

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

This circular is for information purposes only and does not constitute an invitation or offer to acquire or subscribe for securities.

If you are in any doubt as to any aspect about this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in Rainbow International Holdings Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



**RAINBOW INTERNATIONAL HOLDINGS LIMITED**

**彩虹國際控股有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**MAJOR TRANSACTION  
PROPOSED RIGHTS ISSUE  
OF NOT LESS THAN 350,000,000 SHARES AND  
NOT MORE THAN 353,500,000 SHARES  
OF HK\$0.01 EACH AT HK\$0.06 PER RIGHTS SHARE  
ON THE BASIS OF ONE RIGHTS SHARE FOR  
EVERY EXISTING SHARE HELD,  
PROPOSED BONUS ISSUE,  
PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL,  
PROPOSED CHANGE IN BOARD LOT SIZE OF SHARES  
AND  
GENERAL MANDATES TO ISSUE AND REPURCHASE SECURITIES**

**Financial adviser to  
Rainbow International Holdings Limited**



**HANTEC CAPITAL LIMITED**

**Independent financial adviser to the Independent Board Committee**

**第一亞洲  
FIRST ASIA**

**FIRST ASIA FINANCE GROUP LIMITED**

**Underwriters**

**KINGSTON SECURITIES LIMITED      EVER-LONG SECURITIES COMPANY LIMITED  
LUEN FAT SECURITIES LIMITED      GREAT CHINA BROKERAGE LIMITED  
EMPEROR SECURITIES LIMITED**

It should be noted that the Underwriting Agreement contains provisions granting the Underwriters the right to terminate the Underwriting Agreement, which may be exercised by giving a written notice to the Company at any time prior to 4:00 p.m. on the second business day immediately after the last day for acceptance of the Rights Issue if the occurrence of any force majeure events (set out in the section headed "Termination of the Underwriting Agreement" on pages 36 and 37 of this circular) would, in the absolute opinion of Kingston (for itself and on behalf of the other Underwriters), affect the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or otherwise makes it inexpedient or inadvisable for the Company or the Underwriters to proceed with the Rights Issue.

A letter from the Independent Board Committee containing its recommendation is set out on page 44 of this circular. A letter from First Asia Finance Group Limited, the independent financial adviser to the Independent Board Committee, containing its advice to the Independent Board Committee is set out on pages 45 to 55 of this circular.

A notice convening the Extraordinary General Meeting to be held at Novotel Century Hong Kong, Plaza I-III, Lower Lobby, 238 Jaffe Road, Wanchai, Hong Kong on 3rd January, 2003 at 9:30 a.m. is set out on pages 111 to 115 of this circular. Whether or not you are able to attend such meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon, as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting as the case may be. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting as the case may be should you so wish.

This circular will remain on the "Latest Company Announcements" page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least 7 days from the date of its posting.

18th December, 2002

---

## CHARACTERISTICS OF GEM

---

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

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

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

---

# CONTENTS

---

	<i>Page</i>
<b>Expected timetable</b> .....	1
<b>Definitions</b> .....	3
<b>Letter from the Board</b>	
Introduction .....	7
Financial position and going concerns of the Group .....	8
Litigation involving the Group .....	13
Business Review .....	17
Comparison of business objectives of the Group .....	24
Use of proceeds from the listing of the Company .....	28
Proposed Rights Issue .....	29
Underwriting Agreement dated 24th September, 2002 and Supplemental Agreement dated 27th November, 2002 .....	34
Adjustments in relation to the outstanding Options .....	39
Bonus Issue .....	39
Proposed Change of board lots .....	41
Increase in authorised share capital .....	41
General Mandates .....	41
EGM .....	42
Recommendation .....	42
Further Information .....	43
<b>Letter from the Independent Board Committee</b> .....	44
<b>Letter from First Asia</b> .....	45
<b>Appendix I — Financial information of the Group</b> .....	56
<b>Appendix II — Explanatory statement</b> .....	96
<b>Appendix III — General information</b> .....	101
<b>Notice of EGM</b> .....	111

---

## EXPECTED TIMETABLE

---

### Rights Issue

2002

Despatch of circular with notice of the EGM	18th December
Last day of dealings in Shares on a cum-rights basis	24th December
Commencement of dealings in Shares on an ex-rights basis	27th December
Latest time for lodging transfer of Shares or exercise of subscription rights attaching to the Options in order to qualify for the Rights Issues	4:00 p.m. 30th December
Register of members closes to determine eligibility of members for the Rights Issue (both dates inclusive)	31st December, 2002 to 3rd January, 2003

2003

Latest time for lodging proxy forms for the EGM	9:30 a.m. 1st January
Record Date for the Rights Issue	3rd January
Expected date of the EGM	9.30 a.m. 3rd January
Despatch of Rights Issue prospectus, provisional allotment letters & forms for application of excess Rights Shares	3rd January
Register of members re-opens	6th January
First day of dealings in nil-paid Rights Shares	7th January
Latest time for splitting nil-paid Rights Shares	4:00 p.m. 13th January
Last day of dealings in nil-paid Rights Shares	16th January
Latest time for payment and acceptance of Rights Shares	4:00 p.m. 21st January
Latest time for the Rights Issue to become unconditional	23rd January
Announcement of results of the Rights Issue	24th January
Despatch of refund cheques in respect of unsuccessful or partially unsuccessful applications for excess Rights Shares	27th January
Despatch of certificates for Rights Shares	27th January
Dealings of fully paid Rights Shares commence	29th January

---

## EXPECTED TIMETABLE

---

### Bonus Issue

2003

Last day of dealings in Shares on a cum-bonus basis .....	30th January
Commencement of dealings in Shares on an ex-bonus basis .....	4th February
Trading of Shares in board lots of 20,000 Shares commences .....	4th February
Latest time for lodging transfer of Shares or exercise of subscription rights attaching to the outstanding Options for entitlement of the Bonus Issue .....	4:00 p.m. 5th February
Register of members closes to determine members eligible for the Bonus Issue .....	6th February
Record Date for the Bonus Issue .....	6th February
Register of members reopens .....	7th February
Despatch of certificates for Bonus Shares .....	10th February
Dealing of Bonus Shares commence .....	12th February

---

## DEFINITIONS

---

*In this circular, unless the context requires otherwise, the following expressions have the following meanings.*

“Bonus Issue”	a bonus issue of five Bonus Shares for every two Shares held on the record date of the Bonus Issue
“Bonus Shares”	new Shares to be created and issued pursuant to the Bonus Issue
“Company”	Rainbow International Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on GEM
“CCASS”	The Central Clearing and Settlement System established and operated by HKSCC
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Directors”	directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held at 9:30 a.m. on 3rd January, 2003 to approve, among other things, the Rights Issue and the Bonus Issue or any adjustment thereof
“Ever-Long”	Ever-Long Securities Company Limited, one of the Underwriters
“Existing Subsidiaries”	Nutriplus (Asia) Limited, Nutriplus Cosmetics International Limited, Rainbow HK Cosmetic Company Limited and Metrocity International Corporation, all of which are wholly-owned subsidiaries of the Company as at the Latest Practicable Date
“First Asia”	First Asia Finance Group Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM

---

## DEFINITIONS

---

“General Mandate”	a general and unconditional mandate to allot, issue and otherwise deal with the Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the Shares in issue as at the date of the passing of the relevant resolution to grant such mandate as enlarged by the issue of Rights Shares and Bonus Shares details of which are set out in the section headed “General Mandate and Repurchase Mandate” in the “Letter from the Board” section in this circular
“Group”	the Company and its subsidiaries
“Harmony Century”	Harmony Century Hong Kong Ltd, a wholly-owned subsidiary of the Company
“Hantec”	Hantec Capital Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“ICN”	International Capital Network Limited
“Increase in Capital”	the increase in the authorized share capital of the Company from 2,000,000,000 Shares to 4,000,000,000 Shares by the creation of an additional 2,000,000,000 new Shares
“Insolvent Subsidiaries”	Jet Legend Limited, Rainbow Cosmetic (Central) Company Limited, Rainbow Cosmetic Company Limited, Netwide International Limited and Harmony Century Hong Kong Limited, all of which are wholly-owned subsidiaries of the Group
“Independent Shareholders”	Shareholders other than Ms. Li and her associates (as defined in the Listing Rules)
“IPO Prospectus”	the prospectus of the Company dated 28th September, 2001 in respect of the listing of the Shares on GEM
“Kingston”	Kingston Securities Limited, a securities dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“Latest Practicable Date”	13th December, 2002, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular

---

## DEFINITIONS

---

“Macau”	The Macau Special Administrative Region of the PRC
“MasterLink”	MasterLink Securities (Hong Kong) Corporation Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), the on-going sponsor of the Company
“Ms. Li”	Ms. Li Ngar Kwan, Aldy, a Director, a controlling Shareholder and the beneficial owner of 182,133,840 Shares which represents approximately 52.04% of the existing issued share capital of the Company as at the Latest Practicable Date
“Option”	options to subscribe for Shares under the Pre-IPO Share Option Scheme adopted by the Company on 24th September, 2001
“Overseas Shareholders”	Shareholders whose names appear on the register of members of the Company as at the close of the business on the Record Date and whose addresses as shown on such register are outside Hong Kong
“PRC”	the People’s Republic of China which for the purpose of this circular, excludes Hong Kong, Macau and Taiwan
“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme of the Company adopted on 24th September, 2001
“Prospectus Documents”	the Rights Issue prospectus, the provisional allotment letter and the form of application for excess Rights Shares
“Qualifying Shareholders”	Shareholders other than the Overseas Shareholders
“Rainbow Cosmetic”	Rainbow Cosmetic Company Limited, a wholly owned subsidiary of the Company
“Record Date”	3rd January, 2003, the record date by reference to which entitlements to the Rights Issue will be determined
“Repurchase Mandate”	a general and unconditional mandate to exercise all the power of the Company to repurchase the Shares with an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of the Shares in issue as at the date of the passing of the relevant resolution to grant such mandate as enlarged by the issue of Rights Shares and Bonus Shares details of which are set out in the section headed “General Mandate and Repurchase Mandate” in the “Letter from the Board” section in this circular



---

## DEFINITIONS

---

“Rights Issue”	the proposed issue by way of rights of Rights Shares at the Subscription Price on the basis of one Rights Share for every one Share then held on the Record Date
“Rights Shares”	not less than 350,000,000 Rights Shares and not more than 353,500,000 Rights Shares to be issued under the Rights Issue
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Styland”	Styland Holdings Limited, a company incorporated in Bermuda the shares of which are listed on the Stock Exchange
“Subscription Price”	subscription price of HK\$0.06 per Rights Share
“Supplemental Underwriting Agreement”	the supplemental underwriting agreement dated 27th November, 2002 entered into between the Company, Ms. Li and the Underwriters amending and confirming certain terms of the Underwriting Agreement
“Underwriters”	Kingston, Great China Brokerage Limited, Luen Fat Securities Company Limited, Ever-Long Securities Company Limited and Emperor Securities Limited
“Underwriting Agreement”	the underwriting agreement dated 24th September, 2002 in relation to the Rights Issue entered into between the Company, Ms. Li and the Underwriters as amended by the Supplemental Underwriting Agreement
“HK\$”	Hong Kong dollars
“%”	per cent.



**RAINBOW INTERNATIONAL HOLDINGS LIMITED**

**彩虹國際控股有限公司**

*(incorporated in the Cayman Islands with limited liability)*

*Executive directors:*

Li Ngar Kwan, Aldy

Liang Kwong Lim

*Non-executive directors:*

Lai Tin Ying, Michael (alias Lai Siu Tin)

*Independent non-executive directors:*

Tam Fung Chee

Chiu Wai

*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

18th December, 2002

*To the Shareholders and, for information only,  
the holders of Options*

**MAJOR TRANSACTION  
PROPOSED RIGHTS ISSUE  
OF NOT LESS THAN 350,000,000 SHARES AND  
NOT MORE THAN 353,500,000 SHARES  
OF HK\$0.01 EACH AT HK\$0.06 PER RIGHTS SHARE  
ON THE BASIS OF ONE RIGHTS SHARE FOR  
EVERY EXISTING SHARE HELD,  
PROPOSED BONUS ISSUE,  
PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL,  
PROPOSED CHANGE IN BOARD LOT SIZE OF SHARES  
AND  
GENERAL MANDATES TO ISSUE AND REPURCHASE SECURITIES**

**INTRODUCTION**

The Directors announced on 27th November, 2002 that the Company proposed, among other things, to (i) raise HK\$21 million (assuming no Options are exercised on or before the Record Date), before expenses, by issuing not less than 350,000,000 new Shares by way of rights issue at HK\$0.06

---

## LETTER FROM THE BOARD

---

per Rights Share on the basis of one Rights Share for every Share held by Qualifying Shareholders on the Record Date; (ii) increase the authorized share capital of the Company from 2,000,000,000 Shares to 4,000,000,000 Shares; and (iii) effect the Bonus Issue to the Shareholders on the basis of five Bonus Shares for every two Shares held on 6th February, 2003.

The purpose of this circular is to give you further information on the updated information on the business operations and financial position of the Group, the Rights Issue, the Increase in Capital, the Bonus Issue, the advice of First Asia to the Independent Board Committee and the recommendation of the Independent Board Committee with regard to the Rights Issue as well as setting out the notice of the EGM at which ordinary resolutions will be proposed to consider, if thought fit, approve the Rights Issue, the Increase in Capital, the Bonus Issue, the Repurchase Mandate and the General Mandate.

