

The Art & Science of Beauty



BLUspaTM

Blu Spa Holdings Limited
富麗花·譜控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Annual Report
2005

Characteristics of the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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

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

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Company Information

LEGAL NAME OF THE COMPANY:

Blu Spa Holdings Limited

EXECUTIVE DIRECTORS:

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

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Chan Shun Kuen, Eric
Lam Wai Pong
Yeung Mario Bercasio

COMPANY SECRETARY:

Hui Wing Lok

COMPLIANCE OFFICER:

Chan Choi Har, Ivy

QUALIFIED ACCOUNTANT:

Hui Wing Lok CPA, ACCA

AUTHORISED REPRESENTATIVES:

Chan Choi Har, Ivy
Hui Wing Lok

AUDIT COMMITTEE:

Chan Shun Kuen, Eric
Lam Wai Pong
Yeung Mario Bercasio

AUTHORISED PERSON 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 2202, 22th Floor
Carnival Commercial Building
18 Java Road
North Point, Hong Kong.

AUDITORS:

HLM & Co.
Certified Public Accountants

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 2005 for their consideration.

OPERATING RESULTS

During the year under review, the Group recorded a total turnover of approximately HK\$1.6 million, representing a 24% decrease as compared to the previous year. Loss for the year ended 30 June 2005 was approximately HK\$5.7 million, representing an increase of approximately 24% year-on-year. Basic loss per share for the year ended 30 June 2005 was HK0.93 cents, increased by HK0.18 cents on account of drop in profitability of 24% (2004: HK0.75 cents). The gross profit margin for the year increased from 80% to 88%.

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 2005, 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, the Entertainment Building and Cosmopolitan Hotel located in Causeway Bay, Central and Wanchai respectively. The Group concentrated its promotional efforts in Hong Kong, which serves as the springboard for its expansion to PRC and South-east Asian markets. To revamp its marketing strategy and to minimize its operating cost, the Group will terminate the operation of all of the retail outlets in the near future and will redirect its focus to distributorship business. The Group believes the retail market in Hong Kong will continue to grow due the global economic recovery, growth in tourism, stronger consumers spending and the improvement in unemployment. Hong Kong retail market will become the responsibility of a franchised distributor who will continue to provide Blu Spa branded products and services to the end users. This distributor has been operating beauty care services in Hong Kong for many years, with outlets in Central, Tsim Sha Tsui and Mongkok. The distributor will also take over the business and customers of Blu Spa and run the existing outlet in Beaute@Sogo until October 2005 when it will be refurbished and renovated. It will also continue to run the business in Cosmopolitan Hotel in Wanchai offering Blu Spa branded products and services to our customers.

The performance in the distributor sector remained unchanged during the year under review, it has increased by 13.5%, HK\$66,000, as compared to 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. By the report date, the Group has concluded distributorship agreements in Hong Kong and Taiwan. The group is negotiating with prospective distributors in Dubai, Korea, Thailand, the Philippines and Indonesia. As regards China, the Group is also negotiating with potential distributors in Shenzhen, Guangzhou and Beijing.

Chairman's Statement

The Group believes that given the higher level of consumer spending in the near future and the 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.

OPERATING OVERVIEW

The Group did not have sufficient financial resources to pursue more aggressive marketing activities such as advertisements that help establish stronger market presence. The turnover dropped by about 24%. The Group has been seeking fresh funding from substantial shareholders and inviting strategic investors to inject funds to strengthen the current operation. The new fund will be applied to compete for market share and to invest in the research and development areas that are required to improve the quality of Blu Spa branded products and services. Although the business performance was less than satisfactory, the Group continued to provide innovative, value-added quality services to our customers, for instance, it has opened a foot reflexology therapy centre in Wanchai.

The Group actually had achieved in reducing cost of goods sold by purchasing bulk products and outsourcing the filling process to qualified co-packers, which resulted in the improvement of the gross profit from 80% to 88%.

Encouraged by the increasing attractions of Hong Kong, Macau and China due to the booming casino industry in Macau, Hong Kong Disneyland, the ASEAN games and 2008 Olympic games in Beijing, the Group is confident of future sustained and strong growth in the turnover. The Group still placed its focus on China market which remained the fastest growing market for retail and beauty care services. The Group will continue to rely on its Zhuhai subsidiary, Zhuhai Fulihua Cosmetics Co., Limited, ("ZHBS"), as a cost effective means for entering the mainland China.

The sales to the distributors increased by 13.5%, from HK\$488,000 to HK\$554,000, as a result of the Group changing its strategy to concentrating in distributorship business. The Group continued to tighten the selection process by adopting more stringent requirements in the recruitment of distributors in China. ZHBS is well 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. Negotiations for new distributorship are underway and the related agreements are expected to be concluded in the near future.

Chairman's Statement

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, rent and rate expenses and salary decreased by 49%, 13% and 27% respectively. The Group had enlisted the service of several OEM manufacturers and co-packers of the botanical beauty care 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.

However, the cost saving fell short of compensating the increase in the following expenses:

- (a) The write-off of trademark amounting to HK\$164,000 as the Group determined to cancel some of the trademark applications in the Asian countries.
- (b) The stock provision made for HK\$639,000 as a result of under-performed sales and more competitive market environment of beauty care industry. The directors adopted such provision so as to reflect the true value of the stock on hand.
- (c) Due to the poor sales performance and the high operating cost, the Group continued to rely on the shareholders' loan from substantial shareholders that resulted in the increase of interest expenses by 113%, from HK\$115,000 to HK\$245,000.

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 end users. The Group will continue its marketing efforts in brand building and promoting women new-age holistic lifestyle concepts and new innovative prestige botanical products to the consumers directly and through franchising out to the target distributors. It will also continue to collaborate with local co-operative partners to organize co-branding 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 significant resources to product research and development and search for new and better ingredients. The Group will further continue to strengthen its customer relations and particularly it will 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, 22 September 2005

Management Discussion and Analysis

FINANCIAL REVIEW

Results

The Group experienced operating contraction during the financial year. For the year ended 30 June 2005, the Group recorded a turnover of approximately HK\$1.6 million, representing a decrease of approximately HK\$488,000 i.e. 24%, as compared to the previous financial year of HK\$2.05 million due to the shortage of fund available to intensify advertising and promotional activities.

Gross profit margin increased by 8%, from 80% in previous financial year to 88% in the 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, and outsourcing of the filling process to outside professional co-packers.

