



**RAINBOW INTERNATIONAL HOLDINGS LIMITED**

**彩虹國際控股有限公司**

(Incorporated in the Cayman Islands with limited liability)

**2001/2002 Interim Report**

Period ended 30<sup>th</sup> April 2002



# Interim Report



# 2001/2002



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

### **Summary of results for the six months ended 30 April, 2002**

Turnover of Rainbow Group for the six months ended 30 April, 2002 was HK\$38,206,000, representing a decrease of approximately 35 per cent., from as compared with that of the corresponding period in the previous year.

Rainbow Group's loss attributable to shareholders was increase to HK\$13,414,000 during the six months ended 30 April, 2002 by approximately 289 per cent., as compared with that of the corresponding period in the pervious year.

The Board does not recommend the payment of an interim dividend for the six months ended 30 April, 2002.

The board (the "Board") of Directors would like to report the unaudited consolidated results of the Company and its subsidiaries (together, "Rainbow Group"), together with the required financial information under the GEM Listing Rules, for the three months ended 30 April, 2002 and the six months ended 30 April, 2002.

## UNAUDITED CONSOLIDATED RESULTS OF RAINBOW GROUP

The unaudited consolidated results of Rainbow Group for the three months ended 30 April, 2002 and the six months ended 30 April, 2002, together with the comparative figures for the corresponding period in the previous year, were as follows:—

	Note	(Unaudited) Three months ended 30 April,		(Unaudited) Six months ended 30 April,	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	2	14,293	29,149	38,206	58,354
Cost Of Sales		<u>(8,045)</u>	<u>(16,767)</u>	<u>(20,912)</u>	<u>(33,009)</u>
Gross Profit		6,248	12,382	17,294	25,345
Other Revenue	3	<u>220</u>	<u>178</u>	<u>732</u>	<u>596</u>
		6,468	12,560	18,026	25,941
Other Expenses					
Selling And Distribution Costs		(11,161)	(11,040)	(22,490)	(21,862)
Administrative Expenses		<u>(4,249)</u>	<u>(3,250)</u>	<u>(7,345)</u>	<u>(5,535)</u>
Loss From Operations		(8,942)	(1,730)	(11,809)	(1,456)
Finance Costs		<u>(863)</u>	<u>(707)</u>	<u>(1,605)</u>	<u>(1,801)</u>
Loss Before Taxation		(9,805)	(2,437)	(13,414)	(3,257)
Taxation	12	<u>-</u>	<u>(193)</u>	<u>-</u>	<u>(193)</u>
Loss Attributable To Shareholders		<u>(9,805)</u>	<u>(2,630)</u>	<u>(13,414)</u>	<u>(3,450)</u>
Loss Per Share					
- Basic	7(a)	<u>(2.80) cents</u>	<u>(0.75) cents</u>	<u>(3.83) cents</u>	<u>(0.99) cents</u>
Loss Per Share					
- Diluted	7(b)	<u>(2.67) cents</u>	<u>(0.72) cents</u>	<u>(3.66) cents</u>	<u>(0.94) cents</u>

Loss for the period is the sole component of the total recognised gains and losses.

## CONSOLIDATED BALANCE SHEETS

		(Unaudited) As at 30 April, 2002 HK\$'000	(Audited) As at 31 October, 2001 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets	4	5,949	6,740
Investments in trust funds	5	8,530	8,530
		<b>14,479</b>	15,270
<b>Current assets</b>			
Deposits, prepayments and other receivable		8,724	8,785
Inventories	6	27,976	27,597
Trade receivables	8	3,372	171
Cash and bank balance		7,649	29,104
		<b>47,721</b>	65,657
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Amount due to a director		4,241	–
Bank overdrafts – secured		22,256	20,520
Current portion of interest-bearing borrowings – secured	9	1,739	4,393
Current portion of obligation under hire purchase contract	10	77	5
Trust receipt loans – secured		8,007	13,405
Trade payables	11	12,758	15,129
Other payables and accruals		11,841	13,687
Taxation payable	12	627	706
		<b>61,546</b>	67,845
<b>Net current liabilities</b>		<b>(13,825)</b>	(2,188)
<b>Total assets less current liabilities</b>		<b>654</b>	13,082
<b>Non-current liabilities</b>			
Interest-bearing borrowings – secured	9	1,385	469
Obligation under hire purchase contract	10	95	25
		<b>1,480</b>	494
		<b>(826)</b>	12,588
<b>CAPITAL AND RESERVES</b>			
Issued capital	13	3,500	3,500
Reserves	14	(4,326)	9,088
		<b>(826)</b>	12,588

