RAINBOW INTERNATIONAL HOLDINGS LIMITED
彩虹國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)

2002 Annual Report 年報

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

This report, for which the directors (the "Directors") of Rainbow International Holdings Limited (the "Company") collectively and individually accept 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.

The Stock Exchange takes no responsibility for the contents of this report, makes on 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 report.

Contents

Financial Highlights

For the quarter ended	31 Oct 02	31 July 02	30 April 02	31 Jan 02
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	5,614	7,792	14,293	23,913
Cost of Sales	(11,070)	(20,370)	(8,045)	(12,867)
Gross Profit/(loss)	(5,456)	(12,578)	6,248	11,046
Other revenue	(229)	–	220	512
	(5,685)	(12,578)	6,468	11,558
Operating expenditures	(7,592)	(17,970)	(15,410)	(14,425)
Loss from operations	(13,277)	(30,548)	(8,942)	(2,867)

Note: For the fourth quarter, the amount of cost of sales included HK$7.7 million of provision for slow-moving and obsolete inventories and the amount of operating expenditures included HK$2.8 million of severance payments and HK$4.5 million of loss on disposal of fixed assets due to closure of retail outlets.

Turnover	(Unaudited) Three months Ended 31 Oct 2002		(Audited) Twelve months Ended 31 Oct 2002	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Retails and wholesales of beauty products	**4,482**	22,099	**46,351**	103,558
Beauty service	**1,132**	2,044	**5,261**	6,489
	5,614	24,143	**51,612**	110,047

Financial Summary

	Results for the year ended 31 October			
	2002	2001(restated)	2000	1999
	HK$'000	*HK$'000*	*HK$'000*	*HK$,000*
Turnover	**51,612**	110,047	126,157	128,887
(Loss)/Profit from operations	**(55,634)**	(21,879)	6,734	1,519
Net (loss)/Profit for the year	**(58,195)**	(36,510)	2,165	(14,256)

Assets and Liabilities

	2002	2001	2000
	HK$'000	*HK$'000*	*HK$'000*
Total assets	**9,045**	80,927	69,011
Total liabilities	**(54,652)**	(68,339)	(71,075)
	(45,607)	(12,588)	(2,064)

Notes:

1. The Company was incorporated in the Cayman Islands on 6 March 2001 and became the holding company of the Group with effect from 21 September 2001 as a result of the Group Reorganisation as set out in the prospectus of the Company dated 28 September 2001 (the "Prospectus"). Accordingly, the only consolidated balance sheets prepared by the Group are as at 31 October 2002, 2001 and 2000.

2. The results of the Group for each of two years ended 31 October 2000 have been extracted from the Prospectus.

3. The results for the year ended 31 October 2002 have been extracted from the consolidated income statement as set out on page 31.

4. The financial summary of the Group has been prepared on the combined basis as if the group structure had been in existence throughout the years concerned. Refer to Note 1 to the accompanying financial statements for details of the Reorganisation.

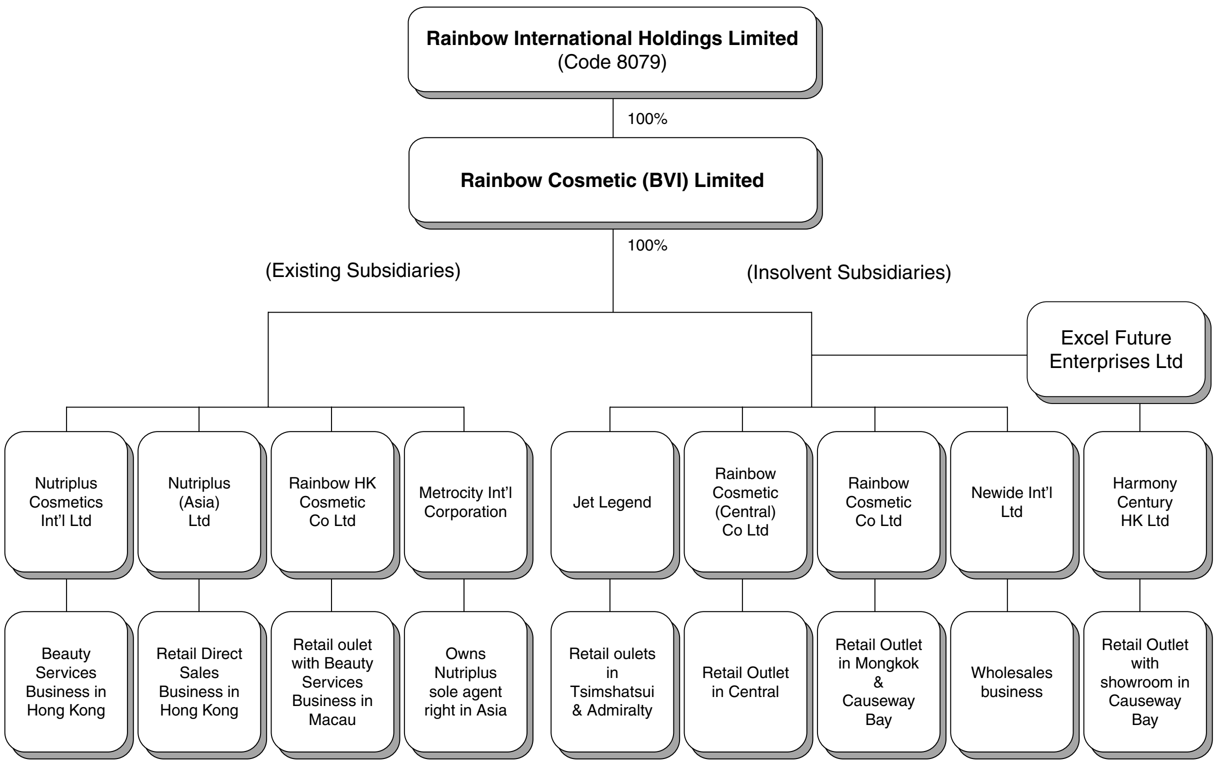
Corporate Profile

Rainbow International Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) is principally engaged in retail direct sales of branded beauty products in Hong Kong and also in the provision of beauty services in Hong Kong and Macau. The beauty products sold by the Group may be broadly divided into three main categories, namely (i) skin-care products, (ii) fragrances and cosmetics and (iii) hair-care and personal care products and accessories.

On 15 October 2001, the Company was successfully listed on GEM, its ordinary shares are traded under the stock code 8079.

Currently, the Group has been operating two beauty services centers, two retail direct sales centers, two warehouses in Hong Kong and one retail outlet carrying on retail and provision of beauty services business in Macau.

The following is the organization structure of the Group



Notes:

1. All the subsidiaries are wholly owned by the Company.

2. The five insolvent subsidiaries (the "Insolvent Subsidiaries"), namely (a) Rainbow Cosmetic Co. Ltd., (b) Rainbow Cosmetic (Central) Co. Ltd., (c) Newide International Ltd., and (d) Jet Legend Ltd., have ceased operations since 1 August 2002 and (e) Harmony Century HK Ltd. since 31 October 2002 respectively.

3. With effect from 1 November 2002, the Company is principally engaged in the retail direct sales of branded beauty products and also in the beauty services in Hong Kong and Macau which are operating by four wholly owned subsidiaries, namely (a) Nutriplus (Asia) Ltd. (retail direct sales business in Hong Kong), (b) Nutriplus Cosmetics Int'l Ltd. (beauty services business in Hong Kong), (c) Rainbow HK Cosmetic Co. Ltd. (retail outlet sales and beauty services business in Macau) and (d) Metrocity International Corporation (owns the sole exclusive agent right of Nutriplus products in Asia) (the "Existing Subsidiaries").

Corporate Information

Directors

Executive Directors
LI Ngar Kwan, Aldy – Chairperson
LIANG Kwong Lim – Deputy Chairman

Non-executive Director
LAI Tin Ying, Michael (alias LAI Siu Tin)

Independent non-executive Directors and members of audit committee of the board of Directors
TAM Fung Chee
CHIU Wai

Company secretary
LEE Chap Ming, M Fin, AHKSA

Compliance officer
LI Ngar Kwan, Aldy

Qualified account
LEE Chap Ming, M Fin, AHKSA

Legal adviser on Hong Kong law
Sidley Austin Brown & Wood
49th Floor, Bank of China Tower
1 Garden Road, Central
Hong Kong

Legal adviser on Cayman Islands law
Maples and Calder Asia

Sponsor
MasterLink Securities (H.K.) Corp. Ltd.
Unit 2603, 26th Floor
The Centre
99 Queen's Road Central
Hong Kong

Auditors
Charles Chan, Ip & Fung CPA Ltd
Certified Public Accountants
37th Floor, Hennessy Centre
500 Hennessy Road
Causeway Bay
Hong Kong

Principal Share Registrar and Transfer Office
Bank of Butterfield International (Cayman) Ltd
P.O. Box 705
Butterfield House
Fort Street, George Town
Grand Cayman
Cayman Islands
British West Indies

Hong Kong branch share registrar and transfer office
Standard Registrars Limited
Ground Floor, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Registered office
Ugland House
P.O.Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

Head office and principal place of business in Hong Kong
23rd Floor
Cigna Tower
482 Jaffe Road
Causeway Bay
Hong Kong

Principal bankers
Bank of China (Hong Kong) Limited
409-415 Hennessy Road
Wanchai
Hong Kong

Stock Code
8079

Highlights

- Successfully listed on GEM on 15 October 2001.
- Closure of all 8 retail outlets and opening 2 retail direct sales centers in Hong Kong.
- Macau retail outlet with beauty center opening in May 2002.
- Turnover for the financial year ended 31 October 2002 was approximately HK$51.6 million (2001: HK$110.0 million) representing a decrease of approximately 53.1%, as compared with the previous financial year.
- A gross profit of HK$7.0 million (or 13.5% gross margin) (2001: HK$38.2 million (or 34.7% gross margin)), excluding provision for slow-moving and obsolete inventories, was achieved.
- Loss for the financial year ended 31 October 2002 was approximately HK$58.2 million (2001: HK$36.5 million (restated)).
- As at 31 October 2002, Rainbow International Holdings Limited and its subsidiaries had cash and bank balance of approximately HK$0.49 million (2001: 29.1 million) and bank loans and other borrowings of approximately HK$17.1 million (2001: HK$38.8 million).
- The board of directors of the Company (the "Board") does not recommend the payment of a dividend for the year ended 31 October 2002.
- Raised net proceeds of approximately HK$19 million by way of Right Issue on the basis of one existing share for one Rights Share at HK$0.06 per Rights Share which was succeeded and completed on 27 January 2003.

Business Review

The Directors wish to present the annual results of the Group for the year ended 31 October 2002, which follows our successful listing on GEM on 15 October 2001.

The Group is principally engaged in direct sales of branded beauty products in Hong Kong and retail sales in Macau of branded products and in the provision of beauty services in Hong Kong and Macau. The beauty products sold by the Group may be broadly divided into three main categories, namely (i) skin-care products, (ii) fragrances and cosmetics and (iii) hair-care and personal care products and accessories.

The Group is committed to maintaining a high quality of the products and beauty services provided and, the establishment of beauty centers under the trade name of Nutriplus is an extension of this precept.

Use of Proceed

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

	Proposed *HK$'000*	**Actual** *HK$'000*
To set up an additional *Rainbow Cosmetic* retail outlet in Hong Kong and one in Macau by way of leasing shop premises	4,500	1,700
To conduct advertising and marketing programs and other corporate image enhancement programs	3,500	450
To purchase additional equipment for beauty services	2,000	535
To set up a new Nutriplus beauty center in Hong Kong	1,500	670
To implement and enhance the management information system of the Group	750	Nil
To repay certain bank loans of the Group	8,000	17,006
	20,250	20,361
Working Capital	2,000	1,889
	22,250	22,250

The proceeds from the listing of the Company's new shares in October 2001 has been fully utilized in operation of the Group as at 31 October 2002 which was not in line with the disclosure made in the IPO Prospectus and there is no outstanding proceeds from the initial public offer left as at 31 October 2002.