### FINANCIAL POSITION AND GOING CONCERNS OF THE GROUP

**SHAREHOLDERS ARE REMINDED THAT THE FINANCIAL INFORMATION OF THE GROUP AS AT 31ST OCTOBER, 2002 AS DISCLOSED IN THIS CIRCULAR IS BASED ON UNAUDITED MANAGEMENT ACCOUNTS AND SUCH FIGURES MAY BE SUBJECT TO AUDIT ADJUSTMENTS AND MAY THEREFORE BE DIFFERENT FROM THE AUDITED ACCOUNTS.**

The Group's financial performance was badly affected by the current adverse economic environment in Hong Kong. Therefore, the Group has initiated business consolidation to reduce the adverse economic impact to the Group's business. The closure of eight retail outlets in 2002 (details of which are disclosed in the paragraphs headed "Closure of retail outlets" in the section headed "Business review" below) was a strategic step for the Group to achieve a higher efficiency in resource allocation. The Directors consider that such decision is in the interest of the Company and the Shareholders as it preserves the resources of the Group for future business development. As at the date hereof, the Group operates two beauty centers and two retail direct sales centres in Hong Kong and one retail outlet in Macau. The Group will continue to engage in the retail business in beauty products with diversified marketing channel through direct sales in order to broaden its client base.

The Group has reached agreement with one bank as set out in (1) below and is negotiating with another two banks as set out in (2) and (3) below for the restructuring of the banking facilities of the Group. As at 31st October, 2002, the Group had an aggregate amount of outstanding bank loans and overdrafts of about HK\$13.39 million. They are summarised as follows:

- (1) Three outstanding bank loans in the amount of HK\$5.6 million (with interest paid monthly) which the Group has reached agreement with the bank on the repayment schedule involving upfront payment of HK\$500,000 and monthly repayment by 25 instalments starting from the completion of the Right Issue. The loans are secured by an investment fund of the Group at market value as at 31st October, 2002 and approximately HK\$3.863 million of the loans is repayable in May 2004 (cost value HK\$4 million);

---

## LETTER FROM THE BOARD

---

- (2) The Group is in negotiation with the bank in respect of an outstanding bank overdraft in the amount of HK\$6.62 million. This facility is currently frozen by the bank. The bank has issued demand letter to the Group requesting repayment of the outstanding sum by 8th July, 2002. The Group is in negotiation with the bank to restructure the outstanding amount of which HK\$3 million is to be settled by the Rights Issue proceeds and the remaining balance of HK\$3.62 million will be settled by 36 monthly instalments. However, no repayment schedule has been agreed with the bank pending the result of the Rights Issue. On 25th October, 2002, the Company received a letter from the bank indicating that it shall proceed to exercise their rights to claim the overdue amounts without further notice to the Company. As at the Latest Practicable Date, there is no further action from the bank; and
- (3) A commercial loan and bank overdraft in the aggregate amount of HK\$1,132,851.50 was granted to and drawn by Rainbow HK Cosmetic Co. Ltd, a wholly owned subsidiary of the Group in Macau as at 31st October, 2002. The Company has submitted a settlement proposal to the bank on 11th October, 2002 to repay an upfront amount of HK\$500,000 from the proceeds of the Rights Issue with the balance of the alleged claim of HK\$712,851.50 to be payable in 24 monthly instalments at HK\$40,000 per month starting from 15th October, 2002. The Group has made the first repayment of HK\$40,000 on 15th October, 2002. No official confirmation was received from the Bank. The Bank served a writ of summons to the Company on 21st October, 2002 in relation to the sum due by Rainbow HK Cosmetic Co. Ltd., Macau as the maker of a promissory note for the amount of HK\$1,212,851.50 together with interest thereon at the rate of 3% per annum above the Hong Kong Dollar Prime Rate from 25th September, 2002 until full payment. The hearing date has not been fixed as at the Latest Practicable Date. The Company received a letter from the bank on 22nd November, 2002 stating that upon receipt of payment of HK\$500,000 from the Company, it will suspend all legal actions against the Company both in Hong Kong and Macau. It further requested the Company to repay the outstanding balance by monthly instalments of HK\$120,000 each starting from 21st December, 2002. No further action has been taken by the Company pending completion of the Rights Issue and no further action has been taken by the bank up to the Latest Practicable Date after the issue of the letter on 22nd November, 2002.

As at 31st October, 2002, other than the bank loan and overdraft in the amount of HK\$7.79 million as stated in (2) and (3) above and the outstanding amount due to Ms. Li of about HK\$9.82 million are overdue, the Group has no other default loan outstanding. Also there were accounts payable of the Group in the amount of HK\$25.48 million, of which HK\$2.89 million relates to outstanding staff commission, severance payment and mandatory provident fund for staff members made redundant by the Group.

---

## LETTER FROM THE BOARD

---

Set out below is an analysis of the accounts payable by the Group as at 31st October, 2002 based on the **UNAUDITED MANAGEMENT ACCOUNTS** and almost all of them are overdue and demands for repayment have been received. However, no reschedule arrangements have been negotiated as at the Latest Practicable Date.

	<i>HK\$'000</i>	<b>Aging 0-60 days</b>	<b>Aging 60-120 days</b>	<b>Aging Over 120 days</b>
Trading Accounts Payable	11,929	747	252	10,930
Accrued Sundry expenses	12,902	4,644	1,753	6,505
Tax Payable	510	0	0	510
Hire purchase payable	<u>133</u>	<u>133</u>	<u>0</u>	<u>0</u>
<b>TOTAL</b>	<u>25,474</u>	<u>5,524</u>	<u>2,005</u>	<u>17,945</u>

As at 31st October, 2002 the amount of accounts payables, accruals and hire purchase creditors due by the Company and the Existing Subsidiaries amount to approximately HK\$2.53 million. The Existing Subsidiaries are in operation and the repayment of the above liabilities will be carried out in accordance with ordinary commercial practice. No restructuring is required.

As at 31st October, 2002, the accounts payables, accruals and the tax payable due by Rainbow Cosmetic Co. Ltd., Rainbow Cosmetic (Central) Co. Ltd., Newide International Ltd., Jet Legend Ltd. and Harmony Century Hong Kong Ltd amount to approximately HK\$22.94 million. The Insolvent Subsidiaries have all ceased operation, details of which are disclosed in the paragraph headed "Closure of retails outlets" in the section headed "Business Review" below. The Company will negotiate with these creditors for the restructuring and/or capitalisation of the debts, failing of which, these insolvent subsidiaries may be liquidated and/or disposed to Ms. Li.

## LETTER FROM THE BOARD

Based on the **UNAUDITED MANAGEMENT ACCOUNTS**, the unaudited turnover and the loss of the Group for the three months ended 31st October, 2002 are approximately HK\$4.38 million and HK\$4.55 million respectively. The unaudited consolidated balance sheet of the Group as at 31st October, 2002 and the pro forma consolidated balance sheet after the Rights Issue is set out below:

	<b>Unaudited Consolidated Balance Sheet as at 31st October, 2002 <i>HK\$'000</i></b>	<b>Pro forma Consolidated Balance Sheet after Rights Issue as at 31st October, 2002 <i>HK\$'000</i></b>
<b>NON CURRENT ASSET</b>		
Fixed Asset	2,389	2,389
Accumulated Depreciation	(1,009)	(1,009)
Investment Fund (pledged to bank)	3,863	3,863
	5,243	5,243
<b>CURRENT ASSET</b>		
Depositors, prepayment and receivables	2,057	2,057
Inventories	7,161	7,161
Trade receivables	68	68
Cash and bank balance	364	4,905
	9,650	14,191
<b>CURRENT LIABILITIES</b>		
Amount due to chairperson	(9,818)	(5,818)
Bank Loan and overdraft	(13,389)	(9,389)
Payable Accruals and Hire Purchase Creditors	(24,965)	(22,075)
Tax payable	(510)	(510)
Short term loan	(3,569)	—
	(52,251)	(37,792)
<b>NET CURRENT LIABILITIES</b>	<b>(42,601)</b>	<b>(23,601)</b>
<b>NET LIABILITIES</b>	<b>(37,358)</b>	<b>(18,358)</b>

---

## LETTER FROM THE BOARD

---

As disclosed in the previous paragraph, the Group's performance has been affected by the current adverse economic environment in Hong Kong and is facing financial difficulties in repaying its overdue liabilities such as bank loans and amounts due to creditors and suppliers. Based on the **UNAUDITED MANAGEMENT ACCOUNTS** as at 31st October, 2002, the Group has outstanding bank loans of HK\$13.39 million of which HK\$7.79 million is overdue, outstanding accounts payable of HK\$25.48 million all of which are overdue, a loan from Ms. Li of HK\$9.82 million which is call on demand and Ever-Long Advance of HK\$3.57 million including interest thereon which will be repaid by the proceeds from the Rights Issue. Various writs, claims and demands have been received from banks and various creditors demanding for repayment of the overdue liabilities.

The Group is currently unable to settle all its overdue liabilities and is in financial difficulties. Based on the **UNAUDITED MANAGEMENT ACCOUNTS** as at 31st October, 2002, cash at bank of the Group was HK\$0.36 million. Taking into account the facility granted to the Group by Ever-Long Capital Limited on 2nd October, 2002, of which HK\$1.5 million has not yet been utilised as at the Latest Practicable Date, the Group is still unable to settle all its overdue liabilities. Even if the Rights Issue were to proceed, the proceeds thereof would not be sufficient to settle all the outstanding liabilities and the Group will still be in a net liabilities position and in financial difficulties. The Directors consider and the on-going sponsor of the Company, MasterLink Securities (Hong Kong) Corporation Limited, concurs with the Directors' view that the Group's existing available funding resources would be able to settle its operating expenses in respect of the Existing Subsidiaries until the Rights Issue becoming unconditional which is expected to be on 23rd January, 2003. However, if the Group's banks and creditors take legal actions against the Group to demand immediate settlement of the overdue liabilities, the Group would not have sufficient working capital to settle all its overdue liabilities.

Upon completion of the Rights Issue, proceeds of approximately HK\$4.54 million will be applied as working capital of the Group. The Directors consider that these additional funds can assist the Group to finance its operating expenses but are still not sufficient to settle all its overdue liabilities.

**It should be noted that the Rights Issue is subject to various conditions which include the approval from the Independent Shareholders at the EGM and therefore the Rights Issue may or may not proceed. If the Rights Issue fails to complete, the financial position of the Group may be further affected adversely. If the Rights Issue becomes unconditional but the Group fails to agree with the banks and creditors on the restructuring of the debts, the banks and creditors may proceed to take legal actions to demand immediate settlement, the Group would be unable to satisfy all these liabilities and the Group's financial position would be further adversely affected.**

Whether or not the proposed Rights Issue would become unconditional, the Group will commence to negotiate with the banks and the creditors on the debt restructuring immediately after the EGM. In the event that the Group is unable to agree with the banks and creditors on any debt restructuring proposals, the Directors would review the situation to determine what appropriate action should be taken and make further announcement(s) when appropriate. Such actions may include the liquidation of the relevant insolvent subsidiaries and/or disposal of them to Ms. Li at a nominal consideration given that the relevant debts are non-recourse debts except for the bank loans and overdraft amounting to approximately HK\$8.35 million in aggregate which are guaranteed by the Company. **However, there is no assurance that the liquidation and/or disposal of the relevant**

---

## LETTER FROM THE BOARD

---

**Insolvent Subsidiaries would proceed as expected. In the event that the liquidation and/or disposal of the relevant Insolvent Subsidiaries not to proceed as expected, the financial position of the Group would be further adversely affected and the Group would remain in financial difficulties.**

**The Company is aware of its general obligation of disclosure under Rule 17.10 of GEM Listing Rules of any information relating to the Group which is necessary to enable Shareholders and the public to appraise the position of the Group or that might be reasonably expected materially to affect market activity in and the price of the Shares. Accordingly, the Company has undertaken to arrange for the announcement for the next six months or such later period as the Stock Exchange may require of the Group's monthly cash flow position and turnover based on the UNAUDITED MANAGEMENT ACCOUNTS, number of direct sales centers, beauty services centers and retail outlets and number of staff employed as at each month end and any material changes in the Group's business that may affect its cash flow position. The Company has further undertaken that such announcement will be published within 21 days in the following month after reviewed by the audit committee of the Company and approved by the board of Directors. The first announcement for November, 2002 is expected to be released on or around 21st December, 2002.**

### LITIGATION INVOLVING THE GROUP

Various writs and claims have been received by the Group from its banks and various creditors asking for repayment of the overdue liabilities during past few months. As at the Latest Practicable Date, the Group has received eight writs of summons (the "Writ(s)"), twenty five claims under the Small Claims Tribunal Ordinance and six claims under the Labour Tribunal (the "Claim(s)"). Four of the Writs and three Claims are related to outstanding rental, rates and management fee in the aggregate amount of HK\$3,090,273.89 in relation to Rainbow Cosmetic retail outlets in Central, Mong Kok and Causeway Bay and the previous head office of the Group in Chai Wan. The other three Writs and the twenty Claims are related to unpaid goods sold and delivered. One of the Writs (of which the Company is the defendant) is related to a bank commercial loan and overdraft. The remaining six Claims are related to unpaid salary. As at the Latest Practicable Date, the total gross amount claimed under all writs and claims received by the Group is approximately HK\$6.359 million. The following table summarized all the outstanding Writs and Claims against the Group as at the Latest Practicable Date:

Action No.	Plaintiff	Defendant	Amount HK\$	Note	Updated Position
HCA2711/2002	Y.V. Ltd	Rainbow Cosmetic Co Ltd	63,773.13		The hearing date not yet fixed
HCA2712/2002	Evernice Int'l Ltd	Rainbow Cosmetic Co Ltd	63,879.68		The hearing date not yet fixed
HCA2885/2002	Permanent Investment Co Ltd	Rainbow Cosmetic (Central) Co Ltd	702,731.71	(1)	The hearing date not yet fixed