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months period ended 30 April, 2002

	<b>(Unaudited)</b> <b>Six month</b> <b>period ended</b> <b>30 April,</b> <b>2002</b> <b>HK\$'000</b>
<b>Net cash outflow from operating activities</b>	<b>(19,186)</b>
<b>Net cash outflow from returns on investments and servicing of finance</b>	<b>(1,476)</b>
<b>Taxation</b>	<b>(79)</b>
<b>Net cash outflow from investing activities</b>	<b>(854)</b>
<b>Net cash outflow before financing</b>	<b>(21,595)</b>
<b>Net cash outflow from financing</b>	<b>(1,596)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(23,191)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>8,584</b>
<b>Cash and cash equivalents at end of period</b>	<b>(14,607)</b>
<b>Analysis of the balances of cash and cash equivalents</b>	
Cash and bank balance	7,649
Bank overdrafts	<b>(22,256)</b>
	<b>(14,607)</b>

Notes:

## 1. Basis Of Preparation

The principal accounting policies adopted in preparing the unaudited consolidated results of Rainbow Group conform to the accounting principles generally accepted in Hong Kong and the accounting standards issued by the Hong Kong Society of Accountants and the disclosure requirements under the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) and the GEM Listing Rules.

## 2. Turnover and Revenue

Turnover represents the (a) invoiced value of beauty products sold less discounts and sales returns and (b) services income generated from the provision of beauty services during the period under review after elimination of all material intercompany transactions amongst members of Rainbow Group.

	Three months ended 30th April,		Six months ended 30th April,	
	2002	2001	2002	2001
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Retails and wholesales				
of beauty products	<b>12,790</b>	27,638	<b>35,338</b>	56,256
Beauty services	<b>1,503</b>	1,511	<b>2,868</b>	2,098
	<b>14,293</b>	29,149	<b>38,206</b>	58,354
Other revenue				
Interest income	<b>30</b>	–	<b>129</b>	367
Exchange gain	<b>8</b>	29	<b>12</b>	29
Sundry income	<b>182</b>	149	<b>591</b>	200
Total revenue	<b>14,513</b>	29,327	<b>38,938</b>	58,950

Turnover by principal activities and their respective contributions to loss before taxation are:

	Three months ended 30th April,		Six months ended 30th April,	
	2002 (unaudited) HK\$'000	2001 (unaudited) HK\$'000	2002 (unaudited) HK\$'000	2001 (unaudited) HK\$'000
Retails and wholesales of beauty products	12,790	27,638	35,338	56,256
Beauty services	1,503	1,511	2,868	2,098
	<u>14,293</u>	<u>29,149</u>	<u>38,206</u>	<u>58,354</u>

No geographical analysis of Rainbow Group's turnover and their respective contribution to loss before taxation is presented as all the turnover is attributable to business conducted in Hong Kong.

### 3. Other Revenue

Other revenue mainly consists of interest income and sundries income during the period under review.

