



**BLU SPA HOLDINGS LIMITED**

**富麗花•譜控股有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8176)**

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

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

## SUMMARY

- The Group is a developer, promoter and distributor of a broad range of botanical personal care products, treatments and services.
- The unaudited consolidated turnover of the Group for the six months ended 31 December 2005 was approximately HK\$77,000, representing a decrease of approximately HK\$0.97 million or approximately 93% as compared to the unaudited consolidated turnover of the Group of approximately HK\$1.05 million for the corresponding period in 2004.
- The net loss for the six months ended 31 December 2005 was approximately HK\$1.6 million, representing an decrease of loss of approximately HK\$0.8 million or approximately 33% as compared to a net loss of approximately HK\$2.4 million for the corresponding period in 2004.

The board of directors (the “Board”) of Blu Spa Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated financial statements of the Company and its subsidiaries (together, the “Group”) for the six months and three months ended 31 December 2005 together with the comparative figures for the corresponding periods in 2004 as follows:

## UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>For the six months ended 31 December 2005 HK\$'000</b>	For the six months ended 31 December 2004 HK\$'000	<b>For the three months ended 31 December 2005 HK\$'000</b>	For the three months ended 31 December 2004 HK\$'000
Turnover	3	77	1,046	31	388
Cost of sales		<u>(17)</u>	<u>(275)</u>	<u>(9)</u>	<u>(173)</u>
Gross profit		60	771	22	215
Other revenue	4	437	1	66	–
Distribution costs		–	(104)	–	(11)
Administrative expenses		<u>(1,935)</u>	<u>(3,007)</u>	<u>(901)</u>	<u>(1,572)</u>
Loss from operations	5	<b>(1,438)</b>	(2,339)	<b>(813)</b>	(1,368)
Finance costs	6	<u>(201)</u>	<u>(96)</u>	<u>(110)</u>	<u>(51)</u>
Loss before taxation		<b>(1,639)</b>	(2,435)	<b>(923)</b>	(1,419)
Taxation	7	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Loss attributable to shareholders		<u><b>(1,639)</b></u>	<u>(2,435)</u>	<u><b>(923)</b></u>	<u>(1,419)</u>
Basic loss per share (in HK cents)	9	<u><b>(0.27)</b></u>	<u>(0.40)</u>	<u><b>(0.15)</b></u>	<u>(0.23)</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) As at 31 December 2005 <i>HK\$'000</i>	(Audited) As at 30 June 2005 <i>HK\$'000</i>
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Intangible assets		12,888	13,459
Plant and equipment		283	641
		<u>13,171</u>	<u>14,100</u>
<b>CURRENT ASSETS</b>			
Inventories		629	645
Trade receivables	<i>10</i>	60	42
Deposits and other receivables		220	483
Bank balances and cash		93	189
		<u>1,002</u>	<u>1,359</u>
<b>CURRENT LIABILITIES</b>			
Accruals and other payables		3,778	3,900
Amounts due to directors	<i>11</i>	1,027	558
Amount due to shareholders	<i>13</i>	5,300	5,300
Amount due to a related company	<i>14</i>	2,500	2,500
Provision for taxation		-	1
		<u>12,605</u>	<u>12,259</u>
<b>NET CURRENT LIABILITIES</b>		<u>(11,603)</u>	<u>(10,900)</u>
		<u><b>1,568</b></u>	<u><b>3,200</b></u>
<b>CAPITAL AND RESERVES</b>			
Share capital	<i>12</i>	6,068	6,068
Reserves		(8,080)	(6,448)
		<u>(2,012)</u>	<u>(380)</u>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liability	<i>15</i>	8	8
Amount due to shareholders	<i>13</i>	3,572	3,572
		<u>3,580</u>	<u>3,580</u>
		<u><b>1,568</b></u>	<u><b>3,200</b></u>

