



RAINBOW INTERNATIONAL HOLDINGS LIMITED

彩虹國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

2001/2002 Third Quarterly Report

Period ended 31st July 2002



Third Quarterly Report



2001/2002



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

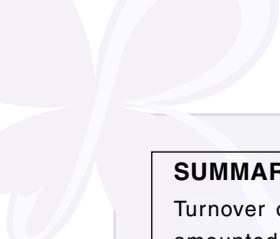
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This report, for which the directors (the “Directors”) of Rainbow International Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with The Rules Governing the Listing 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

Turnover of Rainbow Group for the nine months ended 31st July, 2002 amounted to approximately HK\$46 million, representing a decrease of approximately 46 per cent as compared with the same period in the last year.

Net loss of Rainbow Group for the nine months ended 31st July, 2002 amounted to approximately HK\$44.00 million, representing a decrease of approximately 604 per cent as compared with the same period in the last year.

The Board does not recommend the payment of a dividend for the nine months ended 31st July, 2002.

The board (the “Board”) of Directors would like to report the unaudited consolidated results of the Company and its Subsidiaries (together, “Rainbow Group”) for the three months ended 31st July, 2002 and the nine months ended 31st July, 2002.

RESULTS

The unaudited consolidated results of Rainbow Group for the three months ended 31st July, 2002 and the nine months ended 31st July, 2002 together with the comparative figures for the same period in the last year were as follows:

	Note	Three months		Nine months	
		Ended 31st July, 2002	2001	Ended 31st July, 2002	2001
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	7,792	27,550	45,998	85,904
Cost Of Sales		(20,370)	(13,274)	(41,282)	(46,282)
Gross Profit		(12,578)	14,276	4,716	39,622
Other Revenue	3	–	80	459	677
		(12,578)	14,356	5,175	40,299
Other Expenses					
Selling And Distribution					
Costs		(8,761)	(11,783)	(30,978)	(34,032)
Administrative Expenses		(5,988)	(4,255)	(13,334)	(9,791)
Loss From Operations		(27,327)	(1,682)	(39,137)	(3,524)
Finance Costs		(439)	(976)	(2,043)	(2,777)
Loss Before Taxation		(27,766)	(2,658)	(41,180)	(6,301)
Taxation	4	–	(193)	–	–
Loss After Taxation		(27,766)	(2,851)	(41,180)	(6,301)
Extraordinary Loss	5	(3,221)	–	(3,221)	–
Loss Attributable To Shareholders		(30,987)	(2,851)	(44,401)	(6,301)
Loss Per Share					
– Basic	6(a)	\$(0.09)	\$(0.008)	\$(0.13)	\$(0.02)
Loss Per Share					
– Diluted	6(b)	\$(0.09)	\$(0.008)	\$(0.12)	\$(0.02)

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

Notes:

1. Basis Of Preparation

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

2. Turnover

Turnover represents (a) the 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 after the elimination of all material inter-company transactions within Rainbow Group.

	(Unaudited) Three months ended 31st July,		(Unaudited) Nine months ended 31st July,	
	2002	2001	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Retails and wholesales of Beauty products	6,531	25,203	41,869	81,459
Beauty services	<u>1,261</u>	<u>2,347</u>	<u>4,129</u>	<u>4,445</u>
	<u>7,792</u>	<u>27,550</u>	<u>45,998</u>	<u>85,904</u>

3. Other Revenue

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

4. Taxation

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

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

5. Extraordinary Loss

Extraordinary Loss for the current period represents the amount of fixed assets written off due to the closure of some retail outlets of HK\$3,130,000 and the amount of severance payment of HK\$91,000.

6. Loss Per Share

(a) Basic

The calculation of basic loss per share for the three months ended 31st July, 2002 and nine months ended 31st July, 2002 is based on the loss attributable to shareholders of approximately HK\$27,766,000 and HK\$44,401,000 respectively (three months ended 31st July, 2001 and nine months ended 31st July, 2001: approximately HK\$2,068,000 and HK\$6,301,000 respectively) and on the weighted average number of 350,000,000 (three months ended 31st July, 2001 and nine months ended 31st July, 2001: 350,000,000) shares, after adjusting for the effects of capitalization issue deemed to be in issue throughout the period under review on the assumption that the reorganization had been completed on 1st November, 1998. (pro formation date of Rainbow Group).

