



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 2008**

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. 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 of the Company (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited. The directors of the Company, 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 aspects 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's turnover for the six months ended 31 December 2008 was approximately HK\$15,576,000, representing an increase of approximately HK\$9,688,000 or approximately 1.6 times as compared with approximately HK\$5,888,000 for the corresponding period in 2007.
- The Group shifted from loss attributable to shareholders of approximately HK\$1,520,000 for the six months ended 31 December 2007 to profit attributable to shareholders of approximately HK\$3,666,000 for the six months ended 31 December 2008.
- The Group shifted from basic loss per share of HK2.50 cents for the six months ended 31 December 2007 to basic earnings per share of HK0.93 cents for the six months ended 31 December 2008.
- The board does not recommend the payment of an interim dividend for the six months ended 31 December 2008.

UNAUDITED INTERIM RESULTS

The board of directors (the "Board") of Blu Spa Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months and three months ended 31 December 2008 together with the comparative figures for the corresponding periods in 2007. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

		(Unaudited) For the six months ended 31 December 2008 <i>HK\$'000</i>	For the six months ended 31 December 2007 <i>HK\$'000</i>	(Unaudited) For the three months ended 31 December 2008 <i>HK\$'000</i>	For the three months ended 31 December 2007 <i>HK\$'000</i>
	<i>Notes</i>				
Turnover	3	15,576	5,888	8,265	2,677
Cost of sales		<u>(4,917)</u>	<u>(4,205)</u>	<u>(2,754)</u>	<u>(1,671)</u>
Gross profit		10,659	1,683	5,511	1,006
Other revenue		-	19	-	17
Distribution costs		(815)	-	(480)	-
Administrative expenses		(6,178)	(2,885)	(2,615)	(1,740)
Finance costs	4	<u>-</u>	<u>(337)</u>	<u>-</u>	<u>(147)</u>
Profit (loss) before taxation		3,666	(1,520)	2,416	(864)
Taxation	5	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Profit (loss) for the period	6	<u><u>3,666</u></u>	<u><u>(1,520)</u></u>	<u><u>2,416</u></u>	<u><u>(864)</u></u>
		<i>HK cents</i>	<i>HK cents</i> (Restated)	<i>HK cents</i>	<i>HK cents</i> (Restated)
Earnings (loss) per share	8				
Basic		<u><u>0.93</u></u>	<u><u>(2.50)</u></u>	<u><u>0.61</u></u>	<u><u>(1.42)</u></u>
Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>	<u><u>N/A</u></u>	<u><u>N/A</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) As at 31 December 2008 <i>HK\$'000</i>	(Audited) As at 30 June 2008 <i>HK\$'000</i>
	<i>Notes</i>		
Non-current assets			
Intangible assets		9,828	10,296
Property, plant and equipment		1,046	675
		10,874	10,971
Current assets			
Inventories		48	50
Trade receivables	9	17,236	9,630
Deposits and other receivables		35,237	1,056
Bank balances and cash		716	48,190
		53,237	58,926
Current liabilities			
Deposits from customers		2,046	1,385
Accruals and other payables		2,614	7,752
Amounts due to a director	10	–	652
Amounts due to a related company	11	187	4,517
Provision for taxation		5	5
		4,852	14,311
Net current assets		48,385	44,615
Total assets less current liabilities		59,259	55,586
Net assets		59,259	55,586
Capital and reserves			
Share capital	12	39,368	39,368
Reserves		19,891	16,218
		59,259	55,586