The principal divergence of the actual application of the proceeds from the description in the Prospectus was existed the repayment of further $9 million bank loans, which before the listing of the Company. The additional repayment of bank loans made during the period between April 2002 and September 2002 in excess of the repayment schedule as disclosed in the Prospectus was due to the continued adverse economy in Hong Kong during the year, which triggered repayment demands from banks.

The Board will continue to pursue the business objectives of the Group as stated in the Prospectus. The Board will use additional efforts towards positioning the Group as one of the leading beauty products and services providers in Hong Kong. With the anticipated recovery of the Hong Kong economy, together with our strong management team, the Board believes that the Group will be able to meet the challenges ahead and will become one of the leading beauty products and services providers in Hong Kong.

As at 1 November 2002, the Group has been operating two beauty services centers, two retail direct sales centers, two warehouses in Hong Kong and one retail outlet carrying on retail and provision of beauty services business in Macau.

The Directors would like to express their appreciation for the continuing support of the shareholders and the invaluable contributions made by management and staff.

Final Dividend

The board of directors of the Company has resolved not to recommend the payment of a final dividend for the year ended 31 October 2002.

Ms. LI Ngar Kwan, Aldy
Chairperson
Hong Kong, 29 January 2003

Management Discussion and Analysis

Operating Environment

After Hong Kong returning to the People's Republic of China in July 1997, it so-happened the Asian financial turmoil, which results the economic recession and tight credit policy adopted by the financial institutions in Hong Kong. Then as a result, the unemployment rate remains stand high and 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 extreme weak ever-had. The terrorist attack at the World Trade Centre in New York on 11 September 2001 last year and the corporate accounting problem happened recently in the United States of American have the direct influence on the global economy where the Hong Kong market mainly relying on. Recently, the local unemployment rate stands at a high record of approximately 7% and the local consumer confident index is ranking at the end in the Asia-Pacific region.

Closure of retail outlets

Given the financial difficulty of the Group as a result of the current adverse economic environment in Hong Kong, the Group has decided to reallocate its resources in order to achieve higher cost efficiency and to develop direct sales business. Accordingly, eight retail outlets and one beauty services center had ceased operation during the period from February to November 2002. The Directors consider that such decision is in the interest of the Company and its shareholders as it preserves the remaining resources of the Group for future business operation.

Closure of insolvent subsidiaries

The following is a summary of the closure of the Company's retail outlets and beauty services business in Hong Kong from the listing of the Company's shares to the date hereof.

	Outlets	Location	Closed on	Operated By
1.	Mongkok Outlet	Ground Floor, 58-60 Sai Yeung Choi Street South, Mongkok	28/2/2002	Rainbow Cosmetic Co Ltd.
2.	Causeway Bay Outlet	Ground Floor, 518 Lockhart Road, Causeway Bay	15/3/2002	Rainbow Cosmetic Co Ltd.
3.	Mongkok Outlet	Shop D, Ground Floor, Wai Kee House, 64-70 Argyle Street, Mongkok	30/4/2002	Rainbow Cosmetic Co Ltd.
4.	Tsimshatsui Outlet	Shop 3, Ground Floor, Tern Plaza, 5 Cameron Road, TST	30/6/2002	Jet Legend Ltd.
5.	Central Beauty Service Centre	Flat 901, Canton House, 54-56 Queen's Road Central, Hong Kong	30/6/2002	Nutriplus Cosmetics International Ltd.
6.	Central Outlet	Ground Floor, Parker House, 72 Queen's Road Central, Hong Kong	6/7/2002	Rainbow Cosmetic (Central) Co Ltd.
7.	Mongkok Outlet with Beauty Services Centre	Ground Floor & 1st Floor, 48-50 Sai Yeung Choi Street South, Mongkok	31/7/2002	Rainbow Cosmetic Co Ltd.
8.	Admiralty Outlet	Shop 7, 1/F, Podium of Admiralty Centre, 18 Harcourt Road, Admiralty	31/7/2002	Jet Legend Ltd.
9.	Causeway Bay Outlet	10 Kai Chiu Road, Causeway Bay, Hong Kong	10/11/2002	Harmony Century Hong Kong Ltd.

Existing and new outlets

Starting from 1 November 2002, the Group is principally engaged in the direct sales of branded beauty products and provision of beauty services in Hong Kong and Macau which are operated by four wholly owned subsidiaries, namely Nutriplus (Asia) Ltd. (direct sales in Hong Kong), Nutriplus Cosmetics International Ltd. (provision of beauty services in Hong Kong), Rainbow HK Cosmetic Co. Ltd. (retail outlet and provision of beauty services in Macau) and Metrocity International Corporation (owns Nutriplus sole agent right in Asia).

The Group, through its wholly-owned subsidiary, Nutriplus (Asia) Ltd. has established a direct sales center for a monthly rental of HK$37,600 with a floor area 4,000 sq. ft. in Cigna Tower, Causeway Bay and commenced business on 1 September 2002 and also another center in Wu Sang House, Mongkok with a floor area of 800 sq. ft. which was set up on 11 November 2002 inside its beauty centre by employing two full time staffs for its operation. The Directors anticipate that the direct sales centers will contribute higher profit margin to the Group due to the lower operating costs of the direct sales centers in comparison with the retail outlets.

The beauty services business of the Group is operated by Nutriplus Cosmetic International Limited, a wholly owned subsidiary of the Group. The existing beauty center is located in Wellable Commercial Building, Hennessy Road, Causeway Bay which has 6 beauticians with a monthly rental of HK$25,918. The Group has opened a new beauty center in Wu Sang House, Mong Kok which has 17 beauticians on 11 November 2002 with a monthly rental of approximately HK$49,680 including the management fee and air-conditioning (with four months rent free period starting from 2 September 2002) to replace the beauty center in Sai Yeung Choi Street, Mong Kok which was closed on 31 July 2002. The new beauty center in Mong Kok, with around twenty VIP rooms, will provide body slimming, sympathetic drainage, body massage and bust treatment as well as other beauty care services.

In May 2002, the Group's wholly-owned subsidiary, Rainbow (HK) Cosmetic Co Ltd., opened a retail outlet with beauty centre in Macau carrying the retail outlet business of cosmetics and skin care products and provision of professional beauty services. The shop is located at Nos. 48D-48E, Rua Pedro Coutinho, Edif. Lei Nin, R/C, Macau with a floor area of approximately 2,500 square feet. The Group has employed four beauticians at its beauty centre in Macau. The monthly rent of the beauty centre is HK$75,000 per month.

The Group has two warehouses located at Portion 1, Unit C, 2nd Floor, Wah Ha Factory Building, 8 Shipyard Lane, Quarry Bay and Roof A2, Kam Mow Industrial Building, 44 Relcher's Street, Hong Kong respectively for a monthly rent of HK$8,000 per month and HK$2,000 per month respectively with a combined total floor area of 10,000 sq. ft. The main function of these two warehouses is to store stocks to support the Group's current day to day business operation.

Metrocity International Corporation, a wholly-owned subsidiary of the Group, is the sole exclusive agent of the Nutriplus brand beauty products in Asia for a period of 2 years which is renewable after expiration on 1 July 2004 subject to the full fulfillment of the present agreement.

Since 1 November 2002, the Group has been operating two beauty services centers, two retail direct sales centers, two warehouses in Hong Kong and one retail outlet carrying on retail and provision of beauty services business in Macau. Details of these operations including the locations and the staff headcount in each of the respective operating units of the Company are summarised as follows:

	Operated by	Name	Nature	Location	No. of Employees
1.	Nutriplus (Asia) Ltd.	Causeway Bay Retail Direct Sales Centre	Retail Direct Sales	23rd Floor, Cigna Tower, 482 Jaffe Road, Causeway Bay, Hong Kong	4 (full time)
2.	Nutriplus (Asia) Ltd.	Mongkok Retail Direct Sales Centre	Retail Direct Sales	25th Floor, Wu Sang House, 655 Nathan Road, Kowloon	3 (full time)
3.	Nutriplus Cosmetics International Ltd.	Causeway Bay Beauty Services Center	Beauty Services	13th Floor, Wellable Comm. Bldg, 513 Hennessy Road, Causeway Bay, Hong Kong	6 (full time)
4.	Nutriplus Cosmetics International Ltd.	Mongkok Beauty Services Center	Beauty Services	25th Floor, Wu Sang House, 655 Nathan Road, Kowloon	17 (full time)
5.	Rainbow HK Cosmetic Co. Ltd.	Macau Branch	Retail Outlet and Beauty Services Center	Nos. 48D-48E, Rua Pedro Coutinho, Edif. Lei Nin, R/C, Macau	13 (full time)
6.	Rainbow International Holdings Ltd.	N/A	Supporting Office	23rd Floor, Cigna Tower, 482 Jaffe Road, Causeway Bay, Hong Kong	14 (full time)
7.	Nutriplus (Asia) Ltd.	Western District Warehouse	Back Up Office	Roof A2, Kam Mow Industrial Building, 44 Relcher's Street, Hong Kong	1 (full time)
8.	Nutriplus (Asia) Ltd.	Quarry Bay Warehouse	Back Up Office	Portion 1, Unit C, 2nd Floor, Wah Ha Factory Building, 8 Shipyard Lane, Quarry Bay	–
9.	Metrocity International Corporation	N/A	Holdings of agency right	P.O. Box 3152, Road Town, Tortola, British Virgin Islands	–
	Total staffs as at 1/11/2002				58 employees

Operating Results

The Group is affected by these extreme bad economic condition, 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 the Group for the financial year ended 31 October 2002 suffers great loss during the year.

The Group is principally engaged in the sale and distribution of beauty and personal care products and in the provision of beauty services. During the period under review, turnover for the financial year ended 31 October 2002 was approximately HK$51.6 million (2001: HK$110.0 million) representing a decrease of approximately 53.1%, as compared with the previous financial year and a gross profit of HK$7.0 million (or 13.5% gross margin) (2001: HK$38.2 million (or 34.7% gross margin)), excluding provision for slow-moving and obsolete inventories, was achieved. 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.

Retail Operations

In retail operations, the Group is engaged 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 operations remain the core business of the Group, accounting for 89.8% per cent of the Group's aggregate turnover. Turnover from these operations is HK$46.4 million (2001: HK$103.6 million) for the year, representing a decline of 55 per cent compared with the previous year, largely due to the unfavourable retail market environment.

The Group has established a direct marketing center in Causeway Bay in 2002. The Directors anticipate that the direct marketing centre will contribute higher profit margin to the Group due to the lower operating cost of the direct marketing centre in comparison with the retail outlets.

Beauty Services Operations

Turnover from this segment amounted to HK$5.3 million (2001: HK$6.5 million) for the year ended 31 October 2002, a light decrease 19 per cent compared with the previous year.

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.

Overseas Expansion

The Group has continually explored business opportunity in the PRC. Since 10 April 2002, the Group has been in negotiation with an operator which has 300 supermarket stores in Beijing to set up a joint venture company to provide retail business of provision of beauty services and cosmetic related products in the PRC in order to expand the Group's business into the PRC market. The negotiation was suspended pending for the result of the Rights Issue. The Group will seek additional financial resources if the joint venture were to proceed in the future.

Liquidity and financial resources

As at 31 October 2002, the Groups had cash and bank balance of approximately HK$0.49 million (2001: 29.1 million) and bank loans and other borrowings of approximately HK$17.1 million (2001: HK$38.8 million).

The Group's borrowings carry interest rate calculated mainly with reference to Hong Kong Prime Lending Rates from plus five percent per annum to minus three percent per annum and Hong Kong Dollar is the main currencies in which borrowings are made.