#### 4. Fixed Assets

##### The Group

	Leasehold improvements <i>HK\$'000</i>	Equipment <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicle <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost</b>					
At 1/11/2001	7,726	4,894	3,295	540	16,455
Additions	578	229	49	–	856
<b>At 30/4/2002</b>	<b>8,304</b>	<b>5,123</b>	<b>3,344</b>	<b>540</b>	<b>17,311</b>
<b>Accumulated depreciation</b>					
At 1/11/2001	4,201	1,792	3,182	540	9,715
Charge for the year	841	776	30	–	1,647
<b>At 30/4/2002</b>	<b>5,042</b>	<b>2,568</b>	<b>3,212</b>	<b>540</b>	<b>11,362</b>
<b>Net book value</b>					
<b>At 30/4/2002</b>	<b>3,262</b>	<b>2,555</b>	<b>132</b>	<b>–</b>	<b>5,949</b>
At 31/10/2001	3,525	3,102	113	–	6,740

*Note:* The gross amount of asset held for use under hire purchase contract and the related accumulated depreciation charge at the balance sheet date of approximately HK\$181,000 (2001: HK\$31,000) and of approximately HK\$10,500 (2001: HK\$6,000), respectively.

#### 5. Investments in trust funds

Trust funds that the Company intended to be held-to-maturity are stated at amortised cost, less provision for impairment losses.

Gain or loss on disposal of investments in trust funds, representing the difference between the net sale proceeds and the carrying amount of the trust funds, is recognised in the income statement in the period in which the disposal occurs.

## 6. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost, calculated on a first-in, first-out basis, comprises all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

## 7. Loss per share

### (a) *Basic*

The calculation of basic loss per share for the three months and the six months ended 30 April, 2002 is based on the (loss) attributable to shareholders of approximately HK\$9,805,000 and HK\$13,414,000, respectively (three months and six months ended 30 April, 2001: approximately HK\$2,630,000 and HK\$3,450,000, respectively) and on the weighted average number of 350,000,000 (three months and six months ended 30 April, 2001: 350,000,000) shares, after adjusting for the effects of Capitalisation Issue (as such term is defined in the prospectus (the "Prospectus") of the Company dated 28 September, 2001) deemed to be in issue throughout the period under review on the assumption that the Reorganisation (as such term is defined in the Prospectus) had been completed on 1 November, 1998. (pro formation date of Rainbow Group).

### (b) *Diluted*

The calculation of diluted loss per share for the three months and the six months ended 30 April, 2002 is based on the loss attributable to shareholders of approximately HK\$9,805,000 and HK\$13,414,000, respectively (three months and six months ended 30 April, 2001: approximately HK\$2,630,000 and HK\$3,450,000, respectively) and the 366,685,000 (2001: 367,500,000) shares, which represented the 350,000,000 shares deemed to be in issue throughout the period under review on the assumption that the Reorganisation (as such term is defined in the Prospectus) had been completed on 1 November, 1998 and after adjusting for the number of shares which are deemed to have been issued for no consideration under the Pre-IPO Share Option Scheme (as such term is defined in the Prospectus) based on the subscription price per share at HK\$0.25.

## 8. Trade Receivables

Rainbow Group allows credit period ranging 30 to 120 days to its trade customers.

The following is the aging analysis of trade receivables:–

	(Unaudited) As at 30 April, 2002 HK\$'000	(Audited) As at 31 October, 2001 HK\$'000
Within 30 days	63	133
31 to 90 days	–	5
90 to 120 days	3,309	33
Over 120 days	–	–
	<u>3,372</u>	<u>171</u>

## 9. Interest-bearing Borrowing – Secured

### The Group

	(Unaudited) As at 30 April, 2002 HK\$'000	(Audited) As at 31 October, 2001 HK\$'000
Bank loans		
Repayable within one year	1,739	4,393
Repayable after one year but within two years	1,385	469
	3,124	4,862
Current portion of bank loans	<u>(1,739)</u>	<u>(4,393)</u>
	<u>1,385</u>	<u>469</u>

## 10. Obligation under Hire Purchase Contract

### The Group

Analysis of the capital element due under hire purchase contract is as follows:–

	(Unaudited) As at 30 April, 2002 HK\$'000	(Audited) As at 31 October, 2001 HK\$'000
Repayable within one year	77	5
Repayable after one year but within two years	89	6
Repayable after two years but within five years	6	19
	172	30
Current portion of obligation under hire purchase contract	(77)	(5)
	<u>95</u>	<u>25</u>

## 11. Trade Payables

Rainbow Group has granted credit period ranging 90 days from its trade payables.