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Merger difference <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumu- lated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2008	39,368	49,785	22,735	(6)	(56,296)	55,586
Exchange differences arising from translation of operations outside Hong Kong	-	-	-	7	-	7
Profit for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,666</u>	<u>3,666</u>
At 31 December 2008	<u>39,368</u>	<u>49,785</u>	<u>22,735</u>	<u>1</u>	<u>(52,630)</u>	<u>59,259</u>
At 1 July 2007	6,068	19,740	22,735	(9)	(57,578)	(9,044)
Exchange differences arising from translation of operations outside Hong Kong	-	-	-	-	-	-
Loss for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,520)</u>	<u>(1,520)</u>
At 31 December 2007	<u>6,068</u>	<u>19,740</u>	<u>22,735</u>	<u>(9)</u>	<u>(59,098)</u>	<u>(10,564)</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited) For the six months ended 31 December 2008 <i>HK\$'000</i>	(Unaudited) For the six months ended 31 December 2007 <i>HK\$'000</i>
Net cash (used in) generated from operating activities	(46,971)	5,185
Net cash used in investing activities	(510)	(83)
Net cash used in financing activities	—	(5,142)
	<hr/>	<hr/>
Decrease in cash and cash equivalents	(47,481)	(40)
Effect of foreign exchange rate changes	7	—
Cash and cash equivalents at beginning of the year	48,190	261
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	<u>716</u>	<u>221</u>
Analysis of the balance of cash and cash equivalents		
Bank balances and cash	<u>716</u>	<u>221</u>

NOTES

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. Its parent and ultimate holding company is Million Fortune Group Limited (incorporated in the British Virgin Islands).

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company is an investment holding company.

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements for the six months ended 31 December 2008 have been prepared under the historical cost convention.

The unaudited condensed consolidated financial statements for the six months ended 31 December 2008 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” and the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules. 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 2008, except for the following accounting policies newly adopted in current review period.

In the current review period, the Group has applied for the first time the following new interpretations issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 July 2008:

HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new interpretations had no material effect on how the results and financial position of the Group for the current or prior accounting periods have been prepared. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new or revised standards that have been issued but are not yet effective:

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹

¹ *Effective for annual periods beginning on or after 1 January 2009*

² *Effective for annual periods beginning on or after 1 July 2009*

3. TURNOVER AND SEGMENTAL INFORMATION

Turnover represents the net amounts received and receivable for goods sold, therapy services and training course services provided, less returns and allowances, by the Group to outside customers. Turnover also includes royalty fee income charged to the distributors for use of the Group's trademarks/tradenames.

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

Turnover and contribution to operating results by business segment and geographical segment

	PRC <i>HK\$'000</i>	Hong Kong <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<i>For the six months ended 31 December 2008 (Unaudited)</i>				
Turnover				
External sales				
– Sales of products	12,826	49	–	12,875
– Royalty fee income	1,282	–	–	1,282
– Therapy services	–	419	–	419
– Provision of training courses	1,000	–	–	1,000
	<u>15,108</u>	<u>468</u>	<u>–</u>	<u>15,576</u>
Total revenue	<u>15,108</u>	<u>468</u>	<u>–</u>	<u>15,576</u>
Result				
Segment result	<u>12,443</u>	<u>(1,784)</u>	<u>–</u>	10,659
Unallocated corporate incomes				–
Unallocated corporate expenses				(6,993)
Interest income				–
Finance costs				–
Taxation				–
Profit for the period				<u>3,666</u>

For the six months ended 31 December 2007 (Unaudited)

Turnover

External sales				
– Sales of products	4,451	23	–	4,474
– Royalty fee income	–	–	–	–
– Therapy services	–	414	–	414
– Provision of training courses	<u>1,000</u>	<u>–</u>	<u>–</u>	<u>1,000</u>
Total revenue	<u>5,451</u>	<u>437</u>	<u>–</u>	<u>5,888</u>

Result

Segment result	<u>3,019</u>	<u>(1,336)</u>	<u>–</u>	1,683
Unallocated corporate incomes				18
Unallocated corporate expenses				(2,885)
Interest income				1
Finance costs				(337)
Taxation				<u>–</u>
Loss for the period				<u>(1,520)</u>

