



RAINBOW

Rainbow International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

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

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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.

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Financial Highlights

Quarter results for the year ended 31st October, 2003

	(Unaudited)			
	For the quarter ended			
	31 Oct, 03	31 July, 03	30 April, 03	31 Jan, 03
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	5,904	3,184	2,242	3,310
Cost of Sales	<u>(557)</u>	<u>(368)</u>	<u>(312)</u>	<u>(901)</u>
Gross Profit/(loss)	5,347	2,816	1,930	2,409
Other revenue	<u>282</u>	<u>92</u>	<u>1</u>	<u>89</u>
Operating expenditures	<u>5,871</u>	<u>4,328</u>	<u>4,320</u>	<u>4,469</u>
Loss from operations	<u><u>(242)</u></u>	<u><u>(1,420)</u></u>	<u><u>(2,389)</u></u>	<u><u>(1,971)</u></u>

	(Unaudited)		(Audited)	
	Three months		Twelve months	
<i>Turnover analysis</i>	Ended 31 Oct,		Ended 31 Oct,	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Retails and wholesales of Beauty products	533	4,482	3,426	46,351
Beauty service	<u>5,371</u>	<u>1,132</u>	<u>11,214</u>	<u>5,261</u>
Total turnover	<u><u>5,904</u></u>	<u><u>5,614</u></u>	<u><u>14,640</u></u>	<u><u>51,612</u></u>

Financial summary

	Results for the year ended		
	31 Oct,	31 Oct,	31 Oct,
	2003	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>14,640</u>	<u>51,612</u>	<u>110,047</u>
(Loss)/Profit from operations	<u>(6,022)</u>	<u>(55,634)</u>	<u>(21,879)</u>
Net (loss)/Profit for the year	<u><u>13,809</u></u>	<u><u>(58,195)</u></u>	<u><u>(36,510)</u></u>
	As at 31 Oct,		
	2003	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	7,443	9,045	80,927
Total liabilities	<u>(20,070)</u>	<u>(54,652)</u>	<u>(68,339)</u>
	<u><u>(12,627)</u></u>	<u><u>(45,607)</u></u>	<u><u>(12,588)</u></u>

Notes:

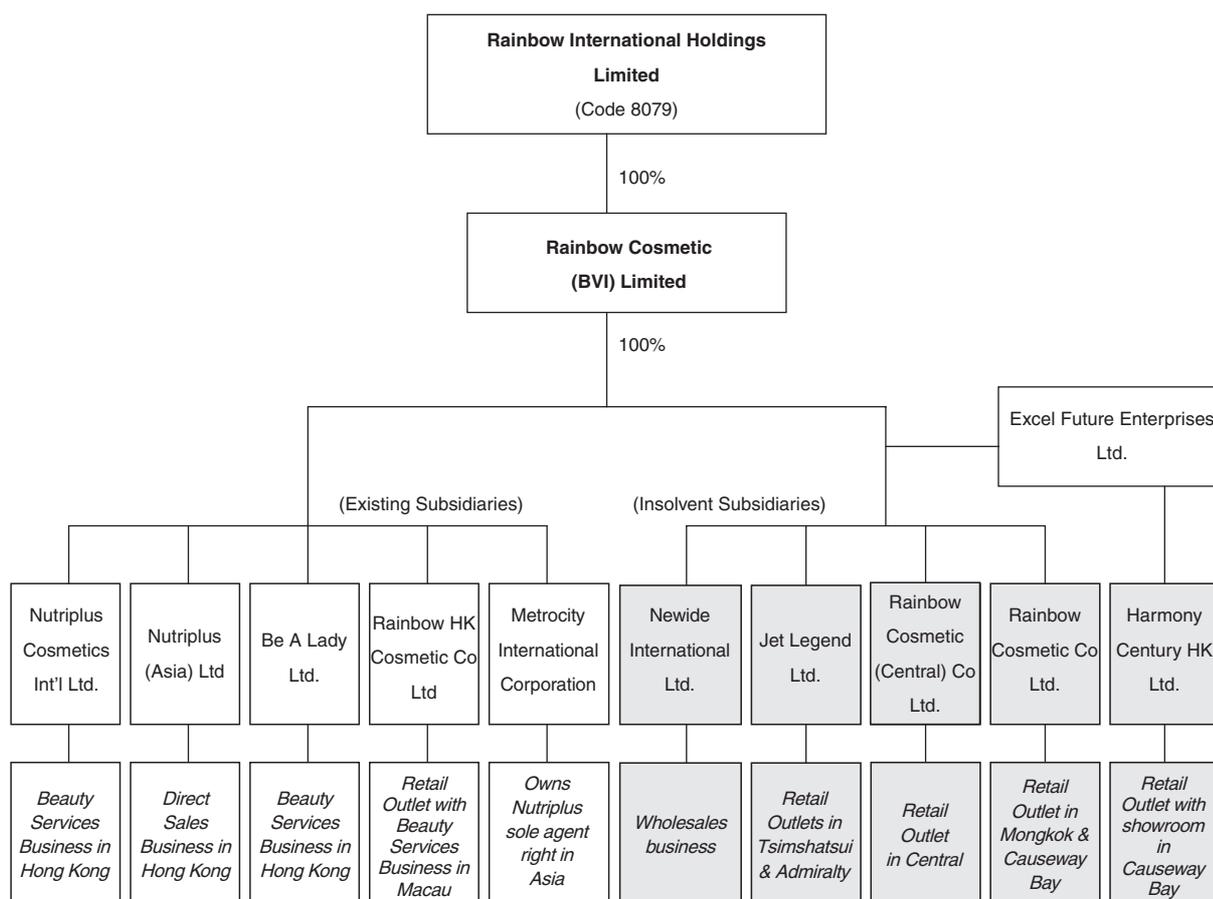
- (1) The Company was incorporated in the Cayman Islands on 6th March, 2001 and became the holding company of the Group with effect from 21st September, 2001
- (2) The results for the year ended 31st October, 2003 have been extracted from the consolidated income statement as set out on page 29.
- (3) The financial summary of the Group has been prepared on the combined basis.

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.

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

As at the date hereof, the organization chart of the Group including the operating subsidiaries and non-operating subsidiaries is set out below:–



Notes:

- All the subsidiaries are wholly owned by the Company.
- As at the date hereof, the Group has five Insolvent Subsidiaries which had ceased business operation, details of which are set out as follows:–
 - Rainbow Cosmetic Co. Ltd., incorporated in Hong Kong, had ceased business operation since 1st August, 2002. It was wound up by the High Court of Hong Kong and then taken over by the Joint & Several Provisional Liquidators on 5th March, 2003.

- (b) Harmony Century HK Ltd., incorporated in Hong Kong, had ceased operation since 31st October, 2002. It was wound up by the High Court of Hong Kong and then taken over by the Joint & Several Provisional Liquidators on 5th March, 2003.
- (c) Rainbow Cosmetic (Central) Co. Ltd., incorporated in Hong Kong, had ceased operations since 1st August, 2002. It was wound up by the High Court of Hong Kong and then taken over by the Joint & Several Provisional Liquidators on 22nd October, 2003.
- (d) Both Jet Legend Ltd. and Newide International Ltd. are incorporated in Hong Kong and had ceased operations since 1st August, 2002.

Corporate Information

Directors

Executive Directors

SIU York Chee, Doreen – Chairperson
LEUNG Kwok Kui

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

HUNG Anckes Yau Keung
KO Sin Ming

Company Secretary

LO Gun Yuen, Raymond, AHKSA

Compliance Officer

SIU York Chee, Doreen

Qualified Accountant

LO Gun Yuen, Raymond, AHKSA

Legal Advisers on Hong Kong Law

Dibb Lupton Alsop
41/F., Bank of China Tower,
1 Garden Road, Central, Hong Kong

Legal Advisers on the Cayman Islands Law

Maples and Calder Asia

Auditors

Chang Leung Hui & Li C.P.A. Ltd
Certified Public Accountants
12th Floor
3 Lockhart Road, Wanchai
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
G/F., 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

Chairperson's Statement

On behalf of the board of Directors (the "Board"), I am pleased to present to the Shareholders the audited combined results of the Company and its subsidiaries for the year ended 31st October, 2003.