The following is the ageing analysis of trade payables:–

	(Unaudited) As at 30 April, 2002 HK\$'000	(Audited) As at 31 October, 2001 HK\$'000
Within 90 days	2,801	6,111
90 –120 days	6,514	5,479
Over 120 days	3,443	3,539
	<u>12,758</u>	<u>15,129</u>

## 12. Taxation

No provision has been made for Hong Kong profits tax as Rainbow Group sustained a loss for taxation purposes during the period under review.

No provision for deferred taxation has been made for Rainbow Group for the period as the effect of timing difference is not material.

## 13. Issued Capital

	(Unaudited) As at 30 April, 2002 HK\$'000	(Audited) As at 31 October, 2001 HK\$'000
<i>Authorised:</i>		
2,000,000,000 Ordinary Shares of HK\$0.01 each	<u>20,000</u>	<u>20,000</u>
<i>Issued and fully paid:</i>		
350,000,000 Ordinary Shares of HK\$0.01 each	<u>3,500</u>	<u>3,500</u>

## 14. Reserves

	Share premium HK\$'000	Accumulated losses HK\$'000	Capital reserve HK\$'000	Total HK\$'000
As at 31 October, 2000	–	(2,138)	–	(2,138)
Premium on issue of shares	29,892	–	–	29,892
Share issue expenses	(8,753)	–	–	(8,753)
Capitalisation of share premium	(1,730)	–	–	(1,730)
Loss for the year	–	(25,803)	–	(25,803)
Effect of the reorganisation	–	–	28,327	28,327
Goodwill written off	–	(10,707)	–	(10,707)
	<u>19,409</u>	<u>(38,648)</u>	<u>28,327</u>	<u>9,088</u>
As at 31 October, 2001	19,409	(38,648)	28,327	9,088
Loss for the period	–	(13,414)	–	(13,414)
	<u>19,409</u>	<u>(52,062)</u>	<u>28,327</u>	<u>(4,326)</u>
<b>As at 30 April, 2002</b>	<b><u>19,409</u></b>	<b><u>(52,062)</u></b>	<b><u>28,327</u></b>	<b><u>(4,326)</u></b>

Capital reserve of Rainbow Group represents the difference between the nominal value of the shares of subsidiaries acquired and the nominal value of shares issued by the Company as consideration thereof pursuant to the Reorganisation (as such term is defined in the Prospectus).

## **LIQUIDITY AND FINANCIAL RESOURCES**

Rainbow Group generally finances its operations with internally generated financial resources. As at 30 April, 2002, Rainbow Group had cash and bank balances amounting to an aggregate of approximately HK\$7.65 million (30 April, 2001: HK\$29.10 million) and had outstanding short-term loan of approximately HK\$1.74 million (30 April, 2001: HK\$4.39 million). With the above cash and bank balances and banking facilities, the Board believes that Rainbow Group has adequate financial resources to finance its business objectives as stated in the Company's prospectus dated 28 September, 2001.

Cash and bank balances as of 30 April, 2002 amounted to HK\$7,649,000, against HK\$29,104,000 of 30 April, 2001. Rainbow Group's current ratio stood at 0.78 times as of 30 April, 2002, as compared with 0.97 times of 30 April, 2001. As of 30 April, 2002, Rainbow Group had a total bank borrowings of HK\$33,387,000 and its gearing ratio stood at 103 per cent., as compared with HK\$38,787,000 and 77 per cent., respectively, as of 30 April, 2001.