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Share Capital <i>HK\$'000</i>	Share Premium <i>HK\$'000</i>	Merger Reserve <i>HK\$'000</i>	Translation Reserve <i>HK\$'000</i>	Deficit <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2004	6,068	19,740	22,735	(7)	(43,248)	5,288
Exchange differences arising from translation of operations outside Hong Kong	-	-	-	-	-	-
Loss for the period	-	-	-	-	(2,435)	(2,435)
At 31 December 2004	<u>6,068</u>	<u>19,740</u>	<u>22,735</u>	<u>(7)</u>	<u>(45,683)</u>	<u>2,853</u>
At 1 July 2005	<b>6,068</b>	<b>19,740</b>	<b>22,735</b>	<b>(8)</b>	<b>(48,915)</b>	<b>(380)</b>
Exchange differences arising from translation of operations outside Hong Kong	-	-	-	7	-	7
Loss for the period	-	-	-	-	(1,639)	(1,639)
At 31 December 2005	<u><b>6,068</b></u>	<u><b>19,740</b></u>	<u><b>22,735</b></u>	<u><b>(1)</b></u>	<u><b>(50,554)</b></u>	<u><b>(2,012)</b></u>

**UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	<b>For the six months ended 31 December 2005 HK\$'000</b>	For the six months ended 31 December 2004 HK\$'000
NET CASH USED IN OPERATING ACTIVITIES	(96)	(955)
NET CASH USED IN INVESTING ACTIVITIES	-	(18)
NET CASH FROM FINANCING ACTIVITIES	-	1,750
INCREASE IN CASH AND CASH EQUIVALENTS	(96)	777
CASH AND CASH EQUIVALENTS AT 1 JULY 2005/2004	189	307
EFFECT OF FOREIGN EXCHANGE CHANGES	-	-
CASH AND CASH EQUIVALENTS AT 31 DECEMBER 2005/2004, represented by bank balances and cash	<b>93</b>	<b>1,084</b>

## NOTES

### 1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

The Company is an investment holding company.

The interim results has been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

The Group incurred a loss attributable to the shareholders of approximately HK\$1.6 million for the six months ended 31 December 2005. In addition, the Group had net liabilities of approximately HK\$2 million as at 31 December 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:

- The Group is in the process of identifying/negotiating with potential investors for new equity to be introduced to the Group.
- 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 value 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 six months ended 31 December 2005 and the net liabilities of the Company and the Group as at 31 December 2005.

## 2. PRINCIPAL ACCOUNTING POLICIES AND STANDARD ACCOUNTING PRACTICE

The unaudited consolidated financial statements have been prepared on the historical cost basis.

The financial statements have been prepared in accordance with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The accounting policies used in the unaudited consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 30 June 2005.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as “New HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The adoption of the New HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The applicable HKFRSs adopted by the Group are set out below:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKFRS 2	Share-based Payments



### 3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Turnover represents the net amounts received and receivable for goods sold and therapy services performed, less returns and allowances, by the Group to outside customers. An analysis of the Group's turnover and contribution to operating results and segment assets and liabilities by business segments and geographical markets is as follows:

#### For the six months ended 31 December 2005 (Unaudited)

	The People's Republic of China HK\$'000	Hong Kong HK\$'000	Taiwan HK\$'000	South Korea HK\$'000	Others HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
<b>REVENUE</b>							
External sales							
– Distributorship	27	–	–	–	–	–	27
– Retailing	–	50	–	–	–	–	50
Inter-segment sales	–	8	–	–	–	(8)	–
	<u>27</u>	<u>58</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(8)</u>	<u>77</u>
Total revenue							
<b>RESULT</b>							
Segment result							
– Distributorship	20	–	–	–	–	–	20
– Retailing	–	40	–	–	–	–	40
Unallocated corporate income							437
Unallocated corporate expenses							<u>(1,935)</u>
Operating loss							<u>(1,438)</u>
Interest expense							<u>(201)</u>
Interest income							<u>–</u>
Loss for the period							<u><u>(1,639)</u></u>
<b>Assets and liabilities at 31 December 2005 (Unaudited)</b>							
<b>ASSETS</b>							
Segment assets	–	60	–	–	–	–	60
Unallocated corporate assets							<u>14,113</u>
Consolidated total assets							<u><u>14,173</u></u>
<b>LIABILITIES</b>							
Segment liabilities	–	–	–	–	–	–	–
Unallocated corporate liabilities							<u>16,185</u>
Consolidated total liabilities							<u><u>16,185</u></u>