REVIEW OF OPERATIONS

As a result of the continued downturn of the Hong Kong economy, the Group had to face a very unfavourable business environment. The prevalent salary cuts, high unemployment rate and continued deflation in Hong Kong have weakened consumer sentiments. Moreover, the outbreak of the Severe Acute Respiratory Syndrome ("SARS") in March 2003 had further worsen Hong Kong's economy.

In response to those critical conditions, the Group's new management team has been successful in cutting down operating costs and exploring new business opportunities in the provision of beauty service. During the financial year 2003, turnover from the provision of beauty service increased by 113% and operating costs decreased by 66%.

The Group recorded a consolidated loss of HK\$6.7 million (decrease of 88.4%) before taking the gain arising on liquidation of subsidiaries. The operating result of the Group has greatly improved.

DIVIDEND

The Board does not recommend the payment of a final dividend in respect of the financial year ended 31st October, 2003 (2002: Nil).

PROSPECTS

Towards the end of the year 2003, there are indications that Hong Kong's economy is recovering and that deflation rate is narrowing. The Group is confident that there will be rooms for expansion in the provision of beauty service and efforts have been put in the additions of beauty equipments and new computerized systems, launching new promoting programs, recruitment of beauty consultants and beauticians.

The Group is also considering the expansion of the outlet network to capture more potential customers. In October 2003, a new outlet was opened in Shatin to accommodate customers in the New Territories. The management of the Group will continue the staff training and develop program to maintain a high standard of customer service.

APPRECIATION

On behalf of the Board, I would like to express my sincere appreciation to our staff members for their support in the past year.

Ms. Siu York Chee, Doreen
Chairperson

Hong Kong, 20th February, 2004

Management Discussion and Analysis

Business Review

Retail and Direct Sales

In retail and direct sales 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.

The outbreak of the Severe Acute Respiratory Syndrome ("SARS") in March 2003 had an adverse effect on the expenditure mode of customers in Hong Kong. During the period under review, retail and direct sales operations accounting for approximately 25% of the Group's total turnover. Turnover from these operations was HK\$3,426,000 for the period, representing a decrease of approximately 93% as compared with the previous financial year. This was partly due to the closure of four unprofitable sales outlets before the beginning of the financial year. With the gradual recovery of Hong Kong's economy, the Group is confident that sales volume will gradually increase.

Beauty Services Operations

The Group's beauty services operations maintained its growth momentum during the period under review. Turnover from this segment amounted to HK\$11,214,000 for the year ended 31st October, 2003, representing approximately 113% increase as compared with the previous financial year. The core business of the Group (beauty services) is still growing and profitable, forming a stable foundation for the business growth in future years.

The Group's beauty centers provide a wide range of health and beauty services with emphasis on body slimming treatment. In order to have good effect in weight management, the treatments will include a combination of Chinese medicines, western medicines and dietetics. Registered Chinese medicine practitioners and registered doctors are appointed as consultants to provide professional consultancy services. Nutritionist and psychologist are employed to provide a tailor-made health and beauty programs for our customers.

The Causeway Bay beauty center was relocated in April 2003 with areas increased from 1,100 to 4,000 square feet to meet the market demands. Furthermore, a new beauty center in Shatin was established and commenced business in October 2003 with a floor area of 1,825 sq.ft. serving customers in New Territories. To promote the new image of the Group, a new brand name "Be A Lady" has been selected as the trade name of our beauty centers in Causeway Bay, Mongkok and Shatin.

During the period under review, the Group has been operating three beauty services centers, four direct sales centers, one warehouse 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	Principal Activities	Location	No. of Employees
1. Nutriplus (Asia) Ltd.	Causeway Bay Direct Sales Centre	Direct Sales	23rd Floor, Cigna Tower, 482 Jaffe Road, Causeway Bay, Hong Kong	1 (full time)
2. Be A Lady Ltd/ Nutriplus Cosmetics International Ltd.	Mongkok Beauty Services Center with Direct Sales Centre	Beauty Services & Direct Sales	25th Floor, Wu Sang House, 655 Nathan Road, Kowloon	24 (full time)
3. Be A Lady Ltd.	Causeway Bay Beauty Services Center with Direct Sales Centre	Beauty Services & Direct Sales	23rd Floor, Island Centre, 1 Great George Street, Causeway Bay, Hong Kong	20 (full time)
4. Be A Lady Ltd.	Shatin Beauty Services Center	Beauty Services & Direct Sales	Unit 619 – 620, 6/F, Citylink Plaza, Shatin, N.T.	10 (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	12 (full time)
6. Rainbow International Holdings Ltd.	N/A	Supporting Office	23rd Floor, Cigna Tower, 482 Jaffe Road, Causeway Bay, Hong Kong	13 (full time)
7. Nutriplus (Asia) Ltd.	Western District Warehouse	Warehouse	Roof A2, Kam Mow Industrial Building, 44 Relcher's Street, Hong Kong	N/A
8. Metrocity International Corporation	N/A	Holdings of agency right	P.O. Box 3152, Road Town, Tortola, British Virgin Islands	N/A
Total employees of the Group as at 31st October, 2003				80

Rights Issue and bonus issue

To improve the financial situation of the Group, the Group has carried out rights issue to raise gross proceeds of approximately HK\$21.0 million in November 2002 (the "Rights Issue"). It was completed in January 2003.

After the Rights Issue, the Company issued bonus shares of five for two to the members registered on 6th February, 2003.

Use of Proceeds of Rights Issue

The net proceeds of the Rights Issue was approximately HK\$19.0 million of which approximately HK\$4.0 million was applied to repay the shareholder's loan granted by Ms. Li Ngar Kwan, Aldy ("Ms. Li"), an ex-executive Director and the ex-Chairperson of the Company, and was then used for directly setting off the part of the subscription monies payable by Ms. Li under the Rights Issue. As at 30th April, 2003, approximately HK\$17.37 million out of the proceeds from the Rights Issue has been utilized. The proposed use of the net proceeds from the Rights Issue of Company dated 3rd January, 2003 (the "Rights Issue Prospectus") relating to the Rights Issue and the actual use of such proceeds until 30th April, 2003 are set out as below:

	Proposed use of the Net proceeds as disclosed in the Rights Issue Prospectus <i>HK\$ million</i>	Actual use of the net proceeds as at 31st October, 2003 <i>HK\$ million</i>
Repayment of shareholder's Loan granted by Ms. Li	4.00	4.00
Repayment of bank loans	4.00	4.80
Repayment of outstanding staff salary, severance payment and mandatory provident funds (<i>Note 1</i>)	2.89	0.15
Repayment of advances from Ever-Long Securities Co. Ltd. (Ever-Long) (<i>Note 2</i>)	3.57	4.10
To purchase additional equipment for Beauty Services	–	0.03
To relocate the Nutriplus beauty center in Hong Kong	–	0.56
General working capital (<i>Note 3</i>)	4.54	5.36
	<u>19.00</u>	<u>19.00</u>

Notes:

1. The outstanding staff salary, severance payment and mandatory provident funds were related to those Insolvent Subsidiaries. Since certain Insolvent Subsidiaries were wound up and taken over by the Joint & Several Provisional Liquidators, no further repayment in such respect was required.
2. In December 2002, Ever-Long had advanced a further sum of HK\$400,000 to the Group. Upon repayment of approximately HK\$4.1 million (inclusive of principal amount due and interests thereon) to Ever-Long in January 2003, there is no outstanding amount due to Ever-Long.
3. The general working capital of approximately HK\$5.36 million was fully utilized to finance the operations of the Group.

Upon the completion of the Rights Issue, the Group carried out a bonus issue on the basis of five bonus shares for every two existing shares of the Company held on the book closure date on 6th February, 2003.