Assets and liabilities by business segment

	Sales of products <i>HK\$'000</i>	Therapy services <i>HK\$'000</i>	Provision of training courses <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<i>As at 31 December 2008 (Unaudited)</i>				
Assets				
Segment assets	16,236	–	1,000	17,236
Unallocated corporate assets				<u>46,875</u>
Consolidated total assets				<u><u>64,111</u></u>
Liabilities				
Segment liabilities	–	(2,046)	–	(2,046)
Unallocated corporate liabilities				<u>(2,806)</u>
Consolidated total liabilities				<u><u>(4,852)</u></u>
<i>As at 31 December 2007 (Unaudited)</i>				
Assets				
Segment assets	2,266	–	1,000	3,266
Unallocated corporate assets				<u>12,790</u>
Consolidated total assets				<u><u>16,056</u></u>
Liabilities				
Segment liabilities	–	(1,150)	–	(1,150)
Unallocated corporate liabilities				<u>(25,470)</u>
Consolidated total liabilities				<u><u>(26,620)</u></u>

Assets and liabilities by geographical segment

	PRC <i>HK\$'000</i>	Hong Kong <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<i>As at 31 December 2008 (Unaudited)</i>				
Assets				
Segment assets	17,230	53	1	17,284
Unallocated corporate assets				<u>46,827</u>
Consolidated total assets				<u><u>64,111</u></u>
Liabilities				
Segment liabilities	-	(2,046)	-	(2,046)
Unallocated corporate liabilities				<u>(2,806)</u>
Consolidated total liabilities				<u><u>(4,852)</u></u>
<i>As at 31 December 2007 (Unaudited)</i>				
Assets				
Segment assets	3,260	53	1	3,314
Unallocated corporate assets				<u>12,742</u>
Consolidated total assets				<u><u>16,056</u></u>
Liabilities				
Segment liabilities	-	(1,150)	-	(1,150)
Unallocated corporate liabilities				<u>(25,470)</u>
Consolidated total liabilities				<u><u>(26,620)</u></u>

4. FINANCE COSTS

	(Unaudited)		(Unaudited)	
	Six months ended		Three months ended	
	31 December		31 December	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on:				
Loan from shareholders and directors	-	336	-	147
Interest on obligation under finance leases	-	1	-	-
	<u>-</u>	<u>337</u>	<u>-</u>	<u>147</u>

5. TAXATION

	(Unaudited)		(Unaudited)	
	Six months ended		Three months ended	
	31 December		31 December	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profits tax				
- Hong Kong - current period	-	-	-	-
- PRC - current period	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred tax	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

No tax is provided on the profit for the period arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

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

6. PROFIT (LOSS) FOR THE PERIOD

	(Unaudited) Six months ended 31 December 2008		(Unaudited) Three months ended 31 December 2008	
	HK\$'000	2007 HK\$'000	HK\$'000	2007 HK\$'000
Profit (loss) for the period has been arrived at after charging:				
Directors' remuneration	1,958	1	610	–
Other staff costs	2,842	1,593	1,399	812
Retirement benefit scheme contributions	193	41	165	11
Total staff costs	4,993	1,635	2,174	823
Amortisation of intangible assets	468	468	234	234
Depreciation	139	80	76	42

7. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2008 (2007: Nil).

8. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings per share for the three months and six months ended 31 December 2008 is based on the profit for the period of approximately HK\$2,416,000 and HK\$3,666,000 respectively, and on the weighted average number of 393,680,000 ordinary shares in issue during the periods.

The calculation of the basic loss per share for the three months and six months ended 31 December 2007 is based on the loss for the period of approximately HK\$864,000 and HK\$1,520,000 respectively, and on the weighted average number of 60,680,000 (being adjusted to reflect the effect of share consolidation on 18 June 2008) ordinary shares in issue during the periods.

No diluted earnings per share for the three months and six months ended 31 December 2008 was presented as there was no potential ordinary share in issue.

No diluted loss per share for the three months and six months ended 31 December 2007 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.