## LETTER FROM THE BOARD

Action No.	Plaintiff	Defendant	Amount <i>HK\$</i>	Note	Updated Position
HCA3626/2002	Fong Yiu Kwong	Rainbow Cosmetic Co Ltd & Harmony Century Hong Kong Ltd	2,201,600.00		Judgment granted on 11/11/02
HCA3978/2002	Banco Delta Asia S.A.R.L.	Rainbow International Holdings Ltd	1,212,851.50		The hearing date not yet fixed
DCCJ5007/2002	Ingrid Millet Ltd	Rainbow Cosmetic Co Ltd & Newide Int'l Ltd	145,338.00		The hearing date not yet fixed
DCCJ5166/2002	Naturebest Enterprises (Far East) Ltd	Rainbow Cosmetic Co Ltd & Newide Int'l Ltd	382,901.14		Judgment granted for \$354,305.14 and received on 26/10/02
DCCJ6598/2002	World Hair Cosmetics Co Ltd	Rainbow Cosmetic Co Ltd	78,847.32		Writ received on 1/11/02, not yet fixed the hearing date
SCTC052082/02	Sun Hing Lung Cosmetics Ltd	Jet Legend Ltd	1,882.80		Order granted on 25/9/02
SCTC052083/02	Sun Hing Lung Cosmetics Ltd	Rainbow Cosmetic Co Ltd	18,600.90		Order granted on 29/10/02
SCTC052084/02	Sun Hing Lung Cosmetics Ltd	Rainbow Cosmetic Co Ltd	46,315.88		Order granted on 25/9/02
SCTC053469/02	World Hair Cosmetics Co Ltd	Rainbow Cosmetic Co Ltd	27,418.48		Order granted on 28/11/02
SCTC054212/02	Zenith Cosmetics Trading Co Ltd	Jet Legend Ltd	3,220.00		Order granted on 13/11/02
SCTC054213/02	Zenith Cosmetics Trading Co Ltd	Rainbow Cosmetic Co Ltd	49,271.00		Order granted on 13/11/02
SCTC054912/02	Dah Chong Hong Ltd	Rainbow Cosmetic Co Ltd	20,000.00		Order granted on 10/10/02
SCTC056295/02	38 Advertising Associate	Nutriplus Cosmetics International Ltd	9,850.00		Settled in full on 18/10/02

## LETTER FROM THE BOARD

Action No.	Plaintiff	Defendant	Amount HK\$	Note	Updated Position
SCTC056296/02	38 Advertising Associate	Rainbow Cosmetic Co Ltd	5,600.00		Order granted on 17/10/02
SCTC056565/02	Winful Company	Rainbow Cosmetic Co Ltd	6,444.00		Order granted on 3/12/02
SCTC059321/02	Dah Chong Hong, Ltd	Rainbow Cosmetic Co Ltd	20,000.00		Order granted on 4/11/02
SCTC060053/02	VGI Fashion & Development Co.	Rainbow International Holdings Limited	36,420.00	(2)	Settled on 30/10/02
SCTC060097/02	May Fair Cosmetics Ltd	Rainbow Cosmetic Co Ltd	43,920.70		To be heard on 17/12/02
SCTC062130/02	Casey International Limited	Rainbow Cosmetic Co Ltd	8,880.00		Order granted on 18/11/02
SCTC062131/02	Ingrid Millet Limited	Rainbow Cosmetic Co Ltd	32,215.60		Order granted on 18/11/02
SCTC062132/02	Shimmer New York Ltd	Rainbow Cosmetic Co Ltd	3,005.90		Order granted on 18/11/02
SCTC069198/02	World Hair Cosmetics Co Ltd	Rainbow Cosmetic Co Ltd	11,025.92		Order granted on 12/12/02
SCTC074687/02	The Incorporated Owners of Sze Hing Loong Industrial Building	Rainbow Cosmetic Co Ltd	18,289.37		Order granted on 11/12/02
SCTC069063/02	創基商標印刷公司	Rainbow Cosmetic Co Ltd	18,280.00		Order granted on 12/12/02
SCTC074929/02	Kao (Hong Kong) Ltd	Rainbow Cosmetic Co Ltd	28,285.10		To be heard on 17/12/02
SCTC074763/02	MHM Marketing Co. Ltd.	Rainbow Cosmetic Co. Ltd.	22,825.00		To be heard on 2/1/03
SCTC075219/02	Pui Lai International (H.K.) Ltd.	Rainbow Cosmetic (Central) Co. Ltd.	28,069.13		To be heard on 6/1/03

## LETTER FROM THE BOARD

Action No.	Plaintiff	Defendant	Amount HK\$	Note	Updated Position
SCTC075220/02	Pui Lai International (H.K.) Ltd.	Jet Legend Ltd.	7,789.70		To be heard on 6/1/03
SCTC075221/02	Pui Lai International (H.K.) Ltd	Rainbow Cosmetic Co. Ltd.	49,887.00		To be heard on 6/1/03
SCTC075222/02	Cheong Hing Store Ltd.	Rainbow Cosmetic Co. Ltd.	15,568.98		To be heard on 6/1/03
LBTC5711/2002	Wong Lai Yi Kathy	Rainbow Cosmetic Co. Ltd	50,550.99		Order granted on 12/10/02
LBTC9096/2002 c/w LBTC9108/2002	Kwok Pui Chun, Wu Chui Fan	Rainbow Cosmetic Co. Ltd	41,265.29, 171,434.77		Order granted on 18/10/02
LBTC9302/2002	Chan Chiu Hang	Rainbow Cosmetic (Central) Co Ltd	23,128.68		Order granted on 25/10/02
LBTC9308/2002	Chui Siu Yin	Jet Legend Ltd	35,428.30		Order granted on 24/10/02
LBTC9341/2002	Wu Chui Yee & 13 Others	Rainbow Cosmetic Co Ltd	651,764.68		Order granted on 25/10/02
Total			<u>6,358,560.65</u>		

*Note:*

- (1) The amount involved arrived after taking into account the aggregate of the outstanding rental, rates and management fee for the period from 1st April, 2002 to 25th July, 2002 in the sum of HK\$1,123,953.29 less rental deposit of HK\$897,192 (the "First Claim Sum"), the outstanding rental, rates and management fee for the period from 26th July, 2002 to 12th September, 2002 in the sum of HK\$467,972.13 (the "Second Claim Sum") and interest on the Second Claim Sum in the sum of HK\$7,998.50.
- (2) The claim has been fully settled by payment representing 70% of the sum claimed and there will be no further claim in respect hereof by the plaintiff.

Two writs have been granted with judgment and the hearing dates of the other six writs have not yet been fixed. Out of the thirty one Claims, judgments for twenty one Claims were given against the respective defendants including Rainbow Cosmetic Co. Ltd. and Jet Legend Ltd. which are all the subsidiaries of the Company. One claim against Rainbow International Holdings Ltd was settled at 70% of the amount claimed and another claim against Nutriplus (Cosmetics) International Ltd was

---

## LETTER FROM THE BOARD

---

settled in full. Given that these subsidiaries of the Company have ceased business operations and would be unable to settle the outstanding liabilities, the Company will negotiate with its respective creditors for restructuring and/or capitalisation of the debts, failing of which may, however, lead to the liquidation and/or disposal to Ms. Li of the relevant Insolvent Subsidiaries.

Save as disclosed above, none of the members of the Company and its subsidiaries is a party to any litigation or arbitration and there is no litigation or claim known to the Directors to be pending or threatened against any member of the Group.

The Group will commence to negotiate with the plaintiffs of the Writs and Claims (the "Plaintiffs") on the debt restructuring immediately after the EGM. In the event that the Group is unable to agree with the Plaintiffs on any debt restructuring proposals, the Directors will review the situation to determine what appropriate action should be taken and make further announcement(s) when appropriate. Such actions may include the liquidation of the relevant Insolvent Subsidiaries and/or disposal of them to Ms. Li at a nominal consideration given that the relevant debts are non-recourse debts except for the bank loans and overdraft amounting to approximately HK\$8.35 million in aggregate which are guaranteed by the Company. **However, there is no assurance that the liquidation and/or disposal of the relevant Insolvent Subsidiaries would proceed as expected. In the event that the liquidation and/or disposal of the relevant Insolvent Subsidiaries is not proceed as expected, the financial position of the Group would be further adversely affected and the Group would remain in financial difficulties.**

### BUSINESS REVIEW

#### Closure of Retail Outlets

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

The Company has noted from TARGET Intelligence Report of 2nd October, 2002 that, amongst others, Harmony Century Hong Kong Ltd is alleged to be owned by Ms. Li instead of the Company. The Directors consider that such allegation is totally unfounded. It is confirmed that Harmony Century Hong Kong Ltd is a wholly owned subsidiary of the Group which was acquired as a shelf company by the Group on 5th June, 2002 and the transfer of the relevant shares was completed on 13th July, 2002. There is no secret arrangements between Harmony Century Hong Kong Ltd and Rainbow Cosmetic. In fact, Rainbow Cosmetic has suspended its operations since 31st July, 2002 at the shop in Causeway Bay (10 Kai Chiu Road). The shop in Causeway Bay was operated by Harmony Century Hong Kong Ltd since 1st August, 2002, which was disclosed in the third quarterly report of the Group dated 10th September, 2002 until 10th November, 2002.

---

## LETTER FROM THE BOARD

---

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

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

---

## LETTER FROM THE BOARD

---

### Existing and new outlets

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

The Group, through its wholly-owned subsidiary, Nutriplus (Asia) Ltd. has established a direct sales center for a monthly rental of HK\$37,600 with a floor area 4,000 sq. ft. in Cigna Tower, Causeway Bay and commenced business on 1st September, 2002 and also another center in Wu Sang House, Mongkok with a floor area of 800 sq. ft. which was set up on 11th November, 2002 inside its beauty centre by employing two full time staffs and 15 part-time staffs in total for its operation. The rent for the sales centers was paid up to November 2002. The Directors anticipate that the direct sales centers will contribute higher profit margin to the Group due to the lower operating costs of the direct sales centers in comparison with the retail outlets.

The beauty services business of the Group are operated by Nutriplus Cosmetic International Limited, a wholly owned subsidiary of the Group. The existing beauty center is located in Wellabe Commercial Building, Hennessy Road, Causeway Bay which has 8 beauticians with a monthly rental of HK\$25,918 which was paid up to November 2002. The Group has opened a new beauty center in Wu Sang House, Mong Kok which has 15 beauticians on 11th November, 2002 with a monthly rental of approximately HK\$49,680 including the management fee and air-conditioning (with four months rent free period starting from 2nd September, 2002) to replace the beauty center in Sai Yeung Choi Street, Mong Kok which was closed on 31st July, 2002. The new beauty center in Mong Kok, with around twenty VIP rooms, will provide body slimming, sympathetic drainage, body massage and bust treatment as well as other beauty care services. The total decoration cost involved in the new beauty centre was approximately HK\$670,000 and the Group has settled HK\$519,000 as part payment as of the Latest Practicable Date.

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

The Group has two warehouses located at Portion 1, Unit C, 2/F, Wah Ha Factory Building, 8 Shipyards Lane, Quarry Bay and Roof A2, Kam Mow Industrial Building, 44 Relcher's Street, Hong Kong respectively for a monthly rent of HK\$8,000 per month and HK\$2,000 per month respectively with a combined total floor area of 10,000 sq. ft. The main function of these two warehouses is to store stocks to support the Group's current day to day business operation. The rent was paid up to November 2002 as of the Latest Practicable Date.

## LETTER FROM THE BOARD

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

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

	Operated by	Name	Nature	Location	No. of Employees
1.	Nutriplus (Asia) Ltd.	Causeway Bay retail direct sales centre	Retail direct sales	23/F, Cigna Tower, 482 Jaffe Road, Causeway Bay, Hong Kong	5 (full time) 8 (part time)
2.	Nutriplus (Asia) Ltd.	Mongkok retail direct sales centre	Retail direct sales	25/F, Wu Sang House, 655 Nathan Road, Kowloon	4 (full time) 6 (part time)
3.	Nutriplus Cosmetics International Ltd.	Causeway Bay beauty services center	Beauty services	13/F, Wellable Comm. Bldg, 513 Hennessy Road, Causeway Bay, Hong Kong	8 (full time)
4.	Nutriplus Cosmetics International Ltd.	Mongkok beauty services center	Beauty services	25/F, Wu Sang House, 655 Nathan Road, Kowloon	15 (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	14 (full time)
6.	Rainbow International Holdings Ltd.	N/A	Supporting office	23/F, Cigna Tower, 482 Jaffe Road, Causeway Bay, Hong Kong	12 (full time)
7.	Nutriplus (Asia) Ltd.	Western District warehouse	Back up office	Roof A2, Kam Mow Industrial Building, 44 Relcher's Street, Hong Kong	1 (full time)
8.	Nutriplus (Asia) Ltd.	Quarry Bay warehouse	Back up office	Portion 1, Unit C, 2/F, Wah Ha Factory Building, 8 Shipyard Lane, Quarry Bay	—
9.	Metrocity International Corporation	N/A	Holdings of agency right	P.O. Box 3152, Road Town, Tortola, British Virgin Islands	—
	Total no. of employees as at 1/11/2002				73 employees

## LETTER FROM THE BOARD

The Directors have confirmed that, save as disclosed herein, there is no intention to close any of the existing business of the Company and the Group intends to develop its business in the PRC in the coming future.

Set out below are the turnover and the operating loss of the Group based on the **UNAUDITED MANAGEMENT ACCOUNTS** for the two periods from 1st August, 2002 to 31st October, 2002 and 1st November, 2001 to 31st October, 2002.