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 Beauty Services Center Operations***

To expand on the beauty services center, the Directors will continue to open new beauty services center 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 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 beauty centers of the Group are equipped with state of the art health and beauty facilities including equipment designed to assist weight management, body treatment services and facial services. Those equipments including Bio Oxyjet, Twin 12, Intense Pulsed Light, Sygmass, Keymodule (M6), infrared-slimming light special (魔幻纖體艙) and Bio-Therapeutic etc.

– ***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 and the Group's health and beauty equipment suppliers implement a series of training programmes to all the beauticians, health and beauty consultants to improve the standard of services, product and equipment knowledge.

– ***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 been regularly advertising in the magazines published in Hong Kong every month for the beauty centers in the brand name "Be a Lady" for the promotion of the slimming treatments, facial treatments and body treatments etc.

– ***To strengthen the management information system of the Group***

The Group had initially planned and negotiated with software company to tailor-make the information system of the Group for the improvement of the inventory control, cost control and operational efficiency of the Group.

Financial Review

For the year ended 31st October, 2003, the Group's consolidated turnover amounted to HK\$14,640,000, representing a decrease of approximately 72%, as compared with the previous financial year.

The Group recorded profit for the financial year ended 31st October, 2003 amounted to approximately HK\$13,800,000 after taking the gain arising on liquidation of Insolvent Subsidiaries.

The Group's cash and bank balance as at 31st October, 2003 was approximately HK\$1,200,000.

During the year 2003, the Group raised funds in the amount of approximately HK\$21 million by way of Rights Issue (one for one at HK\$0.06 per share) which was succeeded and completed on 27th January, 2003

The Directors do not recommend the payment of a dividend.

Liquidity and financial resources

The Group generally financed its operations with internally generated cash flows. As at 31st October, 2003, the Group had cash and cash equivalents of approximately HK\$1.2 million as compared to approximately HK\$0.5 million as at 31st October, 2002.

As at 31st October, 2003 the Group had short-term bank loans amounted to HK\$3.9 million. Details of banking facilities and pledge of assets are set in note 17 to the financial statements. The Group repaid the short-term bank loans on its payment schedule by monthly installments and the last installment will be 31st October, 2006.

Gearing Ratio

As at 31st October, 2003, the directors consider that it is not meaningful to publish a gearing ratio for the Group until such time as the Group is in a positive shareholders' equity position.

Hedging

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.

Significant investments

As at 31st October, 2003, the Group did not have any significant investments.

Future plans for material investments or capital assets

As at 31st October, 2003, the Group had no future plans for material investments or capital assets other than those stated in the business plans set out in the section headed "Comparison of business objectives of the Group" below.

Charges on the Group's assets

Particulars of borrowing and pledge of assets of the Group as at 31st October, 2003 are set out in notes 17 to 20 to the financial statements.

Capital Structure

During the first six months of the year, the Company issued 2,100,000,000 new ordinary shares at par value of HK\$0.01 each, comprising 350,000,000 shares allotted at HK\$0.06 each and 1,750,000,000 shares in respect of the rights issue and bonus issue approved at the extraordinary general meeting of the Company on 3rd January, 2003.

Contingent Liabilities

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

Employees

As at 31st October, 2003, the Group has 80 (2002: 58) full-time employees. The total of employee remuneration, including that of the Directors, for the year ended 31st October, 2003 amounted to HK\$8.6 million (2002: 16.2 million). The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

Share Option Scheme

On 24th 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 the Latest Practicable Date, no option under the Scheme has been granted by the Company.

Details of the Scheme of the Group are set out in note 25 to the financial statements.

Valuation of Share Option

The options granted are not recognized in the financial statements until they are exercised. The directors consider that it is not appropriate to state the value of the share options granted during the period on the ground that a number of variables which are crucial for the valuation of the option value cannot be reasonably determined. Accordingly, the directors believe that any valuation of the share options based on a great number of speculative assumptions would not be meaningful and may be misleading to the shareholders of the Company.

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 Latest Practicable Date for the preparation of this report ("Latest Practicable Date") as compared to the business objectives as stated in the prospectus of the Company dated 28th 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 28th September, 2001	Actual Progress of the Group as of 31st October, 2003
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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.

During the year 2002, the Group closed all its eight retail outlets with relative high rental in Hong Kong as a result of the sluggish local economy and for the purpose of preserving the resources of the Group for future development.

As at the Latest Practicable Date, the Group is operating three beauty services centers in Hong Kong (Causeway Bay, Mongkok and Shatin), four direct sales centers in Hong Kong (Causeway Bay, Mongkok and Shatin) 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), Linfopei 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).

In order to enhance the beauty service business to meet the market demands, the beauty centers are equipped with state of the art health and beauty facilities including equipment designed to assist weight management, body treatment services and facial services. Those equipments are Bio Oxyjet, Twin 12, Intense Pulsed Light, Sygmass, Keymodule (M6), infrared-slimming light special (魔幻纖體艙) and Bio-Therapeutic etc.

Business Objective stated in the prospectus of the Company dated 28th September, 2001

Actual Progress of the Group as of 31st October, 2003

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.

The Group is carrying out feasibility studies to explore business opportunities in the PRC.

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.

The Group and the Group's health and beauty equipment suppliers are providing in-house training and training programs to all the beauticians, health and beauty consultants of the Group.

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

In addition, the Group has employed professional trainer to provide training courses to all the beauticians of the Group to improve the standard of services, product and equipment knowledge.

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 to enlarge the market share of the Group's products, the Group has regularly placed advertisements on the popular Hong Kong magazines for the beauty centers under the brand name "Be a Lady". The Group has made agreement with some famous artists to act as spokespersons for promoting the Group's beauty service.

Business Objective stated in the prospectus of the Company dated 28th September, 2001

Actual Progress of the Group as of 31st October, 2003

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 installed tailor-made software to improve operational efficiency and management information system.

Directors and Senior Management of the Group

DIRECTORS

Executive Directors

Ms. SIU York Chee, Doreen, is the executive director since 16th June, 2003 and being the chairperson of the Group since 17th September, 2003. With extensive professional knowledge and many years of experience in the commercial field, Ms. Siu plays a positive role in the re-organizing and development of the Group. Prior to joining the Group, Ms. Siu was one of the founders of Companion Building Material International Holdings Ltd. (Currently known as Dong Fang Gas Holdings Ltd, code no. 432) which was established in 1973 and listed in the Stock Exchange in 1993. Ms. Siu has resigned as Executive Director and Chairman of Companion Building Material International Holdings Ltd on January 2002. Ms. Siu is the wife of Mr. Leung Kwok Kui.

Mr. LEUNG Kwok Kui, is the executive director of the Group since 5th September, 2003. Mr. Leung has over 30 years' experience in the commercial field. Mr. Leung is responsible in sales and marketing operations of the Company. Prior to joining the Group, Mr. Leung was the executive director and one of the founders of the Companion Building Material International Holdings Ltd (Currently known as Dong Fang Gas Holdings Ltd, code no. 432) and was also the executive director of Skynet (International Group) Holdings Limited which were listed companies in the Stock Exchange. Mr. Leung has resigned both positions as executive director on 31st January, 2002.

Non-executive Director

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

Independent non-executive Directors

Mr. HUNG Anckes Yau Keung, MBA, is a Certified Public Accountant, was appointed as an independent non-executive Director in October 2003. He has over 25 years experience in accounting. He is a fellow of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants, a member of the Chartered Institute of Management Accountants and the Certified General Accountants Association, and an overseas non-practising member of the Chinese Institute of Certified Public Accountants. He is also a member of the Certified Fraud Examiners of U.S.A.

Mr. Hung is now the partner of the Certified Public Accountants firm of KND & Co. He is the Honorary Treasurer of The Overseas CICPA Members Association since the incorporation of the Association, and the committee member of the Institute of Certified Fraud Examiners in Hong Kong. He is also the Visiting Associate Professor of the Research Institute of Economics of the Shenzhen University in China.

Mr. KO Sin Ming, Sammy, was appointed as an independent non-executive Director in February 2003. Mr. Ko had been a professional director and producer of television and movie programmes in Asia Television Limited and Television Broadcasts Limited during the period from 1980 to 1992. From 1992, Mr. Ko acted as a producer of various television programmes for media in different countries such as Taiwan, Malaysia and China. Mr. Ko also acted as a consultant of 中體影視製作公司 (Zhong Ti Video Production Company) which is under the control of 中國國家體育總局 (State General Administration of Sport of the PRC).

