Group's selected distributors in the Asian Pacific markets, particularly, the PRC market which has decreased by approximately 74% as compared to the previous financial year. Given the Group's receivables attributable to several distributors, the Group has taken a series of appropriate corrective measures to prevent the future occurrence of similar incident. The Group has continuously tightened the selection process by adopting more stringent requirements in the future recruitment of distributors. Mindful of the huge and highly fragmented personal care product market in the People's Republic of China ("PRC"), the Group also considers it necessary to revisit its present distribution strategy and structure and to explore other avenues that help expand its distribution network in a speedy, efficient and cost effective manner. Nevertheless, the Group remains focus on the PRC, which is the second largest market in Asia-Pacific region in terms of retail sales of personal care products. The Group also considers that Hong Kong being part of the PRC, is also an important strategic market for business development.

CHAIRMAN'S STATEMENT

On the other hand, in terms of cost control, with the persistent global economic downturn particularly in the Asian Pacific Region, the Group continues to adopt a series of austerity measures aimed at controlling the overall operating costs. They include waiver of director fee by certain board members, centralising and relocating the Toronto operation to a new warehouse facilities. The result of these measures has a positive impact on the overall performance of the Group in current financial year. Without compromising the product quality, the Group is also exploring various options for controlling the production cost including subcontracting the production process of certain product categories or certain part of the production process to independent third party qualified manufacturers operating in lower cost regions.

PROSPECTS AND APPRECIATION

In spite of the persistent global economic downturn, the Group remains optimistic about its future prospects in its continuous efforts to cautiously expand its retail business and to identify and recruit suitable distributors in various markets. The Group believes the signs that are emerging of a stronger economy towards the end of 2003, will assist with the Group's continuous development in the botanical personal care product industry. The Group also believes that an early economic recovery in the Asian Pacific Region will increase the level of consumer spending and in turn drive demand across a broad spectrum of consumer groups for new and innovative, quality and high performance personal care products that satisfy the consumers' needs for beauty care, anti-aging, stress reduction, comfort and relaxation.

The Group continues to expand its retail business in Hong Kong by exploring to different modes of services, like concept store, spa house and automatic selling machine.

Faced with the ever changing market demand, the Group will continue to strengthen its product development capability and customer relation, develop and launch into the market new innovative and quality botanical personal care products, in order to propel the Group into one of the leading developers and marketers of botanical personal care products and expand its market share in the botanical personal care product and service market.

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

Wu Wenzhi

Chairman

Hong Kong, 25 September 2003

FINANCIAL REVIEW

Results

The Group experienced a downturn in the operating results of the financial year. For the year ended 30 June 2003, the Group recorded a turnover of approximately HK\$1.8 million due to the decline in sales to distributors in the Asian Pacific Region, particularly, the PRC market, which has decreased by approximately 74% as compared to the previous financial year.

Gross profit margin in current year decreased to 44% from 63% in previous financial year. It was principally due to the increase in cost of raw materials, which led to the increase in product unit cost, as well as the decrease in product selling price.

Other revenue represents the bank interest income and foreign exchange gain.

Distribution costs incurred by the Group for the year ended 30 June 2003 amounted to approximately HK\$0.4 million, representing a decrease of approximately 21% as compared to those of the previous year which was attributable to the net decrease in advertising and promotional expenses incurred in enhancing the brand recognition and in expanding distributorship network.

Administrative expenses incurred by the Group for the year ended 30 June 2003 amounted to approximately HK\$8.5 million, representing a decrease of approximately 31% as compared to those of previous year. The decrease was mainly due to decrease of rental, staff costs and legal and other professional fee.

Following the receiving order of an indirect wholly owned subsidiary, Blu Spa Canada Inc. ("BSC") which was issued by the Ontario Superior Court of Justice in Bankruptcy on 22 May 2003, the Group had written off debts due from BSC amounted to approximately HK\$7.2 million, and given BSC had incurred net liabilities, thus the disposal of which recorded a gain of approximately HK\$2.9 million.

On 26 September 2002, two directors confirmed to the Company that of the aggregate amount due to them of approximately HK\$5,550,000 they agreed to waive HK\$3,050,000. Furthermore, on 30 December 2002, one director confirmed to the Company to waive a director's loan of approximately HK\$360,000. Therefore aggregate amount waive amounted to approximately HK\$3.4 million.

Loss for the year ended 30 June 2003 was approximately HK\$8.9 million. This represented an improvement of approximately 18% in net loss as compared with the previous financial year. This improvement was due to the effective control of the overall operating cost and production cost.

Financial Resources and Liquidity

As at 30 June 2003, the shareholders' funds of the Group amounted to approximately HK\$9.9 million (2002: HK\$15.5 million). Current assets amounted to approximately HK\$2.4 million (2002: HK\$9.1 million), of which approximately HK\$1.2 million (2002: HK\$4.9 million) were cash and bank deposits and approximately HK\$0.9 million (2002: HK\$1.7 million) were debtors, deposits and prepayments. The Group's current liabilities amounted to approximately HK\$3.2 million (2002: HK\$2.2 million), mainly comprise of accruals and other payables amounted to approximately HK\$2.6 million (2002: H\$1.9 million). Subsequent to year end, shareholders' loans of HK\$1.6 million were granted to the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Significant Investments and Acquisitions

During the year ended 30 June 2003, the Group had no material significant investments and acquisitions of subsidiaries and affiliated companies (2002: Nil).

As at 30 June 2003 and 30 June 2002, the Group had no material investment other than the acquisition happened in the financial year 2002 from B.S. International Inc. of inventories of raw materials, finished goods and other movable assets at a total consideration of 300,000 Canadian dollars pursuant to an asset purchase agreement dated 27 September 2001.

Capital commitments

As at 30 June 2003, the Group had no future plans for material investment (2002: Nil).

Contingent liabilities

As at 30 June 2003, the Group had no material contingent liabilities (2002: Nil).

Charges on group assets

As at 30 June 2003, the Group did not have any charges on Group's assets (2002: Nil).

Foreign exchange exposure

The Group mainly earns revenue and incurs cost in Hong Kong dollars, Canadian dollars and US dollars. The Directors consider the impact of foreign exchange exposure of the Group is minimal.

Capital structure of the Group

As at both 30 June 2002 and 2003, the amount due to a shareholder, XO-Holdings Limited, amounted to approximately HK\$3,572,000, which was unsecured, non-interest bearing and repayable upon demand.

XO-Holdings Limited has undertaken to the Company that (i) it will not demand repayment of the amount due to it of approximately HK\$3,572,000 within one year from the date of listing of the shares of the Company on GEM; and (ii) it will not demand repayment of any outstanding amount due to it after one year from the date of listing of the shares of the Company on GEM unless the Group has positive cash flow from operations and retained earnings in a financial year and each of the independent non-executive Directors has given an opinion that such payment will not adversely affect the operations of the Group and the implementation of the business objectives of the Company as stated in the Prospectus.

As at 30 June 2003, the amount due to a related company, which has a common shareholder of Rocket High Investments Limited, a substantial shareholder of the Company, amounted to approximately HK\$2,500,000 which is unsecured, non-interest bearing and repayable upon demand (2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Save as mentioned above, the Group did not have any outstanding loan capital, bank overdrafts and liabilities under acceptance or other similar indebtedness, debentures, mortgages, charges, or loans or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities as at the close of the business on 30 June 2003 and 30 June 2002 respectively. The Group did not have any funding and treasury policies, financial instruments for hedging purpose.

Gearing Ratio

As at 30 June 2003, the Group's gearing ratio, expressed as a percentage of total borrowings (comprising amounts due to directors, a shareholder and a related company of the Company) over total assets, was 35% (2002: 34%). The Directors believe that the gearing ratio is at an acceptable level for the Group and the Group would be able to ensure there is sufficient financial resources to discharge its debts.

Details of future plans for material investment or capital assets

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

Employees and Remuneration Policies

As at 30 June 2003, the Group had 14 employees (2002: 17) and staff costs (excluding directors' remuneration) amounted to approximately HK1.9 million (2002: HK\$1.8 million) whilst the directors' remuneration amounted to approximately HK\$1.4 million (2002: HK\$3.2 million). Remuneration is determined by reference to market conditions and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid at the management's discretion to its employees in Hong Kong as recognition of and reward for their contributions. Other benefits include pre-IPO share option scheme as detailed in prospectus dated 4 February 2002, contributions to statutory mandatory provident fund scheme to its employees in Hong Kong.

