



BLU SPA HOLDINGS LIMITED

富麗花 • 譜 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8176)

**INTERIM REPORT
FOR THE SIX MONTHS ENDED
31 DECEMBER 2004**

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

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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.

SUMMARY

- The Group is a developer, promoter and distributor of a broad range of botanical personal care products, treatments and services.
- The unaudited combined turnover of the Group for the six months ended 31 December 2004 was approximately HK\$1.05 million, representing a decrease of approximately HK\$350,000 or approximately 25% as compared to the unaudited combined turnover of the Group of approximately HK\$1.4 million for the corresponding period in 2003.
- The net loss for the six months ended 31 December 2004 was approximately HK\$2.4 million, representing an increase of loss of approximately HK\$200,000 or approximately 9% as compared to a net loss of approximately HK\$2.2 million for the corresponding period in 2003.

The board of directors (the “Board”) of Blu Spa Holdings Limited (the “Company”) is pleased to announce the unaudited combined financial statements of the Company and its subsidiaries (together, the “Group”) for the six months and three months ended 31 December 2004 together with the comparative figures for the corresponding periods in 2003 as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 31 December 2004	For the six months ended 31 December 2003 (Restated)	For the three months ended 31 December 2004	For the three months ended 31 December 2003 (Restated)
	<i>Notes</i>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	3	1,046	1,390	388	774
Cost of sales		<u>(275)</u>	<u>(429)</u>	<u>(173)</u>	<u>(296)</u>
Gross profit		771	961	215	478
Other revenue	4	1	337	-	112
Distribution costs		(104)	(52)	(11)	(36)
Administrative expenses		(3,007)	(3,416)	(1,572)	(1,589)
Loss from operations	5	(2,339)	(2,170)	(1,368)	(1,035)
Finance costs	6	(96)	(36)	(51)	(36)
Loss before taxation		(2,435)	(2,206)	(1,419)	(1,071)
Taxation	7	-	13	-	7
Loss attributable to shareholders		<u>(2,435)</u>	<u>(2,193)</u>	<u>(1,419)</u>	<u>(1,064)</u>
Basic loss per share (in HK cents)	9	<u>(0.40)</u>	<u>(0.36)</u>	<u>(0.23)</u>	<u>(0.18)</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) As at 31 December 2004 <i>HK\$'000</i>	(Audited) As at 30 June 2004 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Intangible assets		14,195	14,764
Plant and equipment		810	926
		15,005	15,690
CURRENT ASSETS			
Inventories – cost		914	1,168
Trade receivables	10	54	76
Deposits and other receivables		590	508
Bank balances and cash		1,084	327
		2,642	2,079
CURRENT LIABILITIES			
Trade payable		617	104
Accruals and other payables		2,673	2,658
Amounts due to directors		294	240
Bank overdraft		–	20
		3,584	3,022
NET CURRENT LIABILITIES			
		(942)	(943)
		14,063	14,747
CAPITAL AND RESERVES			
Share capital	11	6,068	6,068
Reserves		(3,215)	(781)
		2,853	5,287
NON-CURRENT LIABILITIES			
Amount due to shareholders		8,672	6,922
Amount due to a related party		2,500	2,500
Deferred tax liability	12	38	38
		11,210	9,460
		14,063	14,747

