BLU SPA

BLU SPA HOLDINGS LIMITED

富麗花•譜控股有限公司*

(incorporated in the Cayman Islands with limited liability)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE, 2002

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

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

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

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

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

This Announcement, for which the directors of Blu Spa Holdings Limited 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 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 announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* *For identification purpose only*

SUMMARY

- Turnover for the year ended 30 June, 2002 was approximately HK$2.86 million , representing a decrease of a approximately 32%, as compared with the previous year.
- Loss attributable to shareholders for the year ended 30 June, 2002 was approximately HK$(10.9) million, representing approximately a 63% increase year-on-year.
- Loss per share increased by approximately 50% to HK$3 cents.
- The Directors do not recommend the payment of a dividend for the year ended 30 June, 2002.

RESULTS

The board (the "Board") of directors (the "Directors") of Blu Spa Holdings Limited (the "Company") is pleased to announce the audited combined financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 30 June, 2002 together with the audited comparative figures for the corresponding year in 2001, prepared in accordance with the generally accepted accounting principles in Hong Kong, as follows:

Consolidated Profit and Loss Account

		For the year ended 30 June,	
		2002 (Audited)	2001 (Audited)
	Notes	*HK$'000*	*HK$'000*
Turnover	2	2,856	4,198
Cost of sales		(1,062)	(1,367)
Gross profit		1,794	2,831
Other revenue		197	21
Distribution costs		(520)	(1,834)
Administrative expenses		(12,287)	(6,522)
Loss from operations		(10,816)	(5,504)
Finance costs		(39)	(1,145)
Loss before taxation	3	(10,855)	(6,649)
Taxation	4	—	—
Loss attributable to shareholders		(10,855)	(6,649)
Loss per share — in HK cents	6	(3.00)	(2.00)

NOTES TO CONSOLIDATED PROFIT AND LOSS ACCOUNT

1. GROUP REORGANISATION AND BASIS OF PREPARATION

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.

Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM") on 19 February, 2002, the Company became the holding company of the companies now comprising the Group on 10 December, 2001. Details of the Reorganisation are set out in the prospectus of the Company dated 4 February, 2002 (the "Prospectus"). The shares of the Company were successfully listed on GEM on 19 February, 2002.

The Group resulting form the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared on the basis as if the Company had always been the holding company of the Group using the principles of merger accounting in accordance with the Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for Group Reconstructions".

All significant intra-group transactions and balances have been eliminated on combination. The accounting policies and basis for the preparation of the audited condensed combined financial statements of the Group are consistent with those used in the Accountants' Report as set out in the Prospectus.

In preparing the financial statement, the Directors have given careful consideration to the future liquidity of the Group. The Directors are currently actively seeking new external funding to improve the liquidity position of the Group. However, certain shareholders have confirmed that in view of the current liquidity difficulties experienced by the Group, it is their intention to provide the Group with sufficient financial support to enable the Group to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

2. SEGMENTAL INFORMATION

Turnover and contribution to operating results by business segment has not been prepared as all the Group's turnover, assets and liabilities was derived from the development, distribution and marketing of personal care treatment products.

An analysis of the Group's turnover and contribution to operating results by geographical markets is as follows:

	For the year ended 30 June, 2002						
	The PRC (Audited) *HK$'000*	**Hong Kong (Audited)** *HK$'000*	**Malaysia (Audited)** *HK$'000*	**Taiwan (Audited)** *HK$'000*	**Others (Audited)** *HK$'000*	**Elimination (Audited)** *HK$'000*	**Consolidated (Audited)** *HK$'000*
REVENUE							
External sales	1,339	410	25	1,061	21	—	2,856
Inter-segment sales	—	4,292	—	—	—	(4,292)	—
Total revenue	1,339	4,702	25	1,061	21	(4,292)	2,856
RESULT							
Segment result	816	274	15	676	13	—	1,794
Unallocated corporate expenses							(12,619)
Operating loss							(10,825)
Interest expense							(39)
Interest income							9
Loss for the year							(10,855)