As from 1 September 2003, Wu Wenzhi was redesignated as the chairman of the Company. Two senior management staff being, the business development director and the general manager, were employed by the Group in December 2002 and June 2003 respectively.

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Sales and distribution

During the year under review, due to the economic downturn and the low receptiveness of the Group's products in different markets, the performance of the Group's distributors in their respective markets has been adversely affected which led to the closure of outlets by some distributors since early 2003. The Group has undergone negotiations with the new distributors in the PRC and the Asia Pacific region including the distributorship in Beijing, the PRC, Korea, Thailand and Taiwan. No solid agreements have been signed yet as the Group are currently working out the terms with the potential distributors and reviewing the existing distribution strategy and structure so as to expand its distribution network in a speedy, efficient and cost effective manner.

During the year, an additional three health permits have been granted by the relevant PRC authorities on the Group's products, making the total number of health permits obtained increased to eight. The Company understands that other applications are still under process.

The Directors consider Hong Kong being part of the PRC, is also an important strategic market for business development, and that having its anchor store in Hong Kong is a more suitable mode of business. The Group currently operates two retail stores. Apart from these two retail shops, concept store, spa house and automatic selling machine will be opened in the fourth quarter of this year or early next year.

Products

During the year, the Group introduced three new anti-aging eye and face treatment products and a new baby spa line in late 2002 and re-introduced 21 reformulated and repackaged personal care products in November 2002.

Procurement

In light of the receiving order, the supply of the Group's own developed products from Canada has been temporarily suspended since early May 2003. Based on the existing level of inventories and the estimated sales volume from distributors and the Group's retail stores, the Board estimates that the existing level of inventories would support the Group's business for at least six months. To ensure a sufficient level of inventories, the Group has commenced to source from other overseas OEM manufacturers' products using the Group's brandname. The Company is in discussions with some overseas suppliers however, it will not enter into long term supply agreement with any of these prospective suppliers, instead, purchase orders will be placed with them on a case by case basis. To ensure the same quality of these products manufactured by these OEM manufacturers, the Company will conduct sufficient quality control checking on these OEM products in Hong Kong prior to formal acceptance of the relevant shipments.

BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS COMPARISON

Business Objectives up to 30 June 2003

Actual Business Progress up to 30 June 2003

Research and development on product

- | | |
|---|--|
| <ul style="list-style-type: none">• upgrade testing and experimental related equipment;
• Conduct packaging design and experiments with vitamin C & E rich ingredients on penetration dynamics and moisture retention factors, stability test and packaging compatibility test based on pre-defined new formulation objectives and experimentations to determine pure effective face serum formula and conduct focus group study;
• conduct experiments on quick drying, deep cleansing and heat activating ingredients, stability test and packaging compatibility studies based on pre-defined new formulation objectives and experimentations to determine effective face mask formula and conduct focus group study;
• Conduct experiments with new ingredients that accelerate and stimulate cell rejuvenation on moisture retention factors, stability test and packaging compatibility studies based on pre-defined new formulation objectives and experimentations to determine effective hydrating anti-aging face cream formula and conduct focus group study. | <ul style="list-style-type: none">• Postponed due to receiving order of BSC. To reconsider after due execution and completion of the receiving order.
• Experiments postponed due to receiving order unchanged of BSC. However, the Group's direction remains unchanged and will look into it after due execution and completion of the receiving order. Nevertheless, the Group is now looking for other new products and trends to suit the market need.
• Experiments postponed due to receiving order of BSC. However, the Group's direction has not been changed and will look into it after due execution and completion of the receiving order. In the meantime, the Group commences to recruit chemist/consultant in Asia Pacific region.
• Anti-aging face cream formula has been tested and the respective products have been launched. Other experiments postponed due to Bankrupt of BSC. However, the Group's direction has not changed and will look into it after due execution and completion of the receiving order. In the meantime, the Group commence to recruit chemist/consultant in Asia Pacific region. |
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BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS COMPARISON *(Continued)*

Business Objectives up to 30 June 2003

Actual Business Progress up to 30 June 2003

Product and service launch

- the new anti-aging face and neck treatment, face care nutrient serum, lower body slimming treatment, colour foundations, eye mascara, men's fragrance and men's bath soak.
- Anti-aging face products have been launched. Other experiments postponed due to receiving order of BSC. However, the Group's direction has not changed and will look into it after due execution and completion of the receiving order. In the meantime, the Group commence to recruit chemist/consultant in Asia Pacific region.

Distribution network

- continue its marketing effort and resources to develop those regions in China and South East Asia and other geographical markets where the Group currently does not have a presence.
- Continue to identify prospective distributors in various markets, including the PRC, Korea and Thailand.

Advertising and promotion

- continue to participate in international and regional cosmetic exhibitions and trade shows.
- In view of the unfavourable market condition, the Group did not participate in international and regional cosmetic exhibitions and trade shows during the period under review.

Purchase of raw materials

- In order to support the expansion of product range, the Group envisages the need to increase its level of raw materials and packaging materials to accommodate its business expansion plan.
- Given the receiving order of BSC, the Group engaged in discussion with overseas OEM suppliers to commence sourcing from them using the Group's brandname.

Build up inventory base of principal raw materials and packaging materials progressing according to analysis of sales reports.

USE OF PROCEEDS

The net proceeds from the initial public offering (the “IPO”) was about HK\$17.5 million. During the period from 19 February 2002 (date of listing) to 30 June 2003, the Group has incurred the following amounts to achieve the business objectives as set out in the Prospectus:

Schedule of use of proceeds	Amount disclosed in the Prospectus (HK\$ million)	Actual amount used up to 30 June 2003 (HK\$ million)
For payment to existing creditors and of accrued rental expenses due to a related company	4.9	4.9
For advertising and promotion, enhancement of logistics facilities and human resources	2.9	3.3
For research and development and product launch	1.7	0.6
For purchase of raw materials and packaging materials	1.8	2.9
For market development	0.9	1.0
For payment for acquisition of assets from Blu Spa International Inc.	1.2	1.2
For general working capital	2.0	6.2
Total	<u>15.4</u>	<u>20.1</u>

Use of proceeds exceeds the estimation made in the Prospectus by HK\$4.7 million. The differences are mainly attributable to the extra expenditure spent for general working capital and purchase of raw materials and packaging materials in anticipation of projected increase in sales. All of the net proceeds raised from the IPO has been used up as at 31 December 2002. The deviations of use of proceeds from IPO compared to that as stated in the IPO prospectus were disclosed in the annual report of the Company for the year ended 30 June 2002 and the interim report of the Company for the six months ended 31 December 2002.

PROSPECTS

The Group remains optimistic about its future prospects in the Group's continuous efforts to identify and recruit suitable distributors in various Asian Pacific markets as well as to continue expanding its retail business. The Group believes that there are signs showing an improvement in the economy towards the end of 2003. The Group also believes that an early economic recovery in the Asian Pacific Region will increase the level of consumer spending and in turn drive demand across a broad spectrum of consumer groups for new and innovative, quality and high performance personal care products. Year 2003/2004 will be a challenging year. More international brands will enter into the botanical personal care products market in the PRC following the accession to the World Trade Organisation. The Group believes that it is well-positioned to face the intense competition and challenges ahead by leveraging its competitive strengths in unique brand positioning, uniform global brand management, categories coverage, product innovation, quality and performance and research and product development capability.

The Group will explore new business opportunities with the support of the Board and shareholders of the Group. The Group will also continue to minimise its operating overhead costs and take a measured approach on investing in expansion of business activities until the general economy recovers.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

DIRECTORS

Executive Directors

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

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

Chan Kei Kon, holds a degree in political science from the Guangzhou Zhongshan University, China. He was formerly the Managing Director of Tenmar International Limited, an investment company specializing in China trade. He was also the Chairman of a number of industrial production companies in various parts of China. He will be responsible for the business development for the China market. He was appointed as the Company's executive director on 12 November 2002.

Independent non-executive Directors

Kam Kin Yat, is an executive director of Quantum High-Tech Group Limited, a private company incorporated in Hong Kong and principally engages in manufacturing and trading of health products. He has more than 21 years of working experience in China trade. He was previously the senior vice-president for China investments of Sun Development Limited and the assistant executive president of Lai Sun Holdings Limited. Before joining the Lai Sun Group in 1991, he worked as a foreign investors relation officer of the People's Government of Jiangsu. He was appointed as the Company's independent non-executive director on 26 September 2002.

