BLU SPA HOLDINGS LIMITED

富 麗 花 ● 譜 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

ANNOUNCEMENT RELATING TO HEALTH INSPECTION PERMITS IN THE PRC

The Board wishes to inform Shareholders that the PRC Distributors have yet to obtain all the health inspection permits for the sale and distribution of the Products in the PRC.

In accordance with the distribution agreements entered into between the Group and the PRC Distributors, the PRC Distributors are responsible for distribution of the Products, which includes shipping and importing the Products into the PRC and the relevant health inspection permits. Furthermore, the Board is advised by the Company's PRC legal adviser that the Group is not required to obtain any health inspection licenses or such other licenses, permits and registrations in order to sell the Products to the PRC Distributors and that the Group would not be liable for or subject to any of such penalties for any breach of or non-compliance with the relevant PRC rules by the PRC Distributors. Should the PRC Distributors be penalised by the PRC authorities for the sale and distribution of the Products pending issue of the health inspection permits, bad and doubtful debts provisions may be required for the PRC Receivables and the Group's sales to the PRC Distributors may be slower.

The non-executive director of the Company, Wai Suk Chong, Helena, who is not in Hong Kong, has expressed about her concerns on the contents of this announcement. As at the date of this announcement, her concerns have not been resolved. The Board will ascertain from Wai Suk Chong, Helena her concerns in due course and further announcement will be made.

The Board notes the recent decrease in the share price of the Company and wish to state that, save for disclosed above, the Board is not aware of any reason for such decrease. The Board also confirms that there are no negotiations or agreements relating to intended acquisitions or realisations which are discloseable under Chapters 19 to 20 of the GEM Listing Rules, neither is the Board aware of, save for disclosed above, any matter discloseable under the general obligation imposed by rule 17.10 of the GEM Listing Rules, which is or may be of a price-sensitive nature.

Shareholders should exercise caution when dealings in shares of the Company. The Stock Exchange of Hong Kong Limited is looking into the above matters and has indicated that it reserves its right to take any appropriate action. Further announcement will be made if and when appropriate.

Background

The board of directors (the “Board”) of Blu Spa Holdings Limited (the “Company”) wishes to inform shareholders of the Company (the “Shareholders”) that the Group’s distributors in the People’s Republic of China (the “PRC”) have yet to obtain all the health inspection permits for the sale and distribution of the Group’s products (the “Products”) in the PRC. The Board has been advised by the Company’s PRC legal adviser that according to the relevant PRC rules where any import cosmetic products is imported or sold without the requisite health inspection permits, the cosmetic products in question will be subject to confiscation, and the person in breach of the legal requirements shall be fined three to five times the proceeds generated from the sale of such cosmetic products. In the event that the Products are confiscated there is a possibility that the account receivables attributable to the Group’s sales to the distributors in the PRC (the “PRC Receivables”) may be adversely affected, bad and doubtful debts provisions may be required for the PRC Receivables and the Group’s sales to the PRC Distributors may be slower.

Distribution agreements with distributors

In accordance with the distribution agreements entered into between the Group and all the distributors in the PRC (“PRC Distributors”), the PRC Distributors are responsible for the distribution of the Products, which includes the shipping and importing the Products into the PRC and obtaining the relevant health inspection permits without any involvement of any member of the Group. As mentioned above, the Board has been advised by the Company’s PRC legal adviser that the Group is not required to obtain any health inspection licenses or such other licenses, permits and registrations in order to sell the Products to the PRC Distributors who then carry out the sale and distribution of the Products in the PRC although the PRC Distributors might require the Group to provide certain documents and/or materials in assisting the PRC Distributors to apply for the relevant approvals and certificates for the import of the Products into the PRC and the sale and distribution in the PRC. The Board confirms that from time to time requests were made by and certain documents and/or materials were provided to the PRC Distributors in assisting them to apply for the relevant approvals and certificates for the import of the Products into the PRC prior to and after the listing of the shares of the Company on the Growth Enterprise Market as an on-going process applicable to all distributors of the Group.

Furthermore, in accordance with the distribution agreements entered into between the Company and all the PRC Distributors, the Company shall not be liable to the PRC Distributors for any of its obligations of any kind whatsoever incurred by the PRC Distributors and also the PRC Distributors shall hold the Company harmless against all claim, action or proceedings arising out of any non-performance, alleged or otherwise in or relating to the Products by the PRC Distributors in connection with the distribution of the Products.

Notwithstanding that the Products are sold by the Group to the PRC Distributors, the Company's PRC legal adviser confirmed that the Group would not be liable for or subject to any of such penalties for any breach of or non-compliance with the relevant PRC rules by the PRC Distributors.

The Board has recently been advised by the PRC Distributors that according to the existing industry practice, since they have already submitted their applications for distribution of the more popular Products under each Product line and are in the process of applying for the relevant health inspection permits for the less popular Products, it is unlikely that they will be penalised for the import, sale and distribution of the Products pending the issue of the relevant health inspection permits. As of the date of this announcement, the Board is not aware of any penalty imposed on any of the PRC Distributors and/or any licensed retail outlets in the PRC for the import, sale and distribution of the Products in the PRC. Notwithstanding the foregoing, the Board confirms that the PRC Distributors continue to place new orders and make payment to the Group.