9. TRADE RECEIVABLES

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

	(Unaudited) As at 31 December 2008 <i>HK\$'000</i>	(Audited) As at 30 June 2008 <i>HK\$'000</i>
Age:		
0-60 days	6,191	5,773
61-120 days	6,035	1,651
121-180 days	2,883	664
181-365 days	2,127	1,542
Over 365 days	48	48
	<u>17,284</u>	<u>9,678</u>
Provision for doubtful debts	(48)	(48)
	<u><u>17,236</u></u>	<u><u>9,630</u></u>

10. AMOUNT DUE TO A DIRECTOR

As at 30 June 2008, the amount due to a Director related to expenses paid in advance by a director is non-interest bearing, unsecured and repayable on demand.

11. AMOUNT DUE TO A RELATED COMPANY

As at 30 June 2008, the amount due to a related company, the controlling shareholder of which is the chief executive officer of the Company, is unsecured, non-interest bearing and repayable upon demand.

12. SHARE CAPITAL

	Number of Shares of HK\$0.10 each	Amount <i>HK\$'000</i>
<i>Authorised:</i>		
At 31 December (Unaudited) and 30 June (Audited) 2008	<u>1,000,000,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
At 31 December (Unaudited) and 30 June (Audited) 2008	<u>393,680,000</u>	<u>39,368</u>

13. OPERATING LEASE COMMITMENTS

	(Unaudited) As at 31 December 2008 <i>HK\$'000</i>	(Audited) As at 30 June 2008 <i>HK\$'000</i>
Accrued lease payments	–	794
Within one year	1,886	1,877
In the second to fifth year inclusive	265	893
	2,151	3,564

Operating lease payments represent rentals payable by the Group for certain of its office premises, spa centres and warehouses. Leases are negotiated for an average terms of two years.

14. RETIREMENT BENEFIT SCHEME

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

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

15. EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2008, the Group had 33 employees (2007: 25) and staff costs for the six months ended 31 December 2008 (excluding directors’ remuneration) amounted to HK\$3,035,000 (2007: HK\$1,634,000) whilst the directors’ remuneration for the six months ended 31 December 2008 amounted to HK\$1,958,000 (2007: HK\$1,000). Remuneration is determined by reference to market conditions and the performance, qualification and experience of individual employee. Other benefits include share option schemes as detailed in the prospectus dated 4 February 2002 and contributions to statutory mandatory provident fund scheme to its employees in Hong Kong.

16. RELATED PARTY DISCLOSURES

a. Related party transactions

Name of party	Nature of transactions	(Unaudited) Six months ended 31 December	
		2008 HK\$'000	2007 HK\$'000
Ms. Chan Choi Har, Ivy ("Ms. Ivy Chan"), executive Director	Interest expense on loan	–	336
	Loan from a director (Note 1)	–	15,749
Garrick International Limited (Note 2)	Provision of finance lease	–	1
	Purchase of products	<u>1,878</u>	<u>2,318</u>

Notes:

1. The loan includes an amount of approximately HK\$9,384,000 which is repayable on demand and bears 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.
2. Ms. Keung Wai Fun ("Ms. Samantha Keung"), Chief Executive Officer of the Company and controlling shareholder of Million Fortune Group Limited (the Company's ultimate holding company), and Mr. Cheung Tsun Hin, Samson, Chairman and executive Director of the Company, are shareholders and directors of Garrick International Limited. Garrick International Limited is owned as to 90% by Ms. Samantha Keung and as to 10% by Mr. Cheung Tsun Hin, Samson. Mr. Cheung Tsun Hin, Samson is son of Ms. Samantha Keung.

b. Related party balances

The Group's outstanding balance with a related party is set out in the condensed balance sheet.

c. Compensation for key management personnel

The remuneration of directors and other members of key management personnel during the period was as follows:–

	(Unaudited) Six months ended 31 December	
	2008 HK\$'000	2007 HK\$'000
Short-term employee benefits	<u>2,558</u>	<u>360</u>

The remuneration of directors and key management personnel is determined or proposed by the remuneration committee having regard to the performance of individuals and market trends.