Other revenue decreased by 98% or approximately HK\$1.3 million. It was mainly attributable to the elimination by the Group in last year, of the deposits and the temporary advances, amounting to approximately HK\$0.7 million, placed by former distributors whose outstanding amount had been treated as bad debt and the amounts of receivable had been provided for in the accounts of the previous financial years. Last year, included in the other revenue, there was also an amount of approximately HK\$220,000 representing a cash discount arising from the payment of the professional fees. Furthermore, there was an amount of approximately HK\$264,000 written back from the doubtful debt in previous year. In current year, no similar items are noted.

Distribution costs incurred by the Group for the year ended 30 June 2005 amounted to approximately HK\$32,000, representing a decrease of approximately 77% as compared to those of the previous year of HK\$139,000, which was attributable to the Group's adoption of cost saving measures in lowering the expenditure in advertising, promotion and exhibition costs.

Administrative expenses incurred by the Group for the year ended 30 June 2005 amounted to approximately HK\$ 6.8 million, representing a decrease of approximately HK\$0.5 million, i.e. 7%, as compared to those of previous year of approximately HK\$7.3 million. It was mainly attributable to the decrease in the rent and rate expenses of approximately HK\$244,000, i.e. 13%; the salary expenses of approximately HK\$538,000, i.e. 27%; and legal and professional fees of approximately HK\$279,000, i.e. 49%. The effect of cost saving will be greater if there had been no write-off of trademark amounting to approximately HK\$164,000 and stock provision of approximately HK\$639,000.

Loss for the year ended 30 June 2005 was approximately HK\$5.7 million. This represented a regression of approximately HK\$1.1 million, i.e. 24%, in net loss as compared to the previous financial year of approximately HK\$4.6 million. The increase in loss was mainly due to the decrease in sales and other revenue, and the increase in the provision of stock.

Management Discussion and Analysis

Loan Structure of the Group

	Notes	2005 HK\$	2004 HK\$
XO-Holdings Ltd.	1	3,572	3,572
Amount due to a related party	2	2,500	2,500
Profit Trick Holdings Ltd.	3	1,550	1,550
Rocket High Investments Ltd.	3	3,750	1,800
		<u>11,372</u>	<u>9,422</u>

Notes:

1. As at 30 June, 2005 and 2004, the amount due to a shareholder, XO-Holdings Limited, amounted to approximately HK\$3.6 million, is 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 30 June, 2005 and 2004, the amount due to a related party, which has a common shareholder with Rocket High Investments Limited, a substantial shareholder of the Company, amounted to HK\$2.5 million, is unsecured, non-interest bearing and repayable upon demand.
3. As at 30 June 2005, the amounts due to Profit Trick Holdings Ltd. and Rocket High Investments Ltd., being substantial shareholders of the Company, 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, guarantees or other material contingent liabilities as at the close of the business on 30 June 2005 and 30 June 2004 respectively. The Group did not have any funding and treasury policies, or financial instruments for hedging purpose.

Management Discussion and Analysis

Significant Investments and Acquisitions

During the year ended 30 June 2005, the Group had no material significant investments and acquisitions of subsidiaries and affiliated companies (2004: Nil).

Capital commitments

As at 30 June 2005, the Group had placed a deposit about HK\$30,000 which is used to buy a filling machine costing HK\$110,000. The machine is expected to set up in October 2005. (2004: Nil).

Contingent liabilities

Please refer to note 29 of Notes to financial statements.

Charges on group assets

As at 30 June 2005, the Group did not have any charges on the Group's assets (2004: 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 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 2005, the Group did not have any banking facilities.

As at 30 June 2005, there was a deficit in the shareholders' funds amounting to approximately HK\$380,000 while in 2004 there was a positive shareholders' fund of approximately HK\$5.3 million. Current assets amounted to approximately HK\$1.4 million, of which approximately HK\$645,000 were inventories, approximately HK\$524,000 were trade receivables, deposits and prepayments and approximately HK\$189,000 were cash and bank deposits. The Group's current liabilities amounted to approximately HK\$12 million which mainly comprised of accruals and other payables amounting to approximately HK\$3.9 million; amounts due to directors amounted approximately to HK\$0.5 million; short term loan from a related party amounted approximately to HK\$2.5 million; and short term loan from major shareholders approximately to HK\$5.3 million.

Management Discussion and Analysis

Gearing Ratio

As at 30 June 2005, 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 77% (2004: 54%). The Directors believe that the gearing ratio is at a high level for the Group and the Group was actively seeking strategic investors to inject fresh funds to repay the loans and increase cash position.

Details of future plans for material investment or capital assets

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

Employees and Remuneration Policies

As at 30 June 2005, the Group had 4 employees (2004: 11) and staff costs (excluding directors' remuneration) amounted to approximately HK\$1.5 million (2004: HK\$2 million) whilst the directors' remuneration amounted to approximately HK\$104,000 (2004: HK\$119,000). 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 continued and will continue to employ additional operational and business development personnel to strengthen the operation of the Group and to promote the Group's products.

Management Discussion and Analysis

BUSINESS REVIEW

Sales and distribution

The Group, under the year of review, operated two retail shops and one foot reflexology therapy centre in Hong Kong. The Group carried out various selling and promotional campaigns to promote market awareness and achieve higher level of customers' acceptance of the Group's products. The Group has circulated promotional materials by post to individual customers to highlight the advantages of Blu Spa branded products. The Group also invited certain established Hong Kong companies to join its membership scheme by offering attractive discounts to their staff at Blu Spa retail outlets. The Group also held promotional counter at UNY during the year to promote brand recognition. It further conducted co-branding joint promotional scheme with Nestle with the aim to increase the sales volume via the channels of supermarkets. The Group has since June 2005 redirected its focus to the distributorship business and franchised out Blu Spa Brand to a distributor in Hong Kong. This distributor will provide a comprehensive range of beauty care services to the end users by integrating unique beauty care therapy and treatment experience with Blu Spa beauty care products in retail environment thereby meeting the ever changing demand of consumers.

As a result of its brand building and promotional efforts in Hong Kong, the Group had been able to attract potential distributors in China. 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 were about 35.4% of the total turnover in 2004/2005. It is anticipated that the performance of the distributor sector will grow in the near future, as the potential distributors of the Group in Shenzhen, Guangzhou and Beijing are expected to have better strength and experience in selling and distributing the Group's products in their local markets. In order to achieve better market penetration in the PRC, ZHBS handles brand building and outsourcing of the Group.

Products

During the year, while the Group was concentrating on reviewing its marketing strategy, no new products have been launched to the market. The Group will re-engineer its existing product quality by introducing new formulae. The anti-bacterial line will undergo package change and add new formula. A new product line for face care will be introduced in the future.