	For the year ended 30 June, 2001					
	The PRC (Audited) *HK$'000*	**Hong Kong (Audited)** *HK$'000*	**Malaysia (Audited)** *HK$'000*	**Others (Audited)** *HK$'000*	**Elimination (Audited)** *HK$'000*	**Consolidated (Audited)** *HK$'000*
REVENUE						
External sales	3,129	400	412	257	—	4,198
Inter-segment sales	—	1,879	—	—	(1,879)	—
Total revenue	3,129	2,279	412	257	(1,879)	4,198
RESULT						
Segment result	2,200	267	240	147	(23)	2,831
Unallocated corporate expenses						(8,349)
Operating loss						(5,518)
Interest expense						(1,145)
Interest income						14
Loss for the year						(6,649)

3. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	Year ended 30 June, 2002 (Audited) *HK$'000*	Year ended 30 June, 2001 (Audited) *HK$'000*
Directors' remuneration	3,224	1,800
Other staff costs	1,703	868
Retirement benefit scheme contributions	59	10
Total staff costs	4,986	2,678
Allowance for bad and doubtful debts	521	—
Amortisation of intangible assets included in administrative expenses	977	953
Auditors' remuneration	400	100
Depreciation	81	20
Loss on disposal of plant and equipment	98	—
Provision for stock	643	—
Research and development costs	5	78
and after crediting:		
Bank interest income	9	14

4. TAXATION

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits subject to Hong Kong Profits Tax during the period.

No provision for overseas taxation has been made as the subsidiaries of the Group operating in their respective jurisdictions had no assessable profits during the period.

5. DIVIDEND

The Directors do not recommend the payment of dividend in respect of the year ended 30 June, 2002 (2001: Nil).

6. LOSS PER SHARE

The calculation of the basic loss per share for the year ended 30 June, 2002 is based on the loss for the year of approximately HK$10,855,000 and on the weighted average of 364,112,493 in issue during the year.

The calculation of the basic loss per share for the year ended 30 June, 2001 is based on the loss for the year of approximately HK$6,649,000 and assuming 333,170,000 shares of the Company were issued pursuant to the Group Reorganisation.

No diluted loss per share was presented as the exercise of the Company's share options would result in a decrease in loss per share.

7. MOVEMENT OF RESERVES

The movements in the reserves of the Group are as follows:

	Share premium *HK$'000*	**Merger reserve** *HK$'000*	**Translation reserve** *HK$'000*	**Deficit** *HK$'000*	**Total** *HK$'000*
THE GROUP					
At 1 July, 2000	—	—	—	(12,234)	(12,234)
Issue of shares	22,716	—	—	—	22,716
Loss for the year	—	—	—	(6,649)	(6,649)
At 30 June, 2001	22,716	—	—	(18,883)	3,833
Reserve arising from the Group Reorganisation	(22,716)	22,734	—	—	18
Issue of shares through placing	22,281	—	—	—	22,281
Issue of shares pursuant to Capitalisation Issue	(3,048)	—	—	—	(3,048)
Issue of shares pursuant to Loan Capitalisation	4,719	—	—	—	4,719
Share issue expenses	(5,477)	—	—	—	(5,477)
Exchange differences arising from translation of operations outside Hong Kong	—	—	(49)	—	(49)
Loss for the year	—	—	—	(10,855)	(10,855)
At 30 June, 2002	18,475	22,734	(49)	(29,738)	11,422

For the purpose of the preparation of the financial statements, the balance of the share premium account shown in the consolidated balance sheet at 30 June, 2001 represented the share premium of Blu Spa Group Limited, the entire interest of which was acquired by the Company on 10 December, 2001 pursuant to the Group Reorganisation.

The merger reserve of the Group represents the differences between the carrying amount of the share capital and share premium of Blu Spa Group Limited at the date on which it was acquired by the Company and the nominal amount of the Company's shares issued in exchange pursuant to the Group Reorganisation.