	<b>Three months Ended 31/10/2002 <i>HK\$'000</i></b>	<b>Twelve months Ended 31/10/2002 <i>HK\$'000</i></b>
Turnover ( <i>Note A</i> )	4,380	50,377
Cost of Sales	<u>(2,596)</u>	<u>(43,878)</u>
Gross Profit	1,784	6,499
Other Revenue	<u>180</u>	<u>639</u>
Total Income	1,964	7,138
Operating Expenses		
Selling and Distribution Costs	(2,145)	(35,283)
Administrative Expenses	(4,023)	(14,843)
Finance Costs	<u>(343)</u>	<u>(2,388)</u>
Operating Loss	(4,547)	(45,376)
Exceptional Items ( <i>Note B</i> )	<u>(998)</u>	<u>(4,569)</u>
Loss Before Taxation	(5,545)	(49,945)
Taxation	<u>N/A</u>	<u>N/A</u>
Loss Attributable to Shareholders	<u><u>(5,545)</u></u>	<u><u>(49,945)</u></u>



# LETTER FROM THE BOARD

Note A:

**Turnover for the year  
ended 31st October, 2002**

	<b>Macau</b> <i>HK\$'000</i>	<b>Hong Kong</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Retail outlet sales	1,485	43,271	44,756
Retail direct sales	N/A	65	65
Beauty services	290	5,266	5,556
	<u>1,775</u>	<u>48,602</u>	<u>50,377</u>

**Turnover for the three months  
ended 31st October, 2002**

	<b>Macau</b> <i>HK\$'000</i>	<b>Hong Kong</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Retail outlet sales	682	2,206	2,888
Retail direct sales	N/A	65	65
Beauty services	290	1,137	1,427
	<u>972</u>	<u>3,408</u>	<u>4,380</u>

Note B:

**Exceptional Items**

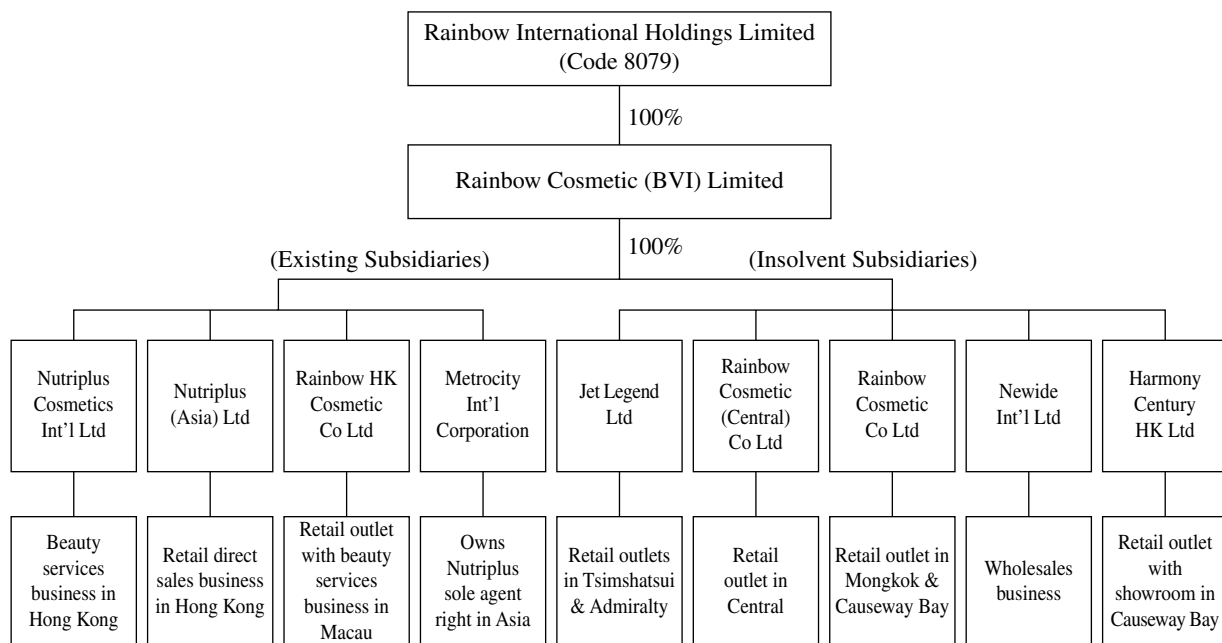
	<b>Three months Ended 31/10/2002</b> <i>HK\$'000</i>	<b>Twelve months Ended 31/10/2002</b> <i>HK\$'000</i>
Provision for trust fund	142	209
Staff severance payment	1,977	2,068
Assets written off on closure of retail outlets	1,668	5,082
Liabilities written back items*	<u>(2,789)</u>	<u>(2,789)</u>
	<u>998</u>	<u>4,569</u>

\* Such written back items were re-classification of entries

# LETTER FROM THE BOARD

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

The organization chart of the Group is set out below for reference.



*Notes:*

1. All the subsidiaries are wholly-owned by the Company.
2. The five insolvent subsidiaries namely (a) Rainbow Cosmetic Co Ltd, (b) Rainbow Cosmetic (Central) Co Ltd, (c) Newwide International Ltd and (d) Jet Legend Ltd have ceased operations since 1st August, 2002 and (e) Harmony Century HK Ltd since 31st October, 2002 respectively.
3. Since 1st November, 2002, the Company is principally engaged in the retail direct sales of branded beauty products and also in the provision of beauty services in Hong Kong and Macau which are operating by four wholly-owned subsidiaries, namely (a) Nutriplus (Asia) Ltd (retail direct sales business in Hong Kong), (b) Nutriplus Cosmetics Int'l Ltd (beauty services business in Hong Kong), (c) Rainbow HK Cosmetic Co Ltd (retail outlet sales and beauty services business in Macau) and (d) Metrocity International Corporation (the sole exclusive agent of Nutriplus products in Asia).

---

## LETTER FROM THE BOARD

---

### 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 compared to the business objectives as stated in the prospectus of the Company dated 28th September, 2001. The following table sets out a comparison of the business objective of the Group stated in the Prospectus with the actual progress of the Group as at the Latest Practicable Date:

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

**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.

**Actual Progress of the Group as at the Latest Practicable Date**

On 25th May, 2002, the Group opened a retail outlet by employing 14 new staffs in Macau which engages in the cosmetics and skin care products retails business. The turnover of Macau branch was HK\$1.78 million from May to October, 2002. As at the Latest Practicable Date the Group closed all its eight retail outlets with relative high rental in Hong Kong as a result of current sluggish local economy and preserves the resources of the Group for future development. As at the Latest Practicable Date, the Group is still operating two beauty services centers in Hong Kong (Causeway Bay and Mongkok), two direct sales centers in Hong Kong (Causeway Bay and Mongkok) and one retail outlet with beauty services in Macau.

### **To focus on the provision of comprehensive beauty services**

Recognizing the increasing demand for comprehensive beauty services, the Directors will continue to set up specialized beauty centers in Hong Kong under the trade name of Nutriplus and provide comprehensive beauty services, such as facial and body treatment and hair-care treatment, to women as well as men. The Directors devote to invest in additional and advanced beauty-care equipment and technology for the beauty services provided by the Group. The additional equipment expected to be acquired for the beauty-care service may include Isogei for skin treatment (專業修身美體機), Bio R-2000 for treating muscle and face lines (智能數碼美療儀器), Cellu M6 for body toning (纖體健膚儀器), Aesthi Peel 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).

### **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.

Due to the high rental cost in prime ground locations in Hong Kong, the Group has closed a retail outlet in Mong Kok on 31st July, 2002 and has moved the beauty center to 25th Floor, Wu Sang House, 655 Nathan Road, Kowloon which has relative lower rental and has commenced its operation on 11th November, 2002.

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

Since 10th April, 2002, the Group has been in negotiation with an operator which has approximately 300 supermarket stores in Beijing to set up a joint company to provide beauty service in the PRC. However, the financial position of the Group will be the key to the success for the negotiation. As at the Latest Practicable Date, no agreement has been made and negotiation was put on hold pending the result of the Rights Issue. The Group will seek additional finance resources if the joint venture were to proceed in future.

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

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

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

From 4th July, 2002 to 11th July, 2002, the Group had invited on complimentary basis, a professional beauty advisor from Helvance, a famous skin care company in Switzerland, to deliver a series of in-house training to the staff of the Group in Hong Kong and Macau to improve the standard of services and knowledge of the Group in the beauty services industry. The Group had employed a total of 19 beauticians and staff for its outlets as at the date of listing. The Group had recruited six additional beauticians in Macau in April and May 2002 and eight additional beauticians in Hong Kong of which two were recruited in April and May 2002 while six were recruited in July and August 2002 and their salaries are all paid up-to-date of this circular. After the recent restructuring of the Group's operation, there are currently a total of 29 beauticians and staff being employed by the Group for its beauty outlets in Hong Kong and Macau.

The Group have decorated the retail outlet in Macau and the beauty centre in Wu Sang House, Mongkok which was opened on 11th November, 2002. The total decoration costs of the Macau outlet was HK\$660,000 which was fully paid and that of the Mongkok outlet was approximately HK\$670,000 of which HK\$519,000 was paid.

### **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 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.

To maintain the competitiveness of the Group and the market share of the Group's products, the Group has regularly advertising the products of Nutriplus in magazines published in Hong Kong every month. The Group is the sole exclusive distributor for the products of Nutriplus in Asia. The Group advertised Nutriplus monthly in the magazines published in Hong Kong and the outstanding charge for advertisement is approximately HK\$145,000 as at 31st October, 2002.

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

---

## LETTER FROM THE BOARD

---

### USE OF PROCEEDS FROM THE LISTING OF THE COMPANY

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

	<b>Proposed</b> <i>HK\$'000</i>	<b>Actual</b> <i>HK\$'000</i>
To set up an additional Rainbow Cosmetic retail outlet in Hong Kong and one in Macau by way of leasing shop premises	4,500	1,700
To conduct advertising and marketing programs and other corporate image enhancement programs	3,500	450
To purchase additional equipment for beauty services	2,000	229
To set up a new Nutriplus beauty center in Hong Kong	1,500	Nil
To implement and enhance the management information system of the Group	750	Nil
To repay certain bank loans of the Group	<u>8,000</u>	<u>15,006</u>
	20,250	17,385
Working capital	2,000	2,912
Fixed deposit placed in a bank in Macau for secured bank facilities	<u>Nil</u>	<u>2,000</u>
	<u>22,250</u>	<u>22,297</u>

**The proceeds from the public offer of the Company in September, 2001 have been fully utilized in the operation of the Group in July 2002 which was not in line with the disclosure made in the IPO Prospectus and there is no outstanding proceeds from the initial public offer left as at the Latest Practicable Date.** The principal divergence of the actual application of the proceeds from the description in the IPO Prospectus was the repayment of further HK\$7 million bank loan, which exist as at the listing of the Company, and deposit placed in Macau for bank loans. The additional repayment of bank loans made during the period between April, 2002 and July, 2002 in excess of the scheduled repayment as disclosed in the IPO Prospectus was due to the continued adverse economy in the previous year which triggered demands from banks. The deposit made in Macau in May, 2002 was to facilitate the operation of the Macau operation.

---

## LETTER FROM THE BOARD

---

### PROPOSED RIGHTS ISSUE

#### Issue Statistics

Basis of the Rights Issue:	One Rights Share for every Share held on the Record Date
Number of existing Shares in issue:	350,000,000 Shares as at the Latest Practicable Date
Outstanding share options:	Prior to the initial listing of the Shares on the GEM, the Company granted the Options to the Directors, ICN and the employees of the Group which entitling the holders thereof to subscribe up to 35,000,000 Shares of which 3,500,000 Options have been granted to ICN with its validity being currently under dispute, 15,137,500 Options have lapsed and the remaining balance of 16,362,500 Options (the holders of which have given irrevocable undertakings not to exercise the Options within 10 years from their respective date of grant) have been regarded as unexercisable as at the Latest Practicable Date
Number of Rights Shares:	Not less than 350,000,000 Rights Shares and not more than 353,500,000 Rights Shares
Subscription Price:	HK\$0.06 per Rights Share
Underwriting of Rights Shares:	Up to 215,500,000 Rights Shares (excluded 138,000,000 Rights Shares undertaken to be subscribed by Ms. Li) are fully underwritten by the Underwriters severally
Underwriters:	Kingston, Great China Brokerage Limited, Luen Fat Securities Company Limited, Ever-Long Securities Company Limited and Emperor Securities Limited  Ever-Long Securities Company Limited is a wholly owned subsidiary of Styland, which is also a substantial shareholder of the Company. Other than Ever-Long Securities Company Limited, the Underwriters are independent third parties not connected with the Company, directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates (as defined in the GEM Listing Rules)



---

## LETTER FROM THE BOARD

---

The Rights Issue is fully underwritten by the Underwriters other than the 138,000,000 Rights Shares undertaken to be subscribed by Ms. Li who is beneficially interested in an aggregate of 182,133,840 at the date hereof. The underwriting obligation of each of the Underwriters under the Rights Issue as follows:

	<b>Rights Shares</b>
Kingston	100,000,000
Great China Brokerage Limited	11,600,000
Luen Fat Securities Company Limited	16,600,000
Ever-Long Securities Company Limited	82,300,000
Emperor Securities Limited	<u>5,000,000</u>
Total	<u><u>215,500,000</u></u>

### Qualifying Shareholders

The Company will send provisional allotment letters and forms of application for excess Rights Shares to Qualifying Shareholders only.

A Qualifying Shareholder must:

1. be registered as a member of the Company on the Record Date; and
2. have an address in Hong Kong which appears on the register of members of the Company on the Record Date.

In order to be registered as members of the Company on the Record Date, Shareholders must lodge any transfers of Shares (together with the relevant share certificates) with the Company's branch share registrar in Hong Kong by 4:00 p.m. on 30th December, 2002. Holders of outstanding Options who wish to participate in the Rights Issue should exercise the subscription rights by 4:00 p.m. on 30th December, 2002.

The branch share registrar of the Company in Hong Kong is:

Standard Registrars Limited  
5th Floor, Wing On Centre,  
111 Connaught Road,  
Central, Hong Kong

The register of members of the Company will be closed from 31st December, 2002 to 3rd January, 2003, both dates inclusive. No transfers of Shares will be registered during this period.

---

## LETTER FROM THE BOARD

---

### Basis of the Rights Issue

The Company will provisionally allot one Rights Share, in nil-paid form, for every one Share held by Qualifying Shareholders on Record Date payable in full on acceptance. Based on the 350,000,000 Shares in issue and not more than 3,500,000 Options that may be exercised on or before the Record Date as at the date hereof, not less than 350,000,000 Rights Shares and not more than 353,500,000 Rights Shares will be issued under the Rights Issue.

### Subscription Price

HK\$0.06 per Rights Share, payable in full upon acceptance.