MANAGEMENT DISCUSSION AND ANALYSIS

Results of operation

For the six months ended 31 December 2008, the Group recorded a turnover of approximately HK\$15,576,000 (2007: approximately HK\$5,888,000) which represented an increase of approximately 1.6 times when compared with that of the corresponding period last year. The increase in turnover was mainly attributable to improved performance in product distribution and beauty care services in Hong Kong and the PRC.

The gross profit amounted to approximately HK\$10,659,000 for the six months ended 31 December 2008 whereas the gross profit for the corresponding period last year amounted to approximately HK\$1,683,000. The increase in gross profit was mainly attributable to increased product distribution for the period.

Distribution costs incurred by the Group for the six months ended 31 December 2008 amounted to approximately HK\$815,000 (2007: Nil). The increase in distribution costs was mainly attributable to marketing and promotional expenses incurred for the PRC market.

Administrative expenses incurred by the Group for the six months ended 31 December 2008 amounted to approximately HK\$6,178,000 (2007: approximately HK\$2,885,000), representing an increase of approximately 1.1 times as compared with that of the corresponding period last year. The increase in administrative expense was mainly attributable to increased payments for salaries, directors' remuneration and overseas traveling.

No finance cost was incurred by the Group for the six months ended 31 December 2008 (2007: approximately HK\$337,000) as all directors' and shareholders' loans were repaid as at last year end date.

The Group shifted from loss attributable to shareholders of approximately HK\$1,520,000 for the six months ended 31 December 2007 to profit attributable to shareholders of approximately HK\$3,666,000 for the six months ended 31 December 2008.

Liquidity and financial resources

During the six months ended 31 December 2008, the Group mainly financed its operations with internally generated resources.

As at 31 December 2008, the Group had cash and cash equivalents of approximately HK\$716,000 (30 June 2008: approximately HK\$48,190,000).

As at 31 December 2008, the Group had total assets of approximately HK\$64,111,000 (30 June 2008: approximately HK\$69,897,000) and total liabilities of approximately HK\$4,852,000 (30 June 2008: approximately HK\$14,311,000). Net current assets of the Group as at 31 December 2008 was approximately HK\$48,385,000 (30 June 2008: approximately HK\$44,615,000).

Current ratio of the Group as at 31 December 2008 was approximately 11.0 (30 June 2008: approximately 4.1). Quick ratio of the Group as at 31 December 2008 was approximately 11.0 (30 June 2008: approximately 4.1).

Capital structure

As at 31 December 2008 and 30 June 2008, the Group had no borrowing.

The cash and cash equivalents of the Group are mainly denominated in Hong Kong dollars.

BUSINESS REVIEW

For the six months ended 31 December 2008, turnover amounted to HK15,576,000 representing a 1.6 times increase from HK5,888,000, the turnover during the same period last year. Such increase was attributed to the Group's unwavering efforts in strengthening its product distribution, customer service and beauty care services in Hong Kong and the PRC. Despite the slowdown in retail industry in the post-Beijing Olympic period, the Group continued to source and identify new locations in Hong Kong including convenient Central location that enables the Group to enhance its corporate image, to tap into the upscale beauty care market and to promote its market presence. During the period under review, in addition to the spa centers operating at Aquamarine and Hampton Place, the Group opened a third spa centre at Long Beach, another luxurious residential apartment complex developed by Hang Lung Properties Limited in West Kowloon.

At the same time, the Group continued to concentrate on its distributorship business as well as marketing and promotional support to its distributors. In September 2008, jointly with the PRC distributor the Group participated in the Guangzhou International Beauty & Cosmetic Import-Export Expo Autumn 2008 which was held at the China Import and Export Fair Pazhou Complex.