In the opinion of the directors, the Company had no reserves available for distribution as at 30 June, 2002 and 30 June, 2001.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

Results

The Group has experienced a downturn in the operating results of the financial year. For the year ended 30 June, 2002, the Group has recorded a turnover of approximately HK$2.86 million due to the decline in sales of the Group's products to its selected distributors in the Asian Pacific Region, particularly, the PRC market which has decreased by approximately 57% as compared to the previous financial year as a result of the audit on the accounts of the Group for the year ended 30 June, 2002, upon the advice of the auditors, the Company's sales to the distributors representing respectively, the Hubei, Guangxi and Guangdong Province (the "PRC Distributors") of approximately HK$1.2 million (the "Adjusted Sales") pertaining to the PRC Receivables (as referred to in the announcements made by the Company respectively on 28 June, 2002 and 19 August, 2002) have been adjusted to exclude from recognition as the Group's turnover for the year ended 30 June, 2002 (the "Adjustment") notwithstanding that the Adjusted Sales were supported by sales contracts and 30% of deposits had been paid and that the Products were manufactured and shipped to Hong Kong, the Products have not been taken up in full by the PRC Distributors and the balance amount receivable under the sales contracts remained outstanding as at 30 June 2002. In view of the non-fulfillment of the terms of the sales contracts by the PRC Distributors including the non-acceptance of Products in full and the non-payment of remaining balance thereunder and the Group's intention to terminate those sales contracts and to forfeit the relevant deposits, the Adjustment has been made.

Loss attributable to shareholders for the year ended 30 June, 2002 was approximately HK$10.9 million. This represented an increase of approximately 63% in the net loss as compared with the previous financial year. The decline in the financial conditions of the Group was due to the continuing global economic downturn compounded by the effect of the 911 attack in the United States, the Adjustment and the provision for obsolete inventories.

Distribution costs incurred by the Group for the year ended 30 June, 2002 amounted to approximately HK$0.5 million, representing a decrease of approximately 72 per cent. as compared to those of the previous year which was attributable to the decrease in advertising and promotional expenses incurred in enhancing the brand recognition and in expanding distributorship network.

Administrative expenses incurred by the Group for the year ended 30 June, 2002 amounted to approximately HK$12 million, representing an increase of approximately 88 per cent. as compared to those of previous year. The increase was mainly due to increase of rental, staff costs and legal and other professional fees during the post-listing period and the Adjustment and the provision for obsolete inventories.

The finance costs incurred by the Group for the year ended 30 June, 2002 decreased to approximately HK$38,716 which primarily arose from interest on the outstanding purchase consideration of CAD 242,177 payable to B.S. International Inc. for the acquisition of inventories of raw materials, finished goods and other moveable assets. The Group did not incur any interest on the shareholder loan of HK$4 million because the shareholder's loan became non-interest bearing on 1 July, 2001.

Due to the decrease in turnover as a result of the Adjustment, the provision for obsolete inventories and increase in administration expenses, the net loss attributable to shareholders amounted to approximately HK$10.9 million.

Financial Resources and Liquidity

As at 30 June, 2002, the shareholders' funds of the Group amounted to approximately HK$15.5 million. Current assets amounted to approximately HK$9.1 million, of which approximately HK$4.9 million were cash and bank deposits and approximately HK$4.1 million were debtors, deposits and prepayments. The Group's current liabilities amounted to approximately HK$2.2 million, mainly comprise of creditors, accruals and other payables amounted to approximately HK$0.06 million and HK$1.9 million respectively.

Significant Investments and Acquisitions

During the year ended 30 June, 2002 and the year ended 30 June, 2001, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies.

As at 30 June, 2002 and 30 June, 2001, the Group had no material investment other than the acquisition from B.S. International Inc. inventories of raw materials, finished goods and other moveable assets at a total consideration of Can $300,000 pursuant to an asset purchase agreement dated 27 September, 2001.

Capital commitments

As at 30 June, 2002 and 30 June, 2001, the Group had no future plans for material investment.

Contingent liabilities

As at 30 June, 2002 and 30 June, 2001, the Group had no material contingent liabilities.

Charges on group assets

As at 30 June, 2002, 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 and US dollars. The Director considers the impact of foreign exchange exposure of the Group is minimal.

Capital structure of the Group

As at 30 June, 2002, the amount due to a shareholder, XO-Holdings Limited, amounted to approximately HK$3,572,000, which was unsecured and non-interest bearing (as at 30 June, 2001: the amount due to XO- Holdings amounted to approximately HK$8,172,000, of which HK$4,000,000 carried an interest at 30% per annum and the remaining balance was 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$3,572,000 within one year from the listing of the shares of the Company on GEM; and (ii) it will not demand repayment of any outstanding amount due to it after one year from the date of listing of the shares of the Company on GEM unless the Group has positive cash flow from operations and retained earnings in a financial year and each of the independent non-executive Directors has given an opinion that such payment will not adversely affect the operations of the Group and the implementation of the business objectives of the Company as stated in the Prospectus.