Gearing ratio

The gearing ratio (total debts/total assets) of the Group as at 31 October 2002 was 189% (2001: 48%)

Right Issue and bonus issue

To improve the financial situation of the Group, the Group has carried out the rights issue (the "Right Issue") to raise gross proceeds of approximately HK$21 million as general working capital for the daily operation and repayment of bank loans. The estimated net proceeds of the Rights Issue is about HK$19 million of which about HK$4 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$8.5 million will be used to repay bank loans and about HK$6.5 million will be applied as general working capital for the daily operation of the Group. The Directors consider that the Rights Issue is in the best interest of the Group and the shareholders of the Company as a whole. The Rights Issue was succeeded and completed on 27 January 2003.

As stated in the prospectus of the Company relating to the Rights Issue dated 18 December 2002, the proceeds from the Rights Issue are still not sufficient to settle all its overdue liabilities. The Directors has commenced to negotiate with the banks and creditors on the debt restructuring. If the banks and creditors proceed to take legal actions to demand immediate settlement, the Group would be unable to satisfy all these liabilities and the Group's financial position would be further adversely affected. (The summary of the litigations is set out in note 29)

After the Rights Issue, the Company issues bonus shares on the basis of five existing shares for two new bonus shares to the members registered on 6 February 2003.

Since most of the transactions of the Group are denominated in Hong Kong dollars, no hedging or other arrangements to reduce the currency risk have been implemented.

Contingent Liabilities

Details of the contingent liabilities are set out in note 29.

Employees

As at 31 October 2002, the Group has 58 (2001: 130) full-time employees. The total of employee remuneration, including that of the Directors, for the year ended 31 October 2002 amounted to HK$16.2 million (2001: 21.2 million). The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

Share Option Scheme

On 24 September 2001, the shareholders of the Company approved a share option scheme ("the Scheme") under which its Board of Directors may, at its discretion, offer full-time or part time employees and executive, non-executive and independent non-executive directors of the Company and/or any of its subsidiaries, options to subscribe for shares of the Company. The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 30% of the issued share capital of the Company. The subscription price will be determined by the Company's Board of Directors and will be less than the highest of (i) the nominal value of the shares, (ii) the quoted closing price of the Company's shares on the date of offer of the options, and (iii) the average of the quoted closing prices of the Company's shares on the five trading days immediately preceding the date of offer of the options. As at 31 October 2002, no option under the Scheme has been granted by the Company.

Future Plans and Prospects

It is the Group's intention to expand operations both in terms of scale and scope of business in order to achieve rapid growth. Moreover, the Group aims to become a leading beauty products and services provider in Hong Kong. In order to realize such objectives, the following plans will be undertaken:

Expand Retail Direct Sales Center Operations
To expand on the retail direct sales center, the Directors will continue to open new retail direct sales centers in prime Hong Kong locations.

Furthermore, with gradual improvements in Macau's economy, the Directors also foresee growing demand for beauty products in that region, where competition is relatively less intense. In capitalizing on such an opportunity, the Directors have established a Rainbow Cosmetic outlet with beauty center in Macau in 2002.

Focus on the Provision of Comprehensive Beauty Services
In order to enhance the beauty service business to meet the market demands, the Group has acquired a new piece of equipment in relation to Skinlight for treatment of wrinkles and skin care in March 2002 for HK$150,000, of which HK$63,000 was already paid according to the hire purchase installment schedule. The Group had further purchased new piece of equipment of Revitalase Twins 12, Sygmass and Bio Oxyget Plus for the new beauty services center in Wu Sang House, Mongkok amounting to HK$306,000.

Improve on the Quality of Services at Retail Direct Sales Centers and Beauty Centers
The Directors understand that quality service is crucial for achieving success. To this end, the Group implements a series of training programmes (including in-house training and joint training with suppliers) to improve the standard of services and product knowledge of sales representatives at retail direct sales centers.

To promote corporate image and strengthen brand loyalty of Nutriplus Products
To maintain the competitiveness of the Group and the market share of the Group's products, the Group has regularly advertising the products of Nutriplus in magazines published in Hong Kong every month. The Group is the sole exclusive distributor for the products of Nutriplus in Asia. The Group advertised Nutriplus monthly in the magazines published in Hong Kong.

To strengthen the management information system of the Group
The Group had initially planned to invest about HK$1.2 million to enhance the information system of the Group for the improvement of the inventory control of the Group. Due to the current financial difficulty of the Group, such investment plan was suspended.

Comparison of Business Objectives of the Group

The Directors refer to the latest business operation and financial position of the Group and would update the Shareholders on the progress of the Group as at the date of this announcement as compared to the business objectives as stated in the prospectus of the Company dated 28 September 2001. The following table sets out comparison of the business objective of the Group stated in the Prospectus and the actual progress of the Group:

Business Objective stated in the prospectus of the Company dated 28 September 2001	**Actual Progress of the Group as of 31 October 2002**
To expand the retail business To expand the retail business of the 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 capitalize these potential business opportunities, the Directors also plan to set up a Rainbow Cosmetic outlet in Macau subject to satisfactory feasibility study.	On 25 May 2002, the Group opened a retail outlet by employing 13 new staffs in Macau which engages in the cosmetics and skin care products retails business. The turnover of Macau branch was HK$1.78 million from May to October 2002. As at the Latest Practicable Date the Group closed all its eight retail outlets with relative high rental in Hong Kong as a result of current sluggish local economy and preserves the resources of the Group for future development. As at the Latest Practicable Date, the Group is still operating two beauty services centers in Hong Kong (Causeway Bay and Mongkok), two direct sales centers in Hong Kong (Causeway Bay and Mongkok) and one retail outlet with beauty services in Macau.
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 the 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), Aesthipeel 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).	Due to the high rental cost in prime ground locations in Hong Kong, the Group has closed a retail outlet in Mong Kok on 31 July 2002 and has moved the beauty center to 25th Floor, Wu Sang House, 655 Nathan Road, Kowloon which has relative lower rental and has commenced its operation on 11 November 2002. In order to enhance the beauty service business to meet the market demands, the Group has acquired a new piece of equipment in relation to Skinlight for treatment of wrinkles and skin care in March 2002 for HK$150,000, of which HK$63,000 was already paid according to the hire purchase instalment schedule. The Group had further purchased new piece of equipment of Revitalase Twins 12, Sygmass and Bio Oxyget Plus for the new beauty services center in Wu Sang House, Mongkok amounting to HK$306,000.

Business Objective stated in the prospectus of the Company dated 28 September 2001	Actual Progress of the Group as of 31 October 2002
To expand the wholesale business of the 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, the Group intends to expand its wholesale business in the PRC subject to satisfactory feasibility study.	Since 10 April 2002, the Group has been in negotiation with an operator which has approximately 300 supermarket stores in Beijing to set up a joint company to provide beauty service in the PRC. However, the financial position of the Group will be the key to the success for the negotiation. As at the Latest Practicable Date, no agreement has been made and negotiation was put on hold pending the result of the Rights Issue. The Group will seek additional finance resources if the joint venture were to proceed in future.
To improve the quality of services at the Rainbow Cosmetic outlets and the beauty centers of the Group The Directors acknowledge that quality of services is crucial to the success of the Group. To this end, the Directors will implement a series of training programs (including in-house training and joint training programs with beauty product suppliers) to improve the standard of services and product knowledge of the sales representatives at the Rainbow Cosmetic outlets. In addition, the Directors will recruit additional beauticians to provide beauty services at the beauty centers of the Group.	From 4 July 2002 to 11 July 2002, the Group had invited on complimentary basis, a professional beauty advisor from Helvance, a famous skin care company in Switzerland, to deliver a series of in-house training to the staff of the Group in Hong Kong and Macau to improve the standard of services and knowledge of the Group in the beauty services industry. The Group had employed in total of 19 beauticians and staff for its outlets as at the date of listing. The Group had recruited six additional beauticians in Macau in April and May 2002 and eight additional beauticians in Hong Kong of which two were recruited in April and May 2002 while six were recruited in July and August 2002 and their salaries are all paid up-to-date of the Latest Practicable Date. After the recent restructuring of the Group's operation, there are currently in total of 35 beauticians and staff being employed by the Group for its beauty outlets in Hong Kong and Macau. The Group have decorated the retail outlet in Macau and the beauty centre in Wu Sang House, Mongkok which was opened on 11 November 2002. The total decoration costs of the Macau outlet was HK$660,000 which was fully paid and that of Mongkok outlet was approximately HK$670,000 of which HK$519,000 was paid.

Business Objective stated in the prospectus of the Company dated 28 September 2001	Actual Progress of the Group as of 31 October 2002
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 the Group. The Directors intend to implement a series of strategies, such as advertising, renovating the Rainbow Cosmetic outlets and the beauty centers of the Group and participating in public functions, to promote the corporate image of the Group as one of the leading providers of beauty products and services. The Group will also develop beauty products under the brand name of Nutriplus as part of its brand enhancement program.	To maintain the competitiveness of the Group and the market share of the Group's products, the Group has regularly advertising the products of Nutriplus in magazines published in Hong Kong every month. The Group is the sole exclusive distributor for the products of Nutriplus in Asia. The Group advertised Nutriplus monthly in the magazines published in Hong Kong and the outstanding charges for advertisment is approximately HK$145,000 as at 31 October 2002.
To strengthen the management information system of the 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 the 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.	The Group had initially planned to invest about HK$1.2 million to enhance the information system of the Group for the improvement of the inventory control of the Group. Due to the current financial difficulty of the Group, the investment plan was suspended.

DIRECTORS

Executive Directors

Ms. LI Ngar Kwan, Aldy, aged 46, is the chairperson of Rainbow Group since its establishment in 1985. Ms. Li Ngar Kwan, Aldy is also the founder of Rainbow Group and an executive Director and is responsible for the overall strategic planning and business development of Rainbow Group. Ms. Li Ngar Kwan, Aldy has in-depth knowledge and extensive experience in beauty product retail and wholesale businesses in Hong Kong. Prior to establishment of Rainbow Group, Ms. Li Ngar Kwan, Aldy had approximately 15 years of experience in the beauty product retail business in Hong Kong.

Mr. LIANG Kwong Lim, aged 61, is an executive Director responsible for the sales and marketing functions of Rainbow Group. Prior to joining Rainbow Group in January 2001, Mr. Liang has approximately 30 years of experience in the export and import trade businesses.

Non-executive Director

Mr. LAI Tin Ying, Michael (alias LAI Siu Tin), aged 55, is a non-executive Director responsible for public relations of Rainbow Group and other promotion and marketing activities of Rainbow Group. Prior to joining Rainbow Group in June 2001, Mr. Lai has approximately 20 years of experience in the public relation and media industry.

Independent non-executive Directors

Ms. TAM Fung Chee, aged 41, was appointed as an independent non-executive Director in June 2001. Ms. Tam is also an associate member of Hong Kong Society of Accountants and a fellow member of Chartered Association of Certified Accountants. Ms. Tam has approximately 20 years of experience in the accounting and finance industry.

Mr. CHIU Wai, aged 70, was appointed as an independent non-executive Director in June 2001. Mr. Chiu is ex-director of Lai Sun Garment (International) Limited, the shares of which are listed on the Main Board. Mr. Chiu has approximately 40 years of experience in the garment manufacturing industry.

SENIOR MANAGEMENT

Mr. LEE Chap Ming, aged 37, is the financial controller, the Qualified Accountant of the Company and the Company Secretary of the Company. Mr. Lee is responsible for the overall financial and accounting functions of the Group. Prior to joining the Rainbow Group, Mr. Lee has over 10 years of accounting operations, auditing and management financial reporting experience including 4 years in the Leading Spirit Hi-Tech (Holdings) Company Limited, of the Main Board of the Stock Exchange of Hong Kong Limited as an accountant and then as a management accountant. Mr. Lee is an associate member of Hong Kong Society of Accountants and a member of American Institute of Certified Public Accountants in United States.