Estimated potential impact on the Group

Based on the audited consolidated accounts of the Group for the year ended 30 June 2001, sales to the PRC Distributors accounted for approximately HK$3.13 million, representing approximately 74.5% of the Group's total sales for the year. As per the latest management accounts of the Group for the nine months ended 31 March 2002, sales to the PRC Distributors accounted for approximately HK$2.81 million, (representing approximately 70.5% of the Group's total sales for the period), and approximately HK$2.58 million (representing approximately 64.8% of the Group's total sales for the period) of which were not covered by the relevant health inspection permits, and approximately HK$0.76 million (representing approximately 19.2% of the Group's total sales for the period) of sales were covered by applications in process. As at 31 March 2002, the total PRC Receivables amounted to approximately HK$1.55 million, and approximately HK$1.32 million of which exceeds 60 days. For the PRC Distributors of high credit worthiness, and/or established trading history with the Group, the Group offers credit terms of 90-120 days to encourage trading activites. As at 31 May 2002, the subsequent settlement to the PRC Receivables amounted to approximately HK$0.21 million.

The Company's existing policy on bad debt provision is 1% of the Group's monthly sales. Given the year end date of 30 June 2002, the Board will review the amount of the PRC Receivables with the auditors of the Company by the end of this financial year 2002 to determine the necessity and the amount of bad debt provisions in relation to the PRC Receivables. Should the PRC Distributors be penalised by the PRC authorities for the sale and distribution of the Products pending issue of the health inspection permits, bad and doubtful debts provisions may be required for the PRC Receivables and the Group's sales to the PRC Distributors may be slower.

Disclosure in the prospectus

During the preparation of the prospectus of the Company, the Board was advised by the PRC Distributors that applications had been made and/or would be made for the health inspection permits for the import, sale and distributions of the Products in the PRC. As the sale transactions between the Group and the PRC Distributors took place and were completed in Canada or Hong Kong and that the distributors (including the PRC Distributors) are independent contractors to the Group, the Group was not under any obligation to make enquiry as to whether the PRC Distributors have obtained all the relevant health inspection permits for the sale of the Products in the PRC.

While operating only in Canada and Hong Kong, the Group does not have any operation in any of the countries where its distributors operate. The distributors of the Group are independent contractors to the Group and the sale transactions between the Group and its distributors are of an outright sale nature. Since the Group does not have any operation other than in Canada and Hong Kong, the Group is not required to obtain any licence or registration in the countries where its distributors operate. For the protection of its intellectual properties, the Group has registered and applied for registration with the relevant authorities where the Group or its distributors operate the trademarks/services marks of the Group for use in its operations. As far as the production of the Products in Canada is concerned, the Group has subcontracted to independent subcontractors who are responsible for obtaining the production permits (if required), and the Group supervises and monitor its subcontractors' operations. Accordingly, the Board is of the view that the statement in the prospectus of the Company stating that the Group has obtained all the required licenses and registrations in respect of production, sales or distribution of the Group's products in each of the markets where the Group or its distributors operate (the "Statement") is correct and remains valid. Given the above and based on the relevant distribution agreements entered into by the Group with its distributors, the legal opinion of the Group's PRC legal adviser, the representations made by the directors of the Company, and the verification conducted on the prospectus, the sponsor to the Company, DBS Asia Capital Limited having confirmed with and advised by its legal advisers responsible for such verification concurs with the views of the Board that the Statement remains correct and valid.

General

The principal business of the Group is engaged in the development, promotion and sales of a broad range of botanical personal care products, treatments and services.

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The Board notes the recent decrease in the share price of the Company and wish to state that, save for disclosed above, the Board is not aware of any reason for such decrease. The Board also confirms that there are no negotiations or agreements relating to intended acquisitions or realisations which are discloseable under Chapters 19 to 20 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited ("GEM Listing Rules"), neither is the Board aware of, save for disclosed above, any matter discloseable under the general obligation imposed by rule 17.10 of the GEM Listing Rules, which is or may be of a price-sensitive nature.

Shareholders should exercise caution when dealings in shares of the Company. The Stock Exchange of Hong Kong Limited is looking into the above matters and has indicated that it reserves its right to take any appropriate action. Further announcement will be made if and when appropriate.

By order of the Board
BLU SPA HOLDINGS LIMITED
Law Kin Ming, Alfred
Vice-Chairman

Hong Kong, 28 June 2002

This announcement, for which the directors of the Company (except for Wai Suk Chong, Helena who is not in Hong Kong) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors of the Company (except for Wai Suk Chong, Helena who is not in Hong Kong), having made all reasonable enquires, confirm that, to the best of their knowledge and belief:- (1) the information contained in this announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the "Latest Company Announcements" page of the GEM website for at least seven days from the date of its posting.