



BLU SPA HOLDINGS LIMITED

富麗花·譜控股有限公司

(Incorporated in the Cayman Islands with limited liability)



Annual Report 2004



BLU



SPA

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

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COMPANY INFORMATION

LEGAL NAME OF THE COMPANY:

Blu Spa Holdings Limited

EXECUTIVE DIRECTORS:

Wu Wenzhi (*Chairman*)

Chan Choi Har, Ivy

Chan Kei Kon

INDEPENDENT NON-EXECUTIVE DIRECTOR:

Hui Kwong Wai, Eric

COMPANY SECRETARY:

Hui Wing Lok

COMPLIANCE OFFICER:

Chan Choi Har, Ivy

QUALIFIED ACCOUNTANT:

Hui Wing Lok AHKSA, ACCA

AUTHORISED REPRESENTATIVE(S):

Chan Choi Har, Ivy

Hui Wing Lok

AUDIT COMMITTEE:

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

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "board"), I am pleased to present to the Shareholders the audited consolidated results of the Company and its subsidiaries (together the "Group") for the year ended 30 June 2004 for their consideration.

OPERATING RESULTS

During the year under review, the Group recorded a total turnover of approximately HK\$2.1 million, representing a 13% increase as compared with the previous year. Loss for the year ended 30 June 2004 was approximately HK\$4.6 million, representing an improvement of approximately 49% year-on-year. Basic loss per share for the year ended 30 June 2004 was HK0.75 cents, decreased by HK1.2 cents on account of improvement in profitability of 61% (2003: HK1.92 cents). The gross profit margin for the year increased from 44% to 80%.

MARKET OVERVIEW

With the gradual recovery of the global economy and the continuing growth in the consumer spending, the Group believes that the prospects for the prestige personal care products market will be exciting in the near term future. For the year ended 30 June 2004, the Group's revenues were mainly derived from the services income of its beauty therapy and treatment courses and sales of Blu Spa products at the retail outlets at Beaute@Sogo and the Entertainment Building located in Causeway Bay and Central respectively. The Group concentrated its promotional efforts in Hong Kong which serves as the spring board for its expansion to PRC and South-east Asian markets. Apart from the sales from its retail outlets, the Group also launched a series of joint marketing campaigns with co-operative partners such as Jusco, Watson's and Hal Gym House to help capture market attention.

With the relaxation of travel policy for PRC tourists visiting Hong Kong, the trendy and comfortable shopping environment provided in the retail shops, and the broadening of the Group's client base to younger customers, altogether will bring positive effect to the retail sales volume in the near future. The performance in the distributor sector was lackluster during the year under review, resulting in significant drop in its income as compared with last year. It was mainly attributed to the Group's unwavering efforts to secure better quality distributors who are able to assist the Group to expand into the target markets. As a result of a year long screening process, up to July 2004, four distributor agreements had been concluded in countries/territories, including Guangzhou, Macau, Taiwan and Vietnam. Negotiations with a distributor in South Korea are also expected to be finalized in the near future.

The Group believes that given the higher level of consumer spending in the near future and increasing demand for high end innovative botanical beauty care products, the Group will continue its efforts to satisfy the customers' need for beauty care, stress reduction and anti-aging products and services.



CHAIRMAN'S STATEMENT

OPERATING OVERVIEW

The Group was encouraged by the result of its new drive to directly enter the retail market in Hong Kong, which accounted for the increase in turnover and gross profit by 13% and 36% respectively. It is mainly attributed to the Group's ability to enrich customers' shopping experience by offering an array of beauty therapy/treatment service in the retail outlets and to sell directly to the end users without the intervention of any distributors.

The sales to the distributors dropped by 63% as a result of the Group's focus on the development of the local retail market; and continuous efforts to tighten the selection process by adopting more stringent requirements in the recruitment of distributors. However, the Group remained focus on the huge market in the PRC, and a wholly owned subsidiary, Zhuhai Fulihua Cosmetics Co. Limited (the "ZHBS"), was established in Zhuhai during the year under review. ZHBS is positioned as the marketing arm of the Group to penetrate the PRC market and to better manage the distributors there. Given the distributor agreements entered into with new distributors, the performance in the distributing section is expected to improve significantly in the near future. The negotiations with distributors in other countries such as South Korea, Philippines, Malaysia and Japan are underway, and the agreements are expected to be concluded in the near future.

At the same time, the Group had achieved cost saving as a result of additional measures adopted during the year under review, the legal and professional fee and the directors' remuneration decreased by 91% and 49% respectively. The takeover of the inventory from the Receiver of the Blu Spa Canada Inc. (the "BSC") at a very low price will significantly improve the Group's future profitability. Furthermore, following the downsizing of the Canadian operation, the Group will not have to carry the high management and operational cost there. The Group has secured the service of several OEM manufacturers and co-packers of the botanical products in Canada, after a long period of screening process. The Group is satisfied with the quality of the products produced by these manufacturers and co-packers. They will manufacture the finished products in bulk with the formulations provided by the Group against their undertaking of confidentiality. The bulk products will then be bottled either in Hong Kong or China with packaging material sourced in Asian Region.

PROSPECTS AND APPRECIATION

With the emergence of the global economic recovery and the continuous growth in the PRC market, the Group is optimistic about its future prospects. The Group will continue to develop and introduce new innovative beauty care products and therapy/treatment services for the retail market, especially after the relaxation of travel policy for PRC tourists visiting Hong Kong. The Group will also continue its efforts in brand building and advertisement designed to promote women new-age holistic lifestyle concepts and new innovative prestige botanical products to the consumers. It will also continue to collaborate with local co-operative partners to organize joint promotional campaigns to increase market awareness of Blu Spa products and services.

The Group will continue to identify and recruit potential distributors with the aim to introduce its corporate image and innovative high performance beauty care products in the target markets. As the distributors being sought are required to have the capability and experience in marketing cosmetics and skin care products in their local markets, the formation of business co-operation with the Group will definitely help gain market share in the near future.



CHAIRMAN'S STATEMENT

Faced with the intense competition and ever changing market demand, the Group will continue to allocate considerable resources to product research and development and search for new and better ingredients. The Group will also continue to strengthen its customer relations and particularly value customers' feedback and opinion to help shape the future corporate and product direction and development.

On behalf of the Board, I would like to express my sincere appreciation to our shareholders and customers for their continuous support and to our fellow directors and 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 maximize return for our shareholders in the years to come.

Wu Wenzhi

Chairman

Hong Kong, 24 September 2004



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Results

The Group experienced an improvement in the operating results of the financial year. For the year ended 30 June 2004, the Group recorded a turnover of approximately HK\$2.1 million due to its maiden entry in the Hong Kong retail market, representing an increase of approximately 13% of HK\$234,000 as compared to the previous financial year, HK\$1.8 million.

Gross profit margin in current year increased by 36%, from 44% in previous financial year to 80% in current financial year. It was principally due to the direct selling of products and services to the end users in Hong Kong through the Group's operated retail outlets, without involving any intermediaries such as distributors.