Management Discussion and Analysis

Procurement

Following the takeover of the inventory of Blu Spa Canada Inc., “BSC”, 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 will regularly visit the sub-contractors to perform quality check. Since the cost of filling and the bottles in Hong Kong or PRC are much lower than those outsourced in North America, the Group will be able to achieve further cost saving.

Prospects

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 end users. The Group will continue its marketing efforts in brand building and promoting women new-age holistic lifestyle concepts and new innovative prestige botanical products to the consumers directly and through franchising out to target distributors. It will also continue to collaborate with local co-operative partners to organize co-branding 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.

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

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, 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 ("INED")

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 was appointed as the Company's INED on 12 August 2003. He has resigned from his office effective from 28 September 2004 onwards.

Chan Shun Kuen, Eric, is the associate member of Hong Kong Institute of Certified Public Accountants. He was also appointed as the chairman of the Audit Committee and the Remuneration Committee. He is the Head of corporate finance of KCG Securities Asia Limited. He was appointed as the Company's INED on 28 September 2004.

Directors and Senior Management Profile

Louie Yuen Ki, Janet, is the degree holder for Bachelor of Arts, major in Economics and Finance and graduated from the University of Toronto. She has about 3 years working experience in engineering corporate finance services. She was appointed as the Company's INED on 21 October 2004. She has resigned from her office effective from 12 August 2005 onwards.

Yeung, Mario Bercasio, is the degree holder for Bachelor of Engineering and graduated from Newcastle Upon Tyne Polytechnic, England. He is also with a degree in postgraduate certificate in Law from the University of Hong Kong. He is a member of the Law Society of Hong Kong. He has extensive experience in legal and corporate finance. He was appointed as the Company's INED on 28 December 2004.

Lam Wai Pong, graduated from University of London with a degree in Civil Engineering. He is a chartered civil engineer. He has extensive experience in civil engineering. He was appointed as the Company's INED on 12 August 2005.

SENIOR MANAGEMENT

Ms. Keung Wai Fun, Samantha was appointed as the General Manager in July 2004. She has 9-year experience 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 with actual working experience as demonstrated by her past track record, serving in the positions of 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 plans for the Group's implementation. Under her leadership, the Group is expected to improve its profitability in the near future.

Mr. Hui Wing Lok, is the Chief Financial Officer of the Group, Company Secretary and Qualified Accountant of the Company. He holds a bachelor degree (Honours) 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 Institute of Certified Public Accountants. He has over 7 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 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 28 to the financial statements.

RESULTS

Details of the Group's results for the year ended 30 June 2005 are set out in the consolidated income statement on page 30 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 the 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

Hui Kwong Wai, Eric	resigned on 28 September 2004
Chan Shun Kuen, Eric	appointed on 28 September 2004
Louie Yuen Ki, Janet	appointed on 21 October 2004, resigned on 12 August 2005
Yeung, Mario Bercasio	appointed on 28 December 2004
Lam Wai Pong	appointed on 12 August 2005

In accordance with Articles 86 and 87 of the Company's Articles of Association, Messrs. Chan Choi Har, Ivy will retire at the forthcoming annual general meeting and, being eligible, offer herself for re-election. 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 2005, 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%

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 5.40 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.

Directors' Report

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, 2005
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 recognize 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 2005, 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 benefits by means of acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the directors or their spouses or children under the age 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 27 to the financial statements, there were no other contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

Details of the disclosable connected transactions for the year are set out in note 27 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 2005, 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%

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.

Directors' Report

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 2005.

COMPETING INTERESTS

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

SHARE OPTIONS

(1) Pre-IPO Share Option Scheme

The Company's Pre-IPO share option scheme ("Pre-IPO Scheme"), was adopted pursuant to a resolution passed on 30 January 2002 for the primary purpose of providing incentives or reward to directors and employees and to recognize 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 2005, 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 recognize 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

As at 30 June 2005, 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 10th anniversary of the date of grant. The exercise price is determined by the Board of Directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing price of the Company's shares for the five business days immediately preceding the date of grant.

Directors's Report

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
Total for Directors	10,250,000	–	10,250,000
Employees	410,000	(410,000)	–
Grand Total	<u>10,660,000</u>	<u>(410,000)</u>	<u>10,250,000</u>

Details of the options are as follows:

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

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

SPONSOR'S INTERESTS

The sponsor agreement with DBS Asia has been terminated and the Group does not further appoint any sponsor.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's major sales revenue was from its retail business and directly sold to the end users, thus, there were no major customers identified as related to the retail business. For the sales to the distributors, there was only one major customer, Celton Asia Ltd., which comprised about 23% of the total turnover.

During the year, the Group was still selling the products taken over from BSC, few purchases were made during the year, so that the purchases from outsiders are not material.

Directors' Report

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 30 June 2005.

ADVANCES TO AN ENTITY

As at 30 June 2005, the Group did not have, in its normal and ordinary course of business, any relevant advance to an entity that is required to be disclosed pursuant to Rule 17.15 and 17.22 of the GEM Listing Rules.

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 competed 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.

CORPORATE GOVERNANCE

The Company is committed to good corporate governance principles and continues to improve its corporate governance practices from time to time.

During the year ended 30 June 2005, the Company had complied with the Code of Best Practice as was then set out in Appendix 14 of the Listing Rules.

Directors's Report

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all the Directors have complied with the required standard set out in the Model Code.

BOARD OF DIRECTORS

The Board of the Company comprises six Directors, of which three are Executive Directors, namely Mr. Wu Wenzhi, Ms. Chan Choi Har, Ivy and Mr. Chan Kei Kon and three are INEDs, namely Mr. Chan Shun Kuen, Eric, Mr. Lam Wai Pong and Mr. Yeung, Mario Bercasio. The Directors are collectively responsible for the development of the Group's strategies and policies. The Executive Directors are responsible for the daily operation of the Group while the INEDs provide their professional advices to the Group.

The INEDs have professional experiences in legal, finance and accounting, property development and engineering respectively. The Company has received confirmation from each of the INEDs as regards to their independence to the Company and considers that each of the INEDs is independent of the Company.

One-third of all the Directors shall retire by rotation from office each year in accordance with the Company's Articles of Association. The term of office of the Directors is the period up to their retirement by rotation. Those Directors at any time appointed by the Board shall hold office only until the next following Annual General Meeting of the Company and shall be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting.