Ms. PANG Ka Ping, Veronica, aged 46, is the chief operation officer of the Group and is responsible for the overall retail operations, information technology development, logistics and general administration of the Group. Ms. Pang also oversees the enhancement of the Group's management information systems and inventory control systems and the business development of new series of beauty products such as Nutriplus. Ms. Pang holds a Bachelor of Arts Degree from the University of Toronto, Canada. Prior to joining the Group in March 1996, Ms. Pang has approximately ten years of experience in retail business in Canada and approximately five years of experience in retail banking business in Hong Kong.

Ms. LEE Kin Yuk, Eliza, aged 45, is the beauty center supervisor of the Group and oversees, in particular two beauty centers in Causeway bay and Mongkok in Hong Kong. Prior to joining the Group in August 1999, Ms. Lee has approximately four years of experience in beauty services industry.

Ms. CHAN Chi Pik, Pencil, aged 29, is the retail outlet and beauty center supervisor of the Group and oversees, in particular the retail outlet with beauty center in Macau SAR. Prior to joining the Group in May 2002, Ms. Chan has approximately six years of experience in beauty product and services industry.

The directors of the Company ("Directors") present their annual report together with the audited financial statements of the Company and the Group for the year ended 31 October 2002.

INCOMPLETE BOOKS AND RECORDS

In light of the incomplete books and records maintained by the Company and its subsidiaries and the lack of supporting documentary evidence in respect of accounts payables and other payables and accruals relating to the year ended 31 October 2002, the Directors are unable to represent as to the accuracy and completeness of the relative information contained in this report which has been prepared according to the best knowledge of the Directors.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in the retails of beauty products and beauty service provision in Hong Kong and Macau. The beauty products sold by the Group include (i) skin-care products, (ii) fragrances and cosmetics and (iii) hair-care and personal-care products and accessories.

An analysis of the Group's turnover and contribution to operating results for the Group by principal activities and geographical locations for each of the two years ended 31 October 2002 is set out in note 4 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases attributable to Rainbow Group's suppliers are as follows:–

	2002	2001
	%	%
Purchases		
– the largest supplier	3.61	13.31
– five largest suppliers combined	12.22	29.65

During the year, the five largest suppliers of the Rainbow Group accounted for less than 30% of its operating costs for the year.

Sales to Rainbow Group's five largest customers accounted for less than 30% of Rainbow Group's turnover for each of the two years ended 31 October 2002.

Save as disclosed above, none of the directors or any of their associates (as defined in the Rules Governing the Listing of Securities on GEM ("GEM Listing Rules") or any shareholders of the Company (who, to the knowledge of the Directors, own more than 5% of the issued share capital of the Company) had any beneficial interest in any of the five largest suppliers or customers of Rainbow Group for the financial year ended 31 October 2002.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 October 2002 are set out in the consolidated income statement on page 31 of the annual report.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last three years is set out page 3.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 10 to the financial statements.

ISSUED CAPITAL AND SHARE OPTIONS

Details of the movements in issued capital and share options of the Company during the year are set out in notes 21 and 24, respectively, to the financial statements.

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in notes 22, respectively, to the financial statements.

BORROWINGS

Particulars of borrowings and pledge of assets of the Group as at 31 October 2002 are set out in notes 16, 18 and 27 to the financial statements.

DONATIONS

During the year, no charitable and other donations were made (2001: HK$38,000).

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 11 to the financial statements.

DIRECTORS

The Directors who held office during the year are:

Executive directors

Elbert LEE	(resigned on 18 April 2002)
CHAN Sin Kwan	(resigned on 31 August 2002)
LI Ngar Kwan, Aldy	
LIANG Kwong Lim	

Non-executive directors

LAI Tin Ying, Michael (alias LAI Siu Tin)
TAM Fung Chee **
CHIU Wai **

*** Independent Non-executive Directors*

In accordance with Article 116 of the Articles of Association of the Company, Mr. LIANG Kwong Lim will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a continuous service contract with the Company on 24 September 2001 for an initial term of two years (in case of Mr. LIANG Kwong Lim) or three years (in case of other executive Directors) commencing from 1 September 2001 and thereafter be continuous unless and until terminated by not less than six months' notice (in case of Ms. LI Ngar Kwan Aldy) or three months' notice (in case of each other executive Directors) in writing served by either party on the other.

The non-executive Directors (including the independent non-executive Directors) have no fixed term of office but are subject to the provisions of retirement and rotation of Directors under the Articles of Association of the Company.

Save as disclosed above, none of the Directors being proposed for re-election at the forthcoming annual general meeting of the Company has entered into any service arrangements with any member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation other than statutory compensation).

DIRECTORS' INTEREST IN SECURITIES

As at 31 October 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

Details of the share option scheme of the Company are set in the paragraph headed "Share Options" herein below and in note 24 to the financial statements.

The Directors had personal interests in share options granted by the Company during the year to subscribe for shares in the Company as follows:

Name of Directors	Number of Share Options granted on 24 September 2001	Cancelled/ lapsed at 11 August 2002	Outstanding at 31 October 2002
LI Ngar Kwan, Aldy	3,500,000	3,500,000	–
LIANG Kwong Lim	3,500,000	3,500,000	–
Elbert LEE*	3,500,000	3,500,000	–
LAI Tin Ying, Michael	3,500,000	3,500,000	–
CHAN Sin Kwan	1,575,000	3,500,000	–

* *Pursuant to the Share Option Scheme, the share options of Mr. Elbert LEE lapsed as a result of his resignation during the year*

Ms. LI Ngar Kwan, Aldy, Mr. LIANG Kwong Lim, Mr. LAI Tin Ying, Michael and Ms. 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 24 September 2001 before expiration.

Save as disclosed herein above, as at 31 October 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.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the business of the Company or any of its subsidiaries was a party and in which any of the Company's Directors or members of its management had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year under review.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, the register of substantial Shareholders maintained by the Group pursuant to section 16(1) of the SDI Ordinance discloses the following companies, other than a Director or chief executive of the Company, as having an interest of 10% or more of the issued share capital of the Company as at 31 October 2002:

Name	**Number of Shares Held**	**Approximate Percentage of Shareholding**
		%
E-Teck Business Limited *(Note 1)*	42,828,254	12.24
Ever-Long Asset Management Limited *(Note 1)*	42,828,254	12.24
Ever-Long Holdings Limited *(Note 1)*	42,828,254	12.24
Styland Holdings Limited *(Note 1)*	42,828,254	12.24

Note:

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.

   Save as disclosed above, the Directors are not aware of any other person having an interest in Shares representing 10% or more of the Company's issued share capital as at 3 1 October 2002.

MANAGEMENT SHAREHOLDERS

So far as the directors are aware, other than those disclosed under the section headed "Director's Interest in Securities" above, there is no other person who is directly or indirectly interested in 5% or more of the share capital of the Company then issued and who is able, as a practical matter, to direct or influence the management of the Company.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

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

Since the shares of the Company commenced trading on GEM on 15 October 2001, neither the Company nor any of its subsidiaries had purchased, sold or repurchased any of the Company's shares during the year.

SPONSOR'S INTEREST

DBS Asia Capital Limited resigned as the on-going sponsor to the Company with effect from 1 August 2002. The Directors are pleased to announce that the Company has entered an agreement with MasterLink Securities (H.K.) Ltd on 18 October 2002 ("MasterLink") for the appointment of on-going sponsor of the Company as required under Rule 6.01 of the GEM Listing Rules.

As at 31 October 2002, neither MasterLink, its directors, employees nor their associates had any interest in any securities of the Company or any of its associated corporations.

COMPETING INTEREST

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had any interest in any business (as defined in Rule 11.04 of the GEM Listing Rules) which competes or may compete with the business of the Group.

CONNECTED TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 October 2002 are disclosed in note 25 to the financial statements.

As disclosed in the sub-paragraph headed "Exempted continuing connected transaction" in the paragraphs headed "Connected transactions" under the section headed "Business of Rainbow Group" of the prospectus of the Company dated 28 September 2001, Ms. LI Ngar Kwan, Aldy, the chairperson of the Board and an executive Director and Newide International Limited, a subsidiary of the Company, entered into a lease agreement dated 1 June 2001. Pursuant to the lease agreement, Newide International Limited agreed to lease the factory premises located at Factory B on 4th Floor and Flat Roof of Sze Hing Loong Industrial Building, 44 Lee Chung Street, Chai Wan, Hong Kong from Ms. LI Ngar Kwan, Aldy for a term of three years commencing from 1 June 2001 at a monthly rent of HK$21,000, exclusive of rates, management charges, air-conditioning fees and other outgoings. This transaction is exempted from reporting, announcement and independent shareholders' approval requirements under Rule 20.25(3) of the GEM Listing Rules as the annual total consideration of the transaction is less than HK$1,000,000. The independent not-executive Directors have reviewed the above transaction and confirmed that the transaction has been entered into in the ordinary and usual course of business of the Company, on normal commercial terms and in accordance with the said lease agreement on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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.

The primary duties of the audit committee are to review the Company's annual report and accounts, half-year report, quarterly reports and monthly reports and to provide advice and comments thereon to the board of Directors. The audit committee is also responsible for reviewing and supervising the Company's financial year and internal control procedures.

During the year, the audit committee held four meetings in which they have reviewed and commented on the Company's annual report, half-yearly report and quarterly reports.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the Company's shares on GEM on 15 October 2001.

AUDITORS

The financial statements of the Group were audited by Charles Chan, Ip & Fung CPA Ltd. A resolution for their reappointment as auditors for the ensuing year is to be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board
Rainbow International Holdings Limited
Li Ngar Kwan, Aldy
Chairperson

Hong Kong, 29 January 2003

Charles Chan, Ip & Fung CPA Ltd.
37th Floor, Hennessy Centre
500 Hennessy Road
Causeway Bay, Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF
RAINBOW INTERNATIONAL HOLDINGS LIMITED
(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

We have audited the financial statements on pages 31 to 65 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence made available to us was limited because information on the trade payables, and other payables and accruals were incomplete. As such, we were unable to carry out auditing procedures necessary to obtain adequate assurance regarding the completeness and accuracy of total trade payables and other payables and accruals of approximately HK$12,588,000 and approximately HK$14,509,000 respectively. There were no other satisfactory audit procedures that we could adopt to obtain significant evidence regarding the completeness of trade payables and other payables and accruals. Any adjustment to these figures may have a consequential significant effect on the loss for the year and net liabilities as at 31 October 2002.

In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty relating to the going concern basis

In forming our opinion, we have considered the appropriateness of preparing the financial statements on a going concern basis. Note 2 to the financial statements explains that the directors are satisfied that the Group will be able to meet its financial obligations in full as and when they fall due in the foreseeable future provided that the creditor banks continue to extend the bank borrowings and facilities to the Group in the future. As the directors are confident that the Group will be able to continue in operational existence in the foreseeable future, the financial statements have been prepared on a going concern basis. However, in the absence of sufficient evidence, we have been unable to substantiate the above underlying assumptions adopted by the directors and therefore we have been unable to conclude whether the going concern basis is appropriate for the Group.

If the going concern is not appropriate, adjustments would have been made to reclassify non-current assets and liabilities as current assets and liabilities respectively, to reduce the values of assets to their immediate recoverable amounts and to provide for any further liabilities which might arise. Such adjustments may have a significant consequential effect on the net liabilities as at 31 October 2002 and the loss for the year then ended.

We consider that appropriate disclosures have been made but the inherent uncertainties surrounding the circumstances under which the Group may continue to adopt the going concern basis are so pronounced that we have disclaimed our opinion.