Other revenue increased by 11 times of HK\$1.2 million. It was mainly attributed to the elimination by the Group of the deposits and the temporary advances, amounted to HK\$690,000, placed by former distributors. The receivables from the former distributors have been treated as bad debt and the amounts of receivable have been provided for in the accounts of the previous financial years. On that regard, the Group eliminated their deposits and temporary advances in current financial year. Included in the other revenue, there is an amount of HK\$220,000 which represents a cash discount arising from the payment of the professional fees.

Distribution costs incurred by the Group for the year ended 30 June 2004 amounted to approximately HK\$139,000 representing a decrease of approximately 66% as compared to those of the previous year (HK\$412,000) which was attributable to the Group's adoption of cost saving measures in lowering the expenditure in the advertising, promotion and exhibition costs.

Administrative expenses incurred by the Group for the year ended 30 June 2004 amounted to approximately HK\$7.3 million, representing a decrease of approximately HK\$1.3 million, 15%, as compared to those of previous year (HK\$8.5 million). It was mainly attributable to the decrease in the directors' remuneration of HK\$1.2 million, 91%; and the decrease in the legal and professional fee of HK\$540,000, 49%.

Loss for the year ended 30 June 2004 was approximately HK\$4.6 million. This represented an improvement of approximately, HK\$4.4 million, 49% decrease in the net loss as compared with the previous financial year (HK\$8.9 million). This improvement was due to the effective control of the overall operating cost, and the increase of the gross margin by direct selling to the end users in the Hong Kong retail outlets of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Loan structure of the Group

	Notes	2004 HK\$	2003 HK\$
XO-Holdings Ltd.	1	3,572,276	3,572,276
Amount due to a related party	2	2,500,000	2,500,000
Profit Trick Holdings Ltd.	3	1,550,000	–
Rocket High Investments Ltd.	3	1,800,000	–
		<u>9,422,276</u>	<u>6,072,276</u>

Notes:

- As at 30 June 2003 and 2004, the amount due to a shareholder, XO-Holdings Limited, amounted to approximately HK\$3.6 million, which was unsecured and non-interest bearing.

XO-Holdings Limited has undertaken to the Company that (i) it will not demand repayment of the amount due to it of approximately HK\$3.6 million within one year from the listing of the shares of the Company on GEM; and (ii) it will not demand repayment of any outstanding amount due to it after one year from the date of listing of the shares of the Company on GEM unless the Group has positive cash flow from operations and retained earnings in a financial year and each of the independent non-executive Directors has given an opinion that such payment will not adversely affect the operations of the Group and the implementation of the business objectives of the Company as stated in the Prospectus.

- As at 30 June 2003 and 2004, the amount due to a related party, which has a common shareholder of Rocket High Investments Limited, a substantial shareholder of the Company, amounted to HK\$2.5 million, which was unsecured, non-interest bearing and repayable upon demand.
- As at 30 June 2004, the amounts due to Profit Trick Holdings Ltd. and Rocket High Investments Ltd., being substantial shareholders of the Company, which are repayable on demand and interest bearing at Hong Kong Dollar prime lending rate quoted by the Hongkong and Shanghai Banking Corporation Limited.

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 or guarantees as at the close of the business on 30 June 2004 and 30 June 2003 respectively. The Group did not have any funding and treasury policies, financial instruments for hedging purpose.

Significant investments and acquisitions

During the year ended 30 June 2004, the Group had no material investments and acquisitions of subsidiaries and affiliated companies (2003: Nil).

Capital commitments

As at 30 June 2004, the Group had no future plans for material investment (2003: Nil).



MANAGEMENT DISCUSSION AND ANALYSIS

Contingent liabilities

As stated in Note 28 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.

Charges on group assets

As at 30 June 2004, the Group did not have any charges on Group's assets (2003: Nil).

Foreign exchange exposure

The Group mainly earns revenue and incurs cost in Hong Kong dollars, Canadian dollars, Renminbi and US dollars. The Directors consider the impact of foreign exchange exposure of the Group is not significant as the terms of purchase and sales contracts dealt with foreigners will consider the foreign exchange effect and will not bear any unforeseeable foreign currency exchange risk.

Liquidity and financial resources

The Group generally finances its operations with internally generated resources and advances from substantial shareholders, namely, XO-Holdings Limited, Profit Trick Holdings Limited and Rocket High Investments Limited; and advance from a related party. As at 30 June 2004, the Group did not have any banking facilities.

As at 30 June 2004, the shareholders' funds of the Group amounted to approximately HK\$5.3 million (2003: HK\$10 million). Current assets amounted to approximately HK\$2.1 million, of which approximately HK\$1.2 million were inventories, approximately HK\$584,000 were trade receivables, deposits and other receivables and approximately HK\$327,000 were cash and bank deposits. The Group's current liabilities amounted to approximately HK\$3 million mainly comprised of trade payables, accruals and other payables amounted to approximately HK\$2.8 million. There are also bank overdraft and amount due to directors, of HK\$20,000 and HK\$240,000 respectively.

Gearing ratio

As at 30 June 2004, the Group's gearing ratio, expressed as a percentage of total borrowings (comprising amounts due to directors, shareholders and a related company of the Company) over total assets, was 54% (2003: 35%). 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. During the year, the Group had taken over the inventory from BSC at approximately HK\$300,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Employees and remuneration policies

As at 30 June 2004, the Group had 11 employees (2003: 14) and staff costs (excluding directors' remuneration) amounted to approximately HK\$2 million (2003: HK\$1.8 million) whilst the directors' remuneration amounted to approximately HK\$119,000 (2003: HK\$1.4 million). Remuneration is determined by reference to market conditions and the performance, qualification and experience of individual employee. Other benefits include pre-IPO share option scheme as detailed in prospectus dated 4 February 2002, contributions to statutory mandatory provident fund scheme to its employees in Hong Kong.

Wu Wenzhi is the chairman of the Group, he is mainly responsible for the Group's expansion in the PRC market. The Executive Director, Ivy Chan, continues to manage the marketing to the global market via the distributorship.

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.

BUSINESS REVIEW

Sales and distribution

The Group currently operates two retail shops in Hong Kong. In the year under review, the Group carried out various selling and promotional campaigns to capture market attention and achieve high level of customers' acceptance of the Group's products. These activities included consignment sales in Watson's and Hal Gym House; promotional sales in Jusco Department Stores; joint promotional campaign with Nestle. As the Group entered the retail market in Hong Kong, in 2003/2004, it placed more focus to promoting the sales at its two retail shops and brand building. With the direct selling to the end users, the Group was able to achieve a higher profit margin without the intervention of any intermediaries such as distributors. The Group was in addition able to provide a comprehensive range of beauty care services to the end users by integrating unique beauty care therapy and treatment experience with its beauty care products meeting the ever changing demand of consumers.

With the relaxation of travel policy for PRC tourists visiting Hong Kong, the trendy and comfortable shopping environment provided in the retail shops, and the broadening of the Group's client bases to younger customers, altogether will bring positive effect to the retail sales volume in the near future.