As at 30 June, 2002, the amount due to the two directors of the Company, Ms. Chan Choi Har, Ivy and Mr. Law Kin Ming, Alfred amounted to approximately HK$5,550,000, which was unsecured and non-interest bearing (as at 30 June, 2001: the amount due to the two Directors amounted to approximately HK$5,550,000, which was unsecured and non-interest bearing).

Each of the Two Directors has undertaken to the Company that

(i) each of them will not demand repayment of the aggregate amount due to them of approximately HK$5,550,000 within one year from the listings of the shares of the Company on GEM; and

(ii) each of them will not demand repayment of any outstanding amount due to them 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 repayment will not adversely affect the operations of the Group and the implementation of the business objectives of the Company as stated in the prospectus.

Save as mentioned above, the Group did not have any outstanding loan capital, bank overdrafts and liabilities under acceptance or other similar indebtedness, debentures, mortgages, charges, or loans or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities as at the close of he business on 30 June, 2002 and 30 June, 2001 respectively. The Group did not have any funding and treasury policies, financial instruments for hedging purpose.

As at 30 June, 2002, the Group's gearing ratio, expressed as a percentage of total borrowings(comprising amounts due to directors and a shareholder of the Company) over total assets, was 34% (as at 30 June, 2001: 64%). The Directors believe that the gearing ratio is at an acceptable level for the Group and the Group would be able to create sufficient financial resources to discharge its debts.

Details of future plans for material investment or capital assets

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

Employees and Remuneration Policies

As at 30 June, 2002, the Group had 17 employees (2001: 12). 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 pre-IPO share option scheme and share option scheme as detailed in prospectus dated 4 February, 2002, contributions to statutory mandatory provident fund scheme to its employees in Hong Kong and the mandatory government-run Canada Pension Plan to its employees in Canada.

As from 26 September, 2002, Ms. Wai Suk Chong, Helena became the vice-chairman and executive director of the Company and Ms. Chan Choi Har, Ivy ceased to use the designation of vice-chairman but remains as executive director of the Company.

Waiver of Directors Fees up to HK$3 million

On 26 September, 2002, the two Directors confirmed to the Company that of the aggregate amount due to them of approximately HK$5,555,000 they waived a sum of HK$3 million which will increase in net asset of the Group by the same amount.

BUSINESS REVIEW

Sales Distribution and Marketing

The Group's market development efforts in China and Asia Pacific have not progressed as satisfactorily as expected primarily due to the persistent economic recession in the Asian Pacific Region and the non-performance of the distributorship for the Hubei Province and Guangxi Province in the PRC. As per the announcement made by the Company on 19 August, 2002 relating to the PRC Receivables, the Company ascertained from PRC Distributors their reasons for not accepting delivery of the products stored in Hong Kong on their behalves and not paying the balance. The Hubei Distributor and Guangxi Distributors responded with their reasons including, the difficulty of securing acceptable retail locations and the Group's uncompromising stance and continuous neglect to match its deliveries according to their actual market development progress whereas the Guangdong Distributor responded with its reason that the Group only delivered 50% of the contract amount which they required to match their customers' orders. The Hubei Distributor and Guangxi Distributor had further confirmed of the surrender of their respective distributorship. However, the Directors did not agree with the reasons given by the Hubei Distributor and Guangxi Distributor as proper reasons for their default and accordingly treated the distributorship of their respective territories in the PRC as terminated. Despite the termination of the distributorship for these two provinces, the Group's unwavering efforts will continue in identifying and recruiting suitable distributors in the PRC.

Despite the on-going negotiations with potential distributors in the PRC and Asia Pacific region, no suitable distributors have been identified and recruited under the more stringent requirements adopted by the Group during its selection process. The Group has entered into distributor agreement with Shaping China for distribution of the Group's products within its chain of fitness centers on 22 May, 2002. Establishment of retail concept and environment spa inside the selected hotels owned by a local hotel chain owner in the PRC has been delayed until end of 2002 due to the number of hotels and diversity of locations involved in the selection process. The Group has been under negotiations with Saks Department Store on Fifth Avenue since late last year. Despite the delay of these negotiations the parties are expected to resume meeting in about November 2002 when certain newly repackaged skin care products will be available for presentation to the management of Saks Department Store to demonstrate the quality and image of the Group's products. Despite the considerable efforts expended by the Group in identifying holiday resort, country club and hotel locations in the Asia-Pacific region and Hong Kong, no locations identified by the Group have been selected by its distributors as suitable for committing the necessary capital investment.