AUDIT COMMITTEE

The Company established an Audit Committee on 10 December 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. At the date of this report, the Audit Committee comprises Messrs. Mr. Chan Shun Kuen, Eric, Mr. Yeung Mario Bercasio, and Mr. Lam Wai Pong, who are the INEDs of the Company. Mr. Chan Shun Kuen, Eric was appointed as the Chairman of the Audit Committee. The Group's financial statement for the year ended 30 June 2005 have been reviewed by the Audit Committee, who was of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made. Since its establishment, the Audit Committee had reviewed the Company's reports and accounts, and provided advice and recommendations to the Board.

Directors' Report

The Audit Committee meets four times a year to review the Group's financial statements, financial reporting system and internal control procedures, and discuss audit scope and findings with the Company's auditors. The Audit Committee also approves the remuneration of the Company's auditors for their audit and other services.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company comprises all of the INEDs, namely Mr. Chan Shun Kuen, Eric, Mr. Yeung Mario Bercasio, and Mr. Lam Wai Pong with Mr. Chan Shun Kuen, Eric as the chairman of the Remuneration Committee. The Remuneration Committee has adopted specific written terms of reference in accordance with the provisions set out in the Code on Corporate Governance Practices and is accountable to the Board.

The principal responsibilities of the Remuneration Committee include the review of the remuneration policies of the Company's Directors and Senior Management and recommend specific remuneration packages of Executive Directors and Senior Management to the Board.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this annual report, there is sufficient public float, as not less than 25% of the Company's issued shares are held by the public.

AUDITORS

Messrs. HLM & Co. were appointed as auditors of the Company for the year, 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, 22 September 2005.

Auditors' Report

恒健會計師行
HLM & Co.
Certified Public Accountants

Room 305, Arion Commercial Centre
2-12 Queen's Road West, Hong Kong.
香港皇后大道西2-12號聯發商業中心305室
Tel 電話: (852) 3103 6980
Fax 傳真: (852) 3104 0170
E-mail 電郵: hlm@hlm.biz.com.hk

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 30 to 58 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 judgments 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.

Auditors' Report

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As at 30 June 2005, the Group had net current liabilities and net liabilities of HK\$10,900,026 and HK\$380,099, respectively. The Group also incurred a loss attributable to the shareholders of HK\$5,667,561 for the year ended 30 June 2005. The financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available to meet its debts as and when they fall due in the foreseeable future. The financial statements do not include any adjustments that would result from the failure to obtain such funding. We consider that appropriate estimates and disclosures have been made in the financial statements and our opinion is not qualified in this respect.

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 2005 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, 22 September 2005

Consolidated Income Statement

For the year ended 30 June 2005

		For the year ended 30 June	
		2005	2004
		HK\$	HK\$
	<i>Notes</i>		
Turnover	(5)	1,564,392	2,051,972
Cost of sales		(182,592)	(418,687)
Gross profit		1,381,800	1,633,285
Other revenue		23,070	1,293,876
Distribution costs		(31,555)	(138,570)
Administrative expenses		(6,825,289)	(7,262,959)
Loss from operations	(6)	(5,451,974)	(4,474,368)
Finance costs	(7)	(244,804)	(114,757)
Loss before taxation		(5,696,778)	(4,589,125)
Taxation	(9)	29,217	26,000
Loss for the year		(5,667,561)	(4,563,125)
Dividend	(10)	-	-
Loss per share, in HK cents	(11)	(0.93)	(0.75)

Consolidated Balance Sheet

As at 30 June 2005

	Notes	2005 HK\$	2004 HK\$
Non-Current Assets			
Intangible assets	(12)	13,458,988	14,764,938
Plant and equipment	(13)	641,215	926,019
		<u>14,100,203</u>	<u>15,690,957</u>
Current Assets			
Inventories	(15)	645,459	1,168,537
Trade receivables	(16)	41,551	75,686
Deposits and other receivables		482,667	507,830
Bank balances and cash		189,286	327,033
		<u>1,358,963</u>	<u>2,079,086</u>
Current Liabilities			
Bank overdraft		-	19,843
Trade payables	(17)	-	104,130
Accruals and other payables		3,900,054	2,657,943
Amounts due to directors	(18)	558,426	240,389
Amount due to shareholders	(21)	5,300,000	-
Amount due to a related company	(22)	2,500,000	-
Provision for taxation		509	-
		<u>12,258,989</u>	<u>3,022,305</u>
Net Current Liabilities		<u>(10,900,026)</u>	<u>(943,219)</u>
		<u>3,200,177</u>	<u>14,747,738</u>
Capital and Reserves			
Share capital	(19)	6,068,000	6,068,000
Reserves		(6,448,099)	(780,538)
		<u>(380,099)</u>	<u>5,287,462</u>
Non-Current Liabilities			
Deferred tax liabilities	(23)	8,000	38,000
Amount due to shareholders	(21)	3,572,276	6,922,276
Amount due to a related company	(22)	-	2,500,000
		<u>3,580,276</u>	<u>9,460,276</u>
		<u>3,200,177</u>	<u>14,747,738</u>

The financial statements on pages 30 to 58 were approved and authorised for issue by the Board of Directors on 22 September 2005 and are signed on its behalf by:

Chan Choi Har, Ivy
Director

Wu Wenzhi
Director

Balance Sheet

As at 30 June 2005

	<i>Notes</i>	2005 HK\$	2004 HK\$
Non-Current Asset			
Interests in subsidiaries	(14)	393,075	598,067
Current Assets			
Deposits and other receivables		28,600	28,600
Bank balances		954	13,312
		29,554	41,912
Current Liabilities			
Amounts due to directors		537,861	234,159
Amount due to shareholders	(21)	5,300,000	–
Amount due to a related company	(22)	2,500,000	–
Accruals and other payables		1,030,510	429,070
		9,368,371	663,229
Net Current Liabilities		(9,338,817)	(621,317)
		(8,945,742)	(23,250)
Capital and Reserves			
Share capital	(19)	6,068,000	6,068,000
Reserves	(20)	(18,586,018)	(15,513,526)
		(12,518,018)	(9,445,526)
Non-Current Liabilities			
Amount due to shareholders	(21)	3,572,276	6,922,276
Amount due to a related company	(22)	–	2,500,000
		3,572,276	9,422,276
		(8,945,742)	(23,250)

Chan Choi Har, Ivy
Director

Wu Wenzhi
Director

Consolidated Statement of Changes in Equity

For the year ended 30 June 2005

	Share capital HK\$	Share premium HK\$	Merger difference HK\$	Translation reserve HK\$	Accumulated losses HK\$	Total HK\$
THE GROUP						
At 1 July 2003	6,068,000	19,740,134	22,734,577	-	(38,620,378)	9,922,333
Adjustment on adoption of SSAP12 (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 and 1 July 2004	6,068,000	19,740,134	22,734,577	(7,746)	(43,247,503)	5,287,462
Loss for the year	-	-	-	-	(5,667,561)	(5,667,561)
At 30 June 2005	6,068,000	19,740,134	22,734,577	(7,746)	(48,915,064)	(380,099)