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital <i>HK\$'000</i>	Share Premium <i>HK\$'000</i>	Merger Reserve <i>HK\$'000</i>	Translation Reserve <i>HK\$'000</i>	Deficit <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2003	6,068	19,740	22,735	–	(38,620)	9,923
Adjustment on adoption of SSAP 12 (Revised)	–	–	–	–	(64)	(64)
At 1 July 2003 (Restated)	6,068	19,740	22,735	–	(38,684)	9,859
Exchange differences arising from translation of operations outside Hong Kong	–	–	–	(7)	–	(7)
Loss for the period	–	–	–	–	(2,193)	(2,193)
At 31 December 2003 (Restated)	<u>6,068</u>	<u>19,740</u>	<u>22,735</u>	<u>(7)</u>	<u>(40,877)</u>	<u>7,659</u>
At 1 July 2004	6,068	19,740	22,735	(7)	(43,248)	5,288
Exchange differences arising from translation of operations outside Hong Kong	–	–	–	–	–	–
Loss for the period	–	–	–	–	(2,435)	(2,435)
At 31 December 2004	<u>6,068</u>	<u>19,740</u>	<u>22,735</u>	<u>(7)</u>	<u>(45,683)</u>	<u>2,853</u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 31 December 2004 HK\$'000	For the six months ended 31 December 2003 HK\$'000
NET CASH USED IN OPERATING ACTIVITIES	(955)	(2,563)
NET CASH USED IN INVESTING ACTIVITIES	(18)	(210)
NET CASH FROM FINANCING ACTIVITIES	1,750	3,064
INCREASE IN CASH AND CASH EQUIVALENTS	777	291
CASH AND CASH EQUIVALENTS AT 1 JULY 2004/2003	307	1,177
EFFECT OF FOREIGN EXCHANGE CHANGES	-	(7)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER 2004/2003, represented by bank balances and cash	1,084	1,461

NOTES:

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

The Company is an investment holding company.

The unaudited condensed consolidated results for the six months ended 31 December 2004 have been prepared on a going concern basis.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD/CHANGES IN ACCOUNTING PRACTICE

In the current period, the Group has adopted 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 Statement of Standard Accounting Practice ("SSAPs") and Interpretations approved by the HKICPA:

SSAP 12 (Revised) Income taxes

In the current period, 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 effect of the change is a decreased credit to the income taxes on the current period of HK\$Nil (2003: HK\$13,000).

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

For the six months ended 31 December 2004 (Unaudited)

	The People's Republic of China HK\$'000	Hong Kong HK\$'000	Taiwan HK\$'000	South Korea HK\$'000	Others HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
REVENUE							
External sales							
– Distributorship	334	50	–	13	–	–	397
– Retailing	–	649	–	–	–	–	649
Inter-segment sales	23	17	–	–	–	(40)	–
Total revenue	<u>357</u>	<u>716</u>	<u>–</u>	<u>13</u>	<u>–</u>	<u>(40)</u>	<u>1,046</u>
RESULT							
Segment result							
– Distributorship	233	20	–	6	–	–	259
– Retailing	–	512	–	–	–	–	512
Unallocated corporate income							1
Unallocated corporate expenses							(3,111)
Operating loss							(2,339)
Interest expense							(96)
Interest income							–
Loss for the period							<u>(2,435)</u>

Assets and liabilities at 31 December 2004 (Unaudited)

	The People's Republic of China HK\$'000	Hong Kong HK\$'000	Taiwan HK\$'000	South Korea HK\$'000	Others HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
ASSETS							
Segment assets	–	54	–	–	–	–	54
Unallocated corporate assets							17,593
Consolidated total assets							<u>17,647</u>
LIABILITIES							
Segment liabilities	–	–	–	–	–	–	–
Unallocated corporate liabilities							14,794
Consolidated total liabilities							<u>14,794</u>

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

For the six months ended 31 December 2003 (Unaudited) (Restated)

	The People's Republic of China HK\$'000	Hong Kong HK\$'000	Taiwan HK\$'000	South Korea HK\$'000	Others HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
REVENUE							
External sales							
– Distributorship	209	25	–	2	–	–	236
– Retailing	–	1,154	–	–	–	–	1,154
Inter-segment sales	105	–	–	–	–	(105)	–
	<u>314</u>	<u>1,179</u>	<u>–</u>	<u>2</u>	<u>–</u>	<u>(105)</u>	<u>1,390</u>
Total revenue							
RESULT							
Segment result							
– Distributorship	64	8	–	1	–	–	73
– Retailing	–	888	–	–	–	–	888
	<u>64</u>	<u>896</u>	<u>–</u>	<u>1</u>	<u>–</u>	<u>–</u>	<u>969</u>
Unallocated corporate income							336
Unallocated corporate expenses							(3,468)
							<u>(3,132)</u>
Operating loss							(2,171)
Interest expense							(36)
Interest income							1
Taxation							13
							<u>13</u>
Loss for the period							<u>(2,193)</u>