With the effect of its brand building and promotional efforts in Hong Kong, the Group had been able to attract potential distributors in the PRC, and South-east Asian region. Given the Group's experience in the past relating to recruitment of distributors, the Group adopted stringent screening procedure in recruiting potential distributors. The sales from the distributor sector during the year under review was marginal, about 31% of the total turnover in 2003/2004. It is anticipated that the performance of the distributor sector will grow in the near future, as the newly appointed distributors of the Group are expected to have better strength and experience in selling and distributing the Group's products in their local markets.



MANAGEMENT DISCUSSION AND ANALYSIS

In order to achieve better market penetration in the PRC, a wholly owned subsidiary was established in Zhuhai, China to facilitate the marketing, brand building and sourcing processes of the Group. The Group had obtained eight health permits granted by the PRC health authorities on its products.

Products

During the year, the Group introduced the new ginger line products in the last quarter of 2003. The new line of ginger products was well received by both end users and potential distributors.

Procurement

Given the receiving order of BSC the receiver has about to finish the whole transaction, it is expected to be settled in the near future.

Following the takeover of the BSC's inventory, the Group had developed proper relation with OEM manufacturers and co-packers in Canada for the manufacturing of the finished goods in bulk. For the purpose of performing quality check of the products, the Group has a local staff in Canada to supervise the product quality and coordinate with the co-packers. The head office in Hong Kong will perform subsequent quality inspection and testing to ensure that the products manufactured correspond to the Group's standard and quality requirements.

With an aim to control the packaging quality and cost, the Group relocated the filling and bottling process to Hong Kong and Zhuhai. The sub-contractors selected are able to meet the hygiene standard and quality requirements of the Group. During the filling process, the Group regularly visited the sub-contractors to perform quality check. Since the cost of filling and the bottles in Hong Kong or PRC are much cheaper than those sourced in North America, the Group will be able to achieve further cost saving.

BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS COMPARISON

The following is the summary of the actual business progress in comparison with the business objectives set out in the prospectus of the Company dated 4 February 2002 (the "Prospectus").

Business objectives up to 30 June 2004

Actual business progress up to 30 June 2004

Research and development on product

- | | |
|---|--|
| <ul style="list-style-type: none"> • Upgrade testing and experimental related equipment; • Conduct a focus group study on the face serum formulas. Test and experiments with vitamin C & E rich ingredients on penetration dynamics and moisture retention factors are carried out; • Conduct focus group study on the facemask formula. Test and experiments on quick drying, deep cleansing and heat activating ingredients are carried out; • Develop or research on anti-aging formulas to improve existing quality upon cell rejuvenation on moisture retention factors, stability test and packaging compatibility. | <ul style="list-style-type: none"> • The Group is now restructuring its operation in Canada after the receivership of BSC, the testing and experimental related tasks will be out-sourced to independent laboratories to minimise the capital expenditure and the related fixed costs. At the same time, the Group has approached several manufacturers with advanced machinery required to manufacture the products for the Group, the screening process is in progress. • Studies, testing and experiments are performed by Canadian subcontractors to ensure product quality and find room for improvements. The Group will reformulate its products to reflect the emerging market trend and latest technological development of the beauty care products industry. • The experiments are underway, new products will be launched when the product development process is completed. • The Group is recruiting experts and contacting laboratories on the anti-aging formulations to upgrade the product quality to suit the Asian population. |
|---|--|

Product and service launch

- | | |
|--|--|
| <ul style="list-style-type: none"> • Research on new line of products including ginger and cool muscles skin caring products; • Research on new line of products such as fabric masks, hydrating and nourishing, and hydrating and anti-aging on the facial caring products. | <ul style="list-style-type: none"> • The cool muscle skin care products have been launched, its cooling effect in relaxation of muscles, received good market response. The ginger line products were launched in the market in late 2003. Its brown sarong package, attracted market attention, and the warming effect of ginger products on the body also received good response from the end users. • The screening process on the suppliers from the USA, Switzerland as well as other OEM suppliers on new products, is taking place. |
|--|--|



BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS COMPARISON

Business objectives up to 30 June 2004

Actual business progress up to 30 June 2004

Distribution network

- Continue its market presence in the international markets, such as, China, Southeast Asia and other geographical markets where the Group does not have a presence;
 - Continue its market penetration in Hong Kong via retail shops.
- By July 2004, the Group has concluded several distributor agreements in countries/territories including, Guangzhou, Macau, Taiwan and Vietnam. The Group will continue to identify and seek prospective distributors in China, South Korea, Thailand, Malaysia and Japan.
 - The Group will continue to enhance its sales and gain market recognition by means of direct retail sales and joint promotional campaign with department stores, chain stores and gym houses in the future.

Advertising and promotion

- Continue to participate in international and regional cosmetic exhibitions and trade shows.
- Given the outbreak of SARS and its adverse effect on the market economic condition, the Group did not participate in these events for the financial year ended 30 June 2004. During the year, the Group conducted joint advertising and promotional activities with Nestle, the Group will pursue similar activities in the future.

Purchase of raw materials

- To achieve good product quality and image, the Group continues to search for better ingredient and packaging materials to revitalize its product range and to support its market expansion.
- The Group has set up an effective inventory control system to support the sales expansion. The Group also seeks other suppliers in other locations to upgrade its product quality.

USE OF PROCEEDS

The net proceeds from the public listing in February 2002 were approximately HK\$18.0 million. During the period from 19 February 2002 (date of listing) to 30 June 2004, 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 2004 (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	3.8	6.2
For research and development and product launch	2.8	0.6
For purchase of raw materials and packaging materials	1.8	3.2
For market development	1.5	1.1
For payment for acquisition of assets from Blu Spa International Inc.	1.2	1.2
For general working capital	2.0	9.2
Total	18.0	26.4

Use of proceeds exceeded the estimation made in the Prospectus by approximately HK\$8.4 million. The differences were mainly attributed to the extra expenditures for general working capital, purchase of raw materials and packaging materials, and human resources. All the net proceeds from public listing had been used up to 31 December 2002. The deviations of use of proceeds from the IPO compared to that as stated in the Prospectus were disclosed in the annual reports of the Company for the year ended 30 June 2002 and 30 June 2003, and the interim reports of the Company for the six months ended 31 December 2002 and 31 December 2003.



PROSPECTS

The Group is optimistic about its future prospects especially after the relaxation of travel policy for PRC tourists visiting Hong Kong, with the recovery of the global economy, the consumer spending is increasing and the prestige beauty care products will achieve higher turnover. With more distributors recruited in the near future in the Group's targeted markets, the global selling of the products will be much higher. The successful brand building in Hong Kong, will facilitate its market development in the PRC market. The Group will also try its best endeavours to develop and introduce innovative and effective products to satisfy ever changing need of consumers. The relocation of its filling and bottling processes to Hong Kong and PRC will provide the Group to further reduce its costs. In the long term, with the continuing growth in sales and the lowering of cost, the Group's profitability is expected to improve considerably.

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. He has resigned his office effective from 18 August 2004 onwards.

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.