Consolidated Cash Flow Statement

For the year ended 30 June 2005

	2005 HK\$	2004 HK\$
Operating activities		
Loss before taxation	(5,696,778)	(4,589,125)
Adjustment for:		
Interest income	(735)	(2,899)
Interest expense	244,804	114,757
Depreciation on plant and equipment	265,356	250,677
Loss on disposal of plant and equipment	-	10,472
Written off of plant and equipment	57,364	-
Amortisation of intangible assets	1,142,191	1,142,191
Written back of allowance for bad and doubtful debts	-	(264,341)
Allowance for inventories	638,630	82,299
Written off of inventories	190,000	-
Waiver of advances from former distributors	-	(689,557)
Written off of trademark	163,759	-
	<hr/>	<hr/>
Operating cash flow before movements in working capital	(2,995,409)	(3,945,526)
Increase in inventories	(305,551)	(876,944)
Decrease in trade receivables	34,134	415,245
Decrease in deposits and other receivables	25,163	139,116
(Decrease) increase in trade payables	(104,130)	104,130
Increase in accruals and other payables	997,307	667,665
Increase (decrease) in amounts due to directors	318,037	(435,914)
	<hr/>	<hr/>
Cash used in operations	(2,030,449)	(3,932,228)
Tax paid	(274)	-
	<hr/>	<hr/>
NET CASH USED IN OPERATING ACTIVITIES	(2,030,723)	(3,932,228)
	<hr/>	<hr/>
INVESTING ACTIVITIES		
Interest received	735	2,899
Purchases of plant and equipment	(37,916)	(283,054)
	<hr/>	<hr/>
NET CASH USED IN INVESTING ACTIVITIES	(37,181)	(280,155)
	<hr/>	<hr/>
FINANCING		
Advance from shareholders	1,950,000	3,350,000
	<hr/>	<hr/>
NET CASH FROM FINANCING	1,950,000	3,350,000
	<hr/>	<hr/>
DECREASE IN CASH AND CASH EQUIVALENTS	(117,904)	(862,383)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	-	(7,746)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	307,190	1,177,319
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	189,286	307,190
	<hr/>	<hr/>
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	189,286	327,033
Bank overdraft	-	(19,843)
	<hr/>	<hr/>
	189,286	307,190
	<hr/>	<hr/>

Notes to the Financial Statements

For the year ended 30 June 2005

1. GENERAL

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

The Company is an investment holding company. Particulars of the principal activities of its subsidiaries are set out in note 28.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Group incurred a loss attributable to the shareholders of HK\$5,667,561 for the year ended 30 June 2005. In addition, the Group had net current liabilities and net liabilities of HK\$10,900,026 and HK\$380,099, respectively, as at 30 June 2005. Notwithstanding this, the financial statements have been prepared on the assumption that the Group will continue to operate as a going concern. In the opinion of the Directors, the Group will have sufficient working capital to continue its operations in the coming year, after taking into consideration of the following:

- (a) The Group is in the process of identifying/negotiating with potential investors for new equity to be introduced to the Group.
- (b) The Group has been taking ongoing action to tighten cost controls over various general and administrative expenses.

In the opinion of the Directors, in light of the measures taken to date and on the basis of the above-mentioned assumptions, the Group will have sufficient working capital to finance its operation to maintain its operating existence in the foreseeable future. Accordingly, the Directors are satisfied that it is appropriate to prepare the accounts on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made in the accounts to reduce the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The consequential effects of these potential adjustments may have significant effect on the loss of the Group for the year and the net liabilities of the Company and the Group as at 30 June 2005.

Notes to the Financial Statements

For the year ended 30 June 2005

3. STANDARD ACCOUNTING PRACTICE

The financial statements have been prepared in accordance with accounting standards issued by HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively the "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 30 June 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

4. 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.

Notes to the Financial Statements

For the year ended 30 June 2005

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 recognized when therapy is performed. Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

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.

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.

Notes to the Financial Statements

For the year ended 30 June 2005

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2005

4. 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 that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or 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 recognized 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 its 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 2005

5. 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\$	Others HK\$	Elimination HK\$	Consolidated HK\$
For the year ended 30 June 2005					
TURNOVER					
External sales					
– Distributorship	442,822	87,491	24,024	–	554,337
– Retailing	–	1,010,055	–	–	1,010,055
Inter-segment sales	3,629	67,367	–	(70,996)	–
Total revenue	<u>446,451</u>	<u>1,164,913</u>	<u>24,024</u>	<u>(70,996)</u>	<u>1,564,392</u>
Inter-segment sales are charged at cost plus certain markup.					
RESULT					
Segment result	<u>349,830</u>	<u>1,011,690</u>	<u>20,280</u>	<u>–</u>	1,381,800
Unallocated corporate incomes					22,335
Unallocated corporate expenses					(6,856,844)
Operating loss					(5,452,709)
Interest expense					(244,804)
Interest income					735
Taxation					29,217
Loss for the year					<u>(5,667,561)</u>
Assets and liabilities at 30 June 2005					
ASSETS					
Segment assets	–	41,551	–	–	41,551
Unallocated total assets					<u>15,417,615</u>
Consolidated total assets					<u>15,459,166</u>
LIABILITIES					
Segment liabilities					–
Unallocated corporate liabilities					<u>(15,839,265)</u>
Consolidated total liabilities					<u>(15,839,265)</u>

Notes to the Financial Statements

For the year ended 30 June 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

	The People's Republic of China ("PRC") HK\$	Hong Kong 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>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>16,594</u>	<u>–</u>	1,633,285
Unallocated corporate incomes					1,290,978
Unallocated corporate expenses					<u>(7,401,530)</u>
Operating loss					(4,477,267)
Interest expense					(114,757)
Interest income					2,899
Taxation					<u>26,000</u>
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					<u>17,694,357</u>
Consolidated total assets					<u>17,770,043</u>
LIABILITIES					
Segment liabilities					–
Unallocated corporate liabilities					<u>12,482,581</u>
Consolidated total liabilities					<u>12,482,581</u>

Notes to the Financial Statements

For the year ended 30 June 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

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 PRC.