During the period under review, the PRC distributor, encouraged by the performance of Blu Spa cosmetic sales counters in department stores in major cities in China, image store/spa center at Beijing Chateau de Luze Hotel and image store/spa centre/beauty academy at Mayfair Hotel in Tianjin, further extended its distribution network in Northern China region in key cities such as Harbin.

PROSPECTS

2009 is expected to be a year of challenge in light of the US sub-prime economic meltdown in North America and Europe but also opportunities in terms of market consolidation for the beauty industry and government sponsored vocational retraining for the rising idle labour force in Hong Kong and China. On this regard, the Group has finalized its plan for establishment of a new beauty training academy in Kowloon during the first quarter of 2009 to meet the fast growing demand for beauty care education.

With the aim of broadening the Group's spa management service portfolio and market share in beauty industry, the Group continued to negotiate with leading property developers in Hong Kong for additional spa facility management opportunity in high-end residential estates as well as hotels. The Group is

committed to expand the coverage of its distribution network through setting up of cosmetic sales and spa service counters in leading department stores in Hong Kong during the first quarter of 2009. The management believes that the presence of Blu Spa cosmetic sales and spa service counter in leading department stores is vital to the enhancement of the Group's corporate image and conducive to the Group's future business growth.

As part of the Group's continuing market development efforts, the Group is scheduled to take part in the forthcoming Guangzhou International Beauty & Cosmetic Import-Export Expo Spring 2009 in conjunction with the PRC distributor. The Group perceives these regional beauty industry trade events to be excellent venues for promoting market recognition of the Blu Spa brand, products and services in an efficient and cost effective manner. The Group will continue to provide the PRC distributor the necessary marketing and customer service support that it requires in pursuit of its on-going distribution network expansion in China.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2008 (2007: Nil).

DISCLOSURE OF THE INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2008, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (i) to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of SFO); or (ii) to be entered in the register referred to therein pursuant to Section 352 of SFO; or (iii) to be notified to the Company and the Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the GEM Listing Rules, were as follows:

A. Long position in shares

Name	Nature of interests	Number of shares	Approximate percentage of shareholding
<i>Executive Director</i>			
Ms. Ivy Chan	Beneficial owner	7,500,000	1.91%
	Corporate interest	11,065,787	2.81%
		(Note 1)	
<i>Chief Executive Officer</i>			
Ms. Samantha Keung	Corporate interest	250,682,200	63.68%
		(Note 2)	

Notes:

1. These shares are held by XO-Holdings Limited. Ms. Ivy Chan is the beneficial owner as to 65% of the issued share capital of XO-Holdings Limited.
2. These shares are held by Queensbury Global Limited. Million Fortune Group Limited holds 88.38% interest in the registered capital of Queensbury Global Limited and Ms. Samantha Keung holds 87.0% interest in the registered capital of Million Fortune Group Limited.

B. Short position in shares

No short position of Directors and chief executives in the shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) were recorded in the register or as otherwise notified to the Company and the Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

C. Share options

Options to subscribe for shares in the Company:

Name	Date of grant	Exercise price HK\$	Number of share options outstanding as at 1 July 2008	Number of share options lapsed during the period	Number of share options outstanding as at 31 December 2008
<i>Executive Director</i>					
Ms. Ivy Chan	30 January 2002	3.00	1,025,000	1,025,000	–

Note: The number of share options and exercise price were adjusted to reflect the effect of Share Consolidation effective on 18 June 2008.

Save as disclosed above, as at 31 December 2008, none of the Directors or chief executives of the Company had any interest or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO to be entered in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Exchange.

SHARE OPTION SCHEMES

On 30 January 2002, the Company adopted the Pre-IPO Share Option Scheme (the “Pre-IPO Scheme”) and a new share option scheme (the “Scheme”), for the primary purpose of providing incentives or rewards to the directors and employees of the Group and to recognise the contribution of such eligible persons to the growth of the Group, and will expire on 29 January 2012. No option was granted under the Pre-IPO Scheme and the Scheme during the period.