QUALIFIED OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS

Because of the limitation in evidence made available to us as referred above and the fundamental uncertainty relating to the going concern basis, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 October 2002 and of Group's loss and cash flows for the year then ended. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work relating to accounts payables and other payables and accruals:

– we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

– we were unable to determine whether proper books of account had been kept.

Charles Chan, Ip & Fung CPA Ltd.
Certified Public Accountants
Hong Kong

Chan Wai Dune, Charles
Practising Certificate Number P00712

Consolidated Income Statement

Year ended 31 October 2002

	Note	2002 HK$'000	Restated 2001 HK$'000
TURNOVER	*4(a)*	**51,612**	110,047
COST OF SALES		**(52,352)**	(72,269)
GROSS (LOSS)/PROFIT		**(740)**	37,778
OTHER REVENUE	*4(a)*	**503**	1,080
OTHER EXPENSES			
Selling and distribution costs		**(35,338)**	(46,722)
Administrative expenses		**(15,380)**	(14,015)
Other operating expenses		**(4,679)**	–
		(55,397)	(60,737)
LOSS FROM OPERATIONS		**(55,634)**	(21,879)
FINANCE COSTS		**(2,471)**	(3,924)
IMPAIRMENT OF GOODWILL	*3(c)*	**–**	(10,707)
LOSS BEFORE TAXATION	*5*	**(58,105)**	(36,510)
TAXATION	*6*	**(90)**	–
LOSS ATTRIBUTABLE TO SHAREHOLDERS	*7*	**(58,195)**	(36,510)
ACCUMULATED LOSSES BROUGHT FORWARD		**(38,648)**	(2,138)
ACCUMULATED LOSSES CARRIED FORWARD		**(96,843)**	(38,648)
LOSS PER SHARE – BASIC	*8a*	**(16.63) cents**	(10.43) cents
LOSS PER SHARE – DILUTED	*8b*	**(16.54) cents**	(9.93) cents

The notes on pages 37 to 65 form an integral part of these financial statements.

Consolidated Balance Sheet

31 October 2002

	Note	2002 HK$'000	2001 HK$'000
ASSETS			
Non-current assets			
Fixed assets	10	**1,496**	6,740
Investment in trust funds	12	**3,872**	8,530
		5,368	15,270
Current assets			
Prepayments, deposits and other receivables		**1,926**	8,785
Inventories	13	**946**	27,597
Trade receivables	14	**315**	171
Cash and bank balance		**490**	29,104
		3,677	65,657
LIABILITIES			
Current liabilities			
Due to a director	15	**9,760**	–
Bank overdrafts- secured		**951**	20,520
Current portion of interest-bearing borrowings – secured	16	**10,855**	4,393
Current portion of obligation under hire purchase contracts	17	**80**	5
Trust receipt loans – secured		**1,638**	13,405
Short-term loans	18	**3,621**	–
Trade payables	19	**12,588**	15,129
Other payables and accruals		**14,509**	13,687
Taxation payable	6	**596**	706
		54,598	67,845
Net current liabilities		**(50,921)**	(2,188)
Total assets less current liabilities		**(45,553)**	13,082
Non-current liabilities			
Interest-bearing borrowings – secured	16	**–**	469
Obligation under hire purchase contracts	17	54	25
		54	494
NET (LIABILITIES)/ASSETS		**(45,607)**	12,588
CAPITAL AND RESERVES			
Issued capital	21	**3,500**	3,500
Reserves	22	**(49,107)**	9,088
		(45,607)	12,588

Approved by the board of directors on 29 January 2003

On behalf of the board

LI Ngar Kwan, Aldy
Director

LIANG Kwong Lim
Director

The notes on pages 37 to 65 form an integral part of these financial statements.

Balance Sheet

31 October 2002

	Note	**2002**	2001
		HK$'000	*HK$'000*
ASSETS			
Non-current assets			
Investment in subsidiaries	*11*	**(2,421)**	4,193
Investment in trust funds	*12*	**–**	4,525
		(2,421)	8,718
Current assets			
Other receivables		**498**	407
Bank balance		**22**	16,124
		520	16,531
LIABILITIES			
Current liabilities			
Due to a director	*15*	**5,000**	–
Bank overdrafts – secured		**–**	340
Other payables		**478**	1,985
		5,478	2,325
Net current (liabilities)/assets		**(4,958)**	14,206
NET (LIABILITIES)/ASSETS		**(7,379)**	22,924
CAPITAL AND RESERVES			
Issued capital	*21*	**3,500**	3,500
Reserves	*22*	**(10,879)**	19,424
		(7,379)	22,924

Approved by the board of directors on 29 January 2003

On behalf of the board

LI Ngar Kwan, Aldy
Director

LIANG Kwong Lim
Director

The notes on pages 37 to 65 form an integral part of these financial statements.

Consolidated Statement of Recognised Gains and Losses

Year ended 31 October 2002

	2002 HK$'000	Restated 2001 HK$'000
LOSS FOR THE YEAR	**(58,195)**	(36,510)
GOODWILL ELIMINATED DIRECTLY AGAINST RESERVES	**–**	(10,707)
TOTAL RECOGNISED LOSSES	**(58,195)**	(47,217)
EFFECT OF ADOPTION OF NEW ACCOUNTING STANDARDS	**–**	10,707
	(58,195)	(36,510)

The notes on pages 37 to 65 form an integral part of these financial statements.

Consolidated Cash Flow Statement

Year ended 31 October 2002

	Note	**2002**	2001
		HK$'000	*HK$'000*
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	*23(a)*	**(19,162)**	3,210
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**165**	546
Interest paid		**(2,471)**	(3,924)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		**(2,306)**	(3,378)
TAXATION			
Hong Kong profits tax (paid)/refund		**(200)**	36
INVESTING ACTIVITIES			
Payment for purchase of fixed assets		**(1,672)**	(2,162)
Proceeds from sales of fixed assets		**52**	–
Investments in trust funds		**–**	(8,530)
Redemption of trust funds		**4,525**	–
Payment for purchase of subsidiaries	*23(b)*	**–**	(288)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES		**2,905**	(10,980)
NET CASH OUTFLOW BEFORE FINANCING		**(18,763)**	(11,112)
FINANCING			
Proceeds from issue of ordinary shares		**–**	53,065
Share issue expenses		**–**	(6,945)
Proceeds from issue of convertible loan notes		**–**	1,000
New other loans raised		**3,621**	–
New bank loans raised		**16,156**	9,887
Repayment of bank loans		**(10,163)**	(18,324)
Inception of hire purchase contracts		**150**	31
Capital element of hire purchase contract paid		**(46)**	(1)
NET CASH INFLOW FROM FINANCING	*23(c)*	**9,718**	38,713

	Note	2002 HK$'000	2001 HK$'000
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(9,045)**	27,601
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**8,584**	(19,017)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**(461)**	8,584
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balance		**490**	29,104
Bank overdrafts		**(951)**	(20,520)
		(461)	8,584

The notes on pages 37 to 65 form an integral part of these financial statements.

1. GENERAL

The Company was incorporated in the Cayman Islands on 6 March 2001 as an exempted company with limited liabilities under the Companies Law (Revised) of the Cayman Islands.

During the year, the Group was engaged in investment holding, retailing and wholesaling of beauty products and provision of beauty services.

The Group financial statements include the financial statements of the Company and its subsidiaries made up to 31 October. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2. BASIS OF PREPARATION

Going Concern Concept

The Group sustained a consolidated net loss attributable to shareholders of approximately HK$58,195,000 for the year ended 31 October 2002 (2001: HK$36,510,000 (restated)). As a result, the Group has a capital deficiency of HK$45,607,000 as at that date (2001: net assets of HK$12,588,000). In light of the substantial losses incurred, the Group has experienced tight cash flows during the year in sustaining its existing operations. In addition, the Group has received various notification from certain of its creditor banks for repayment of certain loans and cancellation of banking facilities.

In preparing the financial statements, the directors have considered the future liquidity of the Group particularly in light of the foregoing circumstances. The directors believe that the Group will be able to meet its financial obligations in full as and when they fall due for the foreseeable future provided that the creditor banks continue to extend the borrowings and facilities to the Group and sufficient additional funding can be generated for working capital purposes. On this basis, the directors consider that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to continue the business as a going concern, adjustments would have to be made to reduce the value of assets to their immediate recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities as current assets and liabilities respectively.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants ("HKSA") and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM. The financial statements are prepared under the historical cost convention. Principal accounting policies are summaries below:

3. PRINCIPAL ACCOUNTING POLICIES (continued)

In the current year, the company adopted the following SSAP issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 29	:	Intangible assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

The effect of adopting these new standards is set out in the accounting policies below.

(a) Revenue Recognition

(i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(ii) Revenue from sale of services is recognised when the services are rendered.

(iii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(b) Borrowing Costs

Borrowing costs are interests and other costs incurred in connection with the borrowings of funds. All borrowing costs are charged to the income statement in the year in which they are incurred.

(c) Goodwill and Capital Reserves

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

In accordance with SSAP 30, goodwill on acquisitions occurring on or after 1 October 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill is generally amortised over its estimated useful life to a maximum period of 20 years.

Goodwill on acquisition that occurred prior to 1 October 2001 was written off against reserves by the Group. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 and goodwill previously written off against reserves has not been restated.

3. **PRINCIPAL ACCOUNTING POLICIES (continued)**

(c) Goodwill and Capital Reserves (continued)

SSAP 31 prescribes procedures to be applied to ensure that assets are carried at not more than their recoverable amounts. The Group is required to assess at each balance sheet date whether there are any indications that assets may be impaired, and if there are such indications, the recoverable amount of the assets is to be determined. Any resulting impairment losses identified are charged to the income statement.

In accordance with the provision of Interpretation 13, assessments of impairment of goodwill also apply to goodwill previously eliminated against reserves which will not be restated at the time of adoption of SSAP 30. Any impairment loss identified in respect of goodwill previously eliminated against reserves is to be recognised as an expense in the income statement. The adoption of SSAP 30 and the provisions of Interpretation 13 are required to be reflected in accordance with the requirement of SSAP 2.

The Group has performed an assessment of the fair value of goodwill that had previously been charged to the reserves. As a result, the Group has retrospectively restated and increased its previously reported net loss for the year ended 31 October 2001 by approximately HK$10,707,000.

(d) Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after furniture and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is normally recognised in the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalised as an additional cost of the fixed assets.

Depreciation is provided on the straight-line basis to write off the cost of each asset over its expected useful life. The annual rates of depreciation are as follows:

Leasehold improvements	20% or over the lease terms, if shorter
Equipment	20% to 30%
Furniture and fixtures	20%

The depreciation method and useful life are reviewed periodically to ensure that the method and rates of depreciation are consistent with the expected pattern of economic benefits from the fixed assets.

When assets are sold or retired, their cost and accumulated depreciation and accumulated impairment losses are eliminated from the financial statements and any gain or loss resulting from their disposals is included in the income statement.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Assets under Leases

Leases that substantially transfer to the company all the rewards and risks of ownership of assets are accounted for as hire purchase contracts. At the inception of a hire purchase contract, the fair value of the asset is recorded together with the obligation, excluding the interest element, to pay future rentals.

Payments to the lessor are treated as consisting of capital and interest elements. Finance charges are debited to the income statement over the periods of the leases so as to produce an approximately constant periodic rate of charge on the remaining balances of the obligation for each accounting period.

Assets held under hire purchase contracts are depreciated over the shorter of the lease terms and their estimated useful lives on the same basis as owned assets.

(f) Impairment of Assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised of an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any depreciation or amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for the revalued asset.

3. **PRINCIPAL ACCOUNTING POLICIES (continued)**

(g) Leases

(i) Finance leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

(ii) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

(h) Retirement Benefits Scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Contributions made are based on a percentage of the eligible employees' salaries and are charged to the income statement as they become payable in accordance with the rules of the scheme. The Group's employer contributions vest fully once made.