DIRECTORS AND SENIOR MANAGEMENT PROFILE

SENIOR MANAGEMENT

Ms. Keung Wai Fun, Samantha was appointed as the General Manager in July 2004. She is well-experienced, about 8 years in the beauty care industry, and an expert in beauty care therapy and treatment practice and professional training. She possesses the diploma of Aesthetician in the ITEC and CIBTAC, beauty professional bodies. She is also a capable manageress as seen from her past track record of working experience, as being the Vice President of Chase Manhattan Bank, Director of LCD Holdings Ltd. and Managing Director of Center Pacific Holdings Ltd..

Her major duty is to supervise the overall operation of the Group, business expansion and development plan for the Group's implementation. Under her leadership, the Group is expected to be profitable in the near future.

Mr. Hui Wing Lok, is the Chief Accountant of the Group, Company Secretary and Qualified Accountant of the Company. He holds a bachelor (Honours) degree in Accountancy from the Hong Kong Polytechnic University. He is an Associate member of The Association of Chartered Certified Accountants and an Associate member of The Hong Kong Society of Accountants. He has over 5 years of working experience in which about 3 years in two international accounting firms; and 2 years in a multi-national telecommunication enterprise.

DIRECTORS' REPORT

The directors have pleasure in submitting their report together with the audited financial statements of the Group for the year ended 30 June 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 27 to the financial statements.

RESULTS

Details of the Group's results for the year ended 30 June 2004 are set out in the consolidated income statement on page 28 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.

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

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors

Wu Wenzhi (*Chairman*)

Chan Choi Har, Ivy

Chan Kei Kon

Independent non-executive directors

Kam Kin Yat (resigned on 17 August 2004)

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, offers herself for re-election. She 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.

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' INTERESTS IN SHARES AND OPTIONS

As at 30 June 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:

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

DIRECTORS' REPORT

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

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 executive 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 30 June 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 30 June 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.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS

There was no 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 26 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 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 (Note 1)	110,657,870	18.24%
XO-Holdings Limited (Note 2)	110,657,870	18.24%
Wah Hing Consultants Limited (Notes 2 and 3)	110,657,870	18.24%
Heung See Wai, Angela (Note 3)	110,657,870	18.24%
Rajewski, Natalie N. (Note 4)	84,099,330	13.86%
Eastpoint Resources Limited (Note 4)	84,099,330	13.86%
Well Arts Enterprises Limited (Note 5)	84,099,330	13.86%
Wai Suk Chong, Helena (Note 6)	107,132,600	17.66%
Profit Trick Holdings Limited (Note 6)	107,132,600	17.66%
David Chiu (Note 7)	146,151,360	24.09%
Rocket High Investments Limited (Note 7)	146,151,360	24.09%

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Long position in shares *(Continued)*

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 30 June 2004.

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 2004, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Scheme was 10,660,000, representing 1.76% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Pre-IPO Scheme and any other scheme is not permitted to exceed 30% of the issued share capital of the Company from time to time. Subject to the above rule, the total number of shares in respect of which options may be granted under the Pre-IPO Scheme and any other scheme is 41,000,000 shares, representing 10% of the total issued share capital of the Company as at the listing date, without prior approval from the Company's shareholders.

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

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

(2) Share Option Scheme

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.

DIRECTORS' REPORT

SHARE OPTIONS *(Continued)*

(2) Share Option Scheme *(Continued)*

As at 30 June 2004, 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.

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
Rajewski, Natalie N.	8,200,000	(8,200,000)	–
Total for Directors	<u>18,450,000</u>	<u>(8,200,000)</u>	<u>10,250,000</u>
Employees	<u>1,230,000</u>	<u>(820,000)</u>	<u>410,000</u>
Grand Total	<u><u>19,680,000</u></u>	<u><u>(9,020,000)</u></u>	<u><u>10,660,000</u></u>

DIRECTORS' REPORT

SHARE OPTIONS *(Continued)*

(2) Share Option Scheme *(Continued)*

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 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.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group started its retail business and directly sold to the end users, thus, there are no major customers identified related to the retail business. For the sales to the distributors, there are only one major customer, Mei Da Hang, it occupied about 10% of the total turnover.

During the year, the Group acquired from the receiver of BSC for a great amount of inventory, at the cost of HK\$478,000 inclusive of freight and transportation charges which occupied for about 58% of the total purchases during the year, so that the purchases from outsiders are not great.

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 (except the corporate interest owned by Ms. Ivy Chan as disclosed in the section of Directors' interests in shares and options), 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 2004.

DIRECTORS' REPORT

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, a major amount of about HK\$53,000 as trade receivables due from Sogo Hong Kong Co., Ltd. was recorded as at 30 June 2004. This amount has not yet taken the effect of the accrued dealership commission outstanding to it.

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.

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 Mr. Hui Kwong Wai, Eric, who is the independent non-executive director of the Company. The Group's financial statement for the year ended 30 June 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 18 August 2004, there has been only one independent non-executive director and audit committee member; the Group has breached the requirements of Listing Rules of 5.05 (subject to transitional provision of Rule 5.08) and 5.28. The Stock Exchange indicated that, it reserves the right to take actions against the Company and the directors.

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



DIRECTORS' REPORT

AUDITORS

Messrs. HLM & Co. were appointed as auditors of the Company, 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, 24 September 2004

AUDITORS' REPORT

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 28 to 52 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, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). 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 Company and the Group, 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 Company and the Group as at 30 June 2004 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, 24 September 2004

CONSOLIDATED INCOME STATEMENT (For the year ended 30 June 2004)

	Notes	2004 HK\$	2003 (Restated) HK\$
Turnover	(4)	2,051,972	1,818,151
Cost of sales		(418,687)	(1,023,294)
Gross profit		1,633,285	794,857
Other revenue	(5)	1,293,876	109,431
Distribution costs		(138,570)	(412,139)
Administrative expenses		(7,262,959)	(8,514,864)
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		–	2,909,634
Loss from operations	(6)	(4,474,368)	(8,877,912)
Finance costs	(7)	(114,757)	(3,631)
Loss before taxation		(4,589,125)	(8,881,543)
Taxation	(9)	26,000	(32,000)
Loss for the year		(4,563,125)	(8,913,543)
Dividend	(10)	–	–
Loss per share, in HK cents	(11)	(0.75)	(1.92)

CONSOLIDATED BALANCE SHEET (As at 30 June 2004)

	Notes	2004 HK\$	2003 (Restated) HK\$
Non-Current Assets			
Intangible assets	(12)	14,764,938	15,907,129
Plant and equipment	(13)	926,019	904,114
		15,690,957	16,811,243
Current Assets			
Inventories	(15)	1,168,537	373,893
Trade receivables	(16)	75,686	226,589
Deposits and other receivables		507,830	646,946
Bank balances and cash		327,033	1,177,319
		2,079,086	2,424,747
Current Liabilities			
Trade payables	(17)	104,130	–
Accruals and other payables		2,657,943	2,565,078
Amounts due to directors	(18)	240,389	676,303
Bank overdraft		19,843	–
		3,022,305	3,241,381
Net Current (Liabilities) Assets		(943,219)	(816,634)
		14,747,738	15,994,609
Capital and Reserves			
Share capital	(19)	6,068,000	6,068,000
Reserves		(780,538)	3,790,333
		5,287,462	9,858,333
Non-Current Liabilities			
Amount due to shareholders	(21)	6,922,276	3,572,276
Amount due to a related company	(22)	2,500,000	2,500,000
Deferred tax liabilities	(23)	38,000	64,000
		9,460,276	6,136,276
		14,747,738	15,994,609