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	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Hong Kong	15,159,537	17,061,416	37,916	272,130
PRC	299,629	708,627	–	10,924
	<u>15,459,166</u>	<u>17,770,043</u>	<u>37,916</u>	<u>283,054</u>

Notes to the Financial Statements

For the year ended 30 June 2005

6. LOSS FROM OPERATIONS

	2005 HK\$	2004 HK\$
Loss from operations has been arrived at after charging:		
Directors' remuneration (<i>note 8(a)</i>)	103,702	118,871
Other staff costs	1,472,821	2,010,716
Retirement benefit scheme contributions	60,729	91,265
Total staff costs	<u>1,637,252</u>	<u>2,220,852</u>
Amortisation of intangible assets included in administrative expenses	1,142,191	1,142,191
Auditors' remuneration	105,287	105,000
Depreciation	265,356	250,677
Loss on disposal of plant and equipment	-	10,472
Written off of plant and equipment	57,364	-
Allowance for inventories	638,630	82,299
Written off of inventories	190,000	-
Written off of trademark	163,759	-
And after crediting:		
Written back for bad and doubtful debts	-	264,341
Bank interest income	735	2,899
Waiver of advances from former distributors	-	689,557
	<u> </u>	<u> </u>

Notes to the Financial Statements

For the year ended 30 June 2005

7. FINANCE COSTS

	2005 HK\$	2004 HK\$
Interest on:		
Loan from shareholders and a director (<i>note 27</i>)	229,510	114,757
Others	15,294	–
	<u>244,804</u>	<u>114,757</u>

8. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

	2005 HK\$	2004 HK\$
Fees:		
Executive directors	–	–
Independent non-executive directors ("INEDs")	3,702	18,871
	<u>3,702</u>	<u>18,871</u>
Other emoluments for executive directors		
Salaries and other benefits	100,000	100,000
Retirement benefit scheme contributions	–	–
	<u>100,000</u>	<u>100,000</u>
Total directors' remuneration	<u>103,702</u>	<u>118,871</u>

For the year ended 30 June 2005, three executive directors received remuneration of approximately HK\$10,000, HK\$90,000 and HK\$ nil respectively, and two INEDs received remuneration of approximately HK\$2,404 and HK\$1,298 respectively.

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 INEDs received remuneration of approximately HK\$8,871 and HK\$10,000 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 2005

8. DIRECTORS' AND EMPLOYEES' REMUNERATION (Continued)

(b) Employees' emoluments

The aggregate emoluments of the five highest paid (2004: five) individuals are as follows:

	2005 HK\$	2004 HK\$
Salaries and other benefits	877,920	884,368
Retirement benefit scheme contributions	33,174	39,101
	<u>911,094</u>	<u>923,469</u>

9. TAXATION

	2005 HK\$	2004 HK\$
The charge (credit) comprises:		
Company and subsidiaries		
Current year profits tax – PRC	783	–
Deferred tax		
Credit of current year	(30,000)	(26,000)
Taxation attributable to the Group	<u>(29,217)</u>	<u>(26,000)</u>

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

Notes to the Financial Statements

For the year ended 30 June 2005

9. TAXATION (Continued)

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

	2005 HK\$	2004 HK\$
Loss before taxation	(5,696,778)	(4,589,125)
Tax at applicable rate	(996,936)	(803,097)
Tax effect of non-deductible expenses	445,197	959,096
Tax effect of non-taxable revenues	(12,263)	(736,848)
Tax effect on temporary differences not recognised	36,965	25,929
Effect of different tax rate of subsidiary in other jurisdiction	37,347	(15,471)
Tax effect of tax losses not recognised	490,473	570,391
Tax charge for the year	783	-

At the balance sheet date, the Group has unused estimated tax losses of HK\$27,449,547 (2004: HK\$24,384,582) 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. DIVIDENDS

No dividend was paid or proposed for the year ended 30 June 2005, nor has any dividend been proposed since the balance sheet date (2004: HK\$ nil).

11. LOSS PER SHARE

The calculation of the basic loss per share for the year ended 30 June 2005 is based on the loss for the year of approximately HK\$5,667,561 (2004: HK\$ 4,563,125) and on the weighted average of 606,800,000 (2004: 606,800,000) shares in issue during the year.

No diluted loss per share for the year ended 30 June 2005 and 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.

Notes to the Financial Statements

For the year ended 30 June 2005

12. INTANGIBLE ASSETS

	Patent and Trademark/ tradenames HK\$
THE GROUP	
COST	
At 1 July 2004	19,878,208
Written off	<u>(163,759)</u>
At 30 June 2005	<u>19,714,449</u>
AMORTISATION	
At 1 July 2004	5,113,270
Provided for the year	<u>1,142,191</u>
At 30 June 2005	<u>6,255,461</u>
NET BOOK VALUE	
At 30 June 2005	<u>13,458,988</u>
At 30 June 2004	<u>14,764,938</u>

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

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

Notes to the Financial Statements

For the year ended 30 June 2005

13. PLANT AND EQUIPMENT

	Plant and machinery HK\$	Leasehold improvement HK\$	Furniture, fixture and equipment HK\$	Total HK\$
THE GROUP				
COST				
At 1 July 2004	414,599	588,585	325,094	1,328,278
Additions	1,666	21,500	14,750	37,916
Written off	–	(156,447)	–	(156,447)
At 30 June 2005	416,265	453,638	339,844	1,209,747
DEPRECIATION AND ACCUMULATED IMPAIRMENT				
At 1 July 2004	89,475	145,427	167,357	402,259
Provided for the year	83,087	120,409	61,860	265,356
Eliminated on written off	–	(99,083)	–	(99,083)
At 30 June 2005	172,562	166,753	229,217	568,532
NET BOOK VALUE				
At 30 June 2005	243,703	286,885	110,627	641,215
At 30 June 2004	325,124	443,158	157,737	926,019

Notes to the Financial Statements

For the year ended 30 June 2005

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2005 HK\$	2004 HK\$
Unlisted shares, at cost	482,700	482,700
Impairment loss	(312,554)	(107,562)
	<hr/>	<hr/>
	170,146	375,138
Amounts due from subsidiaries	34,773,659	32,702,267
	<hr/>	<hr/>
	34,943,805	33,077,405
Less: Allowance on amounts due from subsidiaries	(34,550,730)	(32,479,338)
	<hr/>	<hr/>
	393,075	598,067
	<hr/>	<hr/>

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\$2,276,384 has been recognised in the income statement for the year.

Particulars of the Company's subsidiaries at 30 June 2005 are set out in note 28.

