



BLU SPA HOLDINGS LIMITED

富麗花 • 譜 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8176)

**THIRD QUARTERLY REPORT
FOR THE NINE MONTHS ENDED
31 MARCH, 2004**

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

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

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

SUMMARY

- The Group is a developer, promoter and distributor of a broad range of botanical personal care products, treatments and services.
- The unaudited consolidated turnover of the Group for the nine months ended 31 March, 2004 was approximately HK\$1.9 million, representing an increase of approximately HK\$0.5 million, or approximately 33% as compared to the unaudited consolidated turnover of the Group of approximately HK\$1.5 million for the corresponding period in 2003.
- The net loss for the nine months ended 31 March, 2004 was approximately HK\$3.6 million, representing an increase in loss of approximately HK\$1.1 million, or approximately 45% as compared to a net loss of approximately HK\$2.5 million for the corresponding period in 2003.

The board of Directors (the “Board”) is pleased to announce the unaudited consolidated financial statements of the Company and its subsidiaries (together, the “Group”) for the nine months and three months ended 31 March, 2004 together with the comparative figures for the corresponding periods in 2003 as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

		For the three months ended 31 March, 2004	For the three months ended 31 March, 2003 (Restated)	For the nine months ended 31 March, 2004	For the nine months ended 31 March, 2003 (Restated)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	554	235	1,944	1,460
Cost of sales		(65)	(294)	(494)	(1,134)
Gross profit		489	(59)	1,450	326
Other revenue	4	1	4	336	3,787
Distribution costs		(102)	12	(155)	(398)
Administrative expenses		(1,730)	(1,229)	(5,144)	(6,172)
Loss from operations	5	(1,342)	(1,272)	(3,513)	(2,457)
Finance costs	6	(39)	–	(75)	–
Loss before taxation		(1,381)	(1,272)	(3,588)	(2,457)
Taxation	7	–	(8)	–	(24)
Loss attributable to shareholders		(1,381)	(1,280)	(3,588)	(2,481)
Basic loss per share (in HK cents)	9	(0.23)	(0.30)	(0.59)	(0.60)

NOTES:

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

The condensed consolidated results for the nine months ended 31 March, 2004 have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the unaudited consolidated financial statements are consistent with accounting policies used in the preparation of the Group's annual report for the year ended 30 June, 2003.

The Group has adopted the revised Statement of Standard Accounting Practice ("SSAP") 12 issued by the Hong Kong Society of Accountants ("HKSA"). The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2003 have been restated accordingly. The effect of the change is an increased debit to the income taxes on the current period of HK\$Nil (2003: HK\$24,000).

3. TURNOVER

Turnover represents the net amounts received and receivable for goods sold, less returns and allowances, by the Group to outside customers. An analysis of the Group's turnover by business segments and geographical markets is as follows:

	The PRC HK\$'000	Hong Kong HK\$'000	Taiwan HK\$'000	Others HK\$'000	Consolidated HK\$'000
For the nine months ended					
31 March, 2004 (Unaudited)					
Distribution	329	28	–	2	359
Inter-segment					
Elimination	(105)	–	–	–	(105)
Retailing	–	1,690	–	–	1,690
	<u>224</u>	<u>1,718</u>	<u>–</u>	<u>2</u>	<u>1,944</u>
For the nine months ended					
31 March, 2003 (Unaudited)					
Distribution	471	353	632	4	1,460
Retailing	–	–	–	–	–
	<u>471</u>	<u>353</u>	<u>632</u>	<u>4</u>	<u>1,460</u>

4. OTHER REVENUE

Other revenue for the nine months ended 31 March, 2004 mainly represents the cash discount received from professional fee payment. Whilst the other revenue for the previous corresponding period in 2003 represented waiver of loans due to directors.