The financial statements on pages 28 to 52 were approved and authorised for issue by the Board of directors on 24 September 2004 and are signed on its behalf by:

Wu Wenzhi
Director

Chan Choi Har, Ivy
Director

BALANCE SHEET

(As at 30 June 2004)

	Notes	2004 HK\$	2003 HK\$
Non-Current Asset			
Interests in subsidiaries	(14)	<u>598,067</u>	<u>80,010</u>
Current Assets			
Deposits and other receivables		<u>28,600</u>	480,000
Bank balances		<u>13,312</u>	<u>873,015</u>
		<u>41,912</u>	<u>1,353,015</u>
Current Liabilities			
Accruals and other payables		<u>429,070</u>	846,740
Amounts due to directors		<u>234,159</u>	–
Amount due to a related party		<u>–</u>	<u>193,621</u>
		<u>663,229</u>	<u>1,040,361</u>
Net Current (Liabilities) Assets		<u>(621,317)</u>	<u>312,654</u>
		<u>(23,250)</u>	<u>392,664</u>
Capital and Reserves			
Share capital	(19)	<u>6,068,000</u>	6,068,000
Reserves	(20)	<u>(15,513,526)</u>	<u>(11,747,612)</u>
		<u>(9,445,526)</u>	<u>(5,679,612)</u>
Non-Current Liabilities			
Amount due to shareholders	(21)	<u>6,922,276</u>	3,572,276
Amount due to a related company	(22)	<u>2,500,000</u>	<u>2,500,000</u>
		<u>9,422,276</u>	<u>6,072,276</u>
		<u>(23,250)</u>	<u>392,664</u>

Wu Wenzhi
Director

Chan Choi Har, Ivy
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(For the year ended 30 June 2004)

	Share capital HK\$	Share premium HK\$	Merger reserve HK\$	Translation reserve HK\$	Accumulated losses HK\$	Total HK\$
THE GROUP						
At 1 July 2002	4,100,000	18,475,061	22,734,577	(48,837)	(29,738,835)	15,521,966
Adjustment on adoption of SSAP 12 (Revised)	–	–	–	–	(32,000)	(32,000)
At 1 July 2002, as restated	4,100,000	18,475,061	22,734,577	(48,837)	(29,770,835)	15,489,966
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 a subsidiary	–	–	–	48,837	–	48,837
Loss for the year	–	–	–	–	(8,913,543)	(8,913,543)
At 30 June 2003, as restated	<u>6,068,000</u>	<u>19,740,134</u>	<u>22,734,577</u>	<u>–</u>	<u>(38,684,378)</u>	<u>9,858,333</u>
At 1 July 2003	6,068,000	19,740,134	22,734,577	–	(38,620,378)	9,922,333
Adjustment on adoption of SSAP 12 (Revised)	–	–	–	–	(64,000)	(64,000)
At 1 July 2003, as restated	6,068,000	19,740,134	22,734,577	–	(38,684,378)	9,858,333
Exchange differences arising from translation of operations outside Hong Kong	–	–	–	(7,746)	–	(7,746)
Loss for the year	–	–	–	–	(4,563,125)	(4,563,125)
At 30 June 2004	<u>6,068,000</u>	<u>19,740,134</u>	<u>22,734,577</u>	<u>(7,746)</u>	<u>(43,247,503)</u>	<u>5,287,462</u>

CONSOLIDATED CASH FLOW STATEMENT

(For the year ended 30 June 2004)

	Note	2004 HK\$'000	2003 HK\$'000
OPERATING ACTIVITIES			
Loss before taxation		(4,589,125)	(8,881,543)
Adjustment for:			
Interest income		(2,899)	(3,591)
Interest expense		114,757	3,631
Depreciation on plant and equipment		250,677	189,242
Loss on disposal of plant and equipment		10,472	–
Amortisation of intangible assets		1,142,191	1,098,211
(Written back of allowance)/Allowance for bad and doubtful debts		(264,341)	40,694
Allowance/(Written back of allowance) for inventories		82,299	(169,500)
Waiver of advances from former distributors		(689,557)	–
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		(3,945,526)	(6,867,659)
Increase in inventories		(876,944)	(1,968,024)
Decrease in trade receivables		415,245	28,442
Decrease in deposits and other receivables		139,116	143,503
Increase in trade payables		104,130	995,355
Increase in accruals and other payables		667,665	668,286
(Decrease) increase in amounts due to directors		(435,914)	810,170
Cash used in operations		(3,932,228)	(6,189,927)
Interest paid		–	(3,631)
Net cash used in operating activities		(3,932,228)	(6,193,558)
INVESTING ACTIVITIES			
Interest received		2,899	3,591
Disposal of a subsidiary		–	(14,335)
Purchases of plant and equipment		(283,054)	(740,534)
NET CASH USED IN INVESTING ACTIVITIES		(280,155)	(751,278)
FINANCING			
Proceeds from issue of shares, net of expenses		–	3,233,073
Advance from a shareholder		3,350,000	–
NET CASH FROM FINANCING		3,350,000	3,233,073
DECREASE IN CASH AND CASH EQUIVALENTS		(862,383)	(3,711,763)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(7,746)	(10,504)
CASH AND CASH EQUIVALENTS			
AT BEGINNING OF THE YEAR		1,177,319	4,899,586
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		307,190	1,177,319
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		327,033	1,177,319
Bank overdraft		(19,843)	–
		307,190	1,177,319

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended 30 June 2004)

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 27.

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 HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), the term of HKFRSs is inclusive of Statements of Standard Accounting Practice ("SSAPs") and Interpretations approved by the HKICPA:

SSAP 12 (Revised) Income taxes

In the current year, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized 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 balance of accumulated losses at 1 July 2002 has been increased by HK\$32,000, which is the cumulative effect of the change in policy on the results for periods prior to 2002.

As a result of this change in policy, the loss for the year ended 30 June 2004 has decreased by HK\$26,000 (2003: increased by HK\$32,000). At 30 June 2004, total liabilities have decreased by HK\$26,000 (2003: increased by HK\$32,000). The new accounting policy has been adopted retrospectively, with the opening balances of accumulated losses and comparative amounts adjusted for the prior periods as disclosed in the consolidated statement of changes in equity.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended 30 June 2004)

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 and therapy services performed, less returns and allowances, by the Group to outside customers.

Revenue recognition

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

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

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended 30 June 2004)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Plant and equipment *(Continued)*

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.