(b) Diluted

The calculation of diluted loss per share for the three months ended 31st July, 2002 and nine months ended 31st July, 2002 is based on the loss attributable to shareholders of approximately HK\$27,766,000 and HK\$44,401,000 respectively (three months ended 31st July, 2001 and nine months ended 31st July, 2001: approximately HK\$2,068,000 and HK\$6,301,000 respectively) and the 362,941,250 (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 Reorganization had been completed on 1st 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 defined in the prospectus of the Company dated 28th September, 2001 based on the subscription price per share at HK\$0.25.

7. Reserves

	Share Premium	Accumulated losses	Capital reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31/10/2000	–	(2,138)	–	(2,138)
Premium on issued of shares	29,892	–	–	29,892
Share issue expenses	(8,753)	–	–	(8,753)
Capitalization of share premium	(1,730)	–	–	(1,730)
Loss for the year	–	(25,803)	–	(25,803)
Effect of the reorganization	–	–	28,327	28,327
Goodwill written off	–	(10,707)	–	(10,707)
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31/10/2001	19,409	(38,648)	28,327	9,088
Loss for the period	–	(44,401)	–	(44,401)
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31/7/2002	<u>19,409</u>	<u>(83,049)</u>	<u>28,327</u>	<u>(35,313)</u>

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 Rainbow Group reorganization scheme (please refer to the prospectus dated 28th September, 2001 for details).

LIQUIDITY AND FINANCIAL RESOURCES

Rainbow Group faced difficult financial position during the period. Cash and bank balances as of 31st July, 2002 amounted to HK\$2.13 million (as of 31st July, 2001: HK\$13.86 million).

Rainbow Group's financial performance was affected by poor economic environment in Hong Kong. Therefore, Rainbow Group had initiated business consolidation to reduce the adverse economic impact. As of 31st July, 2002, Rainbow Group has an aggregate amount of outstanding bank loan and overdraft in about HK\$19.19 million (as of 31st July, 2001: HK\$40.01 million). Subsequent to 31st July, 2002, the Group has reached agreement with two banks in one hand and is still negotiating with a bank on the other hand for restructuring of the banking facilities of the Group. As at the date hereof, the Group has an aggregate amount of outstanding bank loan and overdraft in about HK\$15.42 million. They are summarized as follows:

1. An outstanding bank loan in the amount of HK\$5.74 million is secured by an investment fund of Rainbow Group at cost value of HK\$4.00 million to be matured on May 2004.
2. An outstanding bank overdraft in the amount of HK\$1.62 million is secured by the personal property of the Chairperson. This bank overdraft is settled on 19th August, 2002; and
3. The total indebtedness with one local Bank in the amount of HK\$6.50 million is currently frozen by the bank. Rainbow Group is in negotiation with the bank to restructure the outstanding amount of which HK\$3.00 million to be settled by the Rights Issue proceeds and the remaining balance of HK\$3.50 million will be settled by three years monthly installments. The bank has accepted the above proposal in principal with condition to repay the bank HK\$4.00 million upon completion of the Right Issue.

Another commercial loan in the amount of HK\$2.70 million and bank overdraft in the amount of HK\$0.48 million were granted and drawn by Rainbow (HK) Cosmetic Co. Ltd, a wholly owned subsidiary of Rainbow Group in Macau. Such banking facilities are secured by a fixed deposit of HK\$2.00 million and is currently operating in ordinary manner.

As at the date hereof, other than the above bank indebtedness in the amount of HK\$6.50 million and the outstanding amount in about HK\$9.80 million due to the Chairperson are overdue, Rainbow Group has no other default bank loan outstanding. The Directors are in the opinion that the Group will have sufficient financial resources to meet the requirements of the Group after taking into account of the Rights Issue proceeds and the arrangement with the banks as abovementioned. In order to maintain better management of the Group's financial resources, the Directors have requested the audit committee of the Company to review the monthly accounts of the Group.

RIGHT ISSUE AND BONUS ISSUE

To improve the financial situation of the Group, the Group proposes to carry out Right issue not less than approximately HK\$21.00 million before expenses.