5. LOSS FROM OPERATIONS

Loss from operations is arrived at after charging:

	(UNAUDITED) Three months ended 31 March,		(UNAUDITED) Nine months ended 31 March,	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Directors' remuneration	30	288	89	1,160
Other staff costs	499	425	1,628	1,285
Retirement benefit scheme contributions	23	20	73	65
Total staff costs	<u>552</u>	<u>733</u>	<u>1,790</u>	<u>2,510</u>
Auditors' remuneration	-	-	5	101
Allowance for bad and doubtful debt	-	2	-	2
Depreciation	66	38	185	112
Amortization of intangible assets	<u>286</u>	<u>249</u>	<u>857</u>	<u>743</u>
And after crediting:				
Written back of allowance for bad and doubtful debt	-	-	243	-
Bank interest income	<u>1</u>	<u>-</u>	<u>2</u>	<u>4</u>

6. FINANCE COSTS

	(UNAUDITED) Three months ended 31 March,		(UNAUDITED) Nine months ended 31 March,	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Interest on:				
Others	<u>39</u>	<u>-</u>	<u>75</u>	<u>-</u>

The finance cost was resulted from the interest expenses incurred from the shareholders' loans due to Profit Trick Holdings Limited and Rocket High Investments Limited, being substantial shareholders of the Company, which are repayable on demand and bear interest at Hong Kong Dollar prime lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited.

7. TAXATION

	(UNAUDITED) Three months ended 31 March,		(UNAUDITED) Nine months ended 31 March,	
	2004 HK\$'000	2003 (Restated) HK\$'000	2004 HK\$'000	2003 (Restated) HK\$'000
Current tax				
Hong Kong	-	-	-	-
PRC	-	-	-	-
Deferred tax				
Hong Kong	-	8	-	24
Taxation attributable to the Group	<u>-</u>	<u>8</u>	<u>-</u>	<u>24</u>

No provision for Hong Kong Profits Tax has been made for the nine months ended 31 March, 2004 and the corresponding period in 2003, as the Group has no assessable profits for the respective periods.

8. DIVIDEND

The directors do not recommend the payment of a dividend for the nine months ended 31 March, 2004 (2003: Nil).

9. BASIC LOSS PER SHARE

The calculation of the basic loss per share for the three months and nine months ended 31 March, 2004 is based on the respective losses attributable to the shareholders of approximately HK\$1.4 million and HK\$3.6 million respectively and the 606,800,000 ordinary shares of the Company in issue during the period.

The calculation of the basic loss per share for the three months and nine months ended 31 March, 2003 was based on the respective losses attributable to shareholders of approximately HK\$1.3 million and HK\$2.5 million respectively and the weighted average number of 427,493,333 and 415,745,985 ordinary shares of the Company, comprising 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 were in issue throughout the respective periods.

No diluted loss per share for the nine months ended 31 March, 2004 was presented as the Company did not assume the exercise of share option outstanding because the exercise prices of the Company's share options were higher than the average market price for shares.

10. RESERVES

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

	Share Premium HK\$'000	Merger Reserve HK\$'000	Translation Reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
At 1 July, 2002	18,475	22,735	(49)	(29,739)	11,422
Issue of shares pursuant to Open Offer	1,574	–	–	–	1,574
Expenses for issue of shares	(309)	–	–	–	(309)
Loss for the period	–	–	–	(2,481)	(2,481)
Exchange differences arising from translation of operations outside Hong Kong	–	–	(284)	–	(284)
At 31 March, 2003	<u>19,740</u>	<u>22,735</u>	<u>(333)</u>	<u>(32,220)</u>	<u>9,922</u>
At 1 July, 2003	19,740	22,735	–	(38,620)	3,855
Adjustment on adoption of SSAP 12 (Revised)	–	–	–	(32)	(32)
At 1 July, 2003 (Restated)	19,740	22,735	–	(38,652)	3,823
Loss for the period	–	–	–	(3,588)	(3,588)
Exchange differences arising from translation of operations outside Hong Kong	–	–	(8)	–	(8)
At 31 March, 2004	<u>19,740</u>	<u>22,735</u>	<u>(8)</u>	<u>(42,240)</u>	<u>227</u>

11. CONTINGENT LIABILITIES

The Group has engaged in a litigation dispute with its former distributor, Fortune Chain Investments Limited, ("FCI"). A writ of summons has been issued against the Company by FCI and was received by the Company on 9 March, 2004. On that regard, the Company has made a detailed announcement on 12 March, 2004. The Company has intended to contest against the proceedings.