Hui Kwong Wai, Eric, holds a Master degree in Business Administration from Charles Sturt University, Australia and a Master degree of Science in Finance from The City University of New York. He has over 15 years of experience in corporate and factory management. He is currently a manager in a management consultancy firm. He was appointed as the Company's independent non-executive director on 12 August 2003.

SENIOR MANAGEMENT

Tsing Li Kei, Rick, is the General Manager who mainly oversees the operation of the Company. He holds a bachelor degree of Social Science (A.C.S.) from The University of Western Ontario, Canada. Mr. Tsing is an entrepreneur possesses the business expertise and acumen to set up a good business model for a viable business.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Tam Miu Ling is the Business Development Director. Her main duties are exploration of distributorships in different countries so to expand to product markets. Also, she is responsible for the development of the Hong Kong business mode from distributorship to retail operation. Ms. Tam has at least 10 years of working experience in retail business. She is well experienced in the business development of products.

Man Tuen Tuen, is the Chief Accountant of the Group, Company Secretary and Qualified Accountant of the Company. She holds a bachelor degree in Business Administration from Chinese University of Hong Kong. She is an Associate member of The Association of Chartered Certified Accountants and an Associate member of The Hong Kong Society of Accountants. She has over 5 years of working experience in audit firms of which over 2 years was in an international accounting firm.

The directors have pleasure in submitting their report together with the audited financial statements of the Group for the year ended 30 June 2003.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 30 to the financial statements.

RESULTS

Details of the Group's results for the year ended 30 June 2003 are set out in the consolidated income statement on page 26 of the annual report.

SHARE CAPITAL

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

As at 30 June 2003, the number of 606,800,000 ordinary shares of the Company in issue comprised 410,000,000 shares in issue as at 1 July 2002 and 196,800,000 shares allotted pursuant to the open offer on 24 March 2003 respectively.

RESERVES

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

PLANT AND EQUIPMENT

Details of movements in the plant and equipment of the Group during the year are set out in note 13 to the financial statements.

DIRECTORS' REPORT *(Continued)*

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors

Wu Wenzhi (<i>Chairman</i>)	(appointed on 15 May 2003)
Rajewski, Natalie N. (<i>Ex-Chairman</i>)	(resigned on 26 May 2003)
Wai Suk Chong, Helena (<i>Vice-Chairman</i>)	(ceased to be vice-chairman and redesignated as non-executive director both on 7 October 2002)
Law Kin Ming, Alfred (<i>Ex-Vice-Chairman</i>)	(resigned on 12 November 2002)
Loo Peck Hwee, Celene	(resigned on 9 August 2002)
Chan Choi Har, Ivy	
Chan Kei Kon	(appointed on 12 November 2002)

Non-executive director

Wai Suk Chong, Helena	(redesignated as executive director on 26 September 2002 and redesignated as non-executive director on 7 October 2002 and resigned on 12 February 2003)
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Independent non-executive directors

Wong Kang Yean, Clarence	(resigned on 12 November 2002)
Ng Kwok Tung	(resigned on 26 September 2002)
Kam Kin Yat	(appointed on 26 September 2002)
Yao Hon Ching	(appointed on 12 November 2002 and resigned on 15 May 2003)
Hui Kwong Wai, Eric	(appointed on 12 August 2003)

In accordance with Articles 86 and 87 of the Company's Articles of Association, Messrs. Chan Choi Har, Ivy will retire at the forthcoming annual general meeting and, being eligible, offer herself for re-election.

Each of Chan Choi Har, Ivy, Law Kin Ming, Alfred and Loo Peck Hwee, Celene has entered into a service agreement with the Company for an initial period of two years commencing 1 September 2001, which will continue thereafter until terminated by either party by three months' prior written notice. Law Kin Ming, Alfred and Loo Peck Hwee, Celene resigned as directors of the Company on 12 November 2002 and 9 August 2002 respectively. Their service agreements were terminated simultaneously.

Rajewski, Natalie N. has entered into a service agreement with the Company for an initial period of two years commencing 1 October 2001. Rajewski resigned as director of the Company on 26 May 2003 and her service agreement was terminated simultaneously.

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

DIRECTORS' AND CHIEF EXECUTIVE INTERESTS IN SHARES AND OPTIONS

As at 30 June 2003, the interests of the directors and their associates as well as the chief executive of the Group in the share capital of the Company and its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules were as follows:

A. Long position in shares

Name	Type of interest	Number of shares	Percentage of issued share capital
Rajewski, Natalie N.	Corporate interest <i>(Note 3)</i>	84,099,330	13.86%
Chan Choi Har, Ivy	Corporate interest <i>(Note 1)</i>	110,657,870	18.24%
Law Kin Ming, Alfred	Family interest <i>(Note 2)</i>	110,657,870	18.24%
Wai Suk Chong, Helena	Corporate interest <i>(Note 4)</i>	107,132,600	17.66%

Notes:

1. These shares are held by XO-Holdings Limited. Chan Choi Har, Ivy is the beneficial owner as to 65% of the issued share capital of XO-Holdings Limited.
2. Law Kin Ming, Alfred has resigned as the executive director on 12 November 2002. By virtue of his relationship as Chan Choi Har, Ivy's spouse, Law Kin Ming, Alfred is deemed under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) to be interested in the 11,065,870 shares of the Company in which Chan Choi Har, Ivy is interested.
3. Rajewski, Natalie, N. has resigned as the executive director on 26 May 2003. These shares are held by Eastpoint Resources Limited. The entire issued share capital of Eastpoint Resources Limited is held by Well Arts Enterprises Limited in its capacity as trustee of the Eastpoint Trust, a discretionary trust, the beneficiaries of which include certain family members of Rajewski, Natalie, N..
4. Wai Suk Chong, Helena has resigned as the non-executive director on 12 February, 2003. These shares are held by Profit Trick Holdings Limited. The entire issued share capital of Profit Trick Holdings Limited is beneficially owned by Wai Suk Chong, Helena.

DIRECTORS' REPORT *(Continued)*

DIRECTORS' AND CHIEF EXECUTIVE INTERESTS IN SHARES AND OPTIONS *(Continued)*

B. Short positions 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 Rule 5.40 to 5.49 of the GEM Listing Rules.

Save as disclosed above, none of the Directors or their associates as well as the chief executive of the Group had any interests in the share capital of the Company or its associated corporations. During the reporting periods, there were no debt securities issued by the Group at any time.

C. Share options

The Company has conditionally adopted a Share Option Scheme (the "Scheme") on 20 November 2001. A summary of the principal terms of the Scheme is set out in the subsection headed "Share Option Scheme" in Appendix IV to the prospectus of the Company dated 4 February 2002. As at 30 June 2003, no options has been granted or agreed to be granted by the Company under the Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

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

DIRECTORS' INTERESTS IN CONTRACTS

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

CONNECTED TRANSACTIONS

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

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the register of substantial shareholders required to be maintained under Section 16(1) of the SFO showed that, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Name of shareholders	Number of shares	Percentage of issued share capital
Chan Choi Har, Ivy <i>(Note 1)</i>	110,657,870	18.24%
XO-Holdings Limited <i>(Note 2)</i>	110,657,870	18.24%
Wah Hing Consultants Limited <i>(Notes 2 and 3)</i>	110,657,870	18.24%
Heung See Wai, Angela <i>(Note 3)</i>	110,657,870	18.24%
Rajewski, Natalie N. <i>(Note 4)</i>	84,099,330	13.86%
Eastpoint Resources Limited <i>(Note 4)</i>	84,099,330	13.86%
Well Arts Enterprises Limited <i>(Note 5)</i>	84,099,330	13.86%
Wai Suk Chong, Helena <i>(Note 6)</i>	107,132,600	17.66%
Profit Trick Holdings Limited <i>(Note 6)</i>	107,132,600	17.66%
David Chiu <i>(Note 7)</i>	146,151,360	24.09%
Rocket High Investments Limited <i>(Note 7)</i>	146,151,360	24.09%

Notes:

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

Save as disclosed above, the Company has not been notified of any other interests representing 5% or more of the issued share capital of the Company as at 30 June 2003.

DIRECTORS' REPORT *(Continued)*

COMPETING INTERESTS

The directors believe that none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competes or may compete with the business of the Group.