SENIOR MANAGEMENT

Mr. LO Gun Yuen, Raymond, is the Qualified Accountant and the Company Secretary of the Group. Mr. Lo is responsible for the overall financial and accounting functions of the Group. Mr. Lo has over 25 years of accounting, auditing and management financial reporting experience. Prior to joining the Group, Mr. Lo worked in the public listed companies in the Stock Exchange of Hong Kong Limited. Mr. Lo is a member of the Hong Kong Society of Accountants.

Ms. SHIU Ting Yan, Denise, is the chief operation officer of the Group and is responsible for the overall beauty business operations of the Group. Ms. Shiu also oversees the operation of Mongkok beauty center and the enhancement of the Group's management information systems and inventory control systems and the business development of the Group.

Ms. LEE Kin Yuk, Eliza, is the shop manager of the Causeway Bay beauty center of the Group, who mainly oversees the operation of the Causeway Bay beauty center. Prior to joining the Group, Ms. Lee has approximately four years of experience in beauty services industry.

Ms. CHOW Ching Yee, Scarlet, is the shop manager of the Macau outlet, who mainly oversees the operation of the Macau outlet. Prior to joining the Group in July 2003, Ms. Chow has 10 years of experience in retail industry.

Report of the Directors

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 31st October, 2003.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in the retails of beauty products and provision of beauty services 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 of the Group by principal activities and geographical locations for each of the two years ended 31st October, 2003 is set out in note 4 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

Sales to the Group’s five largest customers accounted for less than 30% of the Group’s turnover for each of the two years ended 31st October, 2003.

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 the Group for the financial year ended 31st October, 2003.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st October, 2003 are set out in the consolidated income statement on page 29 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 on 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 23 and 25, 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 24 to the financial statements.

BORROWINGS

Particulars of borrowings of the Group as at 31st October, 2003 are set out in notes 17 to 20 to the financial statements.

DONATIONS

During the year, no charitable and other donations were made (2002: Nil).

WINDING UP OF CERTAIN INSOLVENT SUBSIDIARIES

During the financial year, the Group has three Insolvent Subsidiaries, Rainbow Cosmetic Co. Ltd., Harmony Century Hong Kong Ltd. and Rainbow Cosmetic (Central) Co. Ltd. which were wound up by the High Court of Hong Kong and then taken over by the Joint & Several Provisional Liquidators. In addition, Jet Legend Ltd. and Newide International Ltd. had ceased business operation since August 2002.

DIRECTORS

The Directors who held office during the year are:

Executive directors

SIU York Chee, Doreen	(appointed on 16th June, 2003)
LEUNG Kwok Kui	(appointed on 5th September, 2003)
LI Ngar Kwan, Aldy	(resigned on 17th September, 2003)
LIANG Kwong Lim	(resigned on 22nd July, 2003)

Non-executive directors

LAI Tin Ying, Michael (alias LAI Siu Tin)	
HUNG Anckes Yau Keung **	(appointed on 30th October, 2003)
KO Sin Ming **	(appointed on 12th February, 2003)
TAM Fung Chee **	(resigned on 30th October, 2003)
CHIU Wai **	(resigned on 12th February, 2003)

** *Independent Non-executive Directors*

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial term of two years. The service contracts shall be renewed automatically after the initial two years unless and until terminated by not less than three months' notice 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).

SHARE OPTION SCHEMES

- (a) On 24th 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.

- (b) On 24th 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. After the issuance of the rights issue and bonus issue approved at the extraordinary general meeting of the Company on 3rd January, 2003, the number of option shares was adjusted to 245,000,000. The adjusted exercise price of the share options is HK\$0.044.

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

Except for options granted to International Capital Network Holdings Ltd. (“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.

- (c) During the period, 24,500,000 options granted to ICN were under dispute in relation to its validity. In addition, 188,650,000 options have lapsed in accordance with the terms of the Pre-IPO Share Option Scheme and the remaining balance of 31,850,000 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 the date hereof.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 31st October, 2003, the interests or short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 the Laws of Hong Kong ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the HKSE, were as follows:

(a) Long positions in the shares of the Company

Name	Type of interest	No. of shares	Approximate percentage of interest
Ms. Siu York Chee	Personal	200,000,000	8.16
Mr. Lai Tin Ying, Michael (alias Lai Siu Tin)	Personal	7,652,519	0.31

(b) Long positions in underlying shares of equity derivatives of the Company

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

Name	Number of adjusted share options granted on 24th September, 2001	Cancelled/ Lapsed	Outstanding on 31st October, 2003
Ms. Li Ngar Kwan, Aldy *	24,500,000	24,500,000	—
Mr. Liang Kwong Lim*	24,500,000	24,500,000	—
Mr. Lai Tin Ying, Michael (alias Lai Siu Tin)	24,500,000	24,500,000	—

* Pursuant to the Share Option Scheme, the share options of Ms. Li Ngar Kwan, Aldy and Mr. LIANG Kwong Lim lapsed as a result of her/his resignation during the period.

Mr. LAI Tin Ying, Michael and all the other grantees except International Capital Network Ltd ("ICN") subsequently agreed to waive and cancel unconditionally and irrevocably the above option in August 2002 given under the Pre-IPO share option scheme on 24th September, 2001 before expiration.

(c) Short positions in shares and underlying shares of equity derivatives of the Company

Save as disclosed herein above, as at 31st October, 2003, none of the Directors has short positions in shares or underlying shares of equity derivatives.

PERSONS WHO HAVE AN INTEREST OR A SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS OF OTHER MEMBER OF THE GROUP

So far as is known to any Director or chief executive of the Company, as at 31st October, 2003, persons who have an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO or be interested in, directly or indirectly, 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Group were as follows:

(a) Long position in the shares of the Company

Name	Type of interest	No. of shares	Approximate percentage of interest
Ms. Siu York Chee (<i>Note 1</i>)	Personal	200,000,000	8.16
Ms. Lam Yin Ming, Amy (<i>Note 2</i>)	Personal	323,674,834	13.21
Best Time Investments Ltd. (<i>Note 3</i>)	Corporate	637,468,440	26.02
Mr. Lai Tin Ying, Michael (<i>Note 4</i>)	Personal	7,652,519	0.31
Inworld System (HK) Ltd. (<i>Note 5</i>)	Corporate	104,999,999	4.29
Inworld International Ltd. (<i>Note 5</i>)	Corporate	104,999,999	4.29
Inworld Group Limited (<i>Note 5</i>)	Corporate	104,999,999	4.29
E-Teck Business Limited (<i>Note 6</i>)	Corporate	273,197,778	11.15
Ever-Long Asset Management Ltd. (<i>Note 6</i>)	Corporate	273,197,778	11.15
Ever-Long Holdings Limited (<i>Note 6</i>)	Corporate	273,197,778	11.15
Styland Holdings Limited (<i>Note 7</i>)	Corporate	378,197,777	15.44

Notes:

- 1) Ms. Siu York Chee was appointed as an executive Director on 16th June, 2003 and then appointed as the chairperson of the Company on 17th September, 2003. She acquired 200,000,000 shares of the Company from Ms. Li Ngar Kwan, Aldy, ex-executive director on 19th June, 2003.
- 2) Ms. Lam Yin Ming, Amy acquired these shares of the Company through the Rights Issue which was completed in January 2003. Presently Ms. Lam Yin Ming, Amy does not have management role nor board representation in the Group. On 19th June, 2003, she acquired 258,500,000 shares of the Company from Ms Li Ngar Kwan, Aldy but Ms. Lam has not yet made payment to Ms. Li and according to their agreement, they shall do all things necessary to return themselves to their original position.
- 3) Best Time Investments Limited is a wholly-owned subsidiary of Wonderful World Holdings Limited, a company incorporated in Bermuda whose shares are listed on the Main Board of the Stock Exchange. Pursuant to Part XV of the SFO, Wonderful World Holdings Limited is taken to be interested in the shares held by Best Time Investments Limited in approximately 26.02% of the Company.
- 4) Mr. Lai Tin Ying, Michael is a non-executive Director of the Company. He is also an executive Director of Wonderful World Holdings Limited.
- 5) Inworld System (HK) Limited is beneficially owned by Inworld International Limited, which is a wholly-owned subsidiary of Inworld Group Limited whose shares are listed on GEM. Styland Holdings Limited is interested in approximately 32.5% of the issued share capital of Inworld Group Limited.