Assets and liabilities at 31 December 2003 (Unaudited) (Restated)

	The People's Republic of China HK\$'000	Hong Kong HK\$'000	Taiwan HK\$'000	South Korea HK\$'000	Others HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
ASSETS							
Segment assets	125	–	–	–	–	–	125
Unallocated corporate assets							19,177
	<u>125</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>19,302</u>
Consolidated total assets							<u>19,302</u>
LIABILITIES							
Segment liabilities	–	–	–	–	–	–	–
Unallocated corporate liabilities							11,643
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>11,643</u>
Consolidated total liabilities							<u>11,643</u>

4. OTHER REVENUE

Other Revenue for the six months ended 31 December 2004 mainly represents the interest income received, exchange gain received, and sundries income received. Whilst the Other Revenue for the previous corresponding period in 2003 represented the cash discount received from professional fee payment.

5. LOSS FROM OPERATIONS

Loss from operations is arrived at after charging:

	(Unaudited)		(Unaudited)	
	Six months ended		Three months ended	
	31 December		31 December	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Director's remuneration	54	59	26	1
Other staff costs	678	1,129	311	568
Retirement benefit scheme contributions	35	50	17	24
Total staff costs	767	1,238	354	593
Auditors' remuneration	–	5	–	5
Depreciation	133	119	67	63
Amortization of intangible assets	571	571	285	286
and after crediting:				
Written back of allowance for bad and doubtful debt	–	243	–	229
Bank interest income	–	1	–	1

6. FINANCE COSTS

	(Unaudited)		(Unaudited)	
	Six months ended		Three months ended	
	31 December		31 December	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on:				
Others	96	36	51	36

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

7. TAXATION

	(Unaudited)		(Unaudited)	
	Six months ended		Three months ended	
	31 December		31 December	
	2004	2003	2004	2003
		(Restated)		(Restated)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax				
Hong Kong	-	-	-	-
PRC	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	-	-	-	-
Deferred tax				
Credit of last				
corresponding period	-	(13)	-	(7)
	<u>-</u>	<u>(13)</u>	<u>-</u>	<u>(7)</u>
Taxation attributable				
to the Group	-	(13)	-	(7)
	<u>-</u>	<u>(13)</u>	<u>-</u>	<u>(7)</u>

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

8. DIVIDEND

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

9. BASIC LOSS PER SHARE

The calculation of loss per share for the six months ended 31 December 2004 is based on the net loss attributable to the shareholders of approximately HK\$2.4 million (2003: loss attributable to shareholders of approximately HK\$2.2 million) and on the weighted average of 606,800,000 (2003: on the weighted average of 606,800,000) ordinary shares of the Company in issue during the period.

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

10. TRADE RECEIVABLES

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

	(Unaudited)	(Audited)
	As at	As at
	31 December	30 June
	2004	2004
	HK\$'000	HK\$'000
Aged:		
0-60 days	41	74
61-120 days	1	2
Over 120 days	12	-
	<u>54</u>	<u>76</u>

11. SHARE CAPITAL

	Number of Shares of HK\$0.01 each	Amount HK\$'000
At 31 December (Unaudited) and 30 June (Audited) 2004	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid: At 31 December (Unaudited) and 30 June (Audited) 2004	<u>606,800,000</u>	<u>6,068</u>

12. DEFERRED TAX LIABILITY

Resulted from the adoption of the SSAP 12 (Revised), a deferred tax liability was resulted, which led to a credit to income taxes in the year of HK\$Nil (2003: HK\$13,000).