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

**For the six months ended 31 December 2004 (Unaudited)**

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

**Assets and liabilities at 31 December 2004 (Unaudited)**

<b>ASSETS</b>							
Segment assets	–	54	–	–	–	–	54
Unallocated corporate assets							<u>17,593</u>
Consolidated total assets							<u><u>17,647</u></u>
<b>LIABILITIES</b>							
Segment liabilities	–	–	–	–	–	–	–
Unallocated corporate liabilities							<u>14,794</u>
Consolidated total liabilities							<u><u>14,794</u></u>

#### 4. OTHER REVENUE

Other Revenue for the six months ended 31 December 2005 mainly represents the take-over by the Hong Kong distributor of the therapy courses that have not yet fully been performed for the retail customers but the services charges have been fully received by the Group in previous year. Whilst the Other Revenue for the previous corresponding period in 2004 represented the interest income received, exchange gain received, and sundries income received.

#### 5. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging:

	(UNAUDITED) Six months ended 31 December		(UNAUDITED) Three months ended 31 December	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Director's remuneration	27.5	54	2.5	26
Other staff costs	231	678	137	311
Retirement benefit scheme Contributions	9	35	4	17
Total staff costs	<u>267.5</u>	<u>767</u>	<u>143.5</u>	<u>354</u>
Auditors' remuneration	-	-	-	-
Depreciation	90	133	39	67
Amortization of intangible assets	571	571	285	285
Fixed Assets written-off	<u>268</u>	<u>-</u>	<u>-</u>	<u>-</u>
And after crediting: Release of the obligation onto the Unperformed therapy course	<u>356</u>	<u>-</u>	<u>-</u>	<u>-</u>

#### 6. FINANCE COSTS

	(UNAUDITED) Six months ended 31 December		(UNAUDITED) Three months ended 31 December	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Interest on: Others	<u>201</u>	<u>96</u>	<u>110</u>	<u>51</u>

The Finance Cost was resulted from the interest expenses incurred from loans provided by the substantial shareholders, namely, Profit Trick Holdings Ltd. and Rocket High Investments Ltd., and loan from a director, Ms. Chan Choi Har, Ivy. The loans are repayable on demand and bear interest at Hong Kong Dollar prime lending rate quoted by the Hongkong and Shanghai Banking Corporation Limited from time to time.

## 7. TAXATION

	(UNAUDITED) Six months ended 31 December		(UNAUDITED) Three months ended 31 December	
	2005	2004	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge (credit) comprises:				
Company and subsidiaries				
Current period profits tax				
– PRC	–	–	–	–
Deferred tax				
Credit of current period	–	–	–	–
Taxation attributable to the Group	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

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

No provision for Hong Kong Profits Tax has been made for the six months ended 31 December 2005 and the corresponding period in 2004, as the Group has no assessable profits for the respective periods.

## 8. DIVIDEND

The directors do not recommend the payment of a dividend for the six months ended 31 December 2005, nor has any dividend been proposed since this period ended date (2004: Nil).

## 9. BASIC LOSS PER SHARE

The calculation of loss per share for the six months ended 31 December 2005 is based on the net loss attributable to the shareholders of approximately HK\$1.6 million (2004: loss attributable to shareholders of approximately HK\$2.4 million) and on 606,800,000 (2004: on 606,800,000) ordinary shares of the Company in issue during the period.

No diluted loss per share for the six months ended 31 December 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.