- 6) The 273,197,778 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 taken to be interested in the shares held by E-Teck Business Limited pursuant to Part XV of the SFO.
- 7) Styland Holdings Limited is interested in approximately 32.5% of the issued share capital of Inworld Group Limited. In addition, Ever-Long Holdings Limited is a wholly owned subsidiary of Styland Holdings Limited. Pursuant to Part XV of the SFO, Styland Holdings Limited is taken to be interested in the shares held by Inworld System (HK) Limited and E-Teck Business Limited in aggregate of approximately 15.44% of the Company.

(b) Short positions in the shares and underlying shares of equity derivatives of the Company

So far as the directors are aware, save as disclosed herein, no persons have short positions in the shares or underlying shares of equity derivatives.

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

None of the members of the Group purchased, sold or repurchased any of the Group's listed securities during the period from 1st November, 2002 to 31st October, 2003.

SPONSOR'S INTEREST

The appointment of on-going sponsor, MasterLink Securities (Hong Kong) Corporation Limited ("MasterLink"), expired on 31st October, 2003.

As at 31st October, 2003, neither MasterLink, its directors, employees nor their associates had any interest in any securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

COMPETING INTEREST

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

CHANGE IN INDEPENDENT NON-EXECUTIVE DIRECTOR AND EXECUTIVE DIRECTORS AND RESIGNATION AND APPOINTMENT OF QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

During the period under review, Mr. Chiu Wai resigned as an independent non-executive director with effect from 12th February, 2003 and Mr. Ko Sin Ming, Sammy was appointed as the replacement with effect from 12th February, 2003. Ms. Tam Fung Chee resigned as an independent non-executive director with effect from 30th October, 2003 and Mr. Hung Anckes Yau Keung was appointed as the replacement with effect from 30th October, 2003.

Ms. Siu York Chee was also appointed as a new executive director with effect from 16th June, 2003 and also appointed as the Chairperson with effect from 17th September, 2003. Mr. Liang Kwong Lim resigned as an executive director with effect from 22nd July, 2003. Mr. Leung Kwok Kui was also appointed as executive director with effect from 5th September, 2003. Ms. Li Ngar Kwan, Aldy resigned as an executive director and the Chairperson with effect from 17th September, 2003.

Mr. Lee Chap Ming resigned as the Company secretary and qualified accountant of the Company on 28th February, 2003. Mr. Wang Chin Mong has been appointed as the qualified accountant and company secretary with effect from 10th May, 2003 and resigned with effect from 15th October, 2003. Mr. Lo Gun Yuen, Raymond was appointed as the replacement with effect from 21st October, 2003.

AUDIT COMMITTEE

The Company has formed 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. HUNG Anckes Yau Keung and Mr. KO Sin Ming. Mr. HUNG Anckes Yau Keung is also the chairperson of the audit committee of the board of Directors.

Ms. TAM Fung Chee resigned as a member of the audit committee with effect from 30th October, 2003 and Mr. HUNG Anckes Yau Keung has been appointed as the replacement with effect from 30th October, 2003.

During the financial year ended 31st October, 2003, the audit committee has reviewed the Company's half-year report, quarterly reports and monthly reports and has provided advice and comments thereon to the Board. The audit committee has met 18 times during the financial year for reviewing the Company's financial reports and monitoring the Company's internal control procedures.

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 concerning board practices and procedures during the year.

AUDITORS

During the financial year ended 31st October, 2003, the auditor of the Company has been changed from Charles Chan, Ip & Fung CPA Ltd. to Chang Leung Hui & Li C.P.A. Ltd. who audited the financial statements of the Group for the year ended 31st October, 2003. A resolution for their appointment as auditors for the ensuing year was approved at the extra-ordinary general meeting of the Company on 21st November, 2003.

On behalf of the Board
Rainbow International Holdings Limited
Siu York Chee, Doreen
Chairperson

Hong Kong, 20th February, 2004

Auditors' Report

CHANG LEUNG HUI & LI C.P.A. LIMITED
Certified Public Accountants
12th Floor, No. 3 Lockhart Road
Wanchai, Hong Kong

**TO THE SHAREHOLDERS OF
RAINBOW INTERNATIONAL HOLDINGS LIMITED**
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 29 to 59 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. 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group and the Company, consistently applied and adequately disclosed.

We planned and performed 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. 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 adequacy of the disclosures made in note 2 to the financial statements. The note explains that the company is dependent upon the financial support of the bankers which have agreed to provide funds to enable the company to meet in full its financial obligations as they fall due in the foreseeable future. The directors consider that the bankers will be able to meet in full their commitment to provide financial support to the company. The financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available. The financial statements do not include any adjustment that would result from a failure to obtain such funding. We consider that the fundamental uncertainty is adequately disclosed in the financial statements and our opinion is not qualified in this respect.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31st October, 2003 and of the results and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CHANG LEUNG HUI & LI C.P.A. LIMITED

Certified Public Accountants

Luk, Sai Yan

Practising Certificate Number P01963

HONG KONG, 20th February, 2004

Consolidated Income Statement

For the year ended 31st October, 2003

	Note	2003 HK\$'000	2002 HK\$'000
Turnover	4(a)	14,640	51,612
Cost of sales		(2,138)	(52,352)
Gross profit/(loss)		12,502	(740)
Other revenue	4(a)	464	503
Other expenses			
Selling and distribution cost		11,519	35,338
Administrative expenses		7,270	15,380
Other operating expenses		199	4,679
		(18,988)	(55,397)
Loss from operations		(6,022)	(55,634)
Gain arising on liquidation of subsidiaries	12	20,526	–
Finance costs		(695)	(2,471)
Profit/(loss) before taxation	5	13,809	(58,105)
Taxation	6	–	(90)
Profit/(loss) attributable to shareholders	7	13,809	(58,195)
Accumulated losses brought forward		(96,843)	(38,648)
Accumulated losses carried forward		(83,034)	(96,843)
Earnings/(loss) per share – Basic	8(a)	0.58 cents	(2.65) cents (Restated)
Earnings/(loss) per share – Diluted	8(b)	0.57 cents	(2.64) cents (Restated)

The notes on pages 34 to 59 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31st October, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
ASSETS			
Non-current assets			
Fixed assets	10	4,462	1,496
Investment in trust funds	13	–	3,872
		4,462	5,368
Current assets			
Prepayments, deposits and other receivables		1,135	1,926
Inventories	14	616	946
Trade receivables	15	55	315
Cash and bank balances		1,175	490
		2,981	3,677
LIABILITIES			
Current liabilities			
Due to a director	16	78	9,760
Bank overdrafts – secured		–	951
Current portion of bank loans	17	1,835	10,855
Current portion of obligations under hire purchase contracts	19	859	80
Trust receipt loans		–	1,638
Short-term loans	20	–	3,621
Trade payables	21	455	12,588
Other payables and accruals		12,274	14,509
Taxation payable		523	596
		16,024	54,598
Net current liabilities		(13,043)	(50,921)
Total assets less current liabilities		(8,581)	(45,553)
Non-current liabilities			
Bank loans	17	2,038	–
Other loan	18	1,500	–
Obligations under hire purchase contracts	19	508	54
		4,046	54
Net liabilities		(12,627)	(45,607)
Capital and reserves			
Issued capital	23	24,500	3,500
Reserves	24	(37,127)	(49,107)
		(12,627)	(45,607)

Approved and authorised for issue by the board of directors on 20th February, 2004

On behalf of the board

Siu York Chee
Director

Leung Kwok Kui
Director

The notes on pages 34 to 59 form an integral part of these financial statements.