## **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the six months ended 30 April, 2002.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Operating Environment**

The retail sector in Hong Kong continued to be shrouded by sluggish economic activities during the first four months of 2002. Moreover, the local unemployment rate reached its record high in 20 years for the first quarter of the calendar year 2002, and such unemployment rate is expected to rise further. In respond to this gloomy outlook, consumers have been tightening their consumption budgets.

Although beauty and personal care products are generally regarded as recession-resistant in an era of health-consciousness, consumers have become more price-sensitive and cautious in choosing quality brands.

## Operating Results

Rainbow Group is principally engaged in the sale and distribution of beauty and personal care products and in the provision of beauty services. Under the current economic environment, Rainbow Group had initiated business consolidation and launched new products to reduce the adverse economic impact during the six months ended 30 April, 2002.

During the period under review, Rainbow Group's turnover and gross profit amounted to HK\$38,206,000 and HK\$17,294,000, respectively, representing a decrease of approximately 35 per cent. and approximately 32 per cent., as compared with those of the corresponding period in the previous year.

The decline in turnover was partly attributed to the overall unsatisfactory performance of the Hong Kong consumer goods market, and partly due to the planned closure of three under-performed Rainbow Cosmetic retail outlets in the second quarter of the financial year. The retail outlets were discontinued upon expiries of their respective leases as their operations had been adversely affected by construction works on the pavement outside. The closure of the three retail outlets was a strategic step for Rainbow Group to achieve a higher efficiency in resources allocation. However, the reduction in operating costs, including rentals and salaries, from the closure of the retail outlets will only be fully realised in the third quarter of the financial year.

Comparing with the results in the three months ended 31 January, 2002, Rainbow Group's turnover for the second quarter decreased by approximately 40 per cent. to HK\$14,293,000. During the second quarter of the financial year, Rainbow Group incurred increased advertising costs in order to enhance publicity for expanding sales. The figure for the six-month period ended 30 April, 2002 was HK\$22,490,000, as compared with HK\$21,862,000 of the same period in the previous year.

In the light of the continued depressed retail sector, Rainbow Group had employed consultancy firms during the second quarter of the financial year to improve its market positioning and to advise on financial matters. During the same quarter, depreciation costs also went up due to the write-off of some of the fixed assets following the closure of the *Rainbow Cosmetic* retail outlets. The consultancy fee, together with the increased depreciation costs, largely contributed to a surge in Rainbow Group's administrative expenses to HK\$4,249,000 for the second quarter of the financial year.

As a result of the reduced turnover and increased operating expenses, Rainbow Group's loss attributable to shareholders for the second quarter of the financial year was HK\$9,805,000, representing approximately 172 per cent. increase from that of the previous quarter. Compared with the results of the interim period of 2001, Rainbow Group's loss attributable to shareholders increased by approximately 289 per cent. to HK\$13,414,000 for the six months ended 30 April, 2002, mainly due a substantial decline in turnover and slight increase in operating expenses during the period under review.

### **Retail and Wholesale Operations**

Rainbow Group's retail and wholesale operations are involved in the sale of various branded beauty and personal care products and in the exclusive distribution of some distinguished product lines for skin care.

During the period under review, retail and wholesale operations remained the core business of Rainbow Group, aggregate sales of which accounting for approximately 92 per cent. of Rainbow Group's total turnover. Turnover from these operations was HK\$35,338,000 for the period, representing a decline of approximately 37 per cent. from that of the corresponding period in the previous year, principally due to the unfavourable retail market environment and the closure of three retail outlets.

As at the end of the period under review, Rainbow Group had five retail outlets under the trade name of *Rainbow Cosmetic*.

Besides improving its cost-efficiency through business consolidation, Rainbow Group had also introduced new products to stimulate retail sales. During the period under review, Rainbow Group launched 12 new products, including five new whitening products, with which Rainbow Group envisaged to take advantage of the general preference of Asian women for fair skin. In addition, Rainbow Group also hinged on the skin care products that it has exclusive distribution rights, including *Nutriplus*, *Helvance* and *Bicosmetic* skin care beauty products.