## 10. TRADE RECEIVABLES

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

	(UNAUDITED)	(AUDITED)
	As at 31 December 2005 <i>HK\$'000</i>	As at 30 June 2005 <i>HK\$'000</i>
Aged:		
0-60 days	–	15
61-120 days	–	13
Over 180 days	<u>60</u>	<u>14</u>
	<u>60</u>	<u>42</u>

## 11. AMOUNT DUE TO DIRECTORS

As at 31 December 2005, the amounts due to directors including an amount of HK\$661,831 which is repayable on demand and bear interest at Hong Kong Dollar prime lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time. The remaining balances are unsecured, non-interest bearing and repayable on demand.

## 12. SHARE CAPITAL

	Number of Shares of HK\$0.01 each	Amount HK\$'000
At 31 December (Unaudited) and 30 June (Audited) 2005	<u>10,000,000,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
At 31 December (Unaudited) and 30 June (Audited) 2005	<u>606,800,000</u>	<u>6,068</u>

## 13. AMOUNT DUE TO SHAREHOLDERS

	(UNAUDITED) As at 31 December 2005 HK\$'000	(AUDITED) As at 30 June 2005 HK\$'000
	<i>Note</i>	
<b>Current Liabilities</b>		
Profit Trick Holdings Limited	1 <b>1,550</b>	1,550
Rocket High Investments Limited	1 <b>3,750</b>	3,750
	<b>5,300</b>	5,300
<b>Non-current liabilities</b>		
XO-Holdings Limited	2 <b>3,572</b>	3,572
	<b>8,872</b>	8,872

*Note:*

- As at 31 December 2005 and 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.
- As at 31 December 2005 and 30 June 2005, 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.

#### 14. 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.

#### 15. DEFERRED TAX LIABILITY

		<b>Accelerated tax allowance over depreciation</b> <i>HK\$'000</i>
At 1 July 2004	Audited	38
Credit to income for the year	Audited	(30)
		<hr/>
At 1 July 2005	Audited	8
<b>Credit to income for the period</b>	<b>Unaudited</b>	<b>–</b>
		<hr/>
<b>At 31 December 2005</b>	<b>Unaudited</b>	<b><u>8</u></b>

#### 16. OPERATING LEASE COMMITMENTS

	<b>(UNAUDITED)</b>	<b>(AUDITED)</b>
	<b>As at</b>	<b>As at</b>
	<b>31 December</b>	<b>30 June</b>
	<b>2005</b>	<b>2005</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Accrued lease payments	<b>1,140</b>	1,309
Within one year	<b>49</b>	177
In the second to fifth year inclusive	<b>57</b>	37
	<hr/>	<hr/>
	<b><u>1,246</u></b>	<b><u>1,523</u></b>

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

#### 17. 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.

## 18. EMPLOYEE INFORMATION

As at 31 December 2005, the Group had 4 employees (2004: 11) and staff cost for the six months ended 31 December 2005 (excluding directors' remuneration) amounted to approximately HK\$231,000 (2004: HK\$678,000) whilst the directors' remuneration for the six months ended 31 December 2005 amounted to approximately HK\$27,500 (2004: HK\$54,000). Remuneration is determined by reference to market conditions and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid at the management's discretion to its employees in Hong Kong as recognition of and reward for their contributions. Other benefits include on 30 January 2002, the Company adopted a new share option scheme, contributions to statutory mandatory provident fund scheme to its employees in Hong Kong.

## 19. CONTINGENT LIABILITIES

### (a) 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.

### (b) Settlement of outstanding rent and other charges due to South Eagle Investments Limited

The Group has settled the outstanding rent and other charges due to South Eagle Investments Limited (the "landlord") for its former retail outlet located at Entertainment Building, Central in Hong Kong since April 2005 by one of the subsidiaries, Legend Well International Limited ("LWIL"). After several negotiations, the Group agreed and paid an amount of HK\$126,366.96 (the "Sum") to the Landlord in December 2005. The Sum had cleared the landlord's claim for about HK\$76,200 being the rental charges in arrears; the 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 payment was made in full and final settlement in relation to the litigation action brought by the landlord.