(i) Subsidiaries

A subsidiary is a company in which the company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board.

Investments in subsidiaries in the balance sheet are stated at cost less provision, if necessary, for any permanent diminution in value. The results of subsidiaries are accounted to the extent of dividends received and receivable.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(j) Investments in Trust Funds

Trust funds that the company intended to be held-to-maturity are stated at amortized 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.

(k) Related Parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(l) 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. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Trade Receivables

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(n) Cash Equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance. Cash equivalents include investments and advances denominated in foreign currencies provided that they fulfil the above criteria.

3. **PRINCIPAL ACCOUNTING POLICIES (continued)**

(o) Deferred Taxation

Deferred taxation is accounted for under the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or asset is expected with reasonable probability to crystallise in the foreseeable future. Deferred tax asset is not recognised unless its realization is assured beyond reasonable doubt.

(p) Translation of Foreign Currencies

Transactions in foreign currencies during the year are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

(q) Segment Reporting

In accordance with the Group's internal financial reporting the Group has determined that business segment be presented as the primary reporting format and geographical segment is presented as the secondary reporting format.

Segment assets consist primarily of fixed assets, inventories, receivables, deposits prepayments and operating cash and mainly exclude investments. Segment liabilities comprise operating and exclude items such as taxation and certain borrowings. Capital expenditure comprises additions to fixed assets.

4. **TURNOVER, REVENUE AND SEGMENT INFORMATION**

(a) Turnover represents the invoiced value of beauty products sold less discounts and sales returns and services income generated from the provision of beauty services.

	2002	2001
	HK$'000	*HK$'000*
Turnover		
Retails and wholesales of beauty products	**46,351**	103,558
Beauty services	**5,261**	6,489
	51,612	110,047
Other revenue		
Interest income	**165**	546
Exchange gain	**–**	123
Compensation income	**181**	46
Other	**157**	365
	503	1,080
Total revenue	**52,115**	111,127

4. **TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)**

(b) **Primary reporting format – business segments**

	2002		
	Retail and wholesales of beauty products	**Beauty services**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
TURNOVER			
Sales to external customers	**46,351**	**5,261**	**51,612**
PROFIT/(LOSS) FROM OPERATION			
Segment results	**(49,923)**	**70**	**(49,853)**
Unallocated income			**338**
Unallocated expenses			**(6,284)**
Interest income			**165**
Finance costs			**(2,471)**
Loss before taxation			**(58,105)**
Taxation			**(90)**
Loss after taxation			**(58,195)**
OTHER INFORMATION			
Segment assets	**3,220**	**1,414**	**4,634**
Unallocated assets			**4,411**
Total assets			**9,045**
Segment liabilities	**47,140**	**1,352**	**48,492**
Unallocated liabilities			**6,160**
Total liabilities			**54,652**
Capital expenditure	**1,253**	**419**	**1,672**
Depreciation	**1,996**	**403**	**2,399**

4. **TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)**

(b) **Primary reporting format – business segments (continued)**

	2001		
	Retail and wholesales of beauty products *HK$'000*	Beauty services *HK$'000*	Total *HK$'000*
TURNOVER			
Sales to external customers	103,558	6,489	110,047
LOSS FROM OPERATION			
Segment results	(22,806)	(113)	(22,919)
Unallocated income			534
Unallocated expenses			(10,747)
Interest income			546
Finance costs			(3,924)
Loss before taxation			(36,510)
Taxation			–
Loss after taxation			(36,510)
OTHER INFORMATION			
Segment assets	54,457	1,354	55,811
Unallocated assets			25,116
Total assets			80,927
Segment liabilities	64,437	786	65,223
Unallocated liabilities			3,116
Total liabilities			68,339
Capital expenditure	4,873	259	5,132
Depreciation	3,317	310	3,627

4. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

(c) Secondary reporting format – geographical segment

	Year ended 31 October			
	2002		2001	
	Segment revenue	**Contribution to operating loss**	Segment revenue	Contribution to operating loss
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Hong Kong	**49,833**	**(54,395)**	110,047	(21,879)
Macau	**1,779**	**(1,239)**	–	–
	51,612	**(55,634)**	110,047	(21,879)

An analysis of the carrying amount of segment assets and additions to fixed assets by the geographical area in which the assets are located is as follows:

	Year ended 31 October			
	2002		2001	
	Carrying amount of segment assets	**Capital expenditure**	Carrying amount of segment assets	Capital expenditure
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Hong Kong	**3,570**	**541**	55,301	5,132
Macau	**1,064**	**1,131**	510	–
Unallocated assets	**4,411**	**–**	25,116	–
Total	**9,045**	**1,672**	80,927	5,132

5. LOSS BEFORE TAXATION

Loss before taxation is stated after crediting and charging the following:

	2002	2001
	HK$'000	*HK$'000*
Crediting		
Interest income	**165**	546
Net exchange gain	**–**	123
Charging		
Auditors' remuneration		
Current year	**475**	360
Less: Over provision in previous years	**–**	(240)
	475	120
Cost of inventories sold (excluding provision for slow-moving inventory for the year)	**44,655**	71,819
Staff costs (excluding directors' remuneration)		
– Basic salaries and allowances	**14,465**	18,870
– Pension scheme contribution	**574**	795
Severance payment	**2,836**	–
Borrowing costs		
Interest on bank advances and other borrowings wholly repayable within 5 years	**2,471**	3,924
Depreciation		
Owned assets	**2,363**	3,621
Asset held under hire purchase contracts	**36**	6
Operating lease rentals in respect of land and buildings	**19,056**	26,095
Exchange loss	**12**	–
Provision for slow-moving inventories	**7,697**	450
Loss on disposal of fixed assets	**4,465**	–

6. TAXATION

	2002	2001
	HK$'000	*HK$'000*
Macau profits tax	**90**	–
Hong Kong profits tax	**–**	–
	90	–

6. **TAXATION (continued)**

No Hong Kong profits tax was provided for as the Group had no assessable profits arising in Hong Kong (2001: Nil). Provision for taxation by a subsidiary operating in Macau has been calculated at the rates applicable, based on existing laws, interpretations and practice, during the year.

No provision for deferred taxation has been made for the Group for the year as the effect of all timing differences is not material.

Deferred taxation of the Group for the year has not been provided for in respect of the following:

	2002	2001
	HK$'000	*HK$'000*
Accelerated depreciation allowances	**(353)**	200
Tax losses	**(8,608)**	(4,100)
	(8,961)	(3,900)

7. **LOSS ATTRIBUTABLE TO SHAREHOLDERS**

The loss attributable to shareholders includes a loss of approximately HK$30,303,000 (2001: profit of approximately HK$15,000) which has been dealt with in the financial statement of the Company.

8. **LOSS PER SHARE**

(a) Basic

The calculation of basic loss per share is based on the loss attributable to shareholders of approximately HK$58,195,000 (2001: HK$36,510,000 (restated)) and the weighted average number of approximately 350,000,000 (2001: 350,000,000) shares.

(b) Diluted

The calculation of diluted loss per share is based on the loss attributable to shareholders of approximately HK$58,195,000 (2001: HK$36,510,000 (restated)) and the 351,750,000 (2001: 367,500,000) shares, which represented to 350,000,000 shares in issue 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 based on the subscription price per share at 50 per cent of the Offer Price (i.e. HK$0.25).

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) The emoluments of the Company's directors disclosed pursuant to Section 161 of the Companies Ordinance are as follows:

	2002	2001
	HK$'000	*HK$'000*
Fees	**–**	–
Other emoluments		
Basic salaries, allowances and benefits in kind	**1,170**	1,497
Pension scheme contribution	**10**	25
	1,180	1,522

The number of directors whose emoluments fell within the following band:

Executive directors

	2002	2001
Nil to HK$1,000,000	**4**	3
HK$1,000,001 to HK$1,500,000	**–**	1

Non-executive and independent non-executive directors

	2002	2001
Nil to HK$1,000,000	**3**	3

During the year ended 31 October 2002, the four executive directors received individual emoluments of approximately HK$912,000 (2001: HK$1,022,000), HK$148,000 (2001: HK$359,000), HK$120,000 (2001: HK$120,000) and HK$Nil (2001: HK$20,000) respectively. Each of the non-executive and independent non-executive directors received directors fee of HK$Nil (2001: HK$Nil).

No directors waived any emoluments during the year. No payment as inducement to join or upon joining the Group or as compensation for loss of office was paid or is payable to any directors.

In addition to the above emoluments, certain directors had share options granted under the Company's share option scheme. During the year, share options granted to the directors were cancelled. Details of these benefits in kind are disclosed under the paragraph "Directors' interest in securities" in the Directors' Report.

Each of the executive directors has entered into a service contract with the Group during the year.

9. **DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)**

(b) Details of emoluments paid to the five highest paid individuals (including directors and other employees) were as follows:

	2002	2001
	HK$'000	*HK$'000*
Basic salaries, allowances and benefits in kind	**1,661**	2,579
Pension scheme contribution	**49**	52
	1,710	2,631

Of the five highest paid individuals, one (2001: two) is a director whose emoluments are disclosure in note 9(a) above.

The number of five highest paid individuals (including directors and other employees) whose emoluments fell within the following band:

Directors

	2002	2001
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**–**	1

Other employees

	2002	2001
Nil to HK$1,000,000	**4**	3

10. FIXED ASSETS

The Group

	Leasehold improvements HK$'000	Equipment HK$'000	Furniture and fixtures HK$'000	Motor Vehicle HK$'000	Total HK$'000
Cost					
At 1/11/2001	7,726	4,894	3,295	540	16,455
Additions	1,322	340	10	–	1,672
Disposal	(6,515)	(4,226)	(2,893)	(171)	(13,805)
At 31/10/2002	**2,533**	**1,008**	**412**	**369**	**4,322**
Accumulated depreciation					
At 1/11/2001	4,201	1,792	3,182	540	9,715
Charge for the year	1,338	1,024	37	–	2,399
Eliminated on disposal	(3,863)	(2,412)	(2,842)	(171)	(9,288)
At 31/10/2002	**1,676**	**404**	**377**	**369**	**2,826**
Net book value					
At 31/10/2002	**857**	**604**	**35**	**–**	**1,496**
At 31/10/2001	3,525	3,102	113	–	6,740

Note: The net book value of asset held for use under hire purchase contract and the related depreciation charge at the balance sheet date of approximately HK$121,000 (2001: HK$25,000) and of approximately HK$36,000 (2001: HK$6,000) respectively.

11. INVESTMENT IN SUBSIDIARIES

The Company

	2002	2001
	HK$'000	*HK$'000*
Investments at cost:		
Unlisted shares	**1,097**	1,097
Due from subsidiaries	**29,383**	6,146
Due to subsidiaries	**(3,708)**	(3,050)
	26,772	4,193
Provision for doubtful debt	**(29,193)**	–
	(2,421)	4,193

Notes:

(a) The amounts due from/(to) subsidiaries are unsecured and interest free.