Application of the Right Issue has been made to the Listing Division of the Stock Exchange of Hong Kong on 7th August, 2002 for review and clearance. The estimated net proceeds of the proposed Rights Issue will be about HK\$19.00 million of which about HK\$4.00 million of the Rights Issue proceeds will be directly set off for the part of the subscription monies payable by the Chairperson under the Rights Issue and about HK\$3.50 million will be used to repay bank loan and about HK\$11.50 million will be applied as general working capital for the daily operation of the Group including outstanding of salary, commission, MPF and redundancy pay amounting to approximately HK\$2.20 million and also other overhead expenses. The Directors believe that the Rights Issue will provide all Shareholders (excluding Overseas Shareholders) the opportunity to participate in the business development and future growth of the Group. The Directors consider that the Rights Issue is in the best interest of the Group and the Shareholders as a whole.

Upon the right issue becoming unconditional, the Directors propose a bonus issue of ordinary shares to the members on the basis of five bonus shares for every two shares held on the book close date.

The Group's share trading was suspended on 7th August, 2002 and will remain suspended pending further announcement. Rainbow Group are waiting for the clearance of the proposed Right Issue Announcement from the Stock Exchange of Hong Kong Limited.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 31st July, 2002.

MANAGEMENT DISCUSSION AN ANALYSIS

Operating Environment

After Hong Kong returning to the People's Republic of China in July 1997, it so happened the Asian financial crises which results the economic recession and tight credit policy in the financial institutions of Hong Kong. Then as a result, the unemployment rate remains stand high and no matter an individual bankruptcy and corporate winding up cases are continuing growing up every year. Because of the overall Hong Kong economy was very poor for these incidents, the purchasing power of the consumers is extremely weak than-ever. The 911 attack at the World Trade Centre in New York of last year and the corporate accounts problem happened recently in American have the direct influence on the global economy where the Hong Kong market mainly relying on. Recently, the local unemployment rate increases to a high record of 8% and the local consumer confident index is ranking at the end in the of Asia-Pacific region.

Operating Results

The Rainbow Group is affected by these extreme bad economic conditions, turnover and the profit are dropped down substantially. Apart from these, as the tenancy agreements of all the outlets were signed few years ago, the rental expense is overall at the average of 30% higher than the current market rental. With such high operating costs, the results of Rainbow Group for the nine months ended 31st July, 2002 suffers great loss during the period.

The Rainbow Group is principally engaged in the selling and distribution of branded beauty and personal care products and in the provision of beauty services. During the period under review, Rainbow Group turnover and gross profit amounted to HK\$45.99 million and HK\$4.72 million respectively, representing a decreases of 46 per cent and 740 per cent from those of the same period of the previous year. The substantial decline in turnover was mainly due to the poor performance in the retail business which is as a result of the extreme weak in the purchasing power of the consumers in Hong Kong as a whole.

Retail Operations

In retail operations, Rainbow Group is engaged in the selling 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 operations remains the core business of Rainbow Group, accounting for 91 per cent of Rainbow Group's aggregate turnover. Turnover from these operations is

HK\$41.87 million for the period, representing a decline of 48 per cent from that of the first nine months of the previous year, largely due to the unfavourable retail market environment.

In order to strengthen the performance of the Group, Rainbow Group has further closed down four underperform retail outlets in Mongkok, Admiralty, Tsimshatsui and Central. As at the date hereof, the Rainbow Group has closed a total of four retail outlets in Hong Kong concentrate resources of Rainbow Group to the showroom in Causeway Bay. The showroom has a gross floor area of 1,500 square feet with monthly rental of HK\$0.36 million. The Directors believe that the showroom will provide a good support to Rainbow Group beauty services and increase the supplies of the products after concentration of Rainbow Group's resources. Besides, Rainbow Group has just established a direct marketing center in Causeway Bay in September 2002. The Directors anticipate that the direct marketing centre will contribute higher profit margin to Rainbow Group due to the lower operating cost of the direct marketing centre in comparison with the retail outlets. The Directors believe that the Group has sufficiency of operation to meet the requirement under Rule 17.26 of the GEM Listing Rules.

For commercial reasons as explained above, Rainbow Group began to close down and/or re-allocated part of the outlets, beauty center, office and warehouse in July 2002. The summaries are as below:

Location	Monthly Rental	Expired On	Surrounded On	Compensation (if any)	Remarks
Causeway Bay Head Office	HK\$37,600	9/8/2004	N/A	N/A	In Operation
Causeway Bay Outlet	HK\$360,000	31/5/2003	Retained	N/A	In Operation
Causeway Bay Beauty Centre	HK\$25,918	30/4/2004	Retained	N/A	In Operation
Mongkok new Beauty Centre	HK\$36,000	1/9/2004	N/A	N/A	Under decoration
Western District Warehouse	HK\$2,800	30 days notice	Retained	N/A	In Operation
Macau Outlet	HK\$75,000	31/10/2004	Retained	N/A	In Operation