15. INVENTORIES

	THE GROUP	
	2005 HK\$	2004 HK\$
Raw materials	347,837	491,738
Finished goods	297,622	676,799
	<hr/>	<hr/>
	645,459	1,168,537
	<hr/>	<hr/>

Notes to the Financial Statements

For the year ended 30 June 2005

16. TRADE RECEIVABLES

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

	THE GROUP	
	2005	2004
	HK\$	HK\$
Aged:		
0 – 60 days	15,391	74,177
61 – 120 days	12,409	1,509
Over 180 days	13,751	–
	<u>41,551</u>	<u>75,686</u>

17. TRADE PAYABLES

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

	THE GROUP	
	2005	2004
	HK\$	HK\$
Aged:		
Over 120 days	–	104,130
	<u>–</u>	<u>104,130</u>

18. AMOUNT DUE TO DIRECTORS

As at 30 June 2005, the amounts due to directors including an amount of \$200,000 which is repayable on demand and bear interest at Hong Kong Dollar prime lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited. The remaining balances are unsecured, non-interest bearing and repayable on demand.

Notes to the Financial Statements

For the year ended 30 June 2005

19. SHARE CAPITAL

	Number of shares of HK\$0.01 each	Amount HK\$
Authorised:		
At 30 June 2005 and 30 June 2004	<u>10,000,000,000</u>	<u>100,000,000</u>
Issued and fully paid:		
At 30 June 2005 and at 30 June 2004	<u>606,800,000</u>	<u>6,068,000</u>

20. RESERVES

	Share Premium HK\$	Accumulated Losses HK\$	Total HK\$
THE COMPANY			
At 1 July 2003	19,740,134	(31,487,746)	(11,747,612)
Loss for the year	<u>–</u>	<u>(3,765,914)</u>	<u>(3,765,914)</u>
At 30 June 2004 and 1 July 2004	19,740,134	(35,253,660)	(15,513,526)
Loss for the year	<u>–</u>	<u>(3,072,492)</u>	<u>(3,072,492)</u>
At 30 June 2005	<u>19,740,134</u>	<u>(38,326,152)</u>	<u>(18,586,018)</u>

Notes to the Financial Statements

For the year ended 30 June 2005

21. AMOUNT DUE TO SHAREHOLDERS

		THE GROUP		THE COMPANY	
		2005	2004	2005	2004
		HK\$	HK\$	HK\$	HK\$
<i>Notes</i>					
Current Liabilities					
Profit Trick Holdings Limited	2	1,550,000	–	1,550,000	–
Rocket High Investments Limited	2	3,750,000	–	3,750,000	–
		<u>5,300,000</u>	<u>–</u>	<u>5,300,000</u>	<u>–</u>
Non-current Liabilities					
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
		<u>3,572,276</u>	<u>6,922,276</u>	<u>3,572,276</u>	<u>6,922,276</u>
		<u>8,872,276</u>	<u>6,922,276</u>	<u>8,872,276</u>	<u>6,922,276</u>

Note:

- As at 30 June 2005 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.

- As at 30 June 2005, 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.

Notes to the Financial Statements

For the year ended 30 June 2005

22. AMOUNT DUE TO A RELATED COMPANY

The balance of HK\$2,500,000 (2004: 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.

23. DEFERRED TAX

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

	Accelerated tax allowance over depreciation HK\$
At 1 July 2003	64,000
Credit to income for the year	<u>(26,000)</u>
At 1 July 2004	38,000
Credit to income for the year	<u>(30,000)</u>
At 30 June 2005	<u>8,000</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 2005

25. OPERATING LEASE COMMITMENTS

	THE GROUP	
	2005 HK\$	2004 HK\$
Accrued lease payments	1,308,740	670,727
Within one year	176,669	1,785,372
In the second to fifth year inclusive	36,981	452,680
	<u>1,522,390</u>	<u>2,908,779</u>

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of 3 year.

26. CAPITAL COMMITMENTS

As at 30 June 2005, the Group had placed a deposit about HK\$30,000 which is used to buy a filling machine costing HK\$110,000. The machine is expected to set up in October 2005 (2004: HK\$ nil).

Notes to the Financial Statements

For the year ended 30 June 2005

27. RELATED PARTY TRANSACTIONS

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

Name of party	Notes	Nature of transactions	2005 HK\$	2004 HK\$
Ms. Chan Choi Har, Ivy	(i)	Loan from a director	200,000	–
Profit Trick Holdings Limited	(i)	Loan from shareholders	1,550,000	1,550,000
Rocket High Investments Limited	(i)	Loan from shareholders	<u>3,750,000</u>	<u>1,800,000</u>

Notes:

- (i) In accordance to the shareholders' and director's loan agreements, the loans are repayable on demand and bear interest at Hong Kong Dollar prime lending rate quoted by The Hong Kong and Shanghai Banking Corporation Limited from time to time. During the year, the Group had not paid any interest for the loan from shareholders and a director but the Group has accrued interest for the loan from Ms. Chan Choi Har, Ivy, Profit Trick Holdings Limited and Rocket High Investments Limited in the amounts of HK\$252, HK\$79,568 and HK\$149,690 respectively.

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 2005

28. SUBSIDIARIES

Particulars of the Company's subsidiaries at 30 June 2005 are as follows:

Name of subsidiary	Place of incorporation/ operations	Issued and paid up share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
Blu Spa Group Limited	British Virgin Islands/ Hong Kong	Shares US\$2,700	100	–	Investment holding
Blu Spa (Hong Kong) Limited	Hong Kong	Ordinary shares HK\$2	–	100	Market development, product distribution and customer support services
Blu Spa International Limited	British Virgin Islands/ Hong Kong	Share US\$1	–	100	Advertising, marketing and granting of distribution rights
Beachgold Assets Limited	British Virgin Islands/ Hong Kong	Shares US\$2	–	100	Holding of patent and trademarks/tradenames
Clapton Holdings Limited	The Republic of Cyprus/Canada	Shares C£1,000	–	100	Advertising, marketing and granting of distribution rights
Blu Spa Management Services Limited	British Virgin Islands/ Hong Kong	Share US\$1	–	100	Granting of distribution rights and management services
Zhuhai Fulihua Cosmetics Co., Ltd.	PRC	RMB 500,000	–	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 2005

29. CONTINGENT LIABILITIES

(a) Settlement of Litigation Dispute with FCI

The Group had settled the litigation with its former distributor, Fortune Chain Investment Limited ("FCI"). After several negotiations, the Group agreed and paid an amount of HK\$190,000 (the "Sum") to FCI in mid July 2005. The Sum had cleared FCI's claim to buy back the "Blu Spa" brand inventory from them valued at HK\$238,011; warehouse charges incurred up to February 2004 of HK\$4,536; possible damages to be assessed (for further warehouse charges to be incurred from March 2004 onwards); interest on the amounts found due; and the costs of the legal proceedings. The payment was made in full and final settlement of any claim of whatever nature that the Group and FCI may have against each other in respect of the litigation or otherwise.