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

13. OPERATING LEASE COMMITMENTS

	(Unaudited) As at 31 December 2004 HK\$'000	(Audited) As at 30 June 2004 HK\$'000
Minimum lease payments paid under operating leases in respect of rented premises	<u>1,416</u>	<u>2,909</u>
Within one year	<u>1,416</u>	<u>1,785</u>
In the second to fifth year inclusive	<u>—</u>	<u>453</u>
	<u>1,416</u>	<u>2,238</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.

14. 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.

15. EMPLOYEE INFORMATION

As at 31 December 2004, the Group had 11 employees (2003: 13) and staff cost (excluding directors' remuneration) amounted to approximately HK\$678,000 (2003: HK\$1.1 million) whilst the directors' remuneration amounted to approximately HK\$54,000 (2003: HK\$59,000). Remuneration is determined by reference to market conditions and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid at the management's discretion to its employees in Hong Kong as recognition of and reward for their contributions. Other benefits include on 30 January 2002, the Company adopted a new share option scheme, contributions to statutory mandatory provident fund scheme to its employees in Hong Kong.

16. 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 period (2003: Nil).

(b) Dispute with DBS Asia

The Group has received some unreasonable bills amounting to approximately HK\$245,000 from the immediate pass 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.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Six months ended 31 December 2004

For the six months ended 31 December 2004, the Group recorded a turnover of approximately HK\$1.05 million, representing a decrease of approximately 25% when compared with that of the corresponding period last year. The decrease in turnover was mainly due to keen competition on different range of botanical personal care products for the relevant period and ineffective marketing activities. The Group in turn put effort into the local market by opening retail stores or joining marketing activities of major department stores or chain shops.

The gross profit margin was approximately 74% for the six months ended 31 December 2004 whereas it was approximately 69% in last corresponding period. The slight increase of approximately 5% was attributable to the direct sales to the end customers, without profit-sharing with the distributors.

Distribution costs incurred by the Group for the six months ended 31 December 2004 amounted to approximately HK\$104,000, nearly double that of the last corresponding period. The significant increase was mainly due to the increment of advertising, promotion and exhibition costs.

Administrative expenses incurred by the Group for the six months ended 31 December 2004 amounted to approximately HK\$3 million, representing a decrease of approximately 12% as compared to those of previous period. The decrease was the fruits of the Group's effective policy of reducing cost, such as legal and professional fees, staff salary, rent and rate, and printing and stationary expenses.

Finance costs of approximately HK\$96,000 incurred by the Group for the six months ended 31 December 2004 as the shareholders' loans of HK\$5.1 million bore interest at Hong Kong Dollar prime lending rate quoted by the Hongkong and Shanghai Banking Corporation Limited. As a result, the loss attributable to shareholders amounted to approximately HK\$2.4 million for the six months ended 31 December 2004.

Liquidity and financial resources

The Group generally finances its operations with its internal resources, advances from the substantial shareholders, namely, XO-Holdings Limited, Profit Trick Holdings Limited and Rocket High Investments Limited, as well as advance from a related party. As at 31 December 2004, the Group did not have any banking facilities.

As at 31 December 2004, the shareholders' funds of the Group amounted to approximately HK\$2.9 million. Current assets amounted to approximately HK\$2.6 million, of which approximately HK\$0.9 million was inventories, approximately HK\$0.6 million was debtors, deposits and prepayments and approximately HK\$1.1 million was cash and bank deposits. The Group's current liabilities amounted to approximately HK\$3.6 million, mainly comprised of accruals and other payables amounted to approximately HK\$2.7 million.

Significant investments and acquisitions

During the period ended 31 December 2004 and the year ended 30 June 2004, the Group had no material acquisitions.

Capital commitments

As at 31 December 2004 and 30 June 2004, the Group had no material investment.

Contingent liabilities

As stated before at Note 16 of Notes to the Financial Statements, the Group has disputed with its former distributors and Sponsor, but since no legal actions has been taken, the Group had no contingent liabilities.