Location	Monthly Rental	Expired On	Surrounded On	Compensation (if any)	Remarks
Tsimshatsui Outlet	HK\$190,000	28/2/2003	30/6/2002	HK\$190,000	Completed
Central Outlet	HK\$280,000	12/9/2002	6/7/2002	N/A	Negotiating of Surrender Agreement
Mongkok Outlet	HK\$510,000	30/4/2004	16/8/2002	N/A	Unpaid Rates HK\$127,652
Admiralty Outlet	HK\$25,000	30/4/2004	1/8/2002	N/A	Completed
Central Beauty Centre	HK\$15,000	31/8/2003	30/6/2002	N/A	Completed
Chaiwan Head Office	HK\$21,000	31/5/2004	15/8/2002	N/A	Completed
Causeway Bay Warehouse	HK\$29,000	4/5/2003	30/6/2002	HK\$29,000	Completed

Consequence to the closure of the outlets, Rainbow Group has lay off 24 employees by reason of redundancy on 31st August, 2002 and a payment of HK\$0.90 million as severance payment will be incurred by Rainbow Group in the next quarter accounts in accordance with the Labour Ordinance of the HKSAR.

Starting from 1st August, 2002, Rainbow Group is operating two retail outlets and one direct marketing centre under the trade name of Rainbow Harmony in Hong Kong and Macau.

Beauty Services Operations

The Directors are fairly satisfied with the performance of the beauty services operations during the period under review. Turnover from this segment amounted to HK\$4.13 million for the nine months ended 31st July, 2002, decreasing 7.11 per cent from that of the same period last year. In comparison with the previous quarter figure, turnover from Rainbow Group of beauty centre in the third quarter dropped by 16.10 per cent.

During July 2002, the Rainbow Group has invited a professional beauty advisor from Helvance, a famous skin care company in Swiss, to deliver a series of in-house training to the staff of the Group in Hong Kong and Macau to improve standard of services and knowledge of the Group in the industry. The Rainbow Group has recruited six additional beauticians in Macau and two additional beauticians in Hong Kong during the year of 2002.

The Group closed one beauty center in Central in June 2002 and the beauty center division of Macau branch providing professional beauty services to local people starting from August 2002.

PROSPECTS

With effect from 1st August, 2002. The business operations of Rainbow Group are as follows:—

A. Two Beauty Centers

Rainbow Group is carrying out the professional beauty center business through one of its fully-owned subsidiaries, Nutriplus Cosmetic International Ltd. The two beauty centers are located at 13th Floor, Wellable Commercial Building, 513 Hennessy Road, Causeway Bay, Hong Kong with a floor area of 2,600 square feet and at 25th Floor, Wu Sang House, 655 Nathan Road, Mongkok, Kowloon with a floor area of 3,600 square feet respectfully. The new beauty center at Wu Sang House, Mongkok is under decoration and expects to open for business in September 2002 with new introduction of body fit services for women. The Directors forecast that the two beauty centers would bring a turnover of approximately HK\$10.8 million to Rainbow Group in the fore-coming 12 months.

B. Causeway Bay Outlet (Kai Chiu Road) with Showroom in Causeway Bay

The retail business is carrying out through one of its fully-owned Subsidiaries, Harmony Century Hong Kong Ltd. The outlet located at 10 Kai Chiu Road, Causeway Bay, Hong Kong with a floor area 1,500 square feet. The reasons to keep this outlet are mainly (i) to support the direct marketing center as the showroom, (ii) the rental comparable lower than other outlet, (iii) after closure of the three underperformed outlets, Rainbow Group will concentrate resources of Rainbow Group and increase the supplies of the products to this Causeway Bay outlet. Under these circumstances, the directors expect that the outlet would bring a retail turnover of approximately HK\$26 million in the fore-coming 12 months to Rainbow Group.

C. Direct Marketing Center

The direct marketing business is operating through Harmony Century Hong Kong Ltd. The center is located in the Head Office of Rainbow Group in 23rd Floor, Cigna Tower, 482 Jaffe Road, Causeway Bay, Hong Kong with a floor area of 4,000 square feet. The center will employ younger generation and provide training. An employment package of basic salary and commission with sales quota are offered to the staffs of this centre to promote Rainbow Group sole exclusive skin care products. The directors believe that the direct marketing business would bring a turnover of approximately HK\$24.00 million to Rainbow Group in the fore-coming 12 months.