(b) The following is a list of the subsidiaries at 31 October 2002:

Name of subsidiaries	**Place of incorporation**	**Issued and fully paid share capital**	**Percentage of equity interest attributable to the Group**		**Principal activities**
			Direct	**Indirect**	
Rainbow Cosmetic (BVI) Limited	British Virgin Islands	US$50,000	100%	–	Investment holding
Rainbow Cosmetic * Company Limited	Hong Kong	HK$100	–	100%	Wholesaling and retailing of beauty products
Rainbow Cosmetic * (Central) Company Limited	Hong Kong	HK$100	–	100%	Retailing of beauty products
Newide International * Limited	Hong Kong	HK$10	–	100%	Wholesaling of beauty products
Nutriplus Cosmetics International Limited	Hong Kong	HK$100	–	100%	Provision of beauty services

11. INVESTMENT IN SUBSIDIARIES (continued)

Name of subsidiaries	Place of incorporation	Issued and fully paid share capital	Percentage of equity interest attributable to the Group Direct	Indirect	Principal activities
Jet Legend Limited *	Hong Kong	HK$2	–	100%	Wholesaling and retailing of beauty products
Rainbow HK Cosmetic Company Limited	Macau	MOP60,000	–	100%	Retailing of beauty products
Nutriplus (Asia) Limited	Hong Kong	HK$10,000	–	100%	Not yet commence business
Harmony Century * HK Limited	Hong Kong	HK$2	–	100%	Retailing of beauty products
Metrocity International Corporation	BVI	US$50,000	–	100%	Own Nutriples sole agent right in Asia
Excel Future Enterprises Limited	Hong Kong	HK$2	–	100%	Not yet commence business

* *The subsidiaries are dormant after the year end.*

12. INVESTMENT IN TRUST FUNDS

The Group

	2002	2001
	HK$'000	*HK$'000*
Held-to-maturity debt securities, at cost		
Listed in Hong Kong	**3,872**	8,530
Market value	**3,872**	8,239

12. INVESTMENT IN TRUST FUNDS (continued)

The Company

	2002	2001
	HK$'000	*HK$'000*
Held-to-maturity debt securities, at cost		
Listed in Hong Kong	**–**	4,525
Market value	**–**	4,524

13. INVENTORIES

The Group

	2002	2001
	HK$'000	*HK$'000*
Merchandise	**9,093**	28,047
Less: provision for slow-moving inventories	**(8,147)**	(450)
	946	27,597

14. TRADE RECEIVABLES

Majority of the Group's turnover are cash or credit card sales. The entire balance of trade receivables of the Group was aged within three months as at 31 October 2002.

15. DUE TO A DIRECTOR

The Group and the Company

The amount due to a director is unsecured, interest free and repayable on demand.

16. INTEREST-BEARING BORROWINGS – SECURED

The Group

	2002	2001
	HK$'000	*HK$'000*
Bank loans		
Repayable within one year	**10,855**	4,393
Repayable after one year but within two years	**–**	469
	10,855	4,862
Current portion of bank loans	**(10,855)**	(4,393)
	–	469

17. OBLIGATION UNDER HIRE PURCHASE CONTRACT

The Group

At 31 October 2002, the Group's hire purchase contracts were repayable as follows:

	Minimum lease payment		Present value of minimum lease payment	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amount repayable				
Within one year	**91**	9	**80**	5
In the second year	**43**	8	**40**	6
In the third to fifth years inclusive	**17**	24	**14**	19
Total minimum finance lease payments	**151**	41	**134**	30
Less: Future finance charges	**(17)**	(11)		
Total net future lease payables	**134**	30		
Less: Portion classified as current liabilities	**(80)**	(5)		
Long term portion	**54**	25		

18. SHORT-TERM LOANS

The Group

	2002	2001
	HK$'000	*HK$'000*
Other loans		
Wholly repayable within 5 years	**3,621**	–

The above loans are unsecured, interest bearing at prime rate plus 5% per annum and repayable on 29 January 2003.

19. TRADE PAYABLE

The ageing analysis of trade payable is as follows:

The Group

	2002	2001
	HK$'000	*HK$'000*
Within three months	**1,115**	6,111
Over three months but within six months	**1,143**	5,196
Over six months	**10,330**	3,822
	12,588	15,129

20. DEFERRED TAXATION

The Group

	2002	2001
	HK$'000	*HK$'000*
At 1 November		
Transfer to taxation *(note 6)*	**–**	–
At 31 October	**–**	–

The potential deferred tax liability/(asset) not provided for in the financial statements amounts to:

	2002	2001
Accelerated depreciation allowances	**47**	400
Tax losses	**(13,108)**	(4,500)
	(13,061)	(4,100)

At the balance sheet date, there was no material unprovided deferred tax liabilities. Deferred tax assets arising from tax losses has not been recognised as it is uncertain that such an asset will be crystallised in the foreseeable future.

21. ISSUED CAPITAL

		2002		2001	
		Number of shares	***HK$'000***	Number of shares	*HK$'000*
Authorised:					
Ordinary shares of HK$0.01 each		**2,000,000,000**	**20,000**	2,000,000,000	20,000

		2002		2001	
		Number of shares	***HK$'000***	Number of shares	*HK$'000*
Issued and fully paid					
Beginning of year		**350,000,000**	**3,500**	–	–
Issue of shares upon incorporation	*(a) & (b)*	**–**	**–**	10	–
Issue of shares arising from reorganisation	*(d)*	**–**	**–**	109,699,990	1,097
Private placement on 21 September 2002	*(e)*	**–**	**–**	6,300,000	63
Issue of shares through public offer and placing	*(g)*	**–**	**–**	60,000,000	600
Capitalisation issue	*(h)*	**–**	**–**	173,000,000	1,730
Remuneration shares	*(f)*	**–**	**–**	1,000,000	10
		350,000,000	**3,500**	350,000,000	3,500

Notes:

(a) The Company was incorporated in the Cayman Islands on 6 March 2001 with authorised share capital of HK$350,000 divided into 3,500,000 shares of HK$0.10 each, of which one share was issued and allotted for cash at par to the initial subscriber of the Company.

(b) On 17 September 2001, the share capital of the Company was subdivided into 10 issued shares and 34,999,990 unissued shares.

(c) On 21 September 2001, the authorised share capital of the Company was increased from HK$350,000 to HK$20,000,000 by the creation of 1,965,000,000 additional shares, such new shares to rank pari passu in all respects with the then existing shares.

(d) On 21 September 2001, an aggregate of 109,699,990 shares were alloted and issued, credited as fully paid as consideration for the acquisition of the entire issued share capital of Rainbow BVI.

(e) On 21 September 2001, 4,200,000 shares and 2,100,000 shares were issued and alloted to Ms. Aldy Li and Mr. Elbert Lee respectively at a subscription price of HK$0.05 per share, which was fully paid in cash.

(f) On 25 September 2001, the share premium of HK$10,000 was capitalised and applied in paying up in full of 1,000,000 shares of HK$0.01 each which were allotted and issued as fully paid to International Capital Network Limited ("ICN"), being part of the financial advisory fee ("Remuneration Shares").

(g) On 10 October 2001, 60,000,000 shares of HK$0.01 each were issued at HK$0.50 per share through public offer and placing ("New Issue"), resulting in net cash proceeds of approximately HK$21,247,000.

(h) Immediately after the New Issue, share premium of HK$1,730,000 were capitalised and applied in paying up in full of 173,000,000 shares of HK$0.01 each which were alloted and issued as fully paid on a pro-rata basis to the Company's shareholders registered on 22 September 2001.

22. RESERVES

The Group

	Share premium HK$'000	Accumulated losses HK$'000	Capital reserves* HK$'000	Total HK$'000
At 1/11/2000	–	(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 as restated	–	(36,510)	–	(36,510)
Effect of the reorganisation	–	–	28,327	28,327
Goodwill eliminated	–	(10,707)	–	(10,707)
Write-off of goodwill impaired during the year *(note 3(c))*	–	10,707	–	10,707
At 31/10/2001	19,409	(38,648)	28,327	9,088
Loss for the year	–	(58,195)	–	(58,195)
At 31/10/2002	**19,409**	**(96,843)**	**28,327**	**(49,107)**

* *Capital reserve of the 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.*

The Company

	Share premium HK$'000	Retained profits/ (accumulated loss) HK$'000	Total HK$'000
At 1/11/2000	–	–	–
Premium on issue of shares	29,892	–	29,892
Share issue expenses	(8,753)	–	(8,753)
Capitalisation of share premium	(1,730)	–	(1,730)
Profit for the year	–	15	15
At 31/10/2001	19,409	15	19,424
Loss for the year	–	(30,303)	(30,303)
At 31/10/2002	**19,409**	**(30,288)**	**(10,879)**

Subject to the Cayman Islands Companies Law and Articles of Association, and provided that immediately following the distribution or payment of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business; no dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

23. NOTES TO CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to net cash (outflow)/inflow from operating activities

		Restated
	2002	2001
	HK$'000	*HK$'000*
Loss before taxation	**(58,105)**	(36,510)
Depreciation	**2,399**	3,627
Loss on disposal of fixed assets	**4,465**	–
Impairment loss on trust fund	**133**	–
Impairment of goodwill	**–**	10,707
Interest income	**(165)**	(546)
Interest expenses	**2,471**	3,924
Decrease in due from a director	**–**	13,551
Decrease in due from related companies	**–**	3,192
Increase in prepayments, deposits and other Receivables	**6,859**	(1,135)
Decrease in inventories	**26,651**	4,318
(Increase)/decrease in trade receivables	**(144)**	920
(Decrease)/increase in trade payables	**(2,541)**	6,039
Increase in other payables and accruals	**822**	5,502
Increase/(decrease) in due to a director	**9,760**	(8,369)
Decrease in trust receipts loans – secured	**(11,767)**	(2,010)
Cash (outflow)/inflow from operating activities	**(19,162)**	3,210

23. NOTES TO CASH FLOW STATEMENT (continued)

(b) Purchase of subsidiaries

	2002	2001
	HK$'000	*HK$'000*
Net assets acquired:		
Fixed assets	–	70
Inventories	–	8,677
Prepayments and deposits	–	70
Due from related companies	–	85,110
Bank balance	–	12
Due to directors	–	13,313
Trade payables	–	(3,434)
Other payables and accruals	–	(218)
Due to related companies	–	(113,807)
Goodwill on consolidation	–	10,707
	–	500
Satisfied by:		
Cash consideration	–	300
Consideration shares	–	200
	–	500

Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiaries.

	2002	2001
	HK$'000	*HK$'000*
Cash consideration paid	–	300
Cash and cash equivalents acquired	–	(12)
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	–	288

23. NOTES TO CASH FLOW STATEMENT (continued)

(c) Analysis of changes in financing during the year

	Share Capital and share premium *HK$'000*	Convertible loan notes *HK$'000*	Bank loans *HK$'000*	Obligation under hire purchase contracts *HK$'000*	Short-term loans *HK$'000*	Total *HK$'000*
Balance as at 1 November 2000	74	2,500	13,299	–	–	15,873
Non cash movement						
Accruals for share issued expenses	(1,558)	–	–	–	–	(1,558)
New share issue for acquiring subsidiaries	1,097	–	–	–	–	1,097
Share swap for acquiring subsidiaries	(29,224)	–	–	–	–	(29,224)
Share issue for purchase of fixed assets	2,900	–	–	–	–	2,900
Conversion of convertible loan notes	3,500	(3,500)	–	–	–	–
	(23,211)	(1,000)	13,299	–	–	(10,912)
New shares issue of the Company	30,315	–	–	–	–	30,315
Share issue expenses	(6,945)	–	–	–	–	(6,945)
New shares issue of Rainbow BVI	22,750	–	–	–	–	22,750
Issue of convertible loan notes	–	1,000	–	–	–	1,000
New bank loans	–	–	9,887	–	–	9,887
Repayment of bank loans	–	–	(18,324)	–	–	(18,324)
Inception of hire purchase contract	–	–	–	31	–	31
Capital element of hire purchase contracts paid	–	–	–	(1)	–	(1)
Net cash inflow/(outflow) from financing	46,120	1,000	(8,437)	30	–	38,713
Balance as at 31 October 2001	22,909	–	4,862	30	–	27,801
New other loans	–	–	–	–	3,621	3,621
New bank loans	–	–	16,156	–	–	16,156
Repayment of bank loans	–	–	(10,163)	–	–	(10,163)
Inception of hire purchase contracts	–	–	–	150	–	150
Capital element of hire purchase contracts paid	–	–	–	(46)	–	(46)
Net cash inflow from financing	–	–	5,993	104	3,621	9,718
Balance as at 31 October 2002	**22,909**	**–**	**10,855**	**134**	**3,621**	**37,519**

24. SHARE OPTIONS

(a) On 24 September 2001, pursuant to the Pre-IPO Share Option Scheme, options to subscribe for 35,000,000 shares were granted to certain directors, employees, consultants and advisers of the Group. The exercise price of the share options is HK$0.25.