In the event that FCI's claims are succeeded, the Company would be liable to pay FCI:

- (a) A sum of HK\$238,010.68 for purchasing back the "Blu Spa" inventory from FCI;
- (b) HK\$4,536.00 for warehouse charges incurred up to February 2004;
- (c) Damages to be assessed (for further warehouse charges to be incurred from March 2004 onwards);
- (d) Interest on the amounts found due;
- (e) Costs of the legal proceedings.

It is not possible to make an assessment on the ultimate outcome of the case unless the processes of exchange of documents and witness's statements are completed. It is remote to ascertain the outcome of the case, the Company, therefore, did not provide for any potential liabilities in relation to this litigation dispute in the Third Quarterly Results.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Three months ended 31 March, 2004

For the three months ended 31 March, 2004, the Group recorded a turnover of approximately HK\$554,000 which represented an increase of approximately 136% when compared with those in the corresponding period in 2003. The increase in turnover was mainly contributed by the opening of two retail shops in Hong Kong. One is situated at *Beaute@Sogo* in Causeway Bay, the other is located at Entertainment Building in Central; they commenced to operate in May and September 2003 respectively. The performance from the distributorship remains unfavourable as the global business environment was still not good during the relevant period. The Group in turn concentrated more on the local market by opening shops or gaining joint marketing and selling with co-operative parties in Hong Kong.

The gross profit margin was approximately 88% for the three months ended 31 March, 2004 because the retail price to end user can be 5 times or above of the product cost in average as we have owned our products' ingredients list and the best source to obtain the supplies. On the other hand, there was a gross loss margin of 25% in the same period in previous year. The jump of approximately 113% was attributable to the direct selling to the end customers and the profit was not shared with the distributors.

Distribution costs incurred by the Group for the three months ended 31 March, 2004 amounted to approximately HK\$102,000, representing an increase of approximately 950% as compared to those of previous period amounted to approximately HK\$(-12,000). It was mainly due to the fact that in the third quarter of last year, the Group began to pursue cost saving strategy and reviewed all its expenditure. Consequently, there was an adjustment to the distribution expenses previously accrued, thus, resulting in a credit balance for the distribution expenses. The total distribution cost incurred would have been approximately HK\$12,000 if the adjustment of approximately HK\$24,000, which was related to the cancellation of the packaging design fee, was not credited. In the current period, the Group still observed the stringent control on the advertising, promotion and exhibition costs, and the cost is kept as low as possible.

Administrative expenses incurred by the Group for the three months ended 31 March, 2004 amounted to approximately HK\$1.7 million, representing an increase of approximately HK\$501,000, or approximately 41% as compared to those of previous period. The increase was mainly due to the exchange gain of HK\$516,000 credited to the administrative expenses in last year, as a result of the strong Canadian dollar in last year. Besides, there was an increase in rental expenses as the Group have been operating two retail outlets during current period, which led to an increase of rental expenses by approximately HK\$395,000. Apart from these two accounts, most of the expenses are effectively controlled, in particular, directors' remuneration dropped by approximately HK\$258,000, and there was a decrease of approximately HK\$141,000 in the product development expenses after the liquidation of Blu Spa Canada Inc. (the "BSC").

Finance costs amounted to HK\$39,000 for the three months ended 31 March, 2004 as the shareholders' loans of HK\$3.1 million was interest bearing at Hong Kong Dollar prime lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited, whilst there was no finance cost in the previous corresponding period as the shareholders' loans were non-interest bearing.