Balance Sheet

As at 31st October, 2003

	Notes	2003 HK\$'000	2002 HK\$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	11	(1,958)	(2,421)
Current assets			
Other receivables		50	498
Bank balance		450	22
		500	520
LIABILITIES			
Current liabilities			
Due to a director	16	–	5,000
Current portion of bank loans	17	1,413	–
Accruals and other payables		515	478
		1,928	5,478
Net current liabilities		(1,428)	(4,958)
Non-current liabilities			
Long term portion of bank loans	17	1,983	–
Other loan	18	1,500	–
		(3,483)	–
Net liabilities		(6,869)	(7,379)
Capital and reserves			
Issued capital	23	24,500	3,500
Reserves	24	(31,369)	(10,879)
		(6,869)	(7,379)

Approved and authorised for issue by the board of directors on 20th February, 2004

On behalf of the board

Siu York Chee
Director

Leung Kwok Kui
Director

The notes on pages 34 to 59 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st October, 2003

The Group

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Capital reserves <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1.11.2001	3,500	19,409	(38,648)	28,327	12,588
Loss for the year	—	—	(58,195)	—	(58,195)
At 31.10.2002	3,500	19,409	(96,843)	28,327	(45,607)
Issue of rights shares	3,500	—	—	—	3,500
Premium on issue of rights shares	—	17,500	—	—	17,500
Issue of bonus shares	17,500	(17,500)	—	—	—
Expenses for issues of shares	—	(1,829)	—	—	(1,829)
Profit for the year	—	—	13,809	—	13,809
At 31.10.2003	<u>24,500</u>	<u>17,580</u>	<u>(83,034)</u>	<u>28,327</u>	<u>(12,627)</u>

The notes on pages 34 to 59 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31st October, 2003

	2003 HK\$'000	2002 HK\$'000
Operating activities		
Profit/(loss) before taxation	13,809	(58,105)
Depreciation	1,116	2,399
Loss on disposal of fixed assets	122	4,465
Impairment loss on trust funds	–	133
Interest income	–	(165)
Interest expenses	649	2,471
Allowances for bad debts	396	–
Gain arising on liquidation of subsidiaries	(20,526)	–
Operating cash flow before movements in working capital	(4,434)	(48,802)
Decrease in prepayments, deposits and other receivables	372	6,859
Decrease in inventories	330	26,651
Decrease/(Increase) in trade receivables	260	(144)
Increase/(Decrease) in trade payables	9,228	(2,541)
(Decrease)/Increase in other payables and accruals	(2,983)	822
(Decrease)/Increase in due to a director	(9,682)	9,760
(Decrease) in trust receipts loan	(1,638)	(11,767)
	(8,547)	(19,162)
Payment of Hong Kong profits tax	–	(200)
Cash used in operations		
Interest paid	(649)	(2,471)
Net cash used in operating activities	(9,196)	(21,833)
Investing activities		
Interest received	–	165
Disposal of subsidiaries (note 12)	(137)	–
Payments for purchase of fixed assets	(2,417)	(1,522)
Proceeds from sales of fixed assets	–	52
Redemption of trust funds	3,872	4,525
Net cash generated from investing activities	1,318	3,220
Financing		
Proceeds from issue of shares, net of expenses	19,171	–
New other loan raised	1,500	3,621
New bank loans raised	4,540	16,156
Repayment of short term loans	(3,621)	–
Repayment of bank loans	(11,522)	(10,163)
Capital element of hire purchase contracts paid	(554)	(46)
Net cash inflow from financing	9,514	9,568
Increase/(Decrease) in cash and cash equivalents	1,636	(9,045)
Cash and cash equivalents at beginning of year	(461)	8,584
Cash and cash equivalents at end of year	1,175	(461)
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	1,175	490
Bank overdrafts	–	(951)
	1,175	(461)

Notes to the Financial Statement

For the year ended 31st October, 2003

1. GENERAL

The Company was incorporated in the Cayman Islands on 6th 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 31st October. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2. BASIS OF PREPARATION

Going concern concept

The Group sustained an operating loss attributable to shareholders of approximately HK\$6,717,000 for the year ended 31st October, 2003 (2002: HK\$58,195,000) before the gain arising on liquidation of subsidiaries of HK\$20,526,000. The Group had a capital deficiency of HK\$12,627,000 as at that date (2002: capital deficiency of HK\$45,607,000). As a result of the substantial losses incurred, the Group experienced tight cash flows during the year.

In preparing the financial statements, the directors have considered the future liquidity of the Group particularly in view 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 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 in 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 adopted are summarised below:

In the current year, the company adopted the following SSAP issued by the HKSA which are effective for accounting periods commencing on or after 1st January, 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translations
SSAP 15 (revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

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 operation of beauty centres is recognised when the relevant services are rendered to the customers. Payments received that are related to future performance are deferred and recorded as revenue as they are earned over the specified future performance periods.
- (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

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 acquisition occurring on or after 1st 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 1st October, 2001 was written off against reserves by the Group.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Goodwill *(Continued)*

SSAP 31 on Impairment of Assets 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 loss identified is charged to the income statement.

(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.

(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 life on the same basis as owned assets.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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.

(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 life 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 life.

(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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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 1st 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 Schemes. 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) Employee benefits

In the current year, the Group has adopted SSAP 34 "Employee benefits", which introduces measurement rules for employee benefits including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

(j) 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.

(k) Investments in trust funds

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

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

(l) 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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Inventories

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

Net realisable 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.

(n) 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.

(o) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which are 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.

(p) 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 an asset is expected with reasonable probability to crystallise in the foreseeable future. Deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

(q) 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.

The balance sheet of subsidiary expressed in foreign currencies is translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) Segment reporting

In accordance with the Group's internal 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.

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover		
Retails and wholesales of beauty products	3,426	46,351
Beauty services	11,214	5,261
	14,640	51,612
Other revenue		
Interest income	–	165
Compensation income	–	181
Others	464	157
	464	503
Total revenue	15,104	52,115

4. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

(b) Primary reporting format – business segments

	2003		Total HK\$'000
	Retail and wholesales of beauty products HK\$'000	Beauty services HK\$'000	
Turnover			
Sales to external customers	<u>3,426</u>	<u>11,214</u>	<u>14,640</u>
(Loss) from operation			
Segment results	<u>(3,232)</u>	<u>(959)</u>	<u>(4,191)</u>
Unallocated income			464
Unallocated expenses			(2,295)
Interest income			<u>–</u>
			<u>(6,022)</u>
Gain arising on liquidation of subsidiaries			20,526
Finance costs			<u>(695)</u>
Profit before taxation			13,809
Taxation			<u>–</u>
Profit after taxation			<u>13,809</u>
Other information			
Segment assets	<u>1,595</u>	<u>5,339</u>	6,934
Unallocated assets			<u>509</u>
Total assets			<u>7,443</u>
Segment liabilities	<u>779</u>	<u>5,387</u>	6,166
Unallocated liabilities			<u>13,904</u>
Total liabilities			<u>20,070</u>
Capital expenditure	80	4,124	4,204
Depreciation	<u>154</u>	<u>962</u>	<u>1,116</u>

4. TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

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

	Retail and wholesales of beauty products <i>HK\$'000</i>	2002 Beauty services <i>HK\$'000</i>	Total <i>HK\$'000</i>
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
			(55,634)
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)

(c) Secondary reporting format – geographical segment

	Year ended 31st October,			
	2003		2002	
	Segment revenue	Contribution to operating profit/(loss)	Segment revenue	Contribution to operating loss
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	11,537	(4,312)	49,833	(54,395)
Macau	3,103	121	1,779	(1,239)
Unallocated	–	(1,831)	–	–
	<u>14,640</u>	<u>(6,022)</u>	<u>51,612</u>	<u>(55,634)</u>

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

	Year ended 31st October,			
	2003		2002	
	Carrying amount of segment assets	Capital expenditure	Carrying amount of segment assets	Capital expenditure
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	5,743	4,119	3,570	541
Macau	1,191	85	1,064	1,131
Unallocated assets	509	–	4,411	–
Total	<u>7,443</u>	<u>4,204</u>	<u>9,045</u>	<u>1,672</u>