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

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended 30 June 2004)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable the taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 STATEMENTS (For the year ended 30 June 2004)

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 People's Republic of China ("PRC") HK\$	Hong Kong HK\$	Taiwan HK\$	Others HK\$	Elimination HK\$	Consolidated HK\$
For the year ended 30 June 2004						
TURNOVER						
External sales						
– Distributorship	406,263	57,570	–	24,836	–	488,669
– Retailing	–	1,563,303	–	–	–	1,563,303
Inter-segment sales	–	847,661	–	–	(847,661)	–
Total revenue	<u>406,263</u>	<u>2,468,534</u>	<u>–</u>	<u>24,836</u>	<u>(847,661)</u>	<u>2,051,972</u>
Inter-segment sales are charged at cost plus certain markup.						
RESULT						
Segment result	<u>264,748</u>	<u>1,351,943</u>	<u>–</u>	<u>16,594</u>	<u>–</u>	1,633,285
Unallocated corporate incomes						1,290,978
Unallocated corporate expenses						(7,401,530)
Operating loss						(4,477,267)
Interest expense						(114,757)
Interest income						2,899
Taxation						26,000
Loss for the year						<u>(4,563,125)</u>
Assets and liabilities at 30 June 2004						
ASSETS						
Segment assets	–	75,686	–	–	–	75,686
Unallocated total assets						17,694,357
Consolidated total assets						<u>17,770,043</u>
LIABILITIES						
Segment liabilities						–
Unallocated corporate liabilities						12,482,581
Consolidated total liabilities						<u>12,482,581</u>

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended 30 June 2004)

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

	The People's Republic of China ("PRC") HK\$	Hong Kong HK\$	Taiwan HK\$	Others HK\$	Elimination HK\$	Consolidated HK\$
For the year ended 30 June 2003						
TURNOVER						
External sales						
– Distributorship	345,000	355,391	631,780	3,438	–	1,335,609
– Retailing	–	482,542	–	–	–	482,542
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						(8,927,003)
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						3,591
Taxation						(32,000)
Loss for the year						<u>(8,913,543)</u>
Assets and liabilities at 30 June 2003						
ASSETS						
Segment assets	9,411	217,179	–	–	–	226,590
Unallocated total assets						<u>19,009,400</u>
Consolidated total assets						<u>19,235,990</u>
LIABILITIES						
Segment liabilities						–
Unallocated corporate liabilities						<u>9,377,657</u>
Consolidated total liabilities						<u>9,377,657</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, PRC and Canada.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended 30 June 2004)

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	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Hong Kong	17,061,416	19,235,990	272,130	578,659
PRC	708,627	–	10,924	–
Canada	–	–	–	161,875
	17,770,043	19,235,990	283,054	740,534

5. OTHER REVENUE

Other revenue for the year ended 30 June 2004 mainly represents the cash discount received from professional fee payment and the waiver of the advance received from former distributors which have been treated as bad debts in the accounts of previous financial years. Whilst the other revenue for the previous corresponding period in 2003 represented waiver of loans due to directors.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended 30 June 2004)

6. LOSS FROM OPERATIONS

	2004 HK\$	2003 HK\$
Loss from operations has been arrived at after charging:		
Director's remuneration (note 8(a))	118,871	1,361,104
Other staff costs	2,010,716	1,833,544
Retirement benefit scheme contributions	91,265	70,393
Total staff costs	2,220,852	3,265,041
Allowance for bad and doubtful debts	–	40,694
Amortisation of intangible assets included in administrative expenses	1,142,191	1,098,211
Auditors' remuneration	105,000	251,046
Depreciation	250,677	189,242
Loss on disposal of plant and equipment	10,472	–
Research and development costs	–	398,405
Allowance for inventory	82,299	–
And after crediting:		
Written back of allowance for inventories	–	169,500
Written back for bad and doubtful debts	264,341	–
Bank interest income	2,899	3,591
Waiver of advances from former distributors	689,557	–

7. FINANCE COSTS

	2004 HK\$	2003 HK\$
Interest on:		
Loan from shareholders (note 26)	114,757	3,631

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended 30 June 2004)

8. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

	2004	2003
	HK\$	HK\$
Fees:		
Executive directors	–	58,288
Non-executive director	–	55,446
Independent non-executive directors	18,871	123,887
	18,871	237,621
Other emoluments for executive directors		
Salaries and other benefits	100,000	1,105,483
Retirement benefit scheme contributions	–	18,000
	100,000	1,123,483
Total directors' remuneration	118,871	1,361,104

For the year ended 30 June 2004, three executive directors received remuneration of approximately HK\$10,000, HK\$90,000 and HK\$ nil respectively, and two independent non-executive directors received remuneration of approximately HK\$8,871 and HK\$10,000 respectively.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended 30 June 2004)

8. DIRECTORS' AND EMPLOYEES' REMUNERATION *(Continued)*

(b) Employees' emoluments

During the year, the five highest paid individuals in the Group included nil (2003: two) directors of the Company, details of whose emoluments are set out above. The aggregate emoluments of the remaining five (2003: three) individuals were as follows:

	2004 HK\$	2003 HK\$
Salaries and other benefits	884,368	688,729
Retirement benefit scheme contributions	39,101	25,800
	<u>923,469</u>	<u>714,529</u>

9. TAXATION

	2004 HK\$	2003 HK\$
Deferred tax (Credit)/charge of current year	(26,000)	32,000
Taxation attributable to the Group	<u>(26,000)</u>	<u>32,000</u>

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

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

	2004 HK\$	2003 HK\$
Loss before taxation	<u>(4,589,125)</u>	<u>(8,881,543)</u>
Tax at applicable rate	(803,097)	(1,421,047)
Tax effect of non-deductible expenses	959,096	2,880,938
Tax effect of non-taxable revenues	(736,848)	(3,276,889)
Tax effect on temporary differences not recognised	25,929	(28,485)
Effect of different tax rate of subsidiary in other jurisdiction	(15,471)	–
Tax effect of tax losses not recognised	<u>570,391</u>	<u>1,845,483</u>
Tax charge for the year	<u>–</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended 30 June 2004)

9. TAXATION *(Continued)*

At the balance sheet date, the Group has unused estimated tax losses of HK\$24,384,582 (2003: HK\$21,441,652) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profit streams.

10. DIVIDEND

No dividend was paid or proposed for the year ended 30 June 2004, nor has any dividend been proposed since the balance sheet date (2003: HK\$ nil).

11. LOSS PER SHARE

The calculation of the basic loss per share for the year ended 30 June 2004 is based on the loss for the year of approximately HK\$4,563,125 (2003: HK\$8,913,543) and on the weighted average of 606,800,000 (2003: 463,378,631) in issue during the year.

No diluted loss per share for the year ended 30 June 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.

12. INTANGIBLE ASSETS

	Patent and Trademarks/ Tradenames HK\$
THE GROUP	
COST	
At 1 July 2003	19,878,208
Additions	—
	—
At 30 June 2004	19,878,208
	—
AMORTISATION	
At 1 July 2003	3,971,079
Provided for the year	1,142,191
	—
At 30 June 2004	5,113,270
	—
NET BOOK VALUE	
At 30 June 2004	14,764,938
	—
At 30 June 2003	15,907,129
	—

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended 30 June 2004)

12. INTANGIBLE ASSETS *(Continued)*

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.