D. Macau Branch

In May 2002, a fully-owned subsidiary, Rainbow (HK) Cosmetic Co Ltd, opened retail shop with beauty centre in Macau engaging in selling of branded beauty and personal care products and also the professional beauty services business. The outlet is located at Nos. 48D-48E, Rua Pedro Coutinho, Edif. Lei Nin, R/C, Macau (澳門市中心大馬路·高地烏街48D-E地下) with an area 2,500 square feet. The professional beauty services of Rainbow Group has employed six beauticians and provided on-job training which enables them to be professional beauticians. The directors expect that the Macau Branch would bring a turnover of HK\$10.00 million in the next 12 months to Rainbow Group.

- E.** The Group continually explores the business opportunity in the PRC and it is in negotiation with an operator of 300 supermarket stores in Beijing to set up a joint venture in provision of beauty services and cosmetic products retail business in the PRC in order to expand the Group's business into the PRC market.

Rainbow Group initially planned to invest about HK\$1.20 million to enhance the information system of Rainbow Group for the improvement of the inventory control of Rainbow Group. Due to the current financial difficulty of Rainbow Group, the investment plan was suspended.

The estimated annual turnover for these operations will be amounted to approximately HK\$70.00 million for the coming year. The Directors are full of confidence that after the management adjusts the local retail business policy by closing down those outlet having with expensive rental charges, the operation cost will turn into a reasonable level. At last, it would bring

profit to Rainbow Group in the future result. Accordingly, the Directors believe that Rainbow Group has sufficiency of operation to meet the requirement under Rule 17.26 of the GEM Listing Rules.

USE OF PROCEED FROM THE NEW ISSUE

The actual use of proceeds from the new shares issued for listing on GEM of the Exchange in October 2001 for the nine months ended 31st July, 2002 as compared to the proposed amount set out in the Prospectus are as follows:

	Amount Proposed Upto 31/10/2003 <i>HK\$'000</i>	Actual Use as of 31/7/2002 <i>HK\$'000</i>
To set up one additional <i>Rainbow Cosmetic</i> outlet in Hong Kong and one in Macau by way of leasing shop premises	4,500	1,700
To conduct advertising and marketing programmes and other corporate image enhancement programmes	3,500	450
To purchase additional equipment for beauty services	2,000	229
To set up a new Nutriplus beauty centre in Hong Kong	1,500	N/A
To implement and enhance the management information system of Rainbow Group	750	N/A
To repay certain bank loans of Rainbow Group	8,000	15,006
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	20,250	17,385
Working Capital	2,000	2,912
Fixed deposit placed in a bank in Macau for secured bank facilities	—	2,000
	<hr/>	<hr/>
	22,250	22,297

The proceeds from the public offer of the Company in September 2001 has been fully utilized in operation of Rainbow Group in July 2002 and there is no outstanding proceeds from the public offer left as at the date hereof.

LITIGATION TO RAINBOW GROUP

As of the date hereof, Rainbow Group has received five writs of summons and eight claims under the Small Claims Tribunal Ordinance for the remaining outstanding litigation engaged by Rainbow Group. Three of the writs are related to outstanding rental, rates and management fee of *Rainbow Cosmetic* retail outlets in Central and Mongkok. The other two writs and the eight claims are related to unpaid goods sold and delivered.

According to the five writs of summons and eight claims, the total gross amount claimed under all Writs and claims received by the Group is HK\$1.05 million.

For commercial reasons, Rainbow Group has submitted petition on 3rd July, 2002 to wind up one of its fully-owned subsidiaries, *Rainbow Cosmetic* (Central) Company Limited who involved in one of the above legal action under HCA No. 2885/2002 as Defendant for the outstanding rent and rates. The petition is fixed for hearing on 25th September, 2002.

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 28th September, 2001 from the period of 1st November, 2001 to 31st July, 2002.