SHARE OPTIONS

(1) Pre-IPO Share Option Scheme

The Company's Pre-IPO share option scheme ("Pre-IPO Scheme"), was adopted pursuant to a resolution passed on 30 January 2002 for the primary purpose of providing incentives or reward to directors and employees and to recognise the contribution of such eligible persons to the growth of the Company or any subsidiaries, and will expire on 29 January 2012. Under the Pre-IPO Scheme, the Board of Directors of the Company may grant options to directors and employees of the Company or any subsidiaries, to subscribe for shares in the Company at any time upon the adoption date of the Pre-IPO Scheme and prior to the listing date. Any grant of options to a connected person or any of its associates must be approved by all the independent non-executive directors of the Company.

As at 30 June 2003, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Scheme was 19,680,000, representing 3.2% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Pre-IPO Scheme and any other scheme is not permitted to exceed 30% of the issued share capital of the Company from time to time. Subject to the above rule, the total number of shares in respect of which options may be granted under the Pre-IPO Scheme and any other scheme is 41,000,000 shares, representing 10% of the total issued share capital of the Company as at the listing date, without prior approval from the Company's shareholders.

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

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per grant. The exercise price is HK\$0.30 representing the IPO placing price. 50% of the options may be exercised at any time after the expiry of 12 months from the date of grant and the remaining 50% may be exercised at any time after 24 months from the date of grant, and in each case not later than 29 January 2012.

SHARE OPTIONS *(Continued)***(2) Share Option Scheme**

On 30 January 2002, the Company adopted a new share option scheme (the "Scheme"), for the primary purpose of providing incentives or reward to directors and employees and to recognise the contribution of such eligible persons to the growth of the Company or any subsidiaries, and will expire on 29 January 2012. Under the Scheme, the Board of Directors of the Company may grant options to directors and employees of the Company or any subsidiaries, to subscribe for shares in the Company within 10 years from the adoption date of the Scheme. Any grant of options to a connected person or any of its associates must be approved by all the independent non-executive directors of the Company.

As at 30 June 2003, no options had been granted under the Scheme. The total number of shares in respect of which options may be granted under the Scheme and any other scheme is not permitted to exceed 30% of the issued share capital of the Company from time to time. Subject to the above rule, the total number of shares in respect of which options may be granted under the Scheme and any other scheme is 41,000,000 shares, representing 10% of the total issued share capital of the Company as at the listing date, without prior approval from the Company's shareholders.

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

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per grant. Options may be exercised at any time from the date of grant to the 10 anniversary of the date of grant. The exercise price is determined by the Board of Directors of the Company, 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.

DIRECTORS' REPORT (Continued)

SHARE OPTIONS (Continued)

(2) Share Option Scheme (Continued)

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

	Outstanding at beginning of the year	Lapsed during the year	Outstanding at end of the year
Directors			
Chan Choi Har, Ivy	10,250,000	–	10,250,000
Law Kin Ming, Alfred	4,100,000	(4,100,000)	–
Rajewski, Natalie N.	8,200,000	–	8,200,000
Loo Peck Hwee, Celene	8,200,000	(8,200,000)	–
Wai Suk Chong, Helena	2,050,000	(2,050,000)	–
Ng Kwok Tung	820,000	(820,000)	–
Moore, Douglas Howard	820,000	(820,000)	–
Total for Directors	<u>34,440,000</u>	<u>(15,990,000)</u>	<u>18,450,000</u>
Employees	<u>3,280,000</u>	<u>(2,050,000)</u>	<u>1,230,000</u>
Grand Total	<u>37,720,000</u>	<u>(18,040,000)</u>	<u>19,680,000</u>

Details of the options are as follows:

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

Note: 50% of the options may be exercised at any time after the expiry of 12 months from the date of grant and the remaining 50% may be exercised at any time after 24 months from the date of grant, and in each case not later than 29 January 2012.

SPONSOR'S INTERESTS

DBS Asia Capital Limited ("DBS Asia") has been appointed as the continuing sponsor of the Company for the purpose of the GEM Listing Rules. Pursuant to the sponsorship agreement between the Company and DBS Asia, for a fee, DBS Asia acts as the Company's sponsor for the period up to 30 June 2004.

As updated and notified by DBS Asia, DBS Asia, its directors, employees and associates (as defined in the GEM Listing Rules), as at 30 June 2003, did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers accounted for 70% of the Group's total sales and the sales attributable to the group's largest customer were approximately 35% of the Group's total sales. The aggregate purchases during the year attributable to the Group's five largest suppliers were less than 46% of the Group's total purchase.

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 30 June 2003.

ADVANCES TO AN ENTITY

Pursuant to Rule 17.15 and 17.22 of the GEM Listing Rules, the Group has, in its normal and ordinary course of business, various trade receivables due from Sogo Hong Kong Co. Limited and City Super Limited for HK\$131,069 and HK\$86,109, respectively as at 30 June 2003. These trade receivables are unsecured and they are both repayable within one month from every month end. No collateral is made by them and no interest is charged on any of these trade receivables.

COMPETING INTERESTS

During the period under view, none of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had any interest in business that completed or might compete with the business of the Group.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the year.

DIRECTORS' REPORT *(Continued)*

PRE-EMPTIVE RIGHTS

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

AUDIT COMMITTEE

The Company established an audit committee on 10 December 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. At the date of this report, the audit committee comprises Messrs. Kam Kin Yat and Hui Kwong Wai, Eric, who are the independent non-executive directors of the Company. The Group's financial statement for the year ended 30 June 2003 have been reviewed by the audit committee, who was of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

Since its establishment, the audit committee had reviewed the Company's reports and accounts, and provided advice and recommendations to the Board of Directors.

AUDITORS

Messrs. HLM & Co. were appointed as auditors of the Company on 1 September 2003. A resolution will be submitted to the annual general meeting of the Company to re-appoint them.

On behalf of the Board

Blu Spa Holdings Limited

Wu Wenzhi

Chairman

Hong Kong, 25 September 2003.

HLM & Co.

恒健會計師行

Room 305, 3/F
Arion Commercial Centre
2-12 Queen's Road West
Hong Kong

TO THE MEMBERS OF BLU SPA HOLDINGS LIMITED

富麗花 • 譜控股有限公司

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 26 to 51 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 30 June 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLM & Co.

Certified Public Accountants

Hong Kong, 25 September 2003

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2003

	NOTES	2003 HK\$	2002 HK\$
Turnover	(4)	1,818,151	2,856,445
Cost of sales		<u>(1,023,294)</u>	<u>(1,062,431)</u>
Gross profit		794,857	1,794,014
Other revenue		109,431	196,472
Distribution costs		(412,139)	(520,454)
Administrative expenses		(8,514,864)	(12,286,593)
Written off of amount due from a subsidiary		(7,174,831)	–
Waiver of amount due to related parties	(5)	3,410,000	–
Gain on disposal of a subsidiary		<u>2,909,634</u>	<u>–</u>
Loss from operations	(6)	<u>(8,877,912)</u>	<u>(10,816,561)</u>
Finance costs	(7)	<u>(3,631)</u>	<u>(38,707)</u>
Loss before taxation		(8,881,543)	(10,855,268)
Taxation	(9)	<u>–</u>	<u>–</u>
Loss for the year		<u>(8,881,543)</u>	<u>(10,855,268)</u>
Dividend	(10)	<u>–</u>	<u>–</u>
Basic loss per share, in HK cents	(11)	<u>(1.92)</u>	<u>(3.00)</u>

CONSOLIDATED BALANCE SHEET

As at 30 June 2003

	NOTES	2003 HK\$	2002 HK\$
Non-Current Assets			
Intangible assets	(12)	15,907,129	17,005,340
Plant and equipment	(13)	904,114	767,197
		16,811,243	17,772,537
Current Assets			
Inventories	(15)	373,893	2,442,208
Trade receivables	(16)	226,589	305,249
Deposits and other receivables		646,946	1,409,143
Bank balances and cash		1,177,319	4,899,586
		2,424,747	9,056,186
Current Liabilities			
Trade payables	(17)	–	61,556
Accruals and other payables		2,565,078	1,896,792
Amounts due to directors	(18)	676,303	226,133
		3,241,381	2,184,481
Net Current (Liabilities) Assets		(816,634)	6,871,705
		15,994,609	24,644,242
Capital and Reserves			
Share capital	(19)	6,068,000	4,100,000
Reserves		3,854,333	11,421,966
		9,922,333	15,521,966
Non-Current Liabilities			
Amount due to a shareholder	(21)	3,572,276	3,572,276
Amounts due to directors	(18)	–	5,550,000
Amounts due to a related company	(22)	2,500,000	–
		6,072,276	9,122,276
		15,994,609	24,644,242