The Subscription Price represents:

1. a discount of about 92.21% to the closing price of approximately HK\$0.77 per Share as quoted on the Stock Exchange on 6th August, 2002, being the last trading day pending the release of the announcement of the Company in relation to the Rights Issue;
2. a discount of about 92.21% to the average closing price of approximately HK\$0.77 per Share for the 10 trading days up to and including 6th August, 2002 being the last trading day pending the release of the announcement of the Company in relation to the Rights Issue; and
3. a discount of about 85.54% to the theoretical ex-rights price of approximately HK\$0.415 per Share based on the closing price as quoted on the Stock Exchange on 6th August, 2002.
4. a discount of about 91.43% to the closing price of approximately HK\$0.70 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
5. a discount of about 91.32% to the average closing price of approximately HK\$0.691 per Share for the 10 trading days up to and including the Latest Practicable Date.

The Subscription Price was agreed after arm's length negotiation with reference to current market condition among the Company, Ms. Li and the Underwriters. In view of the current sluggish economic environment and uncertain market condition in Hong Kong and the substantial discounts for the subscription prices of recent rights issue of other listed issuers, the Directors consider that the subscription price of the Rights Issue is fair and reasonable.

### Warning of the risks in trading of Shares

**Existing Shares will be dealt with on an ex-rights basis from 27th December, 2002. Rights Shares will be dealt with in their nil-paid form from 7th January, 2003 to 16th January, 2003 (both dates inclusive). If Kingston, on behalf of the Underwriters, terminates the Underwriting Agreement (see section headed "Termination of the Underwriting Agreement" below) or the conditions of the Rights Issue (see section headed "Conditions of the Rights Issue" below) are not fulfilled, the Rights Issue will not proceed.**

---

## LETTER FROM THE BOARD

---

**Any dealing in Shares or Rights Shares in their nil-paid form by the Shareholders after ex-rights of the Shares from 27th December, 2002 to the date on which all conditions are expected to be fulfilled is accordingly at their own risk.**

**If in any doubt, investors should consider obtaining professional advice on this.**

### **Status of the Rights Shares**

The Rights Shares (when allotted, issued and fully paid) will rank pari passu in all respects with the existing Shares then in issue. Holders of the Rights Shares (when allotted, issued and fully paid) will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment and issue of the Rights Shares in their fully-paid form. Nil-paid Rights Shares are expected to be traded in board lots of 4,000 shares. Dealings in the nil-paid and fully-paid Rights Shares will be subject to payment of stamp duty in Hong Kong.

### **Certificates of the Rights Shares**

Subject to the fulfilment of the conditions of the Rights Issue, certificates for all fully-paid Rights Shares are expected to be posted on 27th January, 2003 to those Qualifying Shareholders who accepted the provisional allotment of the Rights Shares or applied for the excess of the Rights Shares and paid for the Rights Shares. Dealings of the fully-paid Rights Shares are expected to be commenced on or about 29th January, 2003.

### **Rights of Overseas Shareholders**

The Prospectus Documents will not be registered under the applicable securities legislation of any jurisdiction other than Hong Kong. As the Directors are of the view that the offer of the Rights Shares to the Overseas Shareholders may be unlawful or impracticable, no provisional allotment of Rights Shares will be made to Overseas Shareholders. The Company will send a Rights Issue prospectus to Overseas Shareholders and the holders of the Options for their information only. The Company will not send provisional allotment letters or forms of application for excess Rights Shares to Overseas Shareholders.

If a premium (net of expenses) can be obtained, the Company will sell the Rights Shares which would otherwise have been provisionally allotted to the Overseas Shareholder once dealings in the nil-paid Rights Shares start. The proceeds of each sale, less expenses, which amount to HK\$100 or more will be paid by cheque to the relevant Overseas Shareholder in Hong Kong dollars as soon as practicable. The Company will retain individual amount of less than HK\$100 for its own benefit.

### **Fractional entitlements**

Any fractional entitlements to the nil-paid Rights Shares will not be allotted and issued to the Shareholders but will be aggregated and sold and retained for the benefit of the Company. There is no arrangement for the trading of the odd lots of the Rights Shares in nil-paid or fully-paid.

---

## LETTER FROM THE BOARD

---

### **Application for excess Rights Shares**

Qualifying Shareholders may apply (using forms for application of excess Rights Shares) for any unsold entitlement for the Overseas Shareholders, any unsold Rights Shares created by adding together fractions of Rights Shares and any Rights Shares provisionally allotted but not accepted.

The Company will allocate excess Rights Shares at their sole discretion, on a fair and equitable basis.

### **Application for listing and dealings**

It has been stated in the announcement of the third quarterly report of the Company dated 10th September, 2002 that application of the Rights Issue has been made to the Stock Exchange for review and clearance. The Company would like to clarify that the quarterly report referred to the application for review and clearance of the relevant announcement only but not the listing of, and permission to deal in, the Rights Shares. Since no application has been made before, the Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms and the Bonus Shares.

No part of the share capital of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the shares to be listed or dealt in on any other stock exchange.

Subject to the granting of listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Provisional allotments of the Rights Shares made to Qualifying Shareholders will be transferable and the existing Shares will be dealt with on an ex-rights basis with effect from 27th December, 2002, and that the Rights Shares will be dealt with in their nil-paid form from 7th January, 2003 to 16th January, 2003 (both dates inclusive). Such dealings will take place whilst the conditions to which the Rights Issue is subject remain unfulfilled. Any persons dealing in the Shares from 27th December, 2002 to the date on which all conditions to which the Rights Issue is subject are fulfilled (which is expected to be at 4:00 p.m. on 23rd January, 2003) and any person dealings in nil-paid Rights Shares from 7th January, 2003 to 16th January, 2003 (being the first and last dates of dealings in the nil-paid Rights Shares, respectively), will accordingly bear the risk that the Rights Issue may not become unconditional. Any dealings or contemplating dealings in the Shares and/or the Rights Shares in their nil-paid form during such periods who is in any doubt about his position is advised to consult his own professional adviser.

---

## LETTER FROM THE BOARD

---

Dealing in the Rights Shares (in both nil-paid and fully-paid forms) will be in board lots of 4,000 shares and be subject to the payment of stamp duty in Hong Kong.

### **UNDERWRITING AGREEMENT DATED 24TH SEPTEMBER, 2002 AND SUPPLEMENTAL AGREEMENT DATED 27TH NOVEMBER, 2002**

Underwriters:	Kingston, Great China Brokerage Limited, Luen Fat Securities Company Limited, Ever-Long Securities Company Limited and Emperor Securities Limited
Number of Rights Shares underwritten:	Up to 215,500,000 Rights Shares (Note) that are fully underwritten by the Underwriters severally.
Commission:	2.5% of the total issue price of the Rights Shares underwritten by the Underwriters.

*Note:* Excluding the 138,000,000 Rights Shares undertaken to be accepted or procure acceptance by Ms. Li pursuant to her undertaking to the Company and the Underwriters.

### **Underwriters' interest in the Company**

Ever-Long Securities Company Limited, a wholly owned subsidiary of Styland which is also a substantial shareholder of the Company, underwrites 82.3 million Rights Shares under the Underwriting Agreement. Accordingly, Styland and its associates including E-Teck Business Limited and Inworld System (HK) Limited have agreed to abstain from voting on the resolution to approve the Rights Issue at the EGM. Other than Ever-Long Securities Company Limited, the Underwriters are independent third parties not connected with the Company, directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates (as defined in the GEM Listing Rules).

Ever-Long Capital Limited, a fellow subsidiary of Ever-Long Securities Company Limited has three loan agreements ("Ever-Long Advance") of HK\$2 million, HK\$1 million and HK\$2 million to the Company on 9th August, 2002, 20th August, 2002 and 2nd October, 2002 respectively. The Ever-Long Advance is repayable within three months from the date of advance and bearing interest at a rate of 5% per annum over prime rate of Hong Kong. As at 31st October, 2002, total drawings of HK\$3.5 million have been made by the Company. The outstanding balance including interest as at 31st October, 2002 is approximately HK\$3.57 million which the Company intends to repay with the Rights Issue proceeds.

The Directors including the independent Directors consider that the Ever-Long Advance is on normal commercial terms and no security over the assets of the Company is granted to Ever-Long Capital Limited, and it is therefore exempted from the connected transaction disclosure requirements pursuant to Rule 20.52 (2) of the GEM Listing Rules.

---

## LETTER FROM THE BOARD

---

### Undertaking of Ms. Li

The Rights Issue is fully underwritten by the Underwriters other than the Rights Shares undertaken to be subscribed by Ms. Li. As at the date hereof, Ms. Li is beneficially interested in an aggregate of 182,133,840 Shares, representing approximately 52.04% of the existing issued share capital of the Company. Ms. Li has given an irrevocable undertaking in favour of the Company and the Underwriters to accept or procure acceptance her entitlements to 138,000,000 Rights Shares, representing approximately 75.77% of the total Rights Shares which will be provisionally allotted to her pursuant to the Rights Issue and 19.71% of the enlarged issued share capital of the Company immediately after issue of 350,000,000 Rights Shares pursuant to the Rights Issue assuming no option is exercised on or before the Record Date. In the event that Ms. Li fully takes up her entitlement of 138,000,000 Rights Shares under the Rights Issue, the shareholding of Ms. Li in the Company will be approximately 45.73% of the enlarged issued share capital of the Company after the Rights Issue assuming no option is exercised on or before the Record Date. As at the Latest Practicable Date, none of the significant shareholders or substantial shareholders of the Company, except Ms. Li, has indicated their intention to fully or partly accept the Rights Issue.

The following table summarizes the shareholding structure of the Company before and after the Rights Issue, assuming full exercise of the outstanding Options before the Record Date and 353,500,000 Rights Shares have been fully subscribed for, save and except for Ms. Li who will subscribe for 138,000,000 Rights Shares as undertaken, under the Rights Issue:

	Before the Rights Issue	After the Rights Issue
Ms. Li	52.04%	45.28%
E-Teck Business Limited ( <i>note 1</i> )	12.24%	12.12%
Inworld System (HK) Limited ( <i>note 2</i> )	7.04%	6.97%
Mr. Lai Tin Ying, Michael ( <i>note 3</i> )	0.62%	0.62%
Mr. Chiu Wai ( <i>note 4</i> )	0.10%	0.10%
Public	27.96%	34.91%
Total	100.0%	100.0%

*Notes:*

1. 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.
2. Inworld System (HK) Limited is beneficially owned by Inworld International Limited, which is a wholly-owned subsidiary of Inworld Group Limited. Styland is interested in 32.5% of the issued share capital of Inworld Group Limited.
3. Mr. Lai Tin Ying, Michael is a non-executive Director.
4. Mr. Chiu Wai is an independent non-executive Director.

---

## LETTER FROM THE BOARD

---

Other than Ms. Li, no other Directors, significant shareholders or substantial shareholders of the Company has indicated whether they will take up any of their entitlement of Rights Shares under the Rights Issue. Ever-Long undertakes that it will sub-underwrite all its underwriting obligation under the Rights Issue to independent parties, who are not connected with any directors, substantial shareholders, significant shareholders or chief executives of the Company, Ever-Long and Styland. If only E-Teck Business Limited and Inworld System (HK) Limited subscribe for the Rights Shares in proportion with their respective shareholdings and Ever-Long is required to take up its underwriting obligation under the Underwriting Agreement, the aggregate shareholding of Styland, Ever-Long, E-Teck Business Limited and Inworld System (HK) Limited, in the Company will increase from approximately 19.28% to 27.07%. The shareholding in the public will decrease from 27.96% to 26.79% after the Rights Issue. In such case, Styland will not be required to make mandatory offer to all the securities of the Company in accordance with Rule 26 of Code on Takeovers and Mergers. None of Styland, Hantec and any of the Underwriters are acting together in respect of the Rights Issue save and except in performing their respective obligations under the Underwriting Agreement of the Rights Issue. The Directors consider that there will not be a change in control of the Company as a result of the Rights Issue.

Save as disclosed above, the Directors confirm that no other directors, substantial shareholders or significant shareholders of the Company or any of their associates (as defined in the GEM Listing Rules) have any equity interest in the Company. The Directors believe that the Company currently has sufficient public float and expect that there will be not less than 25% of the Shares in the hands of the public after the Rights Issue as required under Rule 11.23 of the GEM Listing Rules.

### **Termination of the Underwriting Agreement**

**It should be noted that the Underwriting Agreement contains provisions granting the Underwriters the right to terminate the underwriting arrangement as set out in the Underwriting Agreement, which may be exercised by giving a written notice to the Company at any time prior to 4:00 p.m. on the second business day immediately after the last day for acceptance of the Rights Issue if:**

- (i) the occurrence of the following events would, in the absolute opinion of Kingston (for itself and on behalf of the other Underwriters), affect the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or otherwise makes it inexpedient or inadvisable for the Company or the Underwriters to proceed with the Rights Issue:**
  - (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever;**
  - (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of this Agreement) of a political, military, financial, regulatory, economic, currency or other nature (whether or not sui generis with any of the foregoing or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict); or**

---

## LETTER FROM THE BOARD

---

- (c) **the occurrence of any change in market conditions, taxation or exchange control or combination of circumstances in Hong Kong (including without limitation suspension or material restriction on trading in securities); or**
- (ii) **the Underwriters shall receive notification pursuant to the Underwriting Agreement, or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated as provided in the Underwriting Agreement; or**
- (iii) **any change occurs in the circumstances of the Company or any member of the Group which would in the absolute opinion of the Underwriters adversely affect the business, financial or trading position or prospects of the Group as a whole; or**
- (iv) **the Company commits any breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement; or**
- (v) **the occurrence of any event, or series of events, beyond the reasonable control of the Underwriters (including, without limitation, acts of government, strike, lock-outs, fire, explosion, flooding, civil commotion, acts of war, acts of God or interruption or delay in transportation) which, in the absolute opinion of Kingston (for itself and on behalf of the other Underwriters), has or would have the effect of making any part of this Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to Rights Issue or pursuant to the underwriting thereof.**

**Kingston, on behalf of the Underwriters, shall terminate the underwriting arrangement as set out in the Underwriting Agreement and the Rights Issue will not proceed.**

### **Conditions of the Rights Issue**

The Rights Issue is conditional upon, among other things, the following conditions being fulfilled:

1. the approval of the Rights Issue by the Independent Shareholders at the EGM;
2. the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Rights Shares in nil-paid and fully paid forms; and
3. the delivery to the Stock Exchange and registration with the Registrar of Companies in Hong Kong of one copy of the prospectus, the provisional allotment letter and form of application for excess Rights Shares in compliance with the Listing Rules and Hong Kong Companies Ordinance.