The Group continued its advertising and promotion activities by registering as participant for the 2002 COSMOPROF in Hong Kong and joining its Guangdong distributor in participating the Guangzhou Cosmetic Trade Fair 2002 both of which were due to be held in the second part of 2002. On 7 March, 2002, the Group entered into a one- year sponsorship agreement with a Beijing based Music Television Station for promoting the Blu Spa brand name and products in specified MTV programmes, magazines and printed publications. Such sponsorship arrangement present the Group excellent opportunities for gaining brand recognition and promoting corporate image among young audience in China.

The Group collaborated with the Taiwan distributor in its successful tender for the first and business class inflight packages of China Airline. The Group further tendered for the first and business class inflight packages of one Canada based carrier and one US based carrier. Penetration to such target institutional sale inflight shop market segment is considered by the Directors to be tremendous opportunities for building a strong customer base and high level of brand recognition among international consumers.

Incidental to the Group's tender for the business and first class inflight packages, the Group has submitted its proposal to a US based carrier a bounce back web-site promotion whereby the latter will promote among its customers the Group's virtual spa for on-line shopping. The Directors consider such bounce back web-site promotion to be potential revenue source for the Group in view of the huge customer base of the carrier. If similar arrangement can be extended to international companies with broad customer base, it may help grow the Group's future business by creating a new revenue stream for the Group.

Products and Services

In April 2002, the Group launched a new whitening line as an inline extension of the skin care category. At the same time, the Group collaborated with its distributors in the launch of a "Spa at Work" concept featuring the use of its products for stress relaxation at work. "Spa at Work" concept was introduced either at specially arranged workshop or on site at the offices of international professional firms.

Research and Development

The Group completed the experiments, tests and studies in respect of the new ginger line, the sun care line and three new anti-aging eye and face treatment formulae. Given the different and changing market demand, the Directors have suspended the experiments of the muscle relaxation formula and aromatherapy spa formula and postponed the experiments relating to new colour lipstick formulae.

The Group has strengthened its product research and development capability by establishing its own dedicated research laboratory facilities in Canada to ensure the continuous development of new, innovative and quality products.

Manufacturing

The Group continued to outsource the compounding and filling work of its products to five independent subcontractors in Toronto based on its self-developed product formulation and manufacture procedure.

Procurement

Since September 2002 the Group controls its procurement of the principal raw materials required for the manufacture of its products from suppliers in

North America and Europe. In order to ensure the smooth operation of the Group's production process and shorten order/shipment lead time of 60-90 days, the Group has built up inventory base of principal raw materials and packaging materials according to the analysis of timely sales reports received from its distributors.

Logistics Supports and Customer Service

The Group has established a new 5,000-square-foot warehouse facilities in Toronto and relocated its Hong Kong warehouse facilities to a new 2000 square foot premises to maximise its logistics supports to its customers and to meet with the future growth in business.

In order to strengthen order processing, production scheduling, inventory management, accounting and other operation and administrative supports for its principal business activities, the Group has invested in and established a management information system. System software has been installed and the entire system is expected to be fully operational in the latter part of 2002 when staff training is completed and user requirements finalised.

The Group has strengthened its logistic workforce by recruiting one logistics coordinator in Toronto assigned with raw material sourcing and quality assurance duties and has enhanced its customer service by employing one customer service manager in Hong Kong to undertake all coordination and liaison functions between Toronto office and the Group's customers in respect of ordering and shipment.

Employment and Training

As at 30 June, 2002 the Group has a total of 17 staff of which 8 are based in Canada 9 are based in Hong Kong, the Group regularly provides internal and external training for its staff to enhance their technical and product knowledge. The Group has a training manager specially assigned to attend to the needs of distributors' needs on product knowledge and other professional skill.