Charges on Group assets

As at 31 December 2004, the Group did not have any charges on Group's assets.

Foreign exchange exposure

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

Loan structure of the Group

		As at 31 December 2004 (Unaudited) HK\$'000	As at 30 June 2004 (Audited) HK\$'000
	<i>Note</i>		
XO-Holdings Ltd.	<i>1</i>	3,572	3,572
Amount due to a related party	<i>2</i>	2,500	2,500
Profit Trick Holdings Ltd.	<i>3</i>	1,550	1,550
Rocket High Investments Ltd.	<i>3</i>	3,550	1,800
		<hr/> 11,172 <hr/>	<hr/> 9,422 <hr/>

Notes:

1. As at 31 December 2004 and 30 June 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.

2. As at 31 December 2004 and 30 June 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.
3. As at 31 December 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 bear interest at Hong Kong Dollar prime lending rate quoted by the Hongkong and Shanghai Banking Corporation Limited.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2004 (for the six months ended 31 December 2003: Nil).

BUSINESS REVIEW

The Group currently operates two retail shops in Hong Kong. In the period under review, the Group carried out various sales and promotional activities. In order to strengthen the retail brand recognition of Blu Spa and to enhance the overall awareness of the Groups' products in both existing and new markets, the Group gradually converted its existing stores to new and appealing "younger customer" stores, which projected a high quality image and reputation for reliability to our customers. With the direct sales to the end users through our stores, 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, in order to meet the ever changing demand of the consumers.

Our retail business in Hong Kong market was stimulated by the Individual Travel Scheme. The launch of yuan-denominated credit and debit cards, as well as the growing proportion of individual travelers, gave a lift to promote spending. As we recognized that the number of inbound tourists is increasing every month, we are optimistic that there will be a significant increase when the Disneyland opens in late 2005. The projected benefits for retail stores are huge.

With the effect of its brand building and promotional efforts in Hong Kong, the Group was able to attract potential distributors in the PRC and South-east Asian region. By December 2004, the Group has entered into several distributor agreements in countries/territories including, Guangzhou, Macau, Taiwan and Vietnam. The Group will continue to identify and seek prospective distributors in the PRC, South Korea, Thailand, Malaysia and Japan.

The Group also continues to negotiate with China and oversea OEM manufacturers for sourcing of products adopting the Group's brand name. The focus of our products are anti-aging, fabric mask and hydrating and nutrifying facial caring productions. The Group also research on a new line of products including ginger and cool muscles skin caring products. We have contacted some of the suppliers, which are under screening process. The Group also continues to expand its research and development team to enhance the testing of new products and to improve their respective quality.

OUTLOOK

The Group has committed to emphasize its market expansion locally and internationally. With the setting up of numerous retail stores, carrying out product promotions and developing closer relationships with our exclusive distributors, we are successful in developing sound brand image for our exclusively distributed products with effective brand management programs. As this trend goes on, the Group's profit margin is expected to rise gradually in the next couple of years. We strongly believe our business is fruitful in the near future especially under the global economy recovery, the growth in tourism, as well as the increasing number of attractions such as casinos in Macau, Disneyland, the ASEAN games and the 2008 Olympic games in Beijing. The recovery in the local economy also make us be optimistic about the future. The Group's Zhuhai subsidiary will be a good stepping stone for its entrance to the PRC market in the future. With the good responds from the potential distributors in Beijing and Shanghai, it is expected that our business performance will improve in the coming year.

On one hand, the Group will try its best to provide excellence beauty care products to its customers. On the other hand, it will also provide professional training to our sales staffs in terms of Mandarin language skill and product knowledge, so that they are able to provide customised services to our customers. A new facial treatment center located in Happy Valley, Hong Kong will soon be launched in the first half of 2005 to further strengthen our retail network. its target customers are middle-class yuppie resided around that district. The Group is currently searching for good locations and we pay much attention in entering new leasing agreement with the landlords in order to keep the rental cost at a reasonable proportion of the Group's turnover. The business performance is expected to improve in the coming future.