Mr. Lai Tin Ying, Michael and Mr. Chiu Wai have verbally agreed to vote for the resolutions of the Rights Issue at the EGM. The aggregate shareholding of them held in the Company represents 2.5% of the balance of the voting rights in the Company after excluding Ms. Li, E-Teck Business Limited and Inworld System (HK) Limited.



---

## LETTER FROM THE BOARD

---

In the event that the conditions as stated in the Underwriting Agreement have not been satisfied and/or waived in whole or in part by Kingston (for itself and on behalf of the other Underwriters), including the resolution to approve the Rights Issue not being granted by the Shareholders at the EGM, on or before the time specified therein or on or before 28 February 2003 whichever is earlier, all liabilities of the parties under the Underwriting Agreement shall cease and determine and no party shall have any claim against the other parties.

**However, Shareholders should note that the Rights Issue may still not be approved by the Independent Shareholders at the EGM.**

### **Use of proceeds and reasons for the Rights Issue**

The estimated net proceeds of the Rights Issue will be about HK\$19 million of which about HK\$4 million of the Rights Issue proceeds will be used to partially set off against shareholder's loan made to the Company by Ms. Li (who may not have sufficient financial resources to subscribe for the Rights Shares if the Company does not repay the loan), about HK\$4 million will be used to repay bank loan (subject to the agreement on the repayment schedule with the banks), about HK\$2.89 million will be used to repay outstanding staff salary, severance payment and mandatory provident funds, and about HK\$3.57 million will be used to repay Ever-Long's Advances and about HK\$4.54 million will be applied as general working capital for the daily operation of the Group including product procurement of HK\$3 million and overhead expenses of HK\$1.54 million.

The total outstanding liabilities of the Group was approximately HK\$52.25 million as at 31st October, 2002 which including HK\$13.39 million bank loan and overdraft, HK\$9.82 million due to Ms. Li (such loan of HK\$9.82 million was made to the Company by way of repayment of bank loans on behalf of the Company as a result of the banks calling on Ms. Li as guarantor to repay the bank loans in the sum of HK\$1.0 million, HK\$3.8 million and HK\$5 million to three banks respectively), HK\$25.48 million overdue outstanding accounts payable (of which approximately HK\$2.89 million relates to outstanding staff commission, severance payment and mandatory provident fund) and HK\$3.57 million advances from Ever-Long Capital Limited. The outstanding debts due from the Group to Ms. Li are call on demand, interest free and are overdue. Other than the outstanding debt due to Ms. Li, the Group has default bank loan and overdraft of about HK\$7.79 million, being part of the outstanding bank loan in the amount of HK\$13.39 million, as at 31st October, 2002. The advances from Ever-Long Capital Limited bear interest at 5% over prime rate and are repayable within three months from date of advance, which the Company intends to repay by the Rights Issue proceeds.

**As stated above, based on the UNAUDITED MANAGEMENT ACCOUNTS as at 31st October, 2002, cash at bank of the Group was HK\$0.36 million. Taking into account the facility granted to the Group by Ever-Long Capital Limited on 2nd October, 2002, of which HK\$1.5 million has not yet been utilised as at the Latest Practicable Date, the Group is still unable to settle all its overdue liabilities. Even if the Rights Issue were to proceed, the proceeds thereof would not be sufficient to settle all the outstanding liabilities of the Group and the Group will still be in a net liabilities position and in financial difficulties. The Directors consider and the on-going sponsor of the Company, MasterLink Securities (Hong Kong) Corporation Limited, concurs with the Directors' view that the Group's existing available funding resources would be able to settle its operating expenses in respect of the Existing Subsidiaries until the Rights Issue becoming unconditional which is expected to be on 23rd January, 2003. However, if the Group's banks and creditors take legal actions against the Group to demand immediate settlement of the overdue liabilities, the Group would not have sufficient working capital to settle all its overdue**

---

## LETTER FROM THE BOARD

---

**liabilities. Upon completion of the Rights Issue, proceeds of approximately HK\$4.54 million will be applied as working capital of the Group. The Directors consider that these additional funds can assist the Group to finance its operating expenses but are still not sufficient to settle all its overdue liabilities.**

Due to the continuing and prolonged poor performance of retail sector in Hong Kong, which fallen outside the expectation of the Directors at the time of the prospectus of the Company dated 28th September, 2001, the proceeds from the placing and the public offer of the Company in October, 2001 of about HK\$22 million has been fully utilized in operation of the Group in July, 2002 and there are no outstanding proceeds from the public offer as at the date hereof (Please refer to the business and financial update of the Group above for details). The Directors consider that the Rights Issue will improve the gearing ratio of the Group and strengthen its financial position with additional capital to finance the operation of the Group which is in the interest of the Company and its Shareholders.

**Shareholders should note that as stated in the business and financial update of the Group above, the Group is currently unable to settle all the outstanding liabilities with the proceeds from the Rights Issue. If the Rights Issue could not proceed, the Group will be required to seek other funding resources to lessen the Group's current financial difficulties and insufficient working capital situation.**

### Expenses

The expenses in connection with the Rights Issue, including documentation fees, underwriting commission, printing, registration, translation, legal and accountancy charges are estimated to amount to approximately HK\$2 million and are payable by the Company.

### ADJUSTMENTS IN RELATION TO THE OUTSTANDING OPTIONS

The Rights Issue may lead to adjustment(s) to the subscription price and/or the number of Shares to be issued upon exercises of the outstanding Options in accordance with the terms of the Pre-IPO Share Options Scheme. Further announcements of the appropriate adjustments, if any, and the dates on which they are to take effective will be made in due course.

### BONUS ISSUE

Subject to completion of the Rights Issue, the Directors propose a Bonus Issue of Shares to the Shareholders on the basis of five Bonus Shares for every two Shares held on 6th February, 2003. Based on 350,000,000 Shares in issue and not more than 3,500,000 Options being exercised and not more than 353,500,000 new Shares being issued under the Rights Issue, 1,767,500,000 Bonus Shares will be issued pursuant to the Bonus Issue. After the full allotment of the Rights Shares, the Shares to be issued upon the full exercise of the outstanding Options and the Bonus Shares, the Company will have 2,474,500,000 Shares in issue.

### Shareholders entitled to the Bonus Shares

To qualify for the Bonus Issue, Shareholders must be registered as member of the Company on 6th February, 2003. Overseas Shareholders will also be entitled to the Bonus Issue.

---

## LETTER FROM THE BOARD

---

### **Closure of register of members**

In order to qualify for the Bonus Issue, all transfer accompanied by relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Standard Registrars Limited on or before 5th February, 2003. The address of Standard Registrars Limited is currently at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong and will be changed to G/F Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong with effect from 13th January, 2003.

The register of members will be closed on 6th February, 2003. No transfer of Shares will be registered during this period.

### **Status of Bonus Shares**

The Bonus Shares will be credited as fully paid by way of capitalisation of part of the Company share premium account and will rank pari passu with existing Shares.

### **Conditions of the Bonus Issue**

The Bonus Issue will be conditional upon:

- (1) the approval of Shareholders for the resolutions in respect of the Bonus Issue and the increase in the authorised share capital of the Company at the EGM;
- (2) the Rights Issue becoming unconditional; and
- (3) the listing of and permission to deal in the Bonus Shares being granted by the Stock Exchange.

### **Application for listing**

Application will be made to the GEM Listing Committee of the Stock Exchange for the listing of and permission to deal in the Bonus Shares.

Subject to the granting of listing of, and permission to deal in, the Bonus Shares on the Stock Exchange, the Bonus Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Bonus Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### **Share certificate**

Certificates in respect of the Bonus Shares are expected to be despatched to eligible Shareholders on or before 10th February, 2003. Dealings in the Bonus Shares are expected to commence on 12th February, 2003.

---

## LETTER FROM THE BOARD

---

### Reasons for the Bonus Issue

The Directors believe that the Bonus Issue, which gives Bonus Shares to the Shareholders, will attract investors to the Company and therefore enhance the liquidity of the Shares in the market and, further, will provide Shareholders with an opportunity for further equity participation in the Company through the receipt of the Bonus Shares without incurring further expenses and brokerage commission.

### PROPOSED CHANGE OF BOARD LOTS

Upon the Bonus Issue becoming unconditional, the Directors propose to change the board lots size from 4,000 Shares to 20,000 Shares.

In order to alleviate the difficulties arising from the existence of odd lots of Shares as a result of the change in board lots of the Shares upon the Bonus Issue taking effect, the Company has agreed to procure Ever-Long Securities Company Limited to stand in the market to provide matching services for the odd lots of Shares on best effort basis during the period from 4th February, 2003 to 4th March, 2003 (both dates inclusive). Shareholders who wish to take advantage of this matching facility either to dispose of their odd lots of Shares or to top up to board lots of 20,000 shares, may contact Mr. Ng Shun Fu of Ever-Long Securities Company Limited at 18th Floor, Dah Sing Life Building, 99-105 Des Voeux Road, Central, Hong Kong and the telephone number of (852) 2815 3522.

### INCREASE IN AUTHORISED SHARE CAPITAL

In order to facilitate the Bonus Issue, an ordinary resolution will be proposed at the EGM to increase the authorised share capital of the Company from HK\$20,000,000 to HK\$40,000,000 by the creation of additional 2,000,000,000 Shares. The Directors have no current intention to issue any part of the additional unissued share capital of the Company to be created except for the purpose of issuing the Rights Shares and the Bonus Shares. The increase in the authorised share capital of the Company is conditional on the approval of the Shareholders at the EGM.

### GENERAL MANDATES

The Directors will also seek the approval of Shareholders for the grant of the General Mandates and the Repurchase Mandate.

The General Mandate is to grant to the Directors an authority to allot and issue Shares of not more than 20% of the issued share capital of the Company immediately after completion of the Rights Issue and the Bonus Issue, or if the Rights Issue and the Bonus Issue is not completed, as of the date of the passing of the resolution granting the General Mandate.

Upon completion of the Rights Issue and the Bonus Issue, the Repurchase Mandate is to grant to the Directors an authority to repurchase securities up to 10% of the issued share capital of the Company immediately after completion of the Rights Issue and the Bonus Issue. If the Rights Issue and the Bonus Issue is not completed, the Repurchase Mandate is to grant to the Directors an authority to repurchase Shares up to 10% of the issued share capital of the Company as at the date of passing of the resolution granting the Repurchase Mandate.

---

## LETTER FROM THE BOARD

---

The Board has no immediate plans to issue any Shares or repurchase any securities pursuant to the General Mandate and the Repurchase Mandate respectively. However, the Board considers both mandates to be in the interests of the Company and the Shareholders as a whole.

Shareholders should refer to the explanatory statement contained in Appendix II to this circular which sets out further information in relation to the Repurchase Mandate.

### **EGM**

There is set out on pages 111 to 115 of this circular a notice convening the EGM to be held on 3rd January, 2003 at 9:30 a.m. at Novotel Century Hong Kong Plaza I-III, Lower Lobby, 238 Jaffe Road, Wanchai, Hong Kong, at which an ordinary resolution will be proposed to consider and, if thought fit, approve (i) the Rights Issue by Independent Shareholders only, (ii) the Increase in Capital, (iii) the Bonus Issue and (iv) the General Mandate and the Repurchase Mandate.

In accordance with the GEM Listing Rules, Ms. Li and her associates (as defined in the GEM Listing Rules) will abstain from voting on the resolution to approve the Rights Issue at the EGM. Other than Ms. Li, the Company does not have any other controlling shareholder (as defined in the GEM Listing Rules). Moreover, Ever-Long Securities Company Limited, one of the Underwriters, is a wholly owned subsidiary of Styland. Accordingly, Styland and its associates (including E-Teck Business Limited and Inworld System (HK) Limited) have agreed to abstain from voting on the resolution to approve the Rights Issue at the EGM.

You will find enclosed a form of proxy for use at the EGM. Whether or not you are able to attend the EGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the office of Standard Registrars Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

### **RECOMMENDATION**

Hantec has been appointed as the financial adviser to the Company for the Rights Issue and the Bonus Issue. First Asia has been appointed as the independent financial adviser to advise the Independent Board Committee with regard to the terms of the Rights Issue. First Asia considers the terms of the Rights Issue fair and reasonable so far as the Independent Shareholders are concerned and is in the interest of the Company and the Shareholders. The text of the letter of the advice from First Asia containing its recommendation and the principal factors it has taken into account in arriving at its recommendation are set out on pages 45 to 55 of this circular.

The Independent Board Committee, having taken into account the advice of First Asia, considers the Rights Issue fair and reasonable and is in the interest of the Company and the Shareholders. Accordingly, the Independent Board Committee recommends that the Independent Shareholders to vote in favour of the ordinary resolution numbered 1 set out in the notice of the EGM to approve the Rights Issue. The full text of the letter from the Independent Board Committee is set out on page 44 of this circular.

---

## LETTER FROM THE BOARD

---

The Directors consider the Increase in Capital, the Bonus Issue and the General Mandate and the Repurchase Mandate are in the best interests of the Company and the Shareholders. Accordingly, the Directors recommend that all Shareholders vote in favour of the ordinary resolutions numbered 2 to 6 set out in the notice of the EGM.

### FURTHER INFORMATION

Subject to the resolution approving the Rights Issue being passed at the EGM, the Directors expected that the Prospectus Documents would be despatched to the Qualifying Shareholders on or about 3rd January, 2003.

Your attention is also drawn to the letter of advice from First Asia, which contains its advice and recommendation in connection with the Rights Issue, the letter from the Independent Board Committee which sets out its recommendation in relation to the Rights Issue and to the additional information set out in the Appendices to this circular.