### (c) Settlement of 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\$303,786 as at 31 December 2005 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, owing to the Group's cash flow difficulty the Group has partly fulfilled the repayment schedule. A Writ of Summons has been issued against BSHK on 22 September 2005. The Group did not file a notice to defend. A Judgment was received on 4 November 2005. An order was entered against BSHK by the District Court of Hong Kong to pay to FLS the sum of HK\$271,922.07 together with interest thereon of 8.245% per annum from 22 September 2005 onwards; and fixed cost of HK\$1,380. Subsequent to the Balance Sheet Date on 16 February 2006, the Group paid HK\$300,000 to FLS being the full and final settlement of the amount outstanding in relation to the aforesaid claims and any further storage charges up to 28 February 2006.

**(d) Arrears of dealership fee to Sogo Hong Kong Company Limited**

BSHK has owed an amount of approximately HK\$1.2 million to Sogo Hong Kong Company Limited (“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, due to shortage of fund the Group has not yet paid the same. If no settlement is reached in the near future, Sogo is likely to take legal action against 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 shareholders to meet the payment. It is not, however, expected that they will bear the additional legal cost.

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

Due to the cash flow difficulty of the Group, the Company has owed an amount of approximately HK\$85,000 (the “Debt”) in respect of printing, typesetting, translation and advertising services to SNP Vite Limited (“SNP”). The Group has settled part of the Debt, the balance as at 31 December 2005 was approximately to HK\$65,000. If no full settlement is reached in the near future, SNP is expected to take legal action against 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 shareholders to meet the payment, again it is not expected that they will bear such additional legal cost.

**20. RELATED PARTIES TRANSACTION**

For six months ended 31 December 2005, the Group had the transactions with the following parties:

**Loans from related parties**

Name of party	Notes	Loan Interest amount	As at	As at
		1 July 2005 to 31 December 2005	31 December 2005	30 June 2005
		Unaudited HK\$'000	Unaudited HK\$'000	Audited HK\$'000
Ms. Chan Choi Har, Ivy	(i)	15	662	200
Profit Trick Holdings Limited	(i)	54	1,550	1,550
Rocket High Investments Limited	(i)	132	3,750	3,750

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 period, the Group did not pay any interest for the loan from shareholders and a director.

In addition, the Group had certain balances with its shareholders and related company, details of these are set out in notes 13 and 14 respectively.

**21. CAPITAL COMMITMENTS**

The Group had placed a deposit about HK\$30,000 which is used to buy a filling machine costing approximately to HK\$110,000. The machine was expected to set up in October 2005, however, due to the tight cash position of the Group, it has postponed to next year (2004: HK\$Nil).



## MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

### Six months ended 31 December 2005

For the six months ended 31 December 2005, the Group recorded a turnover of approximately HK\$77,000 which represented a decrease of approximately 93% when compared with that of the corresponding period last year. It was because in the period under review, the Group has revamped this marketing strategy to redirect its focus to distributorship business, and the retailing outlets have been terminated to minimize its operating cost. There were not much sales activities conducted.

The gross profit margin was approximately 78% for the six months ended 31 December 2005 whereas it was approximately 74% in last corresponding period.

Other revenue earned by the Group for the six months ended 31 December 2005, amounted to approximately, HK\$437,000, arising mainly from the take-over by the Hong Kong distributor of the therapy courses have not yet fully performed for the retail customers but the services charges have been fully received by the Group in previous year.

Distribution cost incurred by the Group for the six months ended 31 December 2005 was nil representing a decrease of 100% as compared to those of the previous period (2004: HK\$104,000), which was due to the Group's cost control policy.

Administrative expenses incurred by the Group for the six months ended 31 December 2005 amounted to approximately HK\$1.9 million, representing a decrease of approximately 36% as compared to those of previous period.

Finance Costs of approximately HK\$201,000 incurred by the Group for the six months ended 31 December 2005 as the shareholders' and a director's loans of HK\$6 million bore interest at Hong Kong Dollar prime lending rate quoted by the Hongkong and Shanghai Banking Corporation Limited from time to time.