COMPARISON OF USE OF PROCEEDS

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 31 December 2004

Actual business progress up to 31 December 2004

Research and development on product

- | | |
|--|--|
| <ul style="list-style-type: none"> • Upgrade testing and experimental related equipment. | <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. |
| <ul style="list-style-type: none"> • 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. | <ul style="list-style-type: none"> • 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. |

**Business objectives up to
31 December 2004**

- 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.

Product and service launch

- 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 nutfifying, and hydrating and anti-aging on the facial caring products.

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.

**Actual business progress up to
31 December 2004**

- 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.
- 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 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.
- By December 2004, the Group has concluded several distributor agreements in the 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.

**Business objectives up to
31 December 2004**

**Actual business progress up to
31 December 2004**

Advertising and promotion

- Continue to participate in international and regional cosmetic exhibitions and trade shows.
- During the year, the Group conducted promotional activities at Hong Kong Convention & Exhibition Centre - Cosmoprof Asia 2004 & UNY Department Store to promote and exhibit our products, 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.

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 31 December 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 31 December 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	6.6
For research and development and product launch	2.8	0.9
For purchase of raw materials and packaging materials	1.8	3.2
For market development	1.5	1.2
For payment for acquisition of assets from BSI	1.2	1.2
For general working capital	2.0	9.4
Total	<u>18.0</u>	<u>27.4</u>

Use of proceeds exceeded the estimation made in the Prospectus by approximately HK\$9.4 million. The differences mainly came from the extra expenditures spent for general working capital, advertising and promotion, and human resources. All the net proceeds from public listing has 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, 30 June 2003, and 30 June 2004, and the interim report of the Company for the six months ended 31 December 2002 and 31 December 2003.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

As at 31 December 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 5.46 to 5.67 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%

Notes:

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

B. Short position in shares

No short position of directors and chief executives in the shares of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

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

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

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

SHARE OPTION SCHEME

On 30 January 2002, the Company adopted a new share option scheme (the “Scheme”), for the primary purpose of providing incentives or reward to directors and employees and to recognise the contribution of such eligible persons to the growth of the Company or any subsidiaries, and will expire on 29 January 2012. As at 31 December 2004, no options had been granted under the Scheme.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURE

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the register of substantial shareholders required to be maintained under Section 336 of the SFO showed that, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Long position in shares

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

Notes:

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

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 December 2004.

ADVANCES TO AN ENTITY

Pursuant to Rules 17.15 and 17.22 of the GEM Listing Rules, the Group has, in its normal and ordinary course of business, various trade receivables due from Full Pacific Enterprises Co., Limited, UNY (HK) Co., Limited, and Sogo Hong Kong Co., Limited for HK\$12,696, HK\$14,428, and HK\$25,426 respectively as at 31 December 2004. These trade receivables are unsecured and will be repayable within 3 months from the period end. No collateral is made by them and no interest is charged on any of these trade receivables.

COMPETING INTERESTS

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

SPONSOR'S INTERESTS

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

As updated and notified by DBS Asia, DBS Asia, its directors, employees and associates (as defined in the GEM Listing Rules), as at 31 December 2004 did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

AUDIT COMMITTEE

The Company established an audit committee (the "AC") on 10 December 2001 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. At the date of this report, the AC comprises Mr. Chan Shun Kuen, Eric, Ms. Louie Yuen Ki, Janet, and Mr. Yeung Mario Bercasio, who are the independent non-executive directors of the Company. The Group's interim results for the period ended 31 December 2004 have been reviewed by the AC, who was of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

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

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the year.

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

As at the date hereof, the Board comprises of Ms. Chan Choi Har, Ivy, Mr. Wu Wenzhi, and Mr. Chan Kei Kon are executive directors, Mr. Chan Shun Kuen, Eric, Ms. Louie Yuen Ki, Janet, and Mr. Yeung Mario Bercasio are independent non-executive directors.

Hong Kong, 7 February 2005