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



---

## LETTER FROM FIRST ASIA

---

Set out below is the text of the letter of advice from First Asia to the Independent Board Committee in connection with the terms of the Rights Issue prepared for inclusion in this circular.

**第一亞洲**

**FIRST ASIA**

**First Asia Finance Group Limited**

Unit 1502, 15/F., World Wide House  
19 Des Voeux Road Central  
Hong Kong

18th December, 2002

*To the Independent Board Committee of  
Rainbow International Holdings Limited*

Dear Sirs,

### **PROPOSED RIGHTS ISSUE**

#### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee in respect of the terms of the Rights Issue (details of which are set out in the letter from the Board (the “Board Letter”) contained in the circular of the Company dated 18th December, 2002 (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context of this letter otherwise requires.

The Company announced on 27th November, 2002 of the proposal to carry out the Rights Issue which will raise not less than approximately HK\$21 million before expenses by the issue of not less than 350,000,000 Rights Shares and not more than 353,500,000 Rights Shares at a price of HK\$0.06 per Rights Share (the “Announcement”). As the Rights Issue of the issuance of not less than 350,000,000 Rights Shares and not more than 353,500,000 Rights Shares will increase the Company’s issued share capital by more than 50%, under the GEM Listing Rule 10.29, the Rights Issue is subject to the Independent Shareholders’ approval at the EGM.

In accordance to the GEM Listing Rules, Ms. Li and her associates will abstain from voting on the resolutions to approve the Rights Issue at the EGM. Other than Ms. Li, the Company does not have any other controlling shareholder. Moreover, Ever-Long Securities Company Limited, one of the Underwriters, is a wholly owned subsidiary of Styland which is a substantial Shareholder. Accordingly, Styland and its associates (including E-Teck Business Limited and Inworld System (HK) Limited) have agreed to abstain from voting on the resolution to approve the Rights Issue at the EGM.



---

## LETTER FROM FIRST ASIA

---

The Board has appointed the Independent Board Committee to consider whether the terms of the Rights Issue are fair and reasonable so far as the Independent Shareholders are concerned. First Asia has been appointed to advise the Independent Board Committee in this respect.

### **BASIS OF OUR ADVICE**

In formulating our advice, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so at the date hereof. We have sought and received confirmation from the Directors that there are no other facts the omission of which would make any statement made in the Circular misleading.

We consider that the information reviewed by us is sufficient for the purpose of our advice set out in this letter and we have no reason to doubt the truth, accuracy, or completeness of the information provided to us by the Company or the Directors. We have not conducted an independent investigation into the business and affairs of the Group and its associates.

We have not considered the tax consequences on the Independent Shareholders arising from the subscription for, holding or dealing in the Rights Shares or otherwise, since these are particular to their individual circumstances. It is emphasised that we will not accept responsibility for any tax effects on any person resulting from subscription for, holding of or dealing in the Rights Shares or otherwise. Independent Shareholders who are resident overseas or subject to overseas taxes or Hong Kong taxation on securities dealing should consider their own tax positions and, if any doubt, should consult their own professional advisers.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our recommendation in respect of the terms of the Rights Issue, we have taken, inter alia, the following principal factors and reasons into consideration:

#### **1. Background and reasons of the Rights Issue**

##### *Rationale of the Rights Issue*

As stated in the Board Letter, the Company has proposed to raise net proceeds of approximately HK\$19 million by way of the Rights Issue of not less than 350,000,000 Rights Shares and not more than 353,500,000 Rights Shares at a price of HK\$0.06 per Rights Share on the basis of one Rights Share for every Share held on the Record Date. The net proceeds of the Rights Issue will be allocated as to (i) approximately HK\$4 million to partially set off against shareholder's loan made to the Company by Ms. Li (who may not have sufficient financial resources to subscribe for the Rights Shares if the Company does not repay the loan); (ii) approximately HK\$4 million to repay bank loans (subject to the agreement on the repayment schedule with the banks); (iii) approximately HK\$2.89 million

---

## LETTER FROM FIRST ASIA

---

to repay outstanding staff salary, severance payment and mandatory provident funds; (iv) approximately HK\$3.57 million to repay Ever-Long Capital Limited's advances; and (v) approximately HK\$4.54 million to be applied as general working capital for the daily operation of the Group including product procurement of approximately HK\$3 million and overhead expenses of approximately HK\$1.54 million.

As stated in the Board letter, starting from 1st November, 2002, the Group is principally engaged in the direct sales of branded beauty products and provision of beauty services in Hong Kong and Macau.

The Directors consider the present dire financial position of the Group is mainly a resultant effect from the current adverse economic environment in Hong Kong. As such, the Group had initiated business consolidation which included the closure of eight retail outlets in 2002. As at the Latest Practicable Date, the Group is still operating two beauty centres in Hong Kong and two retail direct sales centres and one retail outlet in Macau.

As stated in the latest published third quarterly report of the Company for the three months ended 31st July, 2002 and the nine months ended 31st July, 2002, the Group was affected by bad economic conditions, turnover had dropped substantially and net loss had widened significantly. In addition, based on the unaudited management accounts, as at 31st October, 2002, the Group had total liabilities of approximately HK\$52.25 million comprising of outstanding bank loans of approximately HK\$13.39 million of which approximately HK\$7.79 million was overdue, outstanding accounts payable of approximately HK\$25.47 million all of which were overdue, a loan from Ms. Li of approximately HK\$9.82 million which was called on demand and a short term loan from Ever-Long Advance of approximately HK\$3.57 million. Moreover, as set out in the unaudited management accounts, as at 31st October, 2002, the Group was under liquidity pressure with net current liabilities amounting to approximately HK\$42.60 million and net liabilities of approximately HK\$37.36 million.

In respect of the outstanding bank loans and overdrafts of approximately HK\$13.39 million, the Group has reached agreement with one bank and is still negotiating with another two banks for restructuring of the banking facilities of the Group. The Group has reached agreement with one of the banks on the repayment schedule for outstanding bank loans in the amount of approximately HK\$5.6 million (with interest paid monthly) involving upfront payment of HK\$500,000 and monthly repayment commencing from the completion of the Rights Issue. The Group is still in negotiation with another bank to restructure an overdraft in the amount of approximately HK\$6.62 million of which approximately HK\$3 million is to be settled by the Rights Issue proceeds and the remaining balance of approximately HK\$3.62 million to be settled by instalments. Rainbow HK Cosmetic Co. Ltd., a wholly owned subsidiary of the Company in Macau, had drawn down a commercial loan and bank draft in the aggregate amount of approximately HK\$1.13 million. On 11th October, 2002, the Company has submitted a settlement proposal to the bank to repay an upfront amount of HK\$500,000 from the proceeds of the Rights Issue with the remaining balance to be settled by instalments. On 15th October, 2002, the Company has made the first repayment of HK\$40,000 and the Company received a writ from this bank

---

## LETTER FROM FIRST ASIA

---

on 21st October, 2002 in relation to the sum due by Rainbow HK Cosmetic Co. Ltd. as the maker of a promissory note for the amount of HK\$1,212,851.50 together with interest thereon at the rate of 3% per annum above the Hong Kong Dollar Prime Rate from 25th September, 2002 until full payment.

As to the shareholder's loan amount of approximately HK\$9.82 million due to Ms. Li, it is call on demand, interest free and is overdue and will be partially set off from the proceeds of the Rights Issue. In relation to Ever-Long Capital Limited's advances amounting to approximately HK\$3.57 million, they bear interest at 5% over prime rate and are repayable within three months from date of advance will be repaid from the proceeds of the Rights Issue.

In addition, the Group has received various writs and claims from its banks and various creditors asking for repayment of the overdue liabilities during the last few months. As stated in the Board Letter, the Company will negotiate with the creditors for restructuring and/or capitalisation of the debts, as the claims and writs are against the subsidiaries of the Company in which have ceased business operations and the Group will commence to negotiate with the plaintiffs on the debt restructuring immediately after the Rights Issue EGM. In the event that the liquidation and/or disposal of the relevant insolvent subsidiaries not to proceed as expected, the financial position of the Group would be further adversely affected.

In view of the foregoing, we consider it is prudent for the Company to finance by way of equity to strengthen its capital base to provide the necessary working capital and reduce its bank borrowings as much as possible. Under such dire financial position, we consider the Rights Issue will be able to relieve portion of the Company's pressure from the outstanding bank loans and to finance its operating expenses.

**However, Independent Shareholders should note even if the Rights Issue was to proceed, the proceeds of which would not be sufficient to settle all outstanding liabilities of the Group and the Group will still be in net liabilities position. If the Group's banks and creditors take legal actions against the Group to demand immediate settlement of the overdue liabilities, the Group would not have sufficient working capital to settle all its overdue liabilities. Upon completion of the Rights Issue, the Group will apply the use of approximately HK\$4.54 million as working capital of which the Directors consider that these additional funds can assist the Group to finance its operating expenses but are still not sufficient to settle all its overdue liabilities.**

### *Other financing alternatives*

As advised by the Directors, they have considered alternate means of financing other than a rights issue, including private placement. A placement of shares or warrants would have required an issue of new shares at significant discounts to the market price of the Shares, and at the same time, would result in significant dilution of existing Shareholders' interests. As for debt financing or the issue of convertible bonds, the Directors consider it

---

## LETTER FROM FIRST ASIA

---

not an option for the Group taking into account of the current financial position of the Group as it will further increase the finance costs of the Group which is not in the interest of the Group. After due and careful assessment, the Directors considered that the overall market sentiment in the capital market is currently not favourable for fund raising. The Rights Issue offers an option to Qualifying Shareholders to maintain their proportional interests in the Company, should they wish to do so.

Having considered the above factors, we concur with the Directors' view that the Rights Issue which provides all Shareholders with equal opportunities to subscribe for the Rights Shares at the Subscription Price, is presently an appropriate and equitable means for the Company to raise funds to settle some of the Group's overdue liabilities.

### 2. Principal terms of the Rights Issue

The Rights Issue is on the basis of one Rights Share basis of one Rights Share for every Share held on the Record Date at a Subscription Price of HK\$0.06 per Rights Share.

For the purpose of assessing the issue price level of the Rights Shares, we tabulate below the highest and the lowest closing prices of the Shares traded on the Stock Exchange in each of the six months from 1st February, 2002 to 7th August, 2002, being the last trading day prior to the suspension of trading of the Shares on 8th August, 2002, and further up from 29th November, 2002, being the first trading day prior to the resumption of the trading of the Shares to the Latest Practicable Date (the "Trading Period"):

Month	Highest closing price (HK\$)	Lowest closing price (HK\$)	Monthly trading volume ( '000)
<b>2002</b>			
February	0.76	0.68	14,770
March	0.84	0.78	20,236
April	0.82	0.74	10,344
May	0.81	0.72	16,576
June	0.75	0.71	15,804
July	0.77	0.69	13,660
August (up to 7th August, 2002)	0.77	0.77	—
November (from 29th November, 2002 up to the Latest Practicable Date)	0.70	0.68	4,820

---

## LETTER FROM FIRST ASIA

---

During the Trading Period, the Shares were traded on the Stock Exchange within a range of a highest closing price of HK\$0.84 on 12th March, 2002 to a lowest closing price of HK\$0.68 on 5th February, 2002.

As illustrated in the table above, the liquidity of the Shares during Trading Period had been generally low with the highest volume of approximately 20.2 million Shares in March 2002 and the lowest volume of approximately 10.3 million Shares in April 2002 (without taking into account November 2002 as it has less than a month of trading).

Given the generally thin trading volume of the Shares, it would be in our opinion difficult for the Company to raise equity funds on a fully underwritten basis at a price which does not represent a substantial discount to the market price of the Shares.

The Subscription Price is HK\$0.06 per Rights Share, payable in full acceptance, and presents:

- a discount of approximately 91.43% to the closing price of HK\$0.70 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- a discount of approximately 92.21% to the closing price of HK\$0.77 per Share as quoted on the Stock Exchange on 6th August, 2002, being the last trading day pending the release of the Announcement;
- a discount of approximately 92.21% to the average closing price of approximately HK\$0.77 per Share for the 10 trading days up to and including 6th August, 2002 being the last trading day pending the release of the Announcement;
- a discount of approximately 85.54% to the theoretical ex-rights price of approximately HK\$0.415 per Share based on the closing price of HK\$0.77 per Share as quoted on the Stock Exchange on 6th August, 2002; and
- a premium over the unaudited consolidated net deficit of approximately HK\$0.11 per Share as at 31st October, 2002.

The Directors consider that the Subscription Price is fair and reasonable so far as the Company and the Shareholders are concerned and was determined after arm's length negotiation with reference to current market condition among the Company, Ms. Li and the Underwriters.