Share Options

(1) The Pre-IPO Scheme

Under the Pre-IPO Scheme, the Board 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 (the “INEDs”).

As at 31 December 2008, no options remained outstanding under the Pre-IPO Scheme. 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 4,100,000 shares (adjusted to reflect the effect of Share Consolidation effective on 18 June 2008), representing 10% of the total issued share capital of the Company as at the listing date (adjusted to reflect the effect of Share Consolidation effective on 18 June 2008), 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 INEDs, 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\$3.00 (adjusted to reflect the effect of Share Consolidation effective on 18 June 2008) 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) The Scheme

Under the Scheme, the Board may grant options to directors and employees of the Company or any subsidiaries, to subscribe for shares in the Company within ten 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 INEDs of the Company.

As at 31 December 2008, 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 4,100,000 shares (adjusted to reflect the effect of Share Consolidation effective on 18 June 2008), representing 10% of the total issued share capital of the Company as at the listing date (adjusted to reflect the effect of Share Consolidation effective on 18 June 2008), 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 INEDs, 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, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing price of the Company's shares for the five business days immediately preceding the date of grant.

The following table discloses movements in the Company's share options under the Pre-IPO Scheme during the period:

	Number of share options outstanding at 1 July 2008	Number of share options lapsed during the period	Number of share options outstanding at 31 December 2008
Executive Director			
Ms. Ivy Chan	<u>1,025,000</u>	<u>1,025,000</u>	<u>—</u>
Total for Directors	<u>1,025,000</u>	<u>1,025,000</u>	<u>—</u>
Employees			
	<u>—</u>	<u>—</u>	<u>—</u>
Grand total	<u>1,025,000</u>	<u>1,025,000</u>	<u>—</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	3.00

Note: The number of share options and exercise price were adjusted to reflect the effect of Share Consolidation effective on 18 June 2008.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the period was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefit 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 2008, as far as is known to the Directors and chief executives of the Company, the following person (not being a Director or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO:

Long position in shares

Shareholder	Nature of interests	Number of shares	Approximate percentage of shareholding
Queensbury Global Limited	Beneficial owner	250,682,200	63.68%
Million Fortune Group Limited	Interest of controlled corporation	250,682,200	63.68%
Ms. Samantha Keung	Interest of controlled corporation	250,682,200	63.68%

Note: As at 31 December 2008, Queensbury Global Limited owned 250,682,200 ordinary shares of the Company. As Million Fortune Group Limited holds 88.38% interest in the registered capital of Queensbury Global Limited and Ms. Samantha Keung holds 87.0% interest in the registered capital of Million Fortune Group Limited, Ms. Samantha Keung is deemed to be interested in all of the 250,682,200 ordinary shares of the Company held by Queensbury Global Limited. Ms. Samantha Keung's indirect interest in these 250,682,200 ordinary shares of the Company is also disclosed in the paragraph headed "Disclosure of the interests and short positions of directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations". These ordinary shares represent the same interest and therefore duplicate amongst Queensbury Global Limited, Million Fortune Group Limited and Ms. Samantha Keung.

Save as disclosed above, the Directors and chief executives of the Company are not aware of any person (other than Director or chief executive of the Company) who, as at 31 December 2008, had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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 for the six months ended 31 December 2008.

ADVANCES TO AN ENTITY

As at 31 December 2008, 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 17.22 and 17.24 of the GEM Listing Rules.

COMPETING INTERESTS

During the period under review, none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had any interest in business that competes or might compete with the business of the Group.

CORPORATE GOVERNANCE

For the six months ended 31 December 2008, the Group had been in compliance with most of the provisions of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules, save as the deviations discussed below. The Company adopted the code provisions set out in the Code on Corporate Governance Practices as its own code of corporate governance practices.