5. PROFIT/(LOSS) BEFORE TAXATION

	2003 HK\$'000	2002 HK\$'000
Profit/(loss) before taxation is stated after crediting and charging the following:		
Crediting:		
Interest income	–	165
Gain arising on liquidation of subsidiaries	20,526	–
Charging:		
Auditors' remuneration		
Current year	220	475
Less: Overprovision in previous years	(125)	–
	95	475
Cost of inventories sold (excluding written back/provision for slow-moving inventory for the year)	4,109	44,655
Staff costs (excluding directors' remuneration)		
– Basic salaries and allowances	7,615	14,465
– Pension scheme contribution	221	574
Severance payment	–	2,836
Borrowing costs		
– Interest on bank advances and other borrowings wholly repayable within five years	695	2,471
Depreciation		
– Owned assets	969	2,363
– Assets held under hire purchase contracts	147	36
Operating lease rentals in respect of land and buildings	2,100	19,056
Exchange loss	86	12
(Written back)/provision for slow-moving inventories	(1,971)	7,697
Loss on disposal of fixed assets	122	4,465

6. TAXATION

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Macau profits tax	–	90
Hong Kong profits tax	–	–
	<hr/>	<hr/>
	–	90
	<hr/> <hr/>	<hr/> <hr/>

No Hong Kong profits tax is provided for as the Group has not had any assessable profits arising in Hong Kong (2002: Nil). No provision for taxation has been made by the subsidiary operating in Macau as it has no assessable profits for the year.

Details of deferred taxation are set out in note 22.

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a loss of approximately HK\$18,661,000 (2002: HK\$30,303,000) which has been dealt with in the financial statements of the holding company.

8. EARNINGS/(LOSS) PER SHARE

(a) Basic

The calculation of basic earnings per share is based on the profit attributable to shareholders of approximately HK\$13,809,000 (2002: loss – HK\$58,195,000) and the weighted average number of 2,389,588,034 (2002: 2,196,547,500 (restated)) shares.

(b) Diluted

The calculation of diluted earnings per share is based on the profit attributable to shareholders of approximately HK\$13,809,000 (2002: loss – HK\$58,195,000) and the weighted average number of 2,389,588,034 (2002: 2,196,547,500 (restated)) shares in issue during the year plus 12,250,000 (2002: 10,982,738 (restated)) dilutive shares deemed to have been issued for no consideration under the Pre-IPO Shares Option Scheme based on the subscription price per share at 50 per cent of the offer price (i.e. HK\$0.044).

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:

	2003 HK\$'000	2002 HK\$'000
Fees	–	–
Other emoluments		
– Basic salaries, allowances and benefits in kind	190	1,170
– Pension scheme contribution	5	10
	<u>195</u>	<u>1,180</u>

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

	2003 Number of persons	2002 Number of persons
<i>Executive directors</i>		
Nil to HK\$1,000,000	3	4
HK\$1,000,001 to HK\$1,500,000	–	–
<i>Non-executive and independent non-executive directors</i>		
Nil to HK\$1,000,000	<u>3</u>	<u>3</u>

During the year ended 31st October, 2003, the three executive directors received individual emoluments of approximately HK\$100,000, HK\$70,000 and HK\$20,000 respectively. Each of the non-executive and independent non-executive directors received directors fee of HK\$NIL.

During the year ended 31st October, 2002, the four executive directors received individual emoluments of approximately HK\$912,000, HK\$148,000, HK\$120,000 and HK\$NIL respectively. Each of the non-executive and independent non-executive directors received directors fee of 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.

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:

	2003 HK\$'000	2002 HK\$'000
Basic salaries, allowances and benefits in kind	1,173	1,661
Pension scheme contribution	9	49
	<u>1,182</u>	<u>1,710</u>

Of the five highest paid individuals, one (2002: one) is a director whose emoluments are disclosed in note 9(a) above.

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

	2003 Number of persons	2002 Number of persons
Directors		
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	–	–
Other employees		
Nil to HK\$1,000,000	<u>4</u>	<u>4</u>

10. FIXED ASSETS

The Group

	Leasehold improvements <i>HK\$'000</i>	Equipment <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicle <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost					
At 1.11.2002	2,533	1,008	412	369	4,322
Additions	1,459	2,580	99	66	4,204
Written-off	(1,567)	(47)	(336)	(369)	(2,319)
At 31.10.2003	2,425	3,541	175	66	6,207
Accumulated depreciation					
At 1.11.2002	1,676	404	377	369	2,826
Charge for the year	708	366	29	13	1,116
Written back	(1,487)	(5)	(336)	(369)	(2,197)
At 31.10.2003	897	765	70	13	1,745
Net book value					
At 31.10.2003	1,528	2,776	105	53	4,462
At 31.10.2002	857	604	35	–	1,496

Note: The net book value of assets held for use under hire purchase contracts as at the balance sheet date and the related depreciation charge for the year are approximately HK\$1,801,994 (2002: HK\$121,000) and HK\$160,500 (2002: HK\$36,000) respectively.

11. INVESTMENTS IN SUBSIDIARIES

The Company

	2003 HK\$'000	2002 HK\$'000
Investments at costs:		
– Unlisted shares	1,097	1,097
Due from subsidiaries	46,214	29,383
Due to subsidiaries	(3,058)	(3,708)
	<hr/>	<hr/>
	44,253	26,772
Provision for doubtful debts	(46,211)	(29,193)
	<hr/>	<hr/>
	(1,958)	(2,421)
	<hr/> <hr/>	<hr/> <hr/>

Notes:

- (a) The amounts due from/(to) subsidiaries are unsecured and interest free.
- (b) The following is a list of the subsidiaries at 31st October, 2003:

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
Newide International Limited	Hong Kong	HK\$10	–	100%	Dormant
Nutriplus Cosmetics International Limited	Hong Kong	HK\$100	–	100%	Operation of a beauty centre
Be A Lady Limited	Hong Kong	HK\$10,000	–	100%	Operation of beauty centres
Jet Legend Limited	Hong Kong	HK\$2	–	100%	Dormant
Rainbow HK Cosmetic Company Limited	Macau	MOP60,000	–	100%	Retailing of beauty products

11. INVESTMENT IN SUBSIDIARIES *(Continued)*

(b) The following is a list of the subsidiaries at 31st October, 2003: *(Continued)*

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

* *Court winding up orders were issued to these subsidiaries during the year. As a result, the group has to write off these subsidiaries and the resulting gain is shown in note 12 to the financial statements.*

12. GAIN ARISING ON LIQUIDATION OF SUBSIDIARIES

Three winding up orders dated 5th March, 2003 and 22nd October, 2003 respectively were issued to Harmony Century Hong Kong Limited, Rainbow Cosmetic Company Limited and Rainbow Cosmetic (Central) Company Limited. Due to the winding up orders, the Group has to write off these subsidiaries. The net assets/(liabilities) of the subsidiaries at the date of write-off were as follows:

	Harmony Century Hong Kong Limited	Rainbow Cosmetic Company Limited	Rainbow Cosmetic (Central) Company Limited	2003 Total
	5th March, 2003	5th March, 2003	22nd October, 2003	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Write-off date	5th March, 2003	5th March, 2003	22nd October, 2003	
Net assets/(liabilities) written off				
Current account with group companies	748	–	–	748
Deposits and sundry debtors	23	–	–	23
Cash and bank balances	131	5	1	137
Tax payable	–	–	(73)	(73)
Creditors and accruals	(167)	(19,520)	(1,674)	(21,361)
	<u>735</u>	<u>(19,515)</u>	<u>(1,746)</u>	<u>(20,526)</u>
Resulting (loss)/gain	<u>(735)</u>	<u>19,515</u>	<u>1,746</u>	<u>20,526</u>
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Net cash outflow arising on write-off				
Cash and bank balances	<u>131</u>	<u>5</u>	<u>1</u>	<u>(137)</u>

Harmony Century Hong Kong Limited contributed HK\$446,403 (2002: HK\$2,004,939) to the Group's turnover and a loss of HK\$335,599 (2002: HK\$1,639,408) to the Group's operating results for the year.