All of these options have an duration of three years from the commencement of the trading of the shares on the GEM.

Except for options granted to ICN as part of the remuneration for its financial advisory service rendered to the Group, each option shall lapse if the relevant grantee ceases to be a director or an employee of the Group.

During the year, no options were exercised under the Pre-IPO Share Option Scheme.

(b) On 24 September 2001, the shareholders of the Company approved a share option scheme ("the Scheme") under which its Board of Directors may, at its discretion, offer full-time or part time employees and executive, non-executive and independent non-executive directors of the Company and/or any of its subsidiaries, options to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 30% of the issued share capital of the Company. The subscription price will be determined by the Company's Board of Directors and will be the highest of (i) the nominal value of the shares, (ii) the quoted closing price of the Company's shares on the date of offer of the options, and (iii) the average of the quoted closing prices of the Company's shares on the five trading days immediately preceding the date of offer of the options.

During the year, no option was granted by the Company under the Scheme.

(c) During the year, 3,500,000 options granted to ICN were under dispute in relation to its validity. In addition, 15,137,500 options have lapsed and the remaining balance of 16,362,500 options (the holders of which have given irrevocable undertakings not to exercise the options within 10 years from their respective date of grant) have been regarded as unexercisable as at 31 October 2002.

25. RELATED PARTY TRANSACTIONS

Particulars of significant transactions between the Group and related parties during the years covered by this report are summarised below:

	Note	**2002** **HK$'000**	2001 *HK$'000*
Purchase of beauty products from a company connected with Ms Aldy Li	*(i)*	**–**	2,091
Sales of beauty products to a company connected with Ms Aldy Li	*(i)*	**–**	6
Purchase of beauty products from Rainbow Trading Company	*(ii)*	**–**	9,013
Sales of beauty products to Rainbow Cosmetic Company	*(iii)*	**–**	63
Interest income received from Rainbow Trading Company	*(ii)*	**–**	367
Letter of credit handling fee income received from Rainbow Trading Company	*(ii)*	**–**	42
Rental expenses paid to Aldy Li	*(iv)*	**210**	105

Notes:

i) The company connected with Ms. Aldy Li is owned by her brother.

ii) Mr. Elbert Lee was the sole proprietor of Rainbow Trading Company.

iii) Ms. Aldy Li was one of the 2 partners in the partnership, Rainbow Cosmetic Company.

iv) The Headquarter of the Group and the warehouse of Newide are located at the premises owned by Ms. Aldy Li. No rent was paid to Ms. Aldy Li for the year ended 2000 and until 1 June 2001. Ms. Aldy Li had entered into a lease agreement with Newide for the said premises for a term of 3 years commencing from 1 June 2001 at a monthly rent of HK$21,000. The lease agreement was terminated on 31 August 2002.

v) On 11 November 2000, Newide entered into a sale and purchase agreement to acquire all business and assets of a sole proprietorship namely RTC from Mr. Elbert Lee. Under the terms of the agreement, all business and assets of RTC with the net liabilities in the sum of approximately HK$10,338,000 were transferred to Newide after the close of business on 31 December 2000 at a nominal consideration of HK$1 paid by Newide, the consideration of which was determined on arm's length basis and after negotiations with the relevant parties.

25. RELATED PARTY TRANSACTIONS (continued)

Notes: (continued)

vi) On 11 November 2000, Jet Legend entered into two separate sale and purchase agreements to acquire all business and assets of a sole proprietorship namely SRCC from Ms. Aldy Li and a partnership namely PRCC from Ms. Aldy Li and her business partner.

Under the terms of the agreement, all business and assets of SRCC with the net assets in the sum of approximately HK$4,964,000 were transferred to Jet Legend after the close of business on 31 December 2000 at a consideration of HK$3,500,000, which was determined on arm's length basis and after negotiations with the relevant parties. The consideration with satisfied by issuance of shares in Jet Legend to Ms. Aldy Li.

Under the terms of the agreement, all business and assets of PRCC with the net assets in the sum of approximately HK$132,000 were transferred to Jet Legend after the close of business on 31 December 2000 at a consideration of HK$500,000 which was determined on arm's length basis and after negotiations with the relevant parties. The consideration was satisfied by issuance of shares in Jet Legend for an aggregate amount of HK$200,000 to Ms. Aldy Li and HK$300,000 paid to her business partner.

The directors of the Company are of the opinion that the above transactions were conducted under normal commercial terms in the usual course of business.

26. COMMITMENTS

At 31 October 2002, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2002	2001
	HK$'000	*HK$'000*
Within one year	**1,755**	21,364
In the second to fifth years inclusive	**1,514**	13,591
	3,269	34,955

27. BANKING FACILITIES AND PLEDGE OF ASSETS

During the year, the Group's total banking facilities of approximately HK$15,731,000 (2001: HK$38,384,000) have been suspended by creditor banks. At the balance sheet date, the borrowings which remained outstanding amounted to approximately HK$13,404,000 (2001: HK$33,566,000) and were secured by the following:–

i) Units of trust fund of the Group.

ii) Corporate guarantee executed by Jet Legend of approximately HK$10 million.

iii) Corporate guarantee executed by the Company of appropriately HK$30.3 million.

iv) Personal guarantee executed by Ms. Aldy Li.

v) Fixed deposits held by an individual connected with Ms. Aldy Li.

vi) Promissory notes issued by the Company of approximately HK$3,800,000.

28. STAFF RETIREMENT SCHEME

The Group has implemented a provident fund scheme for its staff in compliance with the requirements of the Mandatory Provident Fund Schemes Ordinance effective from 1 December 2000. The retirement scheme contributions charged to the income statement represent contributions payable (i.e. 5% of staff's relevant income with upper monthly limit of HK$1,000) by the Group to the specified retirement fund of the individual employees. During the year ended 31 October 2002, the aggregate amount of employer's contribution made by the Group to the retirement scheme was approximately HK$584,000 (2001: HK$820,000).

29. CONTINGENT LIABILITIES

As at 31 October 2002, the Company given the banks guarantees for banking facilities utilised by certain subsidiaries to the extent of approximately HK$9 million.

Up to the date of the approval of the financial statements, the Group has received ten writs of summons, twenty-seven claims under the Small Claims Tribunal Ordinance and ten claims under the Labour Tribunal. The total gross amount claimed under all writs and claims is HK$10,135,406. The writs are related to outstanding bank commercial loans and overdrafts, rent and rates, and unpaid goods sold and delivered in the aggregate amount of HK$7,319,414 which include two high court cases with amount of HK$3,533,720 in connection with the winding up of certain subsidiaries. The thirty-seven claims are related to outstanding rentals, rates and management fees, unpaid goods sold and delivered and unpaid salaries in the aggregate amount of HK$2,815,992. Provision for certain claims has been made and included in the accounts payables and other payables and accruals at balance sheet date.

Apart from the above, the Group and the Company had no other material litigation or contingent liabilities as at 31 October 2002 and up to the date of the approval of the financial statements.

30. POST BALANCE SHEET EVENT

On 3 January 2003, ordinary resolutions in respect of the rights issue and bonus issue have been approved at the extraordinary general meeting of the Company. The Rights Issue is to raise approximately HK$21 million by issuing not less than 350,000,000 new shares and not more than 353,500,000 new shares at HK$0.06 per rights share on the basis of one rights share for every share held by qualifying shareholders. Bonus shares will be issued to shareholders on the basis of five bonus shares for every two shares held on 6 February 2003.

NOTICE IS HEREBY GIVEN THAT the annual general meeting ("Annual General Meeting") of the shareholders of Rainbow International Holdings Limited (the "Company") will be held at 23/F, CIGNA Tower, 482 Jaffe Road, Causeway Bay, Hong Kong on 28 March 2003 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements of the Company and the reports of the directors ("Directors") and auditors of the Company for the year ended 31 October 2002.

2. To re-elect Directors and to authorize the board of Directors ("Board") to fix the remuneration of the Directors.

3. To re-appoint auditors of the Company and to authorize the Board to fix their remuneration.

4. As special business, to consider and if though fit, to pass the following resolution as an ordinary resolution:

   "**THAT**":

   (a) subject to paragraph (c) of this resolution, and pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("Stock Exchange"), the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company ("Shares") and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;

   (b) the approval in paragraph (a) of this resolution shall be in addition to any other authorization given to the Directors and shall authorize the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

   (c) the aggregate nominal amount of share capital allotted or agreed conditionally for unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to (i) a Right Issue (as defined below); or (ii) the grant or exercise of any options under the share option scheme of the Company or any other option scheme or similar arrangement for the time being adopted for the grant or issue of Shares or rights to acquire Shares; or (iii) any scrip dividend or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the memorandum of association and articles of association of the Company in force from time to time, shall not exceed 20 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and the approval in paragraph (a) of this resolution shall be limited accordingly; and

   (d) for the purpose of this resolution:

   "Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:

   (i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws of the Cayman Islands to be held; and

(iii) the date on which the authority given under this resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.

"Rights Issue" means an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the Company or the Directors to holders of Shares on the register of members of the Company on a fixed record date in proportion to their then holdings of Shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any jurisdiction or any recognized regulatory body or any stock exchange applicable to the Company)."

5. As special business, to consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"**THAT**"

(a) Subject to paragraph (b) of this resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all powers of the Company to purchase its shares on the GEM or any other stock exchange on which the Shares may be listed and which is recognized by The Securities and Futures Commission of Hong Kong ("Securities and Futures Commission") and the Stock Exchange for such purpose, in accordance with the rules and regulations of the Securities and Futures Commission, the Stock Exchange or of any such other stock exchange from time to time and all applicable laws in this regard, be and is hereby generally and unconditionally approved;

(b) The aggregate nominal amount of Shares which may be purchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10 per cent of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(c) For the purpose of this resolution, "Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, or any applicable laws of the Cayman Islands to be held; and

(iii) the date on which the authority given under this resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting."

6. As special business, to consider and, if thought fit, to pass the following resolution as an ordinary resolution:

   "**THAT**" conditional upon resolutions nos. 4 and 5 above being duly passed, the unconditional general mandate granted to the Directors to exercise the powers of the Company to allot, issue and deal with additional Shares pursuant to resolution no. 4 above be and is hereby extended by the addition to the aggregate nominal amount of the share capital which may be allotted or agreed conditionally or unconditionally to be allotted and issued by the Directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to resolution no. 5 above, provided that such amount shall not exceed 10 per cent of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution."

By order of the Board
Rainbow International Holdings Limited
Lee Chap Ming
Company Secretary

Hong Kong, 29 January 2003

Principal place of business:
23rd Floor, Cigna Tower,
482 Jaffe Road,
Causeway Bay,
Hong Kong

Notes:

1. A shareholder of the Company entitled to attend and vote at the meeting is entitled to appoint a person or persons (if he holds two or more Shares) as his proxy or proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.

2. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority, must be deposited with the branch share registrar of the Company in Hong Kong, Standard Registrars Limited, G/F Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting, and in default thereof the form of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiry of 12 months from the date of its execution.

3. An explanatory statement containing further details regarding resolution number 5 above as required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange will be dispatched to the members of the Company together with the 2002 Annual Report.

   Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the meeting if the shareholder so desires and in such event the instrument appointing a proxy shall be deemed to be revoked.