The loss attributable to shareholders amounted to approximately HK\$1.6 million, (2004: HK\$2.4 million), for the six months ended 31 December 2005, representing an improvement of approximately HK\$0.8 million or 33% decrease as compared to the loss attributable to shareholders for the corresponding period in previous year. This improvement was due to the effective control of overall operating cost of the Group.

### Liquidity and financial resources

The Group generally finances its operations with its internal resources, advances from the substantial shareholders, namely, XO-Holdings Limited, Profit Trick Holdings Limited and Rocket High Investments Limited and loan from a director, Ms. Chan Choi Har, Ivy; as well as advance from a related party. As at 31 December 2005, the Group did not have any banking facilities.

As at 31 December 2005, the shareholders' funds deficit of the Group amounted to approximately HK\$2 million. Current assets amounted to approximately HK\$1 million, of which approximately HK\$0.6 million were inventories, approximately HK\$0.2 million were debtors, deposits and prepayments and approximately HK\$93,000 were cash and bank deposits. The Group's current liabilities amounted to approximately HK\$12.6 million, of which shareholders loans amounted to HK\$5.3 million, amount due to a related company amounted to HK\$2.5 million, amount due to directors amounted to approximately HK\$1 million and accruals and other payables amounted to approximately HK\$3.8 million.

## Gearing Ratio

As at 31 December 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 87% (2004: 77%). 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.

## Significant investments and acquisitions

During the period ended 31 December 2005 and the year ended 30 June 2005, the Group had no material acquisitions.

## Capital commitments

For details please refer to Note 21 of Notes to the Financial Statements.

## Contingent liabilities

For details please refer to Note 19 of Notes to the Financial Statements.

## Charges on Group assets

As at 31 December 2005, the Group did not have any charges on Group's assets.

## Foreign exchange exposure

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

## Loan structure of the Group

		<b>As at 31 December 2005 (Unaudited) HK\$'000</b>	As at 30 June 2005 (Audited) HK\$'000
	<i>Note</i>		
XO-Holdings Ltd.	<i>1</i>	<b>3,572</b>	3,572
Amount due to a related company	<i>2</i>	<b>2,500</b>	2,500
Profit Trick Holdings Ltd.	<i>3</i>	<b>1,550</b>	1,550
Rocket High Investments Ltd.	<i>3</i>	<b>3,750</b>	3,750
Ms. Chan Choi Har, Ivy	<i>4</i>	<b>662</b>	200
		<hr/> <b>12,034</b> <hr/>	<hr/> <b>11,572</b> <hr/>

*Notes:*

1. As at 31 December 2005 and 30 June 2005, the amount due to a shareholder, XO-Holdings Limited, amounted to approximately HK\$3.6 million, which was unsecured and non-interest bearing.

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

2. As at 31 December 2005 and 30 June 2005, the amount due to a related party, which has a common shareholder of Rocket High Investments Limited, a substantial shareholder of the Company, amounted to HK\$2.5 million, which was unsecured, non-interest bearing and repayable upon demand.
3. As at 31 December 2005 and 30 June 2005, the amounts due to Profit Trick Holdings Ltd. and Rocket High Investments Ltd., being substantial shareholders of the Company, which are repayable on demand and bear interest at Hong Kong Dollar prime lending rate quoted by the Hongkong and Shanghai Banking Corporation Limited from time to time.
4. As at 31 December 2005 and 30 June 2005, the amounts due to Ms. Chan Choi Har, Ivy, being the executive director 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 from time to time.

## **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2005 (for the six months ended 31 December 2004: Nil).

## **BUSINESS REVIEW**

The Group has terminated its retail business in Hong Kong. In the period under review, the Group has focused on the distributor business. It mainly aims to minimize the operating expenses. The Group is optimistic about the economic rebound in Hong Kong retail market and it has franchised out the Blu Spa brand to a Hong Kong distributor to operate.