However, Rainbow Group's wholesale operations had been slowed down by the unfavourable market sentiment. Wholesale agents and distributors of Rainbow Group had reduced their order size to maintain lower stock level.

### **Beauty Services Operations**

Rainbow Group's beauty services operations maintained its growing momentum during the period under review. Turnover from this segment amounted to

HK\$2,868,000 for the six months ended 30 April, 2002, increasing by approximately 37 per cent. as compared with that of the corresponding period in the previous year. As compared with the three months ended 31 January, 2002, the turnover of Rainbow Group's beauty services in the three months ended 30 April, 2002 rose by approximately 10 per cent.

The encouraging performance was attributed to Rainbow Group's continued enhancement of its service coverage and quality. During the period under review, Rainbow Group installed new beauty equipment, *Skinlight*, in its beauty salon in Mongkok and Causeway Bay for upgrading the quality of its existing skincare services. The equipment can purify skin and reduce blemishes. The new skincare service has been well-received by patrons since its debut. Moreover, to tap the fitness and beauty market, Rainbow Group had started to offer slimming programmes since March 2002.

During the period under review, Rainbow Group had also taken intensive measures to secure its customer loyalty. In addition to the exclusive discounts offered to all of *Rainbow Cosmetic's* members, during the period under review, Rainbow Group distributed cash coupons to members who patronised its beauty services. This strategy not only increased the number of its members, but also increased patronage at *Rainbow Cosmetic* retail outlets and beauty salons. Together with the extended beauty and slimming services, the measures had enticed 800 new members to Rainbow Group's customer loyalty scheme during the period under review.

## **PROSPECTS**

The closure of under-performed retail outlets allows Rainbow Group to achieve efficient resources allocation and to focus on strengthening its healthy operations and exploring new business opportunities. In view of prolonged adverse market condition, Rainbow Group intends to continue with its business consolidation.

The *Rainbow Cosmetic* retail outlet in Macau commenced operation at the end of May 2002. This retail outlet is multi-faceted, with retail counters in front and beauty parlour at the rear part. This design caters different needs of customers and increase patronage. As such Rainbow Group plans to have all its newly established shops with both retail counters and beauty parlour, if possible.

The commencement of the Macau business operations is the first step for Rainbow Group to extend its business outside Hong Kong. In the meantime, Rainbow Group is closely monitoring the Mainland China market.

In Hong Kong, Rainbow Group is planning to open one to two new *Rainbow Cosmetic* retail outlets in the New Territories by the end of the current financial year depending on the retail market condition.

Apart from market expansion, Rainbow Group will focus on marketing and launching of new products and services in the second half of the current financial year. Whilst Rainbow Group will continue to introduce quality beauty products in its retail outlets, its emphasis on existing branded products with exclusive distribution rights will persist. Rainbow Group will further promote its corporate image and exclusively distributed products through advertisements in magazines and newspapers.

In addition, Rainbow Group will continue to implement stringent cost control and improve its operational process. Rainbow Group expects that, upon the implementation of the point-of-sales inventory control systems and the integrated management information system, it could further improve its operation efficiency and cost-effectiveness.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary of the actual progress made in comparison with the business objectives that were set out in the prospectus dated 28 September, 2001 from the period of 1 November, 2001 to 30 April, 2002.