Business Objective stated in the Prospectus of Rainbow Group dated 28th September, 2001

To expand the retail business

To expand the retail business of Rainbow Group, the Directors will continue to open new *Rainbow Cosmetic* outlets in prime business locations in Hong Kong. With the gradual improvement in the economy of Macau, the Directors anticipate that there will be a growing demand for beauty products, whereas the competition is relatively less intensive as compared to Hong Kong. To

Actual Progress of Rainbow Group as at the date of this report

In May 2002, Rainbow Group opened a beauty centre in Macau which engages in the cosmetics and skin care products retails business. During the past year, Rainbow Group closed most of retails shops with relative high rental in Hong Kong as a result of to the current sluggish local economic and preserves the resources of Rainbow Group for future development. As at the date hereof, the Group is

capitalize these potential business opportunities, the Directors also plan to set up a *Rainbow Cosmetic* outlet in Macau subject to satisfactory feasibility study.

To focus on the provision of comprehensive beauty services

Recognizing the increasing demand for comprehensive beauty services, the Directors will continue to set up specialized beauty centers in Hong Kong under the trade name of Nutriplus and provide comprehensive beauty services, such as facial and body treatment and hair-care treatment, to women as well as men. The Directors devote to invest in additional and advanced beauty-care equipment and technology for the beauty services provided by Rainbow Group. The additional equipment expected to be acquired for the beauty-care service may include Isogei for skin treatment (專業修身美體機), Bio R-2000 for treating muscle and face lines (智能數碼美療儀器), Cellu M6 for body toning (纖體健膚儀器), Aesthi Peel for treating pigment, wrinkles, face lines and acne care and marks (金鋼磨砂皮膚更生儀器), Linfogei for treating water retained in the body (淋巴導向去水腫排毒儀器) and Therapeutic for treating body fat (熱能振盪按摩理療艙).

still operating two beauty centers, one showroom, one direct marketing center in Hong Kong and one retail outlet in Macau.

Due to the high rental cost, Rainbow Group has closed a retail outlet in Mong Kok on 31st July, 2002 and has moved the beauty centre from the retail shop in Mong Kok to Wu Sang House which has relative lower rental.

In order to enhance the beauty service, Rainbow Group has acquired two new equipments in Skinlight (水晶激活儀器) for treatment of wrinkles and skin care in March 2002 to meet the market demands.

Business Objective stated in the Prospectus of Rainbow Group dated 28th September, 2001

To expand the wholesale business of Rainbow Group

The Directors also believe that with the continuous economic development and improvement in the living standard in the PRC, there will be increasing demand for beauty products in the PRC. To capitalize these potential business opportunities, Rainbow Group intends to expand its wholesale business in the PRC subject to satisfactory feasibility study.

To improve the quality of services at Rainbow Cosmetic outlets and the beauty centers of Rainbow Group

The Directors acknowledge that quality of services is crucial to the success of Rainbow Group. To this end, the Directors will implement a series of training programmes (including in-house training and joint training programmes with beauty product suppliers) to improve the standard of services and product knowledge of the sales representatives at *Rainbow Cosmetic* outlets.

In addition, the Directors will recruit additional beauticians to provide beauty services at the beauty centers of Rainbow Group.

Actual Progress of Rainbow Group as at the date of this report

Rainbow Group is in negotiation with an operator of 300 supermarket stores in Beijing to set up a joint venture in provision of beauty service in the PRC. However, the financial position of Rainbow Group will be the key of success for the negotiation. As at the date hereof, no agreement has been made and negotiation is on hold which pending the result of the Rights Issue.

On 4th July, 2002, Rainbow Group has invited a professional beauty advisor from Helvance, a famous skin care company in Swiss, to deliver a series of in-house training to the staff of Rainbow Group in Hong Kong and Macau to improve standard of services and knowledge of Rainbow Group in the industry. Rainbow Group has recruited six additional beauticians in Macau and two additional beauticians in Hong Kong during the year of 2002.

Business Objective stated in the Prospectus of Rainbow Group dated 28th September, 2001

To promote corporate image and strengthen brand loyalty of the beauty and personal-care products under the brand name of Nutriplus

To maintain a competitive advantage over its competitors in the retail business of beauty products in Hong Kong, the Directors believe that it is important to cultivate strong brand loyalty and recognition of Rainbow Group. The Directors intend to implement a series of strategies, such as advertising, renovating *Rainbow Cosmetic* outlets and the beauty centers of Rainbow Group and participating in public functions, to promote the corporate image of Rainbow Group as one of the leading providers of beauty products and services. Rainbow Group will also develop beauty products under the brand name of Nutriplus as part of its brand enhancement programme.