According to Code Provision A.4.1, non-executive directors must be appointed for a specific term and subject to re-election. The existing non-executive Directors of the Company do not have specific terms of appointment. However, pursuant to the Bye-laws of the Company, all Directors of the Company (including executive and non-executive Directors) (except the Chairman of the Company) shall be subject to retirement by rotation in every annual general meeting.

According to Code Provision A.4.2, every director is subject to retirement by rotation at least once every three years. Pursuant to the Bye-laws of the Company, at each annual general meeting, one-third of the directors must retire. Notwithstanding any requirements of that provision, the Chairman of the Company is not subject to retirement by rotation or taken into account in determining the number of Directors to retire. On 1 August 2008, Mr. Cheung Tsun Hin, Samson was appointed as executive Director and also Chairman of the Company in place of Ms. Ivy Chan. As Mr. Cheung Tsun Hin, Samson, the Chairman and executive Director of the Company, is responsible for market development of the Group, the Board believes that continuity is the key to implementing the long-term business plans successfully, and that with the Chairman continuing in office, it can provide the Group with strong and consistent leadership, thus long-term business strategies can be planned and implemented more effectively. The Board is of the view that the Chairman of the Company should not be subject to retirement by rotation.

The Board's annual review of the effectiveness of the system of internal control of the Group pursuant to C.2.1 of the Code on Corporate Governance Practices will be reported in the forthcoming corporate governance report to be contained in the Company's annual report for the financial year ending 30 June 2009.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the period under review, the Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. After making specific enquiries to all Directors of the Company, the Company was not aware of any Directors who were in breach of the required standard of dealings and the Company's code of conduct on securities transactions by Directors for the period under review.

BOARD OF DIRECTORS

The Board of the Company comprises six Directors, of which two are executive Directors, namely Mr. Cheung Tsun Hin, Samson and Ms. Ivy Chan, one is non-executive Director, namely Mr. Chan Shun Kuen, Eric and three are INEDs, namely Mr. Chan Sze Hon, 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 non-executive Directors provide their professional advices to the Group. The non-executive Directors have professional experiences in legal, finance and accounting and engineering respectively.

With the exception of the Chairman of the Company not subject to retirement by rotation or taken into account in determining the number of Directors to retire, one-third of all the Directors shall retire by rotation from office each year in accordance with the Company's Bye-laws. 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

As required by Rules 5.28 to 5.33 of the GEM Listing Rules, the Company established an audit committee (the "Audit Committee") on 10 December 2001 with written terms of reference which precisely specifies its powers and duties. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group.

The Audit Committee currently comprises three INEDs, namely, Mr. Chan Sze Hon, Mr. Lam Wai Pong and Mr. Yeung Mario Bercasio. Mr. Chan Sze Hon is the Chairman of the Audit Committee.

The Group's unaudited interim results for the six months ended 31 December 2008 have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

The Company established a remuneration committee (the “Remuneration Committee”) on 30 March 2005 with written terms of reference. The Remuneration Committee currently comprises three INEDs of the Company, namely, Mr. Chan Sze Hon, Mr. Lam Wai Pong and Mr. Yeung Mario Bercasio. Mr. Chan Sze Hon is the Chairman of the Remuneration Committee.

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

During the period under review, the Company has been in compliance with the requirements for the Board Practices and Procedures as set out in Rule 5.34 of the GEM Listing Rules.

By order of the Board
Blu Spa Holdings Limited
Cheung Tsun Hin, Samson
Chairman

Hong Kong, 9 February 2009

As at the date of this report, the Board comprises two executive Directors, namely Mr. Cheung Tsun Hin, Samson and Ms. Chan Choi Har, Ivy, one non-executive Director, namely Mr. Chan Shun Kuen, Eric and three INEDs, namely Mr. Chan Sze Hon, Mr. Lam Wai Pong and Mr. Yeung Mario Bercasio.

* *For identification purpose only*