The financial statements on pages 26 to 51 were approved and authorised for issue by the Board of directors on 25 September 2003 and are signed on its behalf by:

Wu Wenzhi
DIRECTOR

Chan Choi Har, Ivy
DIRECTOR

BALANCE SHEET

As at 30 June 2003

	NOTES	2003 HK\$	2002 HK\$
Non-Current Asset			
Interests in subsidiaries	(14)	<u>80,010</u>	<u>12,556,730</u>
Current Assets			
Deposits and other receivables		480,000	181,983
Bank balances		<u>873,015</u>	<u>12,682</u>
		1,353,015	194,665
Current Liabilities			
Amount due to a related party		193,621	–
Accruals and other payables		<u>846,740</u>	<u>402,695</u>
		1,040,361	402,695
Net Current Assets (Liabilities)		<u>312,654</u>	<u>(208,030)</u>
		392,664	12,348,700
Capital and Reserves			
Share capital	(19)	6,068,000	4,100,000
Reserves	(20)	<u>(11,747,612)</u>	<u>4,676,424</u>
		(5,679,612)	8,776,424
Non-Current Liabilities			
Amount due to a shareholder	(21)	3,572,276	3,572,276
Amount due to a related company	(22)	<u>2,500,000</u>	<u>–</u>
		6,072,276	3,572,276
		392,664	12,348,700

Wu Wenzhi
DIRECTOR

Chan Choi Har, Ivy
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2003

	Share capital <i>HK\$</i>	Share premium <i>HK\$</i>	Merger difference <i>HK\$</i>	Translation reserve <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
THE GROUP						
At 1 July 2001	–	22,716,217	–	–	(18,883,567)	3,832,650
Reserve arising from the Group						
Reorganisation	2,700	(22,716,217)	22,734,577	–	–	21,060
Issue of shares through placing	768,300	22,280,700	–	–	–	23,049,000
Issue of shares pursuant to Capitalisation Issue	3,048,300	(3,048,300)	–	–	–	–
Issue of shares pursuant to Loan Capitalisation	280,700	4,719,300	–	–	–	5,000,000
Expenses for issue of shares	–	(5,476,639)	–	–	–	(5,476,639)
Exchange differences not recognised in consolidated income statement	–	–	–	(48,837)	–	(48,837)
Loss for the year	–	–	–	–	(10,855,268)	(10,855,268)
At 30 June 2002	4,100,000	18,475,061	22,734,577	(48,837)	(29,738,835)	15,521,966
Issue of shares through open offer	1,968,000	1,574,400	–	–	–	3,542,400
Expenses for issue of shares	–	(309,327)	–	–	–	(309,327)
Exchange differences recognised upon disposal of subsidiary	–	–	–	48,837	–	48,837
Loss for the year	–	–	–	–	(8,881,543)	(8,881,543)
At 30 June 2003	<u>6,068,000</u>	<u>19,740,134</u>	<u>22,734,577</u>	<u>–</u>	<u>(38,620,378)</u>	<u>9,922,333</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2003

	NOTES	2003 HK\$	2002 HK\$
OPERATING ACTIVITIES			
Loss for the year		(8,881,543)	(10,855,268)
Adjustment for:			
Interest income		(3,591)	(9,181)
Interest expense		3,631	38,707
Depreciation on plant and equipment		189,242	81,315
Loss on disposal of plant and equipment		–	98,307
Amortisation of intangible assets		1,098,211	977,174
Allowance for bad and doubtful debts		40,694	521,306
Allowance for inventories		(169,500)	643,000
Waiver of amount due to related parties		(3,410,000)	–
Written off of amount due from a subsidiary		7,174,831	–
Gain on disposal of a subsidiary		(2,909,634)	–
Operating cash flow before movements in working capital		(6,867,659)	(8,504,640)
Increase in inventories		(1,968,024)	(2,948,895)
Decrease in trade receivables		28,442	928,804
Decrease (increase) in deposits and other receivables		143,503	(1,371,565)
Increase in trade payables		995,355	61,556
Increase (decrease) in accruals and other payables		668,286	(598,462)
Decrease in amount due to a related company		–	(1,245,794)
Increase in amounts due to directors		810,170	226,133
Cash used in operations		(6,189,927)	(13,452,863)
Interest paid		(3,631)	(38,707)
Net cash used in operating activities		(6,193,558)	(13,491,570)
INVESTING ACTIVITIES			
Interest received		3,591	9,181
Disposal of a subsidiary	(24)	(14,335)	–
Repayment from a shareholder		–	2,000,000
Purchases of plant and equipment		(740,534)	(880,695)
Purchase of patent and trademarks/tradenames		–	(697,384)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(751,278)	431,102
FINANCING			
Proceeds from issue of shares, net of expenses		3,233,073	17,572,361
Advance from a shareholder		–	400,172
NET CASH FROM FINANCING		3,233,073	17,972,533
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(3,711,763)	4,912,065
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(10,504)	(46,621)
CASH AND CASH EQUIVALENTS AT BEGINNING			
OF THE YEAR		4,899,586	34,142
CASH AND CASH EQUIVALENTS AT END OF THE YEAR,			
represented by bank balances and cash		1,177,319	4,899,586

NOTES TO THE FINANCIAL STATEMENT

For the year ended 30 June 2003

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

The Company is an investment holding company. Particulars of the principal activities of its subsidiaries are set out in note 30.

In preparing the financial statements, the Directors have given careful consideration to the future liquidity of the Group. The Directors are currently actively seeking new external funding to improve the liquidity position of the Group. However, certain shareholders have confirmed that in view of the current liquidity difficulties experienced by the Group, it is their intention to provide the Group with sufficient financial support to enable the Group to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these Standards has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has had no material effect on the results for the current or prior accounting year. Accordingly, no prior period adjustment has been required.

Foreign Currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas subsidiaries at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Cash Flow Statements

In the current year, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating/investing/financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas subsidiaries have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date.

NOTES TO THE FINANCIAL STATEMENT *(Continued)*

For the year ended 30 June 2003

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(Continued)*

Employee Benefits

In the current year, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

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

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

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

Investments in subsidiaries

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

Turnover

Turnover represents the net amounts received and receivable for goods sold, less returns and allowances, by the Group to outside customers.

Revenue recognition

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

NOTES TO THE FINANCIAL STATEMENT *(Continued)*

For the year ended 30 June 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Patent and trademarks/tradenames

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

Plant and equipment

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

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

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.

Inventories

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

NOTES TO THE FINANCIAL STATEMENT *(Continued)*

For the year ended 30 June 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development expenditure

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

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

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purpose of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations which are denominated in currencies other than Hong Kong dollars are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Operating leases

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

Retirement benefits scheme

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

NOTES TO THE FINANCIAL STATEMENT *(Continued)*

For the year ended 30 June 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

Geographical segments

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

	The PRC <i>HK\$</i>	Hong Kong <i>HK\$</i>	Taiwan <i>HK\$</i>	Others <i>HK\$</i>	Elimination <i>HK\$</i>	Consolidated <i>HK\$</i>
For the year ended 30 June 2003						
TURNOVER						
External sales	345,000	837,933	631,780	3,438	–	1,818,151
Inter-segment sales	–	2,411,752	–	–	(2,411,752)	–
Total revenue	<u>345,000</u>	<u>3,249,685</u>	<u>631,780</u>	<u>3,438</u>	<u>(2,411,752)</u>	<u>1,818,151</u>
Inter-segment sales are charged at cost plus certain markup.						
RESULT						
Segment result	<u>130,717</u>	<u>394,994</u>	<u>267,525</u>	<u>1,621</u>	<u>–</u>	794,857
Unallocated corporate incomes						105,840
Unallocated corporate expenses						<u>(8,927,003)</u>
Operating loss						(8,026,306)
Written off of amount due from a subsidiary						(7,174,831)
Waiver of amount due to related parties						3,410,000
Gain on disposal of a subsidiary						2,909,634
Interest expense						(3,631)
Interest income						<u>3,591</u>
Loss for the year						<u>(8,881,543)</u>
Assets and liabilities at 30 June 2003						
ASSETS						
Segment assets	9,411	217,178	–	–	–	226,589
Unallocated total assets						<u>19,009,401</u>
Consolidated total assets						<u>19,235,990</u>
LIABILITIES						
Segment liabilities						–
Unallocated corporate liabilities						<u>9,313,657</u>
Consolidated total liabilities						<u>9,313,657</u>