13. PLANT AND EQUIPMENT

	Plant and machinery HK\$	Leasehold improvement HK\$	Furniture, fixture and equipment HK\$	Total HK\$
THE GROUP				
COST				
At 1 July 2003	377,149	369,447	315,415	1,062,011
Additions	37,450	232,138	13,466	283,054
Disposals	–	(13,000)	(3,787)	(16,787)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 June 2004	<u>414,599</u>	<u>588,585</u>	<u>325,094</u>	<u>1,328,278</u>
DEPRECIATION AND ACCUMULATED IMPAIRMENT				
At 1 July 2003	8,315	44,755	104,827	157,897
Provided for the year	81,160	105,589	63,928	250,677
Written back on disposal	–	(4,917)	(1,398)	(6,315)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 June 2004	<u>89,475</u>	<u>145,427</u>	<u>167,357</u>	<u>402,259</u>
NET BOOK VALUE				
At 30 June 2004	<u>325,124</u>	<u>443,158</u>	<u>157,737</u>	<u>926,019</u>
At 30 June 2003	<u>368,834</u>	<u>324,692</u>	<u>210,588</u>	<u>904,114</u>

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended 30 June 2004)

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$	HK\$
Unlisted shares, at cost	482,700	2,700
Amounts due from subsidiaries	32,702,267	29,696,682
	33,184,967	29,699,382
Less: Allowance on amounts due from subsidiaries	(32,586,900)	(29,619,372)
	598,067	80,010

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\$2,967,528 has been recognised in the income statement for the year.

Particulars of the Company's subsidiaries at 30 June 2004 are set out in note 27.

15. INVENTORIES

	THE GROUP	
	2004	2003
	HK\$	HK\$
Raw materials	491,738	–
Work in progress	–	160,952
Finished goods	676,799	212,941
	1,168,537	373,893

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended 30 June 2004)

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	
	2004	2003
	HK\$	HK\$
Aged:		
0-60 days	74,177	226,589
61-120 days	1,509	—
	<u>75,686</u>	<u>226,589</u>

17. TRADE PAYABLES

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

	THE GROUP	
	2004	2003
	HK\$	HK\$
Aged:		
Over 120 days	104,130	—
	<u>104,130</u>	<u>—</u>

18. AMOUNT DUE TO DIRECTORS

The amounts are unsecured, non-interest bearing and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended 30 June 2004)

19. SHARE CAPITAL

	Notes	Number of shares of HK\$0.01 each	Amount HK\$																										
At 30 June 2004 and 30 June 2003		10,000,000,000	100,000,000																										
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 40%;"></th> <th style="width: 10%;"></th> <th style="width: 20%; text-align: center;">Number of shares of HK\$0.01 each</th> <th colspan="2" style="width: 30%; text-align: center;">Amount HK\$</th> </tr> </thead> <tbody> <tr> <td>Issued and fully paid:</td> <td></td> <td></td> <td style="text-align: center;">HK\$</td> <td style="text-align: center;">HK\$</td> </tr> <tr> <td>At 1 July 2003 and at 1 July 2002</td> <td style="text-align: center;">606,800,000</td> <td style="text-align: center;">410,000,000</td> <td style="text-align: center;">6,068,000</td> <td style="text-align: center;">4,100,000</td> </tr> <tr> <td>Issue of shares through open offer on 24 March 2003 for HK\$0.018 each</td> <td></td> <td style="text-align: center;">– 196,800,000</td> <td style="text-align: center;">–</td> <td style="text-align: center;">1,968,000</td> </tr> <tr> <td>At 30 June 2004 and at 30 June 2003</td> <td></td> <td style="text-align: center;">606,800,000</td> <td style="text-align: center;">6,608,000</td> <td style="text-align: center;">6,068,000</td> </tr> </tbody> </table>							Number of shares of HK\$0.01 each	Amount HK\$		Issued and fully paid:			HK\$	HK\$	At 1 July 2003 and at 1 July 2002	606,800,000	410,000,000	6,068,000	4,100,000	Issue of shares through open offer on 24 March 2003 for HK\$0.018 each		– 196,800,000	–	1,968,000	At 30 June 2004 and at 30 June 2003		606,800,000	6,608,000	6,068,000
		Number of shares of HK\$0.01 each	Amount HK\$																										
Issued and fully paid:			HK\$	HK\$																									
At 1 July 2003 and at 1 July 2002	606,800,000	410,000,000	6,068,000	4,100,000																									
Issue of shares through open offer on 24 March 2003 for HK\$0.018 each		– 196,800,000	–	1,968,000																									
At 30 June 2004 and at 30 June 2003		606,800,000	6,608,000	6,068,000																									

20. RESERVE

		Share premium HK\$	Accumulated losses HK\$	Total HK\$
THE COMPANY				
At 1 July 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		–	(17,689,109)	(17,689,109)
At 30 June 2003		19,740,134	(31,487,746)	(11,747,612)
Loss for the year		–	(3,765,914)	(3,765,914)
At 30 June 2004		19,740,134	(35,253,660)	(15,513,526)

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended 30 June 2004)

21. AMOUNT DUE TO SHAREHOLDERS

	Note	THE GROUP		THE COMPANY	
		2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
XO-Holdings Limited	1	3,572,276	3,572,276	3,572,276	3,572,276
Profit Trick Holdings Limited	2	1,550,000	–	1,550,000	–
Rocket High Investments Limited	2	1,800,000	–	1,800,000	–
		6,922,276	3,572,276	6,922,276	3,572,276

Notes:

1. As at 30 June 2003 and 2004, the amount due to a shareholder, XO-Holdings Limited, amounted to approximately HK\$3,600,000, which was unsecured and non-interest bearing.

XO-Holdings Limited has undertaken to the Company that (i) it will not demand repayment of the amount due to it of approximately HK\$3,600,000 within one year from the listing of the shares of the Company on GEM; and (ii) it will not demand repayment of any outstanding amount due to it after one year from the date of listing of the shares of the Company on GEM unless the Group has positive cash flow from operations and retained earnings in a financial year and each of the independent non-executive Directors has given an opinion that such payment will not adversely affect the operations of the Group and the implementation of the business objectives of the Company as stated in the Prospectus.

2. As at 30 June 2004, the amounts 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.

22. AMOUNT DUE TO A RELATED COMPANY

The balance of HK\$2,500,000 (2003: HK\$2,500,000) 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 STATEMENTS

(For the year ended 30 June 2004)

23. DEFERRED TAX

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

	Accelerated tax allowance over depreciation HK\$
At 1 July 2002	–
Adjustment on adoption of SSAP 12 (Revised)	<u>32,000</u>
At 1 July 2002, as restated	32,000
Charge to income for the year	<u>32,000</u>
Balance at 1 July 2003	64,000
Credit to income for the year	<u>(26,000)</u>
At 30 June 2004	<u>38,000</u>

24. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme (the “MPF Scheme”) for all employees. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme.