13. INVESTMENT IN TRUST FUNDS**The Group**

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Held-to-maturity debt securities, at cost		
Listed in Hong Kong	–	3,872
Market value	–	3,872

The Company

Held-to-maturity debt securities, at cost		
Listed in Hong Kong	–	–
Market value	–	–

14. INVENTORIES**The Group**

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Merchandise	1,775	9,093
Less: Provision for slow-moving items	(1,159)	(8,147)
	616	946

15. TRADE RECEIVABLES

A 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 31st October, 2003.

16. DUE TO A DIRECTOR**The Group**

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

The Company

The amount due was repaid during the year. It was unsecured and interest free.

17. BANK LOANS

The Group

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Bank loans		
– Repayable within one year	1,835	10,855
– Repayable after one year but within two years	1,462	–
– Repayable after two years but within five years	576	–
	3,873	10,855
Current portion of bank loans	(1,835)	(10,855)
Long term portion	2,038	–

The Company

Bank loans		
– Repayable within one year	1,413	–
– Repayable after one year but within two years	1,407	–
– Repayable after two years but within five years	576	–
	3,396	–
Current portion of bank loans	(1,413)	–
Long term portion	1,983	–

18. OTHER LOAN

This loan is unsecured, carries interest at 8% per annum and is repayable on 8th December, 2004.

19. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS

The Group

At 31st October, 2003, the Group's obligations under hire purchase contracts were as follows:

	Minimum hire purchase payments		Present value of minimum hire purchase payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amount repayable				
– within one year	1,082	91	859	80
– in the second year	384	43	508	40
– in the third to fifth year inclusive	–	17	–	14
Total minimum hire purchase payments	<u>1,466</u>	<u>151</u>	<u>1,367</u>	<u>134</u>
Less: Future hire purchase charges	<u>(99)</u>	<u>(17)</u>		
Total net future hire purchase payables	<u>1,367</u>	<u>134</u>		
Less: Portion classified as current liabilities	<u>(859)</u>	<u>(80)</u>		
Long term portion	<u>508</u>	<u>54</u>		

20. SHORT-TERM LOANS

The Group

	2003 HK\$'000	2002 HK\$'000
Other loans		
– wholly repayable within five years	<u>–</u>	<u>3,621</u>

The above loans were unsecured and carried interest at prime rate plus 5% per annum.

21. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

The Group

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within three months	40	1,115
Over three months but within six months	–	1,143
Over six months	415	10,330
	<u>455</u>	<u>12,588</u>

22. DEFERRED TAXATION

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

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Accelerated depreciation allowances	71	(353)
Tax losses	10,445	(8,608)
	<u>10,516</u>	<u>(8,961)</u>

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

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Accelerated depreciation allowances	118	47
Tax losses	(2,663)	(13,108)
	<u>(2,545)</u>	<u>(13,061)</u>

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

23. ISSUED CAPITAL

	2003		2002	
	No. of shares	HK\$'000	No. of shares	HK\$'000
Authorised:				
Ordinary shares of HK\$0.01 each	<u>4,000,000,000</u>	<u>40,000</u>	<u>2,000,000,000</u>	<u>20,000</u>
Issued and fully paid (ordinary shares of HK\$0.01 each):				
Beginning of the year	350,000,000	3,500	350,000,000	3,500
Rights issue	350,000,000	3,500	–	–
Bonus issue	<u>1,750,000,000</u>	<u>17,500</u>	–	–
End of the year	<u>2,450,000,000</u>	<u>24,500</u>	<u>350,000,000</u>	<u>3,500</u>

Changes in the share capital of the Company during the year were as follows:

- (a) The authorised share capital of the Company was increased from HK\$20,000,000 to HK\$40,000,000 by the creation of an additional 2,000,000,000 new ordinary shares of HK\$0.01 each ranking pari passu in all respects with the existing ordinary shares of the Company; and
- (b) On 3rd January, 2003, an ordinary resolution in respect of the rights issue and bonus issue has been approved at an extraordinary general meeting of the Company. The Rights issue is to raise approximately HK\$21 million by issuing 350,000,000 new shares at a subscription price of HK\$0.06 per rights share on the basis of one rights share for every share held by qualified shareholders. Bonus shares were then issued to the shareholders of the Company on the basis of five bonus shares for every two shares held on 6th February, 2003.

24. RESERVES

The Group

	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Capital reserves <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1.11.2001	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)
Premium on issue of rights shares	17,500	—	—	17,500
Share issue expenses	(1,829)	—	—	(1,829)
Capitalisation of share premium	(17,500)	—	—	(17,500)
Profit for the year	—	13,809	—	13,809
At 31.10.2003	17,580	(83,034)	28,327	(37,127)

The Company

	Share premium <i>HK\$'000</i>	Retained profits/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1.11.2001	19,409	15	19,424
Loss for the year	—	(30,303)	(30,303)
At 31.10.2002	19,409	(30,288)	(10,879)
Premium on issue of rights shares	17,500	—	17,500
Share issuing expenses	(1,829)	—	(1,829)
Capitalisation of share premium	(17,500)	—	(17,500)
Loss for the year	—	(18,661)	(18,661)
At 31.10.2003	17,580	(48,949)	(31,369)

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.

25. SHARE OPTIONS

- (a) On 24th 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. Upon the rights issue and bonus issue approved at the extraordinary general meeting of the Company on 3rd January, 2003, the number of option shares was adjusted to 245,000,000. The adjusted exercise price of the share options is HK\$0.044.

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

Except for options granted to International Capital Network Limited "ICN" as part of the remuneration for its financial advisory services 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 24th 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, 24,500,000 options granted to ICN were under dispute in relation to its validity. In addition, 164,150,000 options have lapsed and the remaining balance of 56,350,000 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 31st October, 2003.

26. RELATED PARTY TRANSACTIONS

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

	2003 HK\$'000	2002 HK\$'000
Rental expenses paid to Aldy Li	—	210

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

27. COMMITMENTS

At 31st October, 2003, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	2,371	1,755
In the second to fifth year inclusive	1,188	1,514
	3,559	3,269

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 1st 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 31st October, 2003, the aggregate amount of employer's contribution made by the Group to the retirement scheme was approximately HK\$229,000 (2002: HK\$584,000).

29. CONTINGENT LIABILITIES

Up to the date of the approval of the financial statements, the Group has received 4 writs of summons, 11 claims under the Small Claims Tribunal Ordinance and 3 claims under the Labour Tribunal. The total gross amount claimed under all writs and claims is approximately HK\$2.91 million. The writs are related to unpaid goods sold and delivered and unpaid advertisement fee in the aggregate amount of approximately HK\$1.93 million which include two high court cases with aggregate amount of HK\$1.4 million. The 14 claims are related to outstanding rentals, rates and management fees, unpaid goods sold and delivered and unpaid salaries in the aggregate amount of approximately HK\$0.97 million. 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 31st October, 2003 and up to the date of the approval of the financial statements.

Notice of Annual General Meeting

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 23rd Floor, Cigna Tower, 482 Jaffe Road, Causeway Bay, Hong Kong on Thursday, 18th March, 2004 at 11:00 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 31st October, 2003.
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 thought 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 Rights 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.”

7. As special business, to consider and, if thought fit, to pass the following resolution as a special resolution:

“**THAT** subject to the approval of the Registrar of Companies of Cayman Islands, the change of name of the Company from “Rainbow International Holdings Limited” (彩虹國際控股有限公司) to “B. A. L. Holdings Limited” (變靚D控股有限公司) be and is hereby approved.”

By order of the Board
Rainbow International Holdings Limited
Siu York Chee
Chairperson

Hong Kong, 20th February, 2004

Principal place of business:

23/F, Cigna Tower,
 482 Jaffe Road,
 Causeway Bay,
 Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote on his/her behalf. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed or notarially certified copy of that power or authority, at the offices of the Company's Hong Kong branch registrars. Standard Registrars Limited on Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting.
3. Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.