Whereas for the relaxed travel policy for PRC tourist visiting Hong Kong will be further extended in 2005, more people in PRC will be allowed to travel to Hong Kong. The projected benefits for retail stores are huge and those individual travelers will have higher spending power than those of group travelers.

With the effect of its brand building and promotional efforts both in Hong Kong and PRC, the Group had been able to attract potential distributors in the PRC, and South-east Asian region. The Group will continue to identify and seek prospective distributors in Shenzhen, Guangzhou and Beijing of China, South Korea, Thailand and Dubai.

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

## OUTLOOK

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 also continue its efforts in brand building and advertisement designed to promote women new-age holistic lifestyle concepts and new innovative prestige botanical products to the consumers. It will also continue to collaborate with local co-operative partners to organize joint promotional campaigns to increase market awareness of the brand of Blu Spa.

With the carrying out of product promotions and developing closer relationships with our exclusive distributorship business, the Group has successfully emphasized its market expansion locally and internationally. We strongly believe our business is expected to be fruitful in the near future especially under the encouragement of 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's Zhuhai subsidiary will provide a strong supportive base for its entrance to the PRC market in the future.

The Group will also try its best to providing not only excellence beauty care products to its end users, but also training our marketing staff to deliver product knowledge in order to act as consultants for the users' beauty needs. The Group is expecting the business performance to improve in the coming future.

## DIRECTORS' INTERESTS IN SHARES AND OPTIONS

As at 31 December 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 5.46 to 5.67 of the GEM Listing Rules were as follows:

### A. Long position in shares

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

Notes:-

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

## B. Short position in shares

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

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

## C. Share options

### *Options to subscribe for shares in the Company*

Name of Director	Date of grant	Exercise Price HK\$	Number of Shares Options Outstanding as at 31 December 2004
Chan Choi Har, Ivy	30 January 2002	0.30	10,250,000

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

## SHARE OPTION SCHEME

On 30 January 2002, the Company adopted a new share option scheme (the “Scheme”), for the primary purpose of providing incentives or reward to directors and employees and to recognise the contribution of such eligible persons to the growth of the Company or any subsidiaries, and will expire on 29 January 2012. As at 31 December 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 by means of acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the directors or their spouses or children under the age 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, the register of substantial shareholders required to be maintained under Section 336 of the SFO showed that, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

### Long position in shares

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

#### Notes:

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

Save as disclosed above, the Company has not been notified of any other interests representing 5% or more or any short positions in the issued share capital of the Company as at 31 December 2005.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 December 2005.

## **ADVANCES TO AN ENTITY**

Pursuant to Rules 17.15 and 17.22 of the GEM Listing Rules, the Group has, in its normal and ordinary course of business, no material amount of account receivable was recorded as at 31 December 2005, because the Group is still in the stage of screening potential distributors.

## **COMPETING INTERESTS**

As at 31 December 2005, none of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had any interest in a business that competed or might compete with the business of the Group.

## **SPONSOR'S INTERESTS**

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

## **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 period ended 31 December 2005, the Company has complied with the Code of Best Practice as was then set out in Appendix 14 of the Listing Rules.

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 Directors of the Company comprises five Directors, of which two are Executive Directors, namely Mr. Wu Wenzhi and Ms. Chan Choi Har, Ivy and three are Independent Non-Executive Directors (“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. These 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 period ended 31 December 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 of Directors.

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 which has been established in 2005 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 principle 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 report, there is sufficient public float, as not less than 25% of the Company's issued shares are held by the public.

## **BOARD PRACTICES AND PROCEDURES**

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

By order of the Board  
**Blu Spa Holdings Limited**  
**Ivy Chan**  
*Director*

*As at the date hereof, the Board comprises of Ms. Chan Choi Har, Ivy and Mr. Wu Wenzhi are executive directors, Mr. Chan Shun Kuen, Eric, Mr. Lam Wai Pong and Mr. Yeung Mario Bercasio, all of whom are INEDs.*

Hong Kong, 24 February 2006