The retirement benefits cost charged to the income statement represents contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended 30 June 2004)

25. OPERATING LEASE COMMITMENTS

	THE GROUP	
	2004 HK\$	2003 HK\$
Minimum lease payments paid under operating leases in respect of rented premises	<u>2,908,779</u>	<u>1,319,092</u>

	THE GROUP	
	2004 HK\$	2003 HK\$
Within one year	<u>1,785,372</u>	<u>1,100,000</u>
In the second to fifth year inclusive	<u>452,680</u>	<u>170,000</u>
	<u>2,238,052</u>	<u>1,270,000</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.

26. RELATED PARTY TRANSACTIONS

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

Name of party	Notes	Nature of transactions	2004 HK\$	2003 HK\$
Profit Trick Holdings Limited	(i)	Loan from shareholders	<u>1,550,000</u>	–
Rocket High Investments Limited	(i)	Loan from shareholders	<u>1,800,000</u>	–

Note:

- (i) In accordance to the shareholders loan agreements, the loan is repayable on demand and bear interest at Hong Kong Dollar prime lending rate quoted by The Hong Kong and Shanghai Banking Corporation Limited from time to time. During the year, the Group incurred interest for the loan from shareholders in amount of HK\$114,757.

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

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended 30 June 2004)

27. SUBSIDIARIES

Particulars of the Company's subsidiaries at 30 June 2004 are as follows:

Name of subsidiary	Place of incorporation/ operation	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 €1,000	–	100	Advertising, marketing and granting of distribution rights
Blu Spa Management Services Limited	British Virgin Islands/ Hong Kong	Share US\$1	–	100	Provision of retail concept store, spa operation and related management services
Zhuhai Fulihua Cosmetics Co. Ltd.	PRC	RMB500,000	–	100 through trustees	Advertising, marketing and granting of distribution right
Legend Well International Limited	Hong Kong	Ordinary Shares HK\$2	–	100	Administration and operation

NOTES TO THE FINANCIAL STATEMENTS

(For the year ended 30 June 2004)

28. CONTINGENT LIABILITIES

(a) Litigation Dispute with FCI

The Group is engaged in a litigation 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 these proceedings.

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

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

It is not possible to make an assessment on the final outcome of the case as the processes of exchange of documents and witness's statements are yet to be completed. As it was premature at such early stage of litigation to assess the outcome of the case, the Company, therefore, did not provide for any potential liabilities in relation to this litigation in current financial year (2003: Nil).

(b) Dispute with DBS Asia

The Group has received some unreasonable bills amounting to approximately HK\$245,000 from the Sponsor, DBS Asia, which arose from the issue of reimbursement of legal cost incurred by DBS Asia who claimed that those legal expenses incurred was the obligation of the Group as they sought legal assistance from outside lawyers in relation to certain inquiries from the Stock Exchange.

However, the directors do not concur with DBS Asia that the Group is obliged to pay. The Group will liaise with DBS Asia and seek for the waiver of the expenses.

FINANCIAL SUMMARY

For the year ended 30 June

	2000 HK\$	2001 HK\$	2002 HK\$	2003 HK\$ (Restated)	2004 HK\$
RESULTS					
Turnover	<u>2,293,091</u>	<u>4,198,093</u>	<u>2,856,445</u>	<u>1,818,151</u>	<u>2,051,972</u>
Loss from ordinary activities attributable to shareholders	<u>(12,234,387)</u>	<u>(66,649,180)</u>	<u>(10,855,268)</u>	<u>(8,913,543)</u>	<u>(4,563,125)</u>

ASSETS AND LIABILITIES

For the year ended 30 June

	2000 HK\$	2001 HK\$	2002 HK\$	2003 HK\$ (Restated)	2004 HK\$
Total assets	<u>21,459,478</u>	<u>21,316,862</u>	<u>26,828,723</u>	<u>19,235,990</u>	<u>17,770,043</u>
Total liabilities	<u>(33,686,065)</u>	<u>(17,463,152)</u>	<u>(11,306,757)</u>	<u>(9,377,657)</u>	<u>(12,482,581)</u>
(Deficiency) balance of shareholders' funds	<u>(12,226,587)</u>	<u>3,853,710</u>	<u>15,521,966</u>	<u>9,858,333</u>	<u>5,287,462</u>

Note:

Pursuant to a group reorganisation to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares on the Growth Enterprises Market (the "GEM") of The Stock Exchange of Hong Kong Limited, the Company became the holding company of the Group on 10 December 2001. The shares of the Company have been listed on the GEM with effect from 19 February 2003. The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared on the merger accounting basis as if the Company had always been the holding company of the Group. 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 4th 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, 7th Floor, South West Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong on Tuesday, 26 October 2004 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 2004;
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

NOTICE OF ANNUAL GENERAL MEETING

- (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
- (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;



NOTICE OF ANNUAL GENERAL MEETING

- (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
 - (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) By inserting the following new definition of "associate(s)" in Article 2(1):

" "associate(s)" the meaning attributed to it in the rules of the Designated Stock Exchange."

NOTICE OF ANNUAL GENERAL MEETING

- (b) By deleting the definition of “clearing house” in Article 2(1) in its entirety and replacing therewith the following new definition:

““clearing house” a clearing house recognised by the laws of the jurisdiction in which the shares of the Company are listed or quoted on a stock exchange in such jurisdiction.”

- (c) By deleting the definition of “Subsidiary and Holding Company” in Article 2(1) in its entirety and replacing therewith the following new definition:

““Subsidiary and Holding Company” the meanings attributed to them in the rules of the Designated Stock Exchange.”

- (d) By re-numbering the existing Article 76 as Article 76(1);

- (e) By inserting the following as new Article 76(2):

“(2) Where the Company has knowledge that any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.”

- (f) By deleting the existing Article 88 in its entirety and replacing therewith the following new Article 88:

“88. No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that the period for lodgment of such Notice(s) shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.”

NOTICE OF ANNUAL GENERAL MEETING

(g) By deleting the existing Article 103 in its entirety and replacing therewith the following new Article 103:

"103. (1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters namely:

- (i) any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (v) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director and/or his associate(s) is/are beneficially interested in five (5) per cent or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (vi) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

NOTICE OF ANNUAL GENERAL MEETING

- (2) A company shall be deemed to be a company in which a Director and/or his associate(s) owns five (5) per cent. or more if and so long as (but only if and so long as) he and/or his associates, (either directly or indirectly) are the holders of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his interest or that of any of his associates is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder.
- (3) Where a company in which a Director and/or his associate(s) holds five (5) per cent. or more is materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.
- (4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or as to the entitlement of any Director (other than such chairman) to vote and to be counted in the quorum and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall be counted in the quorum but shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board."

By order of the Board of
Blu Spa Holdings Limited
Hui Wing Lok
Company Secretary

24 September 2004



NOTICE OF ANNUAL GENERAL MEETING

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 the 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 2004 annual report.