Actual Progress of Rainbow Group as at the date of this report

To maintain the competitiveness of Rainbow Group and the market share of Rainbow Group's products, Rainbow Group constantly advertises the products of Nutriplus every month in Hong Kong. Rainbow Group is the sole exclusive distributor for the products of Nutriplus in Asia.

Business Objective stated in the Prospectus of Rainbow Group dated 28th September, 2001

To strengthen the management information system of Rainbow Group

As at the Latest Practicable Date, only four out of the eight *Rainbow Cosmetic* outlets were implemented with an integrated system for inventory control. The Directors recognize the importance to implement such system at all *Rainbow Cosmetic* outlets so as to enable the management of Rainbow Group to respond to the changing market demand promptly and maintain an appropriate level and variety of inventory at each *Rainbow Cosmetic* outlet. The Directors intend to upgrade and enhance the existing inventory control systems by implementing a comprehensive electronic point-of-sales system at all *Rainbow Cosmetic* outlets.

Actual Progress of Rainbow Group as at the date of this report

Rainbow Group initially planned to invest about HK\$1.20 million to enhance the information system of Rainbow Group for the improvement of the inventory control of Rainbow Group. Due to the current financial difficulty of Rainbow Group, the investment plan was suspended.

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

Ms. Poon Oi Man resigned as the Company Secretary and Qualified Accountant of the Company on 1st June, 2002 and Ms. Anita Ko Siu Yin has been appointed as the replacement with effect from 18th July, 2002.

Ms. Chan Sin Kwan has resigned as the executive Director on 31st August, 2002 and Ms. Li Ngar Kwan, Aldy has taken up her responsibilities, which reduces the operating cost of Rainbow Group as a result.

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

As at 31st July, 2002, the interests of the Directors and chief executives in the shares and of the 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 to 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	182,133,840
Mr. Lai Tin Ying, Michael (alias Lai Siu Tin)	Personal	2,186,434
Mr. Chiu Wai	Personal	348,000

(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 Directors of the Company, have been granted certain share options under the Pre-IPO Share Option Scheme. The particulars of the share options granted under the Pre-IPO Options Scheme are as follows:

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

Notes:

* being the executive Directors of the Company

** being the non-executive Director of the Company

Save as disclosed herein above, as at 31st July, 2002, none of the Directors or chief executive 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 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 31st July, 2002, the register required to be kept under section 16(1) of the Securities (Disclosure of Interest) Ordinance (Chapter 396 of the Laws of Hong Kong) ("SDI Ordinance") showed that the Company has been notified of the following interest, being 10% 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

Note:

- The 42,828,254 share 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

DBS Asia Capital Limited resigned as the on-going sponsor to the Company with effect from 1st August, 2002. The Directors are pleased to announce that the Company is in discussion with Hantec Capital Ltd ("Hantec") for the appointment of on-going sponsor of the Company as required under Rule 6.01 of the GEM Listing Rules and Hantec has preliminarily agreed to act as on-going sponsor of the Company to fulfill the requirement to the Company under the GEM Listing Rules on the condition of the liquidity of the Rainbow Group being improved and resolved.

As at 31st July, 2002, neither DBS Asia Capital Limited, its directors, employees nor their associates 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 during the period.

MOVEMENT OF SHARE OPTIONS

No share option was exercised during the period.

Li Ngar Kwan, Aldy, Liang Kwong Lim, Lai Tin Ying, Michael (alias Lai Siu Tin) and Chan Sin Kwan and all the other grantees except International Capital Network Ltd ("ICN") subsequently agreed to waive and cancel unconditionally and irrevocably the above option in August 2002 given under the Pre-IPO share option scheme on 24th September, 2001 before the expiration.

Rainbow Group has also announced on 5th August, 2002 that the option of 3,500,000 shares granted to International Capital Network Ltd ("ICN") under the pre-IPO shares option scheme dated 24th September, 2001 be irrevocably, cancelled, declined, lapsed and voided automatically in accordance with the terms set out in the offer letter on the ground that no consideration of HK\$1.00 physically received from ICN. No confirmation received from ICN.

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 Rules Governing the Listing of Securities on GEM since listed on the GEM of the Stock Exchange.

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 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 of Directors. Rainbow Group's unaudited results for the six months ended 30th April, 2002 and nine months ended 31st July, 2002 have been reviewed and duly approved by the audit committee of the board of directors.

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 1st November, 2001 to 31st July, 2002.

COMPETING INTERESTS

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 Ngai Kwan, Aldy
Chairperson

Hong Kong, 10th September, 2002