NOTES TO THE FINANCIAL STATEMENT (Continued)

For the year ended 30 June 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

	The PRC HK\$	Hong Kong HK\$	Malaysia HK\$	Taiwan HK\$	Others HK\$	Elimination HK\$	Consolidated HK\$
For the year ended 30 June 2002							
TURNOVER							
External sales	1,339,283	409,925	25,590	1,061,059	20,588	–	2,856,445
Inter-segment sales	–	4,292,145	–	–	–	(4,292,145)	–
Total revenue	<u>1,339,283</u>	<u>4,702,070</u>	<u>25,590</u>	<u>1,061,059</u>	<u>20,588</u>	<u>(4,292,145)</u>	<u>2,856,445</u>

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

RESULT

Segment result	<u>816,121</u>	<u>273,645</u>	<u>14,842</u>	<u>676,313</u>	<u>13,093</u>	<u>–</u>	1,794,014
Unallocated corporate expenses							<u>(12,619,756)</u>
Operating loss							(10,825,742)
Interest expense							(38,707)
Interest income							<u>9,181</u>
Loss for the year							<u>(10,855,268)</u>

Assets and liabilities at 30 June 2002

ASSETS

Segment assets	117,272	47,702	–	139,375	900		305,249
Unallocated total assets							<u>26,523,474</u>
Consolidated total assets							<u>26,828,723</u>

LIABILITIES

Segment liabilities	–	–	–	–	61,556		61,556
Unallocated corporate liabilities							<u>11,245,201</u>
Consolidated total liabilities							<u>11,306,757</u>

Analysis of capital expenditure and depreciation by geographical market is not presented because, in the opinion of the directors, there is no direct relationship between geographical market and the capital assets which are located in Hong Kong and Canada.

NOTES TO THE FINANCIAL STATEMENT *(Continued)*

For the year ended 30 June 2003

4. 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 plant and equipment and intangible assets	
	2003	2002	2003	2002
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Hong Kong	19,235,990	22,875,588	578,659	1,178,821
Canada	—	3,953,135	161,875	399,258
	<u>19,235,990</u>	<u>26,828,723</u>	<u>740,534</u>	<u>1,578,079</u>

5. WAIVER OF AMOUNT DUE TO RELATED PARTIES

	2003	2002
	<i>HK\$</i>	<i>HK\$</i>
Waiver of amount due to a director	2,033,333	—
Waiver of amount due to an ex-director	1,016,667	—
Waiver of director's loan	360,000	—
	<u>3,410,000</u>	<u>—</u>

NOTES TO THE FINANCIAL STATEMENT (Continued)

For the year ended 30 June 2003

6. LOSS FROM OPERATIONS

	2003 HK\$	2002 HK\$
Loss from operations has been arrived at after charging:		
Director's remuneration (note 8(a))	1,361,104	3,224,435
Other staff costs	1,833,544	1,703,243
Retirement benefit scheme contributions	70,393	58,711
Total staff costs	3,265,041	4,986,389
Allowance for bad and doubtful debts	40,694	521,306
Amortisation of intangible assets included in administrative expenses	1,098,211	977,174
Auditors' remuneration	251,046	400,000
Depreciation	189,242	81,315
Loss on disposal of plant and equipment	–	98,307
Allowance for inventories	–	643,000
Research and development costs	398,405	5,966
And after crediting:		
Written back of allowance for inventories	169,500	–
Bank interest income	3,591	9,181

7. FINANCE COSTS

	2003 HK\$	2002 HK\$
Interest on:		
Others	3,631	38,707

NOTES TO THE FINANCIAL STATEMENT *(Continued)*

For the year ended 30 June 2003

8. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

	2003 <i>HK\$</i>	2002 <i>HK\$</i>
Fees:		
Executive directors	58,288	–
Non-executive director	55,446	52,500
Independent non-executive directors	123,887	91,935
	237,621	144,435
Other emoluments for executive directors		
Salaries and other benefits	1,105,483	3,050,000
Retirement benefit scheme contributions	18,000	30,000
	1,123,483	3,080,000
Total directors' remuneration	1,361,104	3,224,435

For the year ended 30 June 2003, five executive directors received remuneration of approximately HK\$756,000, HK\$140,000, HK\$209,000, HK\$57,000, and HK\$1,000 respectively, one non-executive director received remuneration of approximately HK\$55,000 and three independent non-executive directors received remuneration of approximately HK\$22,000, HK\$57,000, and HK\$45,000 respectively.

For the year ended 30 June 2002, four executive directors received remuneration of approximately HK\$840,000, HK\$790,000, HK\$790,000, and HK\$630,000 respectively, one non-executive director received remuneration of approximately HK\$52,000 and two independent non-executive directors received remuneration of approximately HK\$52,000, and HK\$39,000 respectively.

During the year, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. For the year ended 30 June 2002, two executive directors have waived emoluments of approximately HK\$280,000.

NOTES TO THE FINANCIAL STATEMENT (Continued)

For the year ended 30 June 2003

8. DIRECTORS' AND EMPLOYEES' REMUNERATION (Continued)

(b) Employees' emoluments

During the year, the five highest paid individuals in the Group included two (2002: four) directors of the Company, details of whose emoluments are set out above. The aggregate emoluments of the remaining three (2002: one) individuals were as follows:

	2003 HK\$	2002 HK\$
Salaries and other benefits	688,729	214,133
Retirement benefit scheme contributions	25,800	10,000
	<u>714,529</u>	<u>224,133</u>

9. TAXATION

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits subject to Hong Kong Profits Tax for the year.

No provision for overseas taxation has been made as the subsidiaries of the Group operating in their respective jurisdictions had no assessable profits for the year.

Details of unrecognised deferred taxation are set out in note 23.

10. DIVIDEND

No dividend was paid or proposed for the year ended 30 June 2003, nor has any dividend been proposed since the balance sheet date (2002: Nil).

11. BASIC LOSS PER SHARE

The calculation of the basic loss per share for the year ended 30 June 2003 is based on the loss for the year of approximately HK\$8,882,000 (2002: HK\$10,855,000) and on the weighted average of 463,378,631 (2002: 364,112,493) in issue during the year.

No diluted loss per share was presented as the exercise of the Company's share options would result in a decrease in loss per share.

NOTES TO THE FINANCIAL STATEMENT (Continued)

For the year ended 30 June 2003

12. INTANGIBLE ASSETS

	Patent and Trademark/ tradenames <i>HK\$</i>
THE GROUP	
COST	
At 1 July 2002	19,878,208
Additions	—
	<hr/>
At 30 June 2003	19,878,208
	<hr/>
AMORTISATION	
At 1 July 2002	2,872,868
Provided for the year	1,098,211
	<hr/>
At 30 June 2003	3,971,079
	<hr/>
NET BOOK VALUE	
At 30 June 2003	15,907,129
	<hr/> <hr/>
At 30 June 2002	17,005,340
	<hr/> <hr/>

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

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

NOTES TO THE FINANCIAL STATEMENT (Continued)

For the year ended 30 June 2003

13. PLANT AND EQUIPMENT

	Plant and machinery <i>HK\$</i>	Leasehold improvement <i>HK\$</i>	Furniture, fixture and equipment <i>HK\$</i>	Total <i>HK\$</i>
THE GROUP				
COST				
At 1 July 2002	138,514	224,123	477,788	840,425
Exchange realignment	4,314	1,728	5,171	11,213
Additions	517,938	200,000	22,596	740,534
Disposals of a subsidiary	(283,617)	(56,404)	(190,140)	(530,161)
	<u>377,149</u>	<u>369,447</u>	<u>315,415</u>	<u>1,062,011</u>
At 30 June 2003	377,149	369,447	315,415	1,062,011
DEPRECIATION AND IMPAIRMENT				
At 1 July 2002	14,648	7,542	51,038	73,228
Exchange realignment	444	(8)	273	709
Provided for the year	47,736	51,326	90,180	189,242
Eliminated on disposals of a subsidiary	(54,513)	(14,105)	(36,664)	(105,282)
	<u>8,315</u>	<u>44,755</u>	<u>104,827</u>	<u>157,897</u>
At 30 June 2003	8,315	44,755	104,827	157,897
NET BOOK VALUE				
At 30 June 2003	<u>368,834</u>	<u>324,692</u>	<u>210,588</u>	<u>904,114</u>
At 30 June 2002	<u>123,866</u>	<u>216,581</u>	<u>426,750</u>	<u>767,197</u>

NOTES TO THE FINANCIAL STATEMENT (Continued)

For the year ended 30 June 2003

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	HK\$	HK\$
Unlisted shares, at cost	2,700	2,700
Amounts due from subsidiaries	<u>26,696,682</u>	<u>25,629,935</u>
	29,699,382	25,632,635
Less: Allowance on amounts due from subsidiaries	<u>(29,619,372)</u>	<u>(13,075,905)</u>
	<u><u>80,010</u></u>	<u><u>12,556,730</u></u>

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

The directors of the Company consider that in the light of the recurring operating losses of these subsidiaries and unfavourable market conditions, the recoverable amount of its subsidiaries has been reduced to the estimated net realisable value of the identifiable net assets. Accordingly, an impairment loss of HK\$29,619,372 has been recognised in the income statement for the year.