### Objectives

### Actual Business

#### *Retail expansion*

- Upon satisfied results of the feasibility study on the beauty product market in Macau, the Directors intend to set up the first *Rainbow Cosmetic* outlet in Macau in or around December 2001
- Rainbow Group started the preparation of opening a *Rainbow Cosmetic* outlet in Macau in November 2001 for which operation commenced at the end of May 2002

#### *Marketing and promotion*

- To expand the variety of quality beauty products offered by Rainbow Group by negotiating with suppliers and beauty product producers for exclusive distribution rights in Hong Kong
- Rainbow Group has exclusive distribution rights of skin care beauty products, including *Nutriplus*, *Helvance* and *Bicosmetic*. During the period under review, Rainbow Group did not obtain any new products with exclusive distribution right in Hong Kong.
- To review and appraise the market acceptance of the *Nutriplus* beauty products
- Introduced 12 new products during the period under review, five of which are whitening products

#### *Resources employment*

- To recruit additional sales representatives for the *Rainbow Cosmetic* retail outlet in Macau
- Rainbow Group recruited additional staff for the *Rainbow Cosmetic* retail outlet in Macau
- To continue implementation of training seminars (including in-house training and joint training programmes with beauty product suppliers) for sales representatives and beauticians on product knowledge and industry updates
- In-house and on-the-job training programmes are in place for updating the skills and market knowledge of its staff
- To invest in advanced equipment and technology for beauty services
- Installed skincare equipment to enhance its beauty services

## USE OF PROCEEDS FROM THE NEW ISSUE

The actual use of proceeds from the New Shares Issued (as such term is defined in the Prospectus) in October 2001 for the six months ended 30 April, 2002 as compared to the proposed amount set out in the Prospectus are as follows:

	<b>Proposed</b> <i>HK\$'000</i>	<b>Actual</b> <i>HK\$'000</i>
To set up one additional <i>Rainbow Cosmetic</i> retail outlet in Hong Kong and one in Macau by way of leasing shop premises	2,000	1,040
To conduct advertising and marketing programmes and other corporate image enhancement programmes	800	450
To purchase additional equipment for beauty services	1,000	229
To set up a new <i>Nutriplus</i> beauty centre in Hong Kong	–	–
To implement and enhance the management information system of Rainbow Group	–	–
To repay certain bank loans of Rainbow Group	–	1,738
	<u>3,800</u>	<u>3,457</u>

## RESIGNATION OF DIRECTOR AND CHANGE IN COMPLIANCE OFFICER, QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Elbert Lee resigned as an executive Director and compliance officer of the Company on 18 April, 2002 and Ms. Li Ngar Kwan, Aldy, an executive Director has been appointed as compliance officer of the Company with effect from 18 April, 2002.

Mr. Lo Yu Wah has resigned as the company secretary and qualified accountant of the Company with effect from 17 March, 2002 and Ms. Poon Oi Man has been appointed secretary and the qualified accountant of the Company with effect from 18 March, 2002.

Ms. Poon Oi Man resigned as the company secretary and qualified accountant of the Company on 1 June, 2002 and the Directors expect that the appointments of the new company secretary and the qualified accountants will be finalised on or before 17 June, 2002.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND OPTIONS

As at 30 April, 2002, the interests of the Directors and chief executives of the Company and its subsidiaries in the shares and options of the Company and its associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance (“**SDI Ordinance**”)) as recorded in the register maintained by the Company pursuant to section 29 of the SDI Ordinance or as required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:–

### (a) shares of the Company

Name	Type of interest	No. of shares
Ms. Li Ngar Kwan, Aldy	Personal	181,552,291
Mr. Lai Tin Ying, Michael (alias Lai Siu Tin)	Personal	2,186,434
Mr. Chiu Wai	Personal	3,027,652

**(b) share options**

Ms. Li Ngar Kwan, Aldy, Mr. Liang Kwong Lim, Ms. Chan Sin Kwan and Mr. Lai Tin Ying, Michael (alias Lai Siu Tin), being the Directors, have been granted certain share options under the Pre-IPO Share Option Scheme (as such term is defined in the Prospectus). Particulars of the share options granted under the Pre-IPO Option Scheme (as such term is defined in the Prospectus) are as follows:—