The amount of HK\$190,000 has been recorded as a liability in the current year. Since the aforesaid stock may not have any saleable value, they have therefore been written off from the stock.

(b) Dispute with DBS Asia

The Group has received certain bills amounting to approximately HK\$245,000 from the former Sponsor, DBS Asia Capital Limited, ("DBS Asia"), which were purported to be reimbursement of legal cost incurred by DBS Asia in connection with legal assistance sought by DBS Asia from outside lawyers in relation to certain inquiries from the Stock Exchange. DBS Asia suggested that the Group is under obligation to reimburse such legal expenses.

However, the directors do not agree with DBS Asia's suggestion that the Group is under any obligation to pay. The Group will liaise with DBS Asia to resolve the dispute.

(c) Arrears of rent and other charges to South Eagle Investments Limited

Due to operating difficulties, one of the subsidiaries, Legend Well International Limited ("LWIL"), has owed rent and other charges to South Eagle Investments Limited (the "landlord") for its retail outlet located at Entertainment Building, Central in Hong Kong since April 2005. The landlord has brought the case to the District Court and judgment was entered on 5 July 2005. LWIL has to repay all of the outstanding amounts due to the landlord. After deducting the rental deposit, LWIL still owed to the landlord about HK\$76,200. The landlord further claimed for reinstatement costs of the premises and the loss of rental and other charges due to delay of handover to new tenant, amounting to HK\$55,300 and about HK\$23,300 respectively. The Group disagreed with the further claim and decided to negotiate a settlement with the landlord with a view to reduce certain amount of legal cost, interest charges and the aforesaid unreasonable claims. On the date of annual report, no settlement agreement has been reached by the parties.

Notes to the Financial Statements

For the year ended 30 June 2005

29. CONTINGENT LIABILITIES (Continued)

(d) Arrears of logistic service charges to Fenix Logistic Services Limited

Due to operating difficulties, one of the subsidiaries, Blu Spa (Hong Kong) Limited ("BSHK"), has owed an amount of about HK\$233,000 to Fenix Logistic Services Limited ("FLS") for the storage and management of its inventory for the period since August 2004. Both parties have come to an agreement over the repayment of the outstanding amount in July 2005. However, the Group is suffering cash flow difficulty and has not yet paid any part of the outstanding amount according to the repayment schedule. If no settlement is reached in the near future, FLS is likely to sue BSHK, and BSHK will then have to bear additional legal cost which FLS may incur in recovering its claim. The Group has attempted to seek additional loans from substantial shareholders to meet the payment, it is not, however, expected that they will bear the additional legal cost.

(e) Arrears of dealership fee to Sogo Hong Kong Co., Ltd.

BSHK has owned an amount of approximately HK\$1.2 million to Sogo Hong Kong Co., Ltd. ("Sogo") for the dealership fee to do business at Beaute@Sogo due to the unsatisfactory business performance. This amount should be fully settled in March 2005. However, the Group is lack of fund and has not yet paid. If no settlement is reached in the near future, Sogo is likely to sue BSHK and BSHK will then have to bear additional legal cost, which Sogo may incur in recovering its claim. The Group has attempted to seek additional loans from substantial shareholders to meet the payment, it is not, however, expected that they will bear the additional legal cost.

(f) Arrears of printing, typesetting, translation and advertising services to SNP Vite Limited

Due to cash flow difficulty of the Group, the Company has owed an amount of approximately HK\$85,000 in respect of printing, typesetting, translation and advertising services to SNP Vite Limited ("SNP"). If no settlement is reached in the near future, SNP is expected to sue the Company, and the Company has to bear additional legal cost of SNP in pursuing its claim. Attempts have been made to seek additional loans from substantial shareholders to meet the payment, again it is not expected that they will bear such additional legal cost.

30. COMPARATIVE FIGURES

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

Financial Summary

	For the year ended 30 June				2005 HK\$
	2001 HK\$	2002 HK\$	2003 HK\$	2004 HK\$	
RESULTS					
Turnover	<u>4,198,093</u>	<u>2,856,445</u>	<u>1,818,151</u>	<u>2,051,972</u>	<u>1,564,392</u>
Loss from ordinary activities attributable to shareholders	<u>(66,649,180)</u>	<u>(10,855,268)</u>	<u>(8,913,543)</u>	<u>(4,563,125)</u>	<u>(5,667,561)</u>

ASSETS AND LIABILITIES

	For the year ended 30 June				2005 HK\$
	2001 HK\$	2002 HK\$	2003 HK\$	2004 HK\$	
Total assets	<u>21,316,862</u>	<u>26,828,723</u>	<u>19,235,990</u>	<u>17,770,043</u>	<u>15,459,166</u>
Total liabilities	<u>(17,463,152)</u>	<u>(11,306,757)</u>	<u>(9,377,657)</u>	<u>(12,482,581)</u>	<u>(15,839,265)</u>
(Deficiency) balance of shareholders' funds	<u>3,853,710</u>	<u>15,521,966</u>	<u>9,858,333</u>	<u>5,287,462</u>	<u>(380,099)</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 2001 and 2002, and the assets and liabilities as at 30 June 2001 and 2002 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 Wednesday, 26 October 2005 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 2005;
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;

Notice of Annual General Meeting

- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (where pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as defined below); or (ii) the grant or exercise of any option under the share option schemes of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the memorandum and articles of association of the Company in force from time to time; or (iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company, shall not exceed the aggregate of:
- (i) 20% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and
 - (ii) (if the Directors are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution), and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and
- (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.

Notice of Annual General Meeting

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

(2) **THAT**

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

Notice of Annual General Meeting

- (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.

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

22 September 2005

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 2202, 22nd Floor,
Carnival Commercial Building,
18 Java Road,
North Point, Hong Kong

Notes:

- (a) A shareholder entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not to be a shareholder of the Company.
- (b) To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited with the Company's Branch share registrar in Hong Kong, Secretaries Limited, at G/F. BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting or at any adjournment thereof.
- (c) In relation to proposed resolutions nos. 4 (1) and 4 (3) above, approval is being sought from the shareholders of the Company for the grant to the Directors of a general mandate to authorise the allotment and issue of shares under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.
- (d) In relation to proposed resolution no. 4(2) above, approval is being sought from shareholders of the Company for a general mandate to be given to the Directors to repurchase shares of the Company.
- (e) An explanatory statement containing the information with respect to resolutions 4(1) to 4(3) of the notice will be sent to the shareholders of the Company together with the Company's 2005 annual report.