HEALTH INSPECTION PERMITS AND PRC RECEIVABLES

Subsequent to the announcement made by the Company on 28 June, 2002 relating to the captioned matter, the Guangdong Distributor lodged an informal objection with the PRC Health Authority against the PRC Health Authority's requirement of retesting and resubmission of samples in respect of 26 products in July 2002. The Company has been assisting the Guangdong Distributor in following up on the PRC Health Authority's response regarding such objection which, if responded favourably, may shorten the time otherwise required for obtaining the relevant 38 health inspection permits and save the retesting and reassessment cost and expenses. If the PRC Health Authority should respond unfavourably, the Company will seek from the Guangdong Distributor reimbursement or contribution in respect of such retesting and reassessment expenses and will recommend to the Guangdong Distributor the engagement of a Hong Kong Legal Consultant to follow up with the PRC Health Authority on all outstanding health permit applications. The matter is expected to be resolved within five months. The Company will continue to report to its shareholders the latest status of the granting of the health inspection permits in respect of the 38 products in the PRC as and when appropriate.

With regard to the PRC Receivables, demand letters have been issued by the Group and/or its PRC legal advisers whereby the PRC Distributors are required to accept the Products and to pay the remaining balance, failing which, the Company would forfeit their deposits, sell the Products on their behaves and terminate the sales contracts. As the PRC Distributors failed to meet such demand, the Directors intended to forfeit their deposit, sell their products and terminate the sales contracts. As a result of the Adjustment, the PRC Receivables had been eliminated and no provision was required.

In view of the PRC Receivables related problem, the Directors have taken a series of appropriate corrective measures within the Group in order to prevent the future occurrence of similar incident. Given the sluggish global economic environment particularly in the Asian Pacific region, the Directors have decided not to take immediate drastic measures such as increase of initial deposit and shortening the credit period against its distributors. The Directors consider the current credit term of 60 days are in line with the trade practice and reasonable. However, the Group has tightened the selection process by adopting more stringent requirements in the recruitment of distributors.

BUSINESS OBJECTIVES AND BUSINESS PROGRESS COMPARISON

Business Objectives Up to June 2002 as set out in the Prospectus	Actual Business Progress up to 30 June, 2002
Research and development on product and services	**Research and development on product and services**
• Set up new research and laboratory facilities in Canada;	• Research and laboratory facilities set up in Canada.
• Conduct experiments of fragrance formulations, stability test and packaging compatibility studies and conduct focus group study;	• Completed new ginger line related experiments, tests and studies.
• Conduct experiments on sun care formulations, stability test, packaging compatibility studies and sun protection factors ("SPF") testing, label design compliance check and conduct focus group study;	• Completed experiments, tests and studies of sun care formulations. Label design compliance check is near completion. New sun care line is expected to be launched in first half next year.
• conduct experiments of anti-aging skin care formulae, stability test, packaging compatibility and focus group study;	• Experiments, tests and studies pertaining to new anti-aging eye and face treatment formulae completed. Production of these three new products is in progress.
• Conduct experiments on muscle relaxation formula, moisture retention factors, stability test and packaging compatibility studies and focus group study;	• Experiments on muscle relaxation formula were suspended as the Directors considered eye and face treatment products to be in greater demand.

• Conduct experiments on aromatherepy spa formula, stability test, packaging compatibility studies and focus group study;	• Experiments on aromatherapy spa formula were suspended as the Directors considered eye and face treatment products to be in greater demand.
• Conduct experiments on new colour lipstick formulae, colour fastness stability tests and focus group study;	• Experiments, test and study related to new colour lipstick formulae have been delayed as there is no clear direction for the market trend.

New product launch

• the new baby spa line	• Launch date of new baby spa line has been postponed until November 2002 to coincide with the debut of three new anti-aging eye and face treatment products and twenty one and repackaged reformulated personal care products.

Distribution network

• Develop the China market and other Asia Pacific markets where the Group does not have a presence;	• No suitable distributors have been identified and recruited yet. However, the Group is under negotiations with potential distributors in the PRC and Asia Pacific region
• Distribute spa products within a chain of fitness centers in the PRC in collaboration with a fitness center chain owner.	• Already signed distributor agreement with Shaping China on 22 May, 2002 for distribution of the Group's products within its chain of fitness centers.