Name	Number of share options	Date of grant	Exercise price per share (HK\$)	Expiration date
Ms. Li Ngar Kwan, Aldy*	3,500,000	24 September, 2001	0.25	14 October, 2004
Mr. Liang Kwong Lim*	3,500,000	24 September, 2001	0.25	14 October, 2004
Mr. Lai Tin Ying, Michael (alias Lai Siu Tin)**	3,500,000	24 September, 2001	0.25	14 October, 2004
Ms. Chan Sin Kwan*	1,575,000	24 September, 2001	0.25	14 October, 2004

*Notes:—*

\* being the executive Directors of the Company

\*\* being the non-executive Director of the Company

Save as disclosed herein, as at 30 April, 2002, none of the Directors or chief executive of the Company and its subsidiaries had any personal, family, corporate or other interests in the share capital of the Company or its associated corporations as recorded in the register maintained under section 29 of the SDI Ordinance or as required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 April 2002, the register required to be kept under section 16(1) of the SDI Ordinance showed that the Company has been notified of the following interest, being 10 per cent. or more of the issued share capital of the Company. These interests are in addition to those disclosed above in respect of the Directors:-

Name	Number of shares held	Approximate percentage of shareholding (%)
E-Teck Business Limited ( <i>Note 1</i> )	42,828,254	12.24
Ever-Long Asset Management Limited ( <i>Note 1</i> )	42,828,254	12.24
Ever-Long Holdings Limited ( <i>Note 1</i> )	42,828,254	12.24
Styland Holdings Limited ( <i>Note 1</i> )	42,828,254	12.24

*Notes:-*

1. The 42,828,254 shares are beneficially owned by and registered in the name of E-Teck Business Limited. All the issued share capital of E-Teck Business Limited is beneficially owned by Ever-Long Asset Management Limited, which is a wholly-owned subsidiary of Ever-Long Holdings Limited. Ever-Long Holdings Limited is a wholly-owned subsidiary of Styland Holdings Limited which is a limited liability company incorporated in Bermuda whose shares are listed on the Main Board. Ever-Long Asset Management Limited, Ever-Long Holdings Limited and Styland Holdings Limited are all deemed to be interested in the shares held by E-Teck Business Limited for the purpose of the SDI Ordinance.

## **SPONSOR'S INTEREST**

Under a sponsor's agreement dated 27 September, 2001 entered into between the Company and DBS Asia Capital Limited, DBS Asia Capital Limited is entitled to receive a fee in respect of the appointment of the Company as the sponsor of the Company as required under the GEM Listing Rules for a period from 15 October, 2001 to 31 October, 2003.

As at 31 January, 2002, neither DBS Asia Capital Limited, its directors, employees nor their associates (as such term is defined in the GEM Listing Rules) had any interest in any securities of the Company or any of its associated corporations.

## **DETAILS OF OPTIONS GRANTED BY THE COMPANY**

No options had been granted to any Directors or employees of the Company or its subsidiaries during the period under review.

## **MOVEMENT OF SHARE OPTIONS**

No share option was exercised during the period under review.

## **BOARD PRACTICES AND PROCEDURES**

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules Governing the Listing of Securities on GEM since its shares having been listed on GEM.

## **AUDIT COMMITTEE**

The Company has established an audit committee with written terms of reference based on the guidelines recommended by the Hong Kong Society of Accountants. The audit committee of the Board comprises two independent non-executive Directors, namely Mr. Chiu Wai and Ms. Tam Fung Chee. Ms. Tam Fung Chee is also the chairperson of the audit committee of the Board. Rainbow Group's unaudited consolidated results for the three months ended 30 April, 2002 and six months ended 30 April, 2002 have been reviewed and duly approved by the audit committee of the Board.

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

None of the members of Rainbow Group purchased, sold or redeemed any of Rainbow Group's listed securities during the period from 1 November, 2001 to 30 April, 2002.

## **COMPETING BUSINESS**

None of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company has an interest in a business which competes or may compete with the business of Rainbow Group.

By order of the Board  
**Rainbow International Holdings Limited**  
**Li Ngar Kwan, Aldy**  
*Chairperson*

Hong Kong, 11 June, 2002