Particulars of the Company's subsidiaries at 30 June 2003 are set out in note 30.

15. INVENTORIES

	THE GROUP	
	2003	2002
	HK\$	HK\$
Raw materials	–	1,267,466
Work in progress	160,952	–
Finished goods	<u>212,941</u>	<u>1,174,742</u>
	<u><u>373,893</u></u>	<u><u>2,442,208</u></u>

NOTES TO THE FINANCIAL STATEMENT (Continued)

For the year ended 30 June 2003

16. TRADE RECEIVABLES

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

	THE GROUP	
	2003 HK\$	2002 HK\$
Aged:		
0–60 days	226,589	145,882
61–120 days	–	54,837
Over 120 days	–	104,530
	<u>226,589</u>	<u>305,249</u>

17. TRADE PAYABLES

Details of the aged analysis of trade payables are as follows:

	THE GROUP	
	2003 HK\$	2002 HK\$
Aged:		
0–60 days	–	61,391
61–120 days	–	165
	<u>–</u>	<u>61,556</u>

18. AMOUNT DUE TO DIRECTORS

The amounts are unsecured, non-interest bearing and repayable on demand. An amount of HK\$3,410,000 was waived by directors during the year.

NOTES TO THE FINANCIAL STATEMENT *(Continued)*

For the year ended 30 June 2003

19. SHARE CAPITAL

	Number of shares of HK\$0.01 each		Amount <i>HK\$</i>	
At 30 June 2003 and 30 June 2002	<u>10,000,000,000</u>		<u>100,000,000</u>	
	Number of shares of HK\$0.01 each		Amount <i>HK\$</i>	
			<i>HK\$</i>	<i>HK\$</i>
Issued and fully paid:				
At 1 July 2002 and at 1 July 2001	410,000,000	–	4,100,000	–
Allotted and issued on				
25 September 2001 (HK\$0.1 each)	–	1	–	–
Subdivision of each issued share				
into 10 shares of HK\$0.01 each	–	9	–	–
Issue of shares of HK\$0.01 each				
pursuant to the Group				
Reorganisation	–	269,990	–	2,700
Issue of shares through placing	–	76,830,000	–	768,300
Issue of shares by capitalisation of				
share premium account				
("Capitalisation Issue")	–	304,830,000	–	3,048,300
Issue of shares by capitalisation				
of shareholder's advance				
("Loan Capitalisation")	–	28,070,000	–	280,700
Issue of shares through open offer				
on 24 March 2003 for				
HK\$0.018 each	<u>196,800,000</u>	<u>–</u>	<u>1,968,000</u>	<u>–</u>
At 30 June 2003 and at 30 June 2002	<u>606,800,000</u>	<u>410,000,000</u>	<u>6,068,000</u>	<u>4,100,000</u>

NOTES TO THE FINANCIAL STATEMENT (Continued)

For the year ended 30 June 2003

20. RESERVE

	Share premium HK\$	Accumulated losses HK\$	Total HK\$
THE COMPANY			
Issue of shares through placing	22,280,700	–	22,280,700
Issue of shares pursuant to Capitalisation Issue	(3,048,300)	–	(3,048,300)
Issue of shares pursuant to Loan Capitalisation	4,719,300	–	4,719,300
Expenses for issue of shares	(5,476,639)	–	(5,476,639)
Loss for the year	<u>–</u>	<u>(13,798,637)</u>	<u>(13,798,637)</u>
At 30 June 2002	18,475,061	(13,798,637)	4,676,424
Issue of shares through open offer	1,574,400	–	1,574,400
Expenses for issue of shares	(309,327)	–	(309,327)
Loss for the year	<u>–</u>	<u>(17,689,109)</u>	<u>(17,689,109)</u>
At 30 June 2003	<u><u>19,740,134</u></u>	<u><u>(31,487,746)</u></u>	<u><u>(11,747,612)</u></u>

21. AMOUNT DUE TO A SHAREHOLDER

	THE GROUP		THE COMPANY	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Non-interest bearing	<u>3,572,276</u>	<u>3,572,276</u>	<u>3,572,276</u>	<u>3,572,276</u>
	<u><u>3,572,276</u></u>	<u><u>3,572,276</u></u>	<u><u>3,572,276</u></u>	<u><u>3,572,276</u></u>

The balance represents unsecured amount due to XO-Holdings Limited.

XO-Holdings Limited confirmed that it would not demand repayment of the remaining balance due to it within one year from the balance sheet date.

22. AMOUNT DUE TO A RELATED COMPANY

The balance of HK\$2,500,000 (2002: Nil) represented amount due to a related company, which has a common shareholder of Rocket High Investments Limited, a substantial shareholder of the Company, which is unsecured, non-interest bearing and repayable upon demand.

The related company confirmed that it would not demand repayment of the remaining balance due to it within one year from the balance sheet date.

NOTES TO THE FINANCIAL STATEMENT (Continued)

For the year ended 30 June 2003

23. UNRECOGNISED DEFERRED TAXATION

The major components of deferred taxation (credit) charge not recognised for the year are as follows:

	THE GROUP	
	2003	2002
	HK\$	HK\$
Tax effect of timing differences attributable to:		
Difference of tax allowances and depreciation charged in the financial statements	32,000	24,600
Tax losses arising	(1,317,000)	(1,156,000)
	<u>(1,285,000)</u>	<u>(1,131,400)</u>

At the balance sheet date, the major components of the deferred taxation (asset) liability not recognised in the financial statements are as follows:

	THE GROUP	
	2003	2002
	HK\$	HK\$
Tax effect of timing differences attributable to:		
Excess of tax allowances over depreciation charged in the financial statements	64,000	32,000
Unutilised tax losses	(2,899,000)	(1,582,000)
	<u>(2,835,000)</u>	<u>(1,550,000)</u>

The deferred taxation asset is not recognised because it is uncertain whether the tax benefit will be realised in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENT (Continued)

For the year ended 30 June 2003

24. DISPOSAL OF A SUBSIDIARY

On 22 May 2003, Blu Spa Canada, Inc., one of the Company's subsidiaries, had been under receivership. A receiving order dated 22 May 2003 has been issued by the Ontario Superior Court of Justice in Bankruptcy in the matter of bankruptcy of Blu Spa Canada, Inc. ("BSC"). Due to the receiving order, the Group had to write off this subsidiary. The net assets of BSC at the date of disposal are as follows:

	2003
	<i>HK\$</i>
NET ASSETS DISPOSED OF	
Property, plant and equipment	424,879
Inventories	4,205,839
Trade and other receivables	628,218
Bank balance and cash	14,335
Account payables	(1,056,911)
Current account with Group companies	(7,125,994)
	<hr/>
At 21 May 2003	(2,909,634)
Gain on disposal	2,909,634
	<hr/>
Total consideration	—
	<hr/>
Net cash outflow arising on disposal:	
Bank balances and cash disposed of	(14,335)
	<hr/> <hr/>

The subsidiary disposed of during the year contributed HK\$649,552 (2002: HK\$1,569,581) to Group's turnover and HK\$1,467,358 (2002: HK\$1,403,585) to the Group's Loss from operations.

25. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into the following major non-cash transactions:

An amount due to directors of HK\$ 2,500,000 had been assigned by the respective directors to a related company, which has a common shareholder of Rocket High Investments Limited, a substantial shareholder of the Company. The amount due to a related company is HK\$ 2,500,000 as at 30 June 2003.

NOTES TO THE FINANCIAL STATEMENT (Continued)

For the year ended 30 June 2003

26. 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.