• Establish retail concept and environment spa inside the selected hotels in the PRC in collaboration with a local hotel chain owner.	• Set up of retail concept and environment spa inside the selected hotel locations in the PRC has been delayed until end of 2002 due to the number of hotels and diversity of locations involved in the location selection process.
• Establish department store counter in Saks Department Store on Fifth Avenue;	• The Group has been negotiating with Saks Department Store on Fifth Avenue since late 2001. Negotiation is expected to resume in November this year when the Group will present samples of repackaged skin care products to demonstrate the quality and image of the Group's products.
• Establish a concept and spa store at a holiday resort or country club location in the Asia-Pacific region in collaboration with a major regional real estate development group.	• No suitable location has been selected yet as the Group's distributors do not consider the resort or country club locations identified by the Group to be suitable for committing the required capital investment.
• Establish a spa at an international hotel in Hong Kong in collaboration with a major regional real estate development group.	• No suitable location has been selected yet as the Group's distributors do not consider the hotels identified by the Group to be suitable locations for committing the required capital investment.

Advertising and promotion

• Participate in international and regional cosmetic exhibitions and trade shows.	• Registered as participant for the 2002 COSMOPROF in Hong Kong. • Joining the Guangdong distributor in participating the Guangzhou Cosmetic Trade Fair 2002. • Sponsored MTV programmes in China and other other charity events. • Collaborated with the Taiwan distributor to bid for the tender of first and business class inflight packages of China Airline. • Tendered for the first and business class packages of a Canadian Carrier and a US Carrier.

Logistics facilities

• Invest in and establish high capacity warehouse facilities in Toronto, Hong Kong, China.	• Established a 5,000-square-foot new warehouse facilities in Toronto. • Hong Kong warehouse facilities relocated to a new 2000-square foot premises
• Invest in and establish a management information system.	• Software of management information system was installed. System is expected to be fully operational in November 2002 upon completing staff training and finalizing the Group's user requirements.

Purchase of raw materials

- Build up inventory base of principal raw materials and packaging materials for its products.

- Build up of inventory base of principal raw materials and packaging materials progressing according to analysis of timely sales reports from distributors.

Human resources

- Recruit additional staff.

- One logistics coordinator was recruited in Toronto to strengthen logistic workforce.

- One customer service manager was employed in Hong Kong to enhance customer service.

COMPARISON OF USE OF PROCEEDS

USE OF PROCEEDS

The net proceeds from the public listing was about HK$17.5 million and the remaining balance as at 30 June, 2002 was approximately HK$4.9 million. During the period from 19 February, 2002 (date of listing) to 30 June, 2002, the Group has incurred the following amounts to achieve the business objectives as set out in the Prospectus:

Schedule of use of proceeds	**Amount Disclosed in the Prospectus** *(HK$ million)*	**Actual amount used up to 30 June, 2002** *(HK$ million)*
For payment to existing creditors and of accrued rental expenses due to a related company	4.9	4.9
For advertising and promotion, enhancement of logistics facilities and human resources	1.4	1.4
For research and development and product launch	0.5	0.5
For purchase of raw materials and packaging materials	1.3	1.6
For market development	0.3	0.4
For payment for acquisition of assets from BSI	1.2	1.2
For general working capital	1.3	2.7
Total	10.9	12.7

Use of proceeds exceeds the estimation made in the Prospectus by HK$1.8 million. The differences between the amount disclosed in the Prospectus and the actual amount used are mainly due to the funding deficiencies created by the lower levels of internal cash flow generated by the Group's turnover than expected. These shortfalls resulted in the excess cost of HK$0.3 million in the purchase of raw materials and packaging materials, HK$0.1 million in market development and HK$1.4 million in general working capital.

The balance as of 30 June, 2002 of about HK$4.9 million was used as working capital of the Group to support its ongoing operations and expansion.