As a result of the foregoing, the loss attributable to shareholders amounted to approximately HK\$1.4 million for the three months ended 31 March, 2004.

Contingent liabilities

As stated in Note 11 of Notes to the Financial Statements, the Group has disputed with its former distributors, and the Group had no other material contingent liabilities other than those already disclosed.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the nine months ended 31 March, 2004 (for the nine months ended 31 March, 2003: Nil).

BUSINESS REVIEW

The Group currently operates two retail shops in Hong Kong. In the quarter under review, the Group carried out various selling and promotional campaigns to attract more market attention and arouse better customers' receptiveness to the Group's products. Several market expansion projects are still in progress, and the Group is now more focus to advocate the sales at its two retail shops. Since the special packaged goods selling in Watson's has not attracted much market attention, the Group has stopped its sales at Watson's temporarily.

On the other hand, owing to the overall unfavourable economic conditions and slow receptiveness of the Group's products by overseas consumers, sales to the Group's distributors remained unsatisfactory. The negotiation with potential distributors in Korea has made good progress. It is expected to commence the distributorship relation very soon. Further, potential distributors of other countries are in the progress of negotiation.

With respect to the receiving order with BSC, the receivership is about to come to a conclusion and is expected to be settled in the near future.

The Group also continues to negotiate with overseas OEM manufacturers for sourcing of products using the Group's brand name; the focus is on anti-aging, fabric mask and hydrating and nutritive facial caring products. Some of the suppliers have been contacted and we are doing the screening process. The Group also continues to expand its research and development effort to enhance the testing of new products and improve their respective quality.

OUTLOOK

The Group has successfully emphasised its market expansion locally and internationally. With the opening of various outlets and carrying out of product promotions, the business is expected to be fruitful in the near future especially under the global economy recovery. The Group's Zhuhai subsidiary will provide a strong supportive base for its entrance to the PRC market in the future. The Group is expecting the business performance to improve in the coming year.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

As at 31 March, 2004, 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 Future Ordinance (the "SFO") as recorded in the register maintained under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules were as follows:

A. Long position in shares

Name	Type of interests	Number of shares	Percentage of issued share capital
Chan Choi Har, Ivy	Corporate interest (Note 1)	110,657,870	18.24%

Note:

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

B. Short position in shares

No short position of directors and chief executives in the shares of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.49 of the GEM Listing Rules.

Save as disclosed above, none of the Directors or their associates as well as the chief executives of the Group had any interests or short position in 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

Options to subscribe for shares in the Company

Name of Director	Date of grant	Exercise price HK\$	Number of shares options outstanding as at 31 March, 2004
Chan Choi Har, Ivy	30 January, 2002	0.30	10,250,000

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

SHARE OPTION 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. As at 31 March, 2004, no options had been granted 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 March, 2004, 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:

Long position in shares

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

Notes:

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

6. These shares are held by Profit Trick Holdings Limited. The entire issued share capital of Profit Trick Holdings Limited is beneficially owned by Wai Suk Chong, Helena.
7. These shares are held by Rocket High Investments Limited. The entire issued share capital of Rocket High Investments Limited is beneficially owned by David Chiu.

Save as disclosed above, the Company has not been notified of any other interests representing 5% or more or any short positions in the issued share capital of the Company as at 31 March, 2004.

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 three months ended 31 March, 2004.

ADVANCES TO AN ENTITY

Pursuant to Rules 17.15 and 17.22 of the GEM Listing Rules, the Group has, in its normal and ordinary course of business, no material trade receivable as at 31 March, 2004.

COMPETING INTERESTS

As at 31 March, 2004, none of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had any interest in a business that competed or might compete with the business of the Group.

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 31 March, 2004 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.

AUDIT COMMITTEE

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 Third Quarterly Results for the period ended 31 March, 2004 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 providing advice and recommendations to the Board of Directors.

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.

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

Hong Kong, 10 May, 2004