27. OPERATING LEASE COMMITMENTS

	THE GROUP	
	2003	2002
	HK\$	HK\$
Minimum lease payments paid under operating leases in respect of rented premises	<u>1,319,092</u>	<u>1,067,147</u>

	THE GROUP	
	2003	2002
	HK\$	HK\$
Within one year	1,100,000	535,000
In the second to fifth year inclusive	170,000	718,000
Over five years	—	—
	<u>1,270,000</u>	<u>1,253,000</u>

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

The Company had no operating lease commitments at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENT (Continued)

For the year ended 30 June 2003

28. RELATED PARTY TRANSACTIONS

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

Name of party	Notes	Nature of transactions	2003 HK\$	2002 HK\$
Dutfield Realty	(i)	Rental expenses paid by the Group	–	382,299
Dutfield International Group Company Limited (“Dutfield International”)	(i)	Rental expenses paid by the Group	–	143,993
Rajewski, Natalie N.	(ii)	Management fee paid by the Group	–	183,600

Chan Choi Har, Ivy, a director of the Company, is also a shareholder of Dutfield Realty and Dutfield International.

Rajewski, Natalie N. is an ex-director of the Company.

Notes:

- (i) Rentals were charged in accordance with the lease terms mutually agreed between the relevant parties.
- (ii) Management fee were paid at terms determined and agreed between the relevant parties. Management services provided in accordance with the agreement entered included the provision of product development, marketing, merchandising and training services to the Group.

During the year, the Group paid consultancy fee of HK\$746,393 (2002: HK\$500,870) to 2007489 Ontario Limited, a company in which the brother-in-law of Rajewski, Natalie N., an ex-director of the Company, has beneficial interest.

In addition, the Group had certain balances with its directors, a shareholder and a related company, details of these are set out in notes 18, 21 and 22 respectively.

29. SUBSEQUENT EVENTS

On 2 September 2003, shareholders' loans amounting to HK\$1.6 million were granted to the Company. These loans are unsecured, repayable on demand and interest bearing at Hong Kong Dollar prime lending rate quoted by the Hong Kong and Shanghai Banking Corporation Limited from time to time.

NOTES TO THE FINANCIAL STATEMENT *(Continued)*

For the year ended 30 June 2003

30. SUBSIDIARIES

Particulars of the Company's subsidiaries at 30 June 2003 are as follows:

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

FINANCIAL SUMMARY

	For the year ended 30 June			2003 HK\$
	2000 HK\$	2001 HK\$	2002 HK\$	
RESULTS				
Turnover	<u>2,293,091</u>	<u>4,198,093</u>	<u>2,856,445</u>	<u>1,818,151</u>
Loss from ordinary activities attributable to shareholders	<u>(12,234,387)</u>	<u>(66,649,180)</u>	<u>(10,855,268)</u>	<u>(8,881,543)</u>
ASSETS AND LIABILITIES				
	For the year ended 30 June			2003 HK\$
	2000 HK\$	2001 HK\$	2002 HK\$	
Total assets	21,459,478	21,316,862	26,828,723	19,235,990
Total liabilities	<u>(33,686,065)</u>	<u>(17,463,152)</u>	<u>(11,306,757)</u>	<u>(9,313,657)</u>
(Deficiency) balance of shareholders' funds	<u>(12,226,587)</u>	<u>3,853,710</u>	<u>15,521,966</u>	<u>9,922,333</u>

Note: Pursuant to a group reorganisation to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares on the Growth Enterprises Market (the "GEM") of The Stock Exchange of Hong Kong Limited, the Company became the holding company of the Group on 10 December 2001. The shares of the Company have been listed on the GEM with effect from 19 February 2002. The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared on the merger accounting basis as if the Company had always been the holding company of the Group. The results for the two years ended 30 June 2000 and 2001, and the assets and liabilities as at 30 June 2000 and 2001 have been extracted from the Company's prospectus dated 4 February 2002.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting of the shareholders of Blu Spa Holdings Limited (the “Company”) will be held at the Dynasty Club, 8th Floor, South West Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong on Tuesday, 28 October, 2003 at 9:30 a.m. for the following purposes:

- 1 To receive and consider the audited consolidated financial statements and the reports of the directors and the auditors of the Company (the “Directors” and the “Auditors” respectively) for the year ended 30 June 2003;
2. To re-elect retiring directors and to authorise the board of Directors (the “Board”) to fix the Directors’ remuneration;
- 3 To re-appoint Auditors and to authorise the Board to fix their remuneration;
4. To consider as special business and, if thought fit, pass with or without amendments, the following resolutions as Ordinary Resolutions:

ORDINARY RESOLUTIONS

(1) **“THAT**

- (a) subject to paragraph (c) below the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options and rights of exchange or conversion which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (where pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as defined below); or (ii) the grant or exercise of any option under the share option schemes of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the memorandum and articles of association of the Company in force from time to time; or (iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company, shall not exceed the aggregate of:
 - (i) 20% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and
 - (ii) (if the Directors are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution), and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

NOTICE OF ANNUAL GENERAL MEETING *(Continued)*

- (d) for the purpose of this Resolution:

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

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual meeting of the Company is required by the memorandum and articles of association of the Company, the Companies Law (2002 Revision) of the Cayman Islands or any other applicable laws of the Cayman Islands to be held; and
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution.

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

(2) **THAT**

- (a) subject to paragraph (b) below, the exercise by the Directors during the Relevant Period (as defined below) of all powers of the Company to purchase its shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited or any other stock exchange outside Hong Kong on which the shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission of Hong Kong, The Stock Exchange of Hong Kong Limited, the memorandum and articles of association of the Company, the Companies Law (2002 Revision) of the Cayman Islands and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company which may be repurchased or agreed to be repurchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

NOTICE OF ANNUAL GENERAL MEETING *(Continued)*

- (c) for the purpose of this Resolution, “Relevant Period” means the period from the date of the passing of this Resolution until whichever is earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company, the Companies Law (2002 Revision) of the Cayman Islands or any other applicable laws of the Cayman Islands to be held; and
 - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this Resolution.
- (3) **THAT** conditional on the passing of resolutions numbered 4 (1) and 4 (2) above, the unconditional general mandate granted to the Directors of the Company pursuant to resolution numbered 4 (1) above be and it is hereby extended by the addition to the aggregate nominal amount of the shares of HK\$0.01 each in the capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to or in accordance with the authority granted pursuant to resolution numbered 4(2) above.

SPECIAL RESOLUTION

5. To consider as special business and, if thought fit, pass the following resolution as a Special Resolution:

“THAT:

the Articles of Association of the Company (the “Articles”) be and are hereby amended in the following manner:

- (a) Article 2(1) of the Articles be amended by deleting the words “Section 2 of the Securities and Futures (Clearing House) Ordinance of Hong Kong” from the interpretation of “clearing house” and substituting therefor the words “the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)”.
- (b) Article 156 of the Articles be amended by deleting the entire paragraph and substituting by the following paragraph:– “If the office of auditor becomes vacant by the resignation or death of the Auditor, or by his becoming incapable of acting by reason of illness or other disability at a time when his services are required, the Directors shall have the powers to hold a board meeting to fill up the vacancy of the Auditor to hold office until the conclusion of the next annual general meeting.”

By order of the Board of
Blu Spa Holdings Limited
Man Tuen Tuen
Company Secretary

25 September 2003

NOTICE OF ANNUAL GENERAL MEETING *(Continued)*

Registered Office:

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

Head Office and principal place of business:

Room 2429-31, 24th Floor,
Sun Hung Kai Centre,
30 Harbour Road,
Wanchai, Hong Kong

Notes:

- (a) A shareholder entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not to be a shareholder of the Company.
- (b) To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited with the Company's Branch share registrar in Hong Kong, Secretaries Limited, at G/F. BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting or at any adjournment thereof.
- (c) In relation to proposed resolutions nos. 4 (1) and 4 (3) above, approval is being sought from the shareholders of the Company for the grant to the Directors of a general mandate to authorise the allotment and issue of shares under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.
- (d) In relation to proposed resolution no. 4(2) above, approval is being sought from shareholders of the Company for a general mandate to be given to the Directors to repurchase shares of the Company.
- (e) An explanatory statement containing the information with respect to resolutions 4(1) to 4(3) of the notice will be sent to the shareholders of the Company together with the Company's 2003 annual report.