PROSPECTS

In spite of the challenges faced by the Group in the PRC during the financial year ended 30 June, 2002 as a result of the short-term problems related to the Health Inspection Permits and the PRC Receivables, the Group remains optimistic about its future prospects in the Group's continuous efforts to identify and recruit suitable distributors in the PRC. The Group believes the signs that are emerging of a stronger economy towards the end of 2002, will assist with the Group's continuous development in the botanical personal care product industry. The Group also believes that an early economic recovery in the Asian Pacific Region will increase the level of consumer spending and in turn drive demand across a broad spectrum of consumer groups for new and innovative, quality and high performance personal care products that satisfy the consumers' needs for beauty care, anti-aging, stress reduction, comfort and relaxation. Year 2002/2003 will be a challenging year. More international brands will enter into the botanical personal care products market in the PRC following the accession to the World Trade Organization. The Group believes that it is well-positioned to face the intense competition and challenges ahead by leveraging its competitive strengths in unique brand positioning, uniform global brand management, categories coverage, product innovation, quality and performance and research and product development capability.

Faced with the ever changing market demand, the Group will continue to strengthen its product development capability and customer relation and develop and launch into the market new innovative and quality botanical personal care products, in order to propel the Group into one of the leading developers and marketers of botanical personal care products and expand its market share in the botanical personal care product and service market. The Group will introduce three new anti-aging eye and face treatment products, a new baby spa line (originally targeted for launch during the first half of 2002) to coincide with the debut of twenty one reformulated and repackaged personal care products in November 2002. A new sun care line is scheduled to be launched simultaneously with the new ginger line during the first half of 2003.

In view of the PRC Receivables related problem, the Group has taken a series of appropriate corrective measures to prevent the future occurrence of similar incident and tightened the selection process by adopting more stringent requirements in the future recruitment of distributors and strictly enforcing the credit term. To address the huge and highly fragmented personal care product market in the PRC, the Group also considers it necessary to revisit the present distribution strategy and structure and to explore other avenues that help expand its distribution network in a speedy, efficient and cost effective manner. In spite of the lack luster performance of the Group in Asian Pacific markets particularly the PRC, the Group is encouraged by healthy growth of the Taiwan and Hong Kong market segments. The Taiwan distributor's success in penetrating the inflight shop market segment will help the Group build a strong customer base and high level of brand recognition among international consumers. The prospects of the inflight shop market segment will be good if the Group succeeds in additional tenders with the two Canadian and US based carriers. The bounce back web site promotion arrangement proposed by the Group to the US carrier for on-line shopping at the Group's virtual spa, if materialised, may be potential income source for the Group.

PRE-IPO SHARE OPTION SCHEME

On 30 January, 2002, pursuant to the pre-IPO share option scheme adopted by the shareholders of the Company, the Directors and certain employees of the Group have been granted options comprising a total of 41,000,000 underlying shares at an exercise price of HK$0.30 per share and expiring on 29 January, 2012. These shares represent approximately 10% of the issued share capital of the Company at the date hereof.

Save as disclosed herein, no option has been granted, exercised or cancelled during the year ended 30 June, 2002

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

The Company was listed on 19 February, 2002 and up to 30 June, 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 30 June, 2002.

SPONSOR'S INTEREST

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

DBS Asia, its directors, employees and associates, as at 26 September, 2002, being the latest practicable date for ascertaining such information, did not have any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

COMPETING INTERESTS

As at 30 June, 2002, the Directors are not aware of any business or interest of the Directors, the initial management shareholders of the Company and their respective associates that competes or may compete with the business of the Group any other conflicts of interest which any such person has or may have with the Group.

AUDIT COMMITTEE

As required by Rule 5.23 of the GEM Listing Rules, the Company has established an audit committee on 12 December, 2001 comprising of Mr. Ng Kwok Tung and Mr. Wong Kang Yean, Clarence with written terms of reference which deal with its authority and duties. The Audit Committee's principal duties are the review and supervision of the Company's financial reporting process and internal control systems. The audit committee has held two meetings since its establishment. Mr. Kam Kin Yat, was appointed as an independent Non-Executive Director and member of the Audit Committee on 26 September, 2002 to replace Mr. Ng Kwok Tung who resigned as independent Non- Executive Director and member of the Audit Committee with effect from the conclusion of the Board meeting held on 26 September, 2002.

BOARD PRACTICES AND PROCEDURES

The Group has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the financial year ended 30 June, 2002.

By order of the Board of
Blu Spa Holdings Limited
Law Kin Ming, Alfred
Vice Chairman

Hong Kong, 26 September, 2002

This announcement will remain on the GEM website on the "Latest Company Announcement" page for 7 days from the day of its posting.