## LETTER FROM FIRST ASIA

We have reviewed the terms of a total of 31 rights issues carried out by listed companies on the Stock Exchange so far as we are aware of from 1st January, 2002 to the Latest Practical Date. We consider none of the 31 rights issues are directly comparable to the Company's Rights Issue as all of these 31 rights issues were at net asset position before their respective rights issues, whilst the Company is at net deficit position before the Rights Issue. Although none of the 31 rights issues are considered to be directly comparable to the Company's Rights Issue, we have tabulated below for comparison on the discount rates of these rights issues for our analysis:

Company name (Stock code)	Date of the announcement of the rights issue (the "Press Announcement")	Subscription Price (the "Price") per rights share <i>HK\$</i>	Discount of the Price to theoretical ex-rights price		Net tangible asset value per share before rights issue (the "NTA") <i>HK\$</i>	Premium/ (Discount) of the Price to the NTA <i>%</i>
			Discount of the Price to closing price of shares on the last trading day prior to the Press Announcement <i>%</i>	Discount of the Price to closing price of shares based on the closing price of shares on the last trading day prior to the Press Announcement <i>%</i>		
Wang On Group Limited (1222)	16th January, 2002	0.024	79.66	40.00	0.10	(75.33)
Digital World Holdings Limited (109)	17th January, 2002	0.015	85.00	31.82	0.36	(95.78)
Grandmass Enterprise Solution Limited (8108)	21st January, 2002	0.32	48.39	23.81	0.06	(48.54)
Shimao China Holdings Limited (649)	5th February, 2002	0.65	7.14	4.41	0.37	74.52
Applied (China) Limited (472)	27th February, 2002	0.073	27.00	15.61	0.55	(86.73)
China Star Entertainment Limited (326)	20th March, 2002	0.05	45.05	35.06	0.49	(89.71)
Shun Tak Holdings Limited (242)	21st March, 2002	1.00	17.36	14.38	3.38	(70.43)
Vision Century Corporation Limited (535)	28th March, 2002	0.42	25.00	17.65	0.73	(42.62)
Playmates Interactive Entertainment Limited (635)	28th March, 2002	0.26	11.86	8.13	0.49	(47.24)
Intcera High Tech Group Limited (8041)	28th March, 2002	0.10	66.67	57.08	0.33	(69.45)
B-Tech (Holdings) Limited (now known as Heritage International Holdings Limited) (412)	10th April, 2002	0.084	79.00	25.48	0.04	131.20
Gold Wo International Holdings Limited (90)	30th April, 2002	0.016	73.33	64.44	0.01	9.11
Lai Fung Holdings Limited (1125)	9th May, 2002	0.10	45.05	39.39	1.86	(94.62)
eForce Holdings Limited (943)	14th May, 2002	0.127	10.56	7.30	0.03	311.64
China United Holdings Limited (273)	17 May, 2002	0.02	96.00	68.57	0.02	31.30
AV Concept Holdings Limited (595)	5th June, 2002	0.26	10.34	7.14	0.78	(66.76)
Peace Mark (Holdings) Limited (304)	6th June, 2002	0.18	66.67	40.00	2.46	(92.69)
Quam Limited (952)	11th June, 2002	0.015	50.00	38.52	0.06	(75.88)
China Strategic Holdings Limited (235)	15th July, 2002	0.15	25.74	18.48	4.02	(96.26)
Easyknit International Holdings Limited (1218)	17th July, 2002	0.12	73.33	40.74	0.21	(43.39)

# LETTER FROM FIRST ASIA

Company name (Stock code)	Date of the announcement of the rights issue (the “Press Announcement”)	Subscription Price (the “Price”) per rights share  <i>HK\$</i>	Discount of	Discount of	Discount of	Net tangible asset value per share before rights issue (the “NTA”)  <i>HK\$</i>  <i>(Note 1)</i>	Premium/ (Discount) of the Price to the NTA  <i>%</i>
			the Price to closing price of shares on the last trading day prior to the Press Announcement	the Price to closing price of shares on the last trading day prior to the Press Announcement	theoretical ex-rights price of shares based on the closing price of shares on the last trading day prior to the Press Announcement		
Sing Pao Media Group Limited (8010)	22nd July, 2002	0.40	66.67	47.37	0.25	58.92	
Top Glory International Holdings Limited (268)	26th July, 2002	0.35	23.08	19.35	1.74	(79.94)	
China Star Entertainment Limited (326)	13th August, 2002	0.625	43.18	20.18	0.19	226.35	
UDL Holdings Limited (620)	4th October, 2002	0.025	50.00	40.48	0.04	(36.44)	
e-Kong Group Limited (524)	7th October, 2002	0.12	40.00	25.00	0.08	58.15	
iAsia Technology Limited (8101)	12th October, 2002	0.10	(5.26)	(42.48)	0.08	24.74	
Star Cruises Limited (678)	15th October, 2002	1.95	27.78	25.29	0.85	128.35	
New Century Group Hong Kong Limited (234)	17th October, 2002	0.30	42.31	32.89	0.18	70.68	
Harmony Asset Limited (428)	11th November, 2002	0.02	62.96	40.48	0.18	(88.79)	
Hi Sun Group Limited (818)	15th November, 2002	0.63	3.08	1.56	0.09	590.00	
Styland Holdings Limited (211)	25th November, 2002	0.1	79.17	55.89	0.34	(70.82)	
<b>Mean</b>			<b>45.05</b>	<b>27.86</b>		<b>11.08</b>	
<b>Median</b>			<b>44.39</b>	<b>25.48</b>		<b>(47.24)</b>	
The Company (8079)	27th November, 2002	0.06	92.21	85.54	(0.11)	Premium <i>(Note 2)</i>	

*Notes:*

1. Based on the published annual reports of the respective 31 rights issues of their net tangible asset values divided by the number of shares immediately before the rights issue of the respective 31 rights issues.
2. Based on the management accounts for the year ended 31st October, 2002 of pro forma consolidated unaudited net deficit of approximately HK\$37.36 million divided by 350,000,000 Shares in issued as at the Latest Practicable Date.

The premium/discount rates of the Prices to the closing prices on the last trading day prior to the Press Announcements in relation to the 31 rights issues (the “Closing Price Range”) ranged from approximately premium of 5.26% to discount of 96.00%, with the mean and median of approximately 45.05% and 44.39% respectively. The premium/discount rates of the Prices to the theoretical ex-rights prices per share based on the last trading day prior to the Press

Announcements in relation to the 31 rights issues (the “Theoretical Range”) ranged from approximately premium of 42.48% to discount of 68.57%, with the mean and median of approximately 27.86% and 40.37% respectively. In relation to the discount/premium rates of the Prices to the net tangible asset value per share in relation to the rights issues of the Comparables (the “NTA Range”) ranged from approximately premium of 590.00% to discount of 96.26%, with the mean and median of approximately premium of 11.08% and discount of 47.24% respectively.

The discount rate of the Subscription Price to the Company’s closing price on the last trading day prior to the Announcement is higher than the mean and the median but falls within the Closing Price Range. The discount rate of the Subscription Price to the Company’s theoretical ex-rights price based on the last trading day prior to the Announcement is higher than the mean and the median and does not fall within the Theoretical Range. We also note that the Subscription Price represents a premium over the Group’s unaudited consolidated net deficit.

We understand that in particularly in the current sluggish stock market, it is common to offer high discount rates for rights issues which involve heavy calls on shareholders in order to enhance the attractiveness. Taking into account of the Group’s current distressed financial position and consolidated net deficit, we consider the consolidated net deficit as a reasonable basis for determining the value of the Group as the Company’s share price may not reflect the true value of the Group. Given that the discount rate of the Rights Issue falls within the Closing Price Range and that the Subscription Price represents a premium over the Group’s unaudited consolidated net deficit, we consider that the Subscription Price is acceptable so far as the Independent Shareholders are concerned.

We therefore concur with the Directors that the Rights Issue is in the best interests of the Company and Independent Shareholders as a whole as the Rights Issue is an equitable method for all Shareholders as a whole to raise new equity capital for the Company and that the terms of the Rights Issue are fair and reasonable as all of the Qualifying Shareholders can choose to participate in the Rights Issue or, if they are unwilling or unable to do so, to dispose of their of nil-paid entitlements in the market at a consideration if one can be obtained.

### **3. Dilution of shareholding**

For those Independent Shareholders who are also Qualifying Shareholders that do not take up in full their entitlements under the Rights Issue, depending on the extent to which they take up the Rights Shares, their attributable interests in the Company will be diluted after completion of the Rights Issue, with a maximum in dilution in shareholding of approximately 50%. We consider that the dilution is not prejudicial on the grounds that all Qualifying Shareholders are entitled to subscribe for their entitlements under the terms of the Rights Issue. For those Independent Shareholders who are not Qualifying Shareholders, their attributable interests in the Company will be diluted after completion of the Rights Issue, with a dilution in shareholding of approximately 50%.



As the nil-paid Rights Shares will be traded on the Stock Exchange, Qualifying Shareholders who do not take up their entitlements in full will have the opportunity to dispose their nil-paid Rights Shares on the market, subject to market condition. However, given the fact that the period during which the Qualifying Shareholders can dispose of their nil-paid Rights Shares is limited and the liquidity of the Shares on the Stock Exchange is generally thin, those Qualifying Shareholders who wish to dispose of their entitlements should be aware that they may not be able to do so on the market or they may not receive a cash consideration which fully reflects the discount between the Subscription Price and the theoretical ex-rights price per Share.

We consider that the Rights Issue is an equitable means for all Shareholders as a whole to raise new equity for the Company as Shareholders will have a choice to either participate in the Rights Issue or dispose of their entitlements in their nil-paid form in the market at a premium if it is possible.

#### **4. Underwriting arrangement for the Rights Issue**

As at the Latest Practicable Date, Ms. Li was interested in 182,133,840 Shares, representing approximately 52.04% of the existing issued share capital of the Company. Ms. Li has irrevocably undertaken to accept or procure acceptances of 138,000,000 Rights Shares which will be provisionally allotted to her, representing approximately 39.43% of the total Rights Shares (assuming no option is exercised on or before the Record Date). Subject to the fulfilment of the conditions contained in the Underwriting Agreement and the Supplemental Underwriting Agreement, up to 215,500,000 Rights Shares will be underwritten by the Underwriters severally, excluding the 138,000,000 Rights Shares to be taken up by Ms. Li, the Rights Issue is therefore fully underwritten.

In the event that only E-Teck Business Limited and Inworld System (HK) Limited subscribe for the Rights Shares in proportion under the Underwriting Agreement and the Supplemental Underwriting Agreement, the aggregate shareholding of Styland, Ever-Long, E-Teck Business Limited and Inworld System (HK) Limited, in the Company will increase from approximately 19.28% to 27.07%. As a result, the shareholding in the public will decrease from 27.96% to 26.79% after the completion of the Rights Issue. In such case, Styland will not be required to make mandatory offer to all the securities of the Company in accordance with Rule 26 of Code on Takeovers and Mergers.

Independent Shareholders should note that if Kingston, on behalf of the Underwriters, exercise the right to terminate the Underwriters' obligations under the Underwriting Agreement and the Supplemental Underwriting Agreement, the Rights Issue will not proceed.

We have reviewed the Underwriting Agreement and the Supplemental Underwriting Agreement and consider that the principal terms and provisions of the Underwriting Agreement and the Supplemental Underwriting Agreement are in normal commercial terms and in line with the market practice in Hong Kong.

---

## LETTER FROM FIRST ASIA

---

### 5. Financial effects

The effect on the audited consolidated net tangible asset value of the Group as a result of the Rights Issue is summarised as follows:

<b>As at 31st October, 2002</b>	<i>HK\$'000</i>	<b>Per Share <i>HK\$</i></b>
Audited consolidated net tangible assets of the Group, before the Rights Issue ( <i>Note 1</i> )	12,588	0.036
Unaudited results for the twelve months ended 31st October, 2002	<u>(49,945)</u>	
Unaudited consolidated net deficit of the Group as at 31st October, 2002	(37,357)	(0.107)
Estimated net proceeds arising from the Rights Issue of 350,000,000 Rights Shares	<u>19,000</u>	
Unaudited pro forma adjusted consolidated net deficit of the Group, following the completion of the Rights Issue ( <i>Note 2</i> )	<u><u>(18,357)</u></u>	(0.026)

*Notes:*

1. Based on 350,000,000 Shares in issue as at the Latest Practicable Date.
2. Based on 700,000,000 Shares in issue as enlarged by the issue of 350,000,000 Rights Shares following the completion of the Rights Issue, assuming no options is exercised on or before the Record Date.

As illustrated in the above summary, the unaudited pro forma adjusted consolidated net deficit of the Group and the unaudited pro forma adjusted consolidated net deficit per Share will improve immediately after completion of the Rights Issue.

Taking into account of the improvement in the financial position of the Group in terms of the enhancement of net liabilities of the Group, we are of the view that the Rights Issue is in the interests of the Group and the Independent Shareholders as a whole.

### RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the terms of the Rights Issue to be fair and reasonable and in the interest of the Group so far as the Independent Shareholders as a whole are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Rights Issue.

Yours faithfully,  
For and on behalf of  
**First Asia Finance Group Limited**  
**Graham Lam**  
*Director*

## 1. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately following completion of the Rights Issue and the Bonus Issue will be as follows:

- (i) Assuming none of the subscription rights attaching to the outstanding Options are exercised prior to the Record Date:

<i>Authorised:</i>		<i>HK\$</i>
2,000,000,000	Shares as at the Latest Practicable Date	20,000,000.00
2,000,000,000	Shares following the Shareholders' approval of the Increase in Capital at the EGM	20,000,000.00
<u>4,000,000,000</u>		<u>40,000,000.00</u>

*Issued and fully paid:*

350,000,000	Shares in issue as at the Latest Practicable Date	3,500,000.00
350,000,000	Rights Shares to be issued	3,500,000.00
<u>1,750,000,000</u>	Bonus Shares to be issued	<u>17,500,000.00</u>
<u>2,450,000,000</u>		<u>24,500,000.00</u>

- (ii) Assuming all the subscription rights attaching to the Options are exercised prior to the Record Date:

<i>Authorised:</i>		<i>HK\$</i>
2,000,000,000	Shares as at the Latest Practicable Date	20,000,000.00
2,000,000,000	Shares following the Shareholders' approval of the Increase in Capital at the EGM	20,000,000.00
<u>4,000,000,000</u>		<u>40,000,000.00</u>

*Issued and fully paid:*

350,000,000	Shares in issue as at the Latest Practicable Date	3,500,000.00
3,500,000	Maximum number of Shares to be issued under the outstanding Options	35,000.00
353,500,000	Rights Shares to be issued upon the exercise of all outstanding Options	3,535,000.00
<u>1,767,500,000</u>	Bonus Shares to be issued upon the exercise of all outstanding Options	<u>17,675,000.00</u>
<u>2,474,500,000</u>		<u>24,745,000.00</u>

All Shares in issue and to be issued rank and will rank *pari passu* in all respects with each other including as regards to dividends, voting and return of capital.

## 2. FINANCIAL STATEMENTS

Set out below is the summary of the audited consolidated results of the Group for each of the two years ended 31st October, 2001 as extracted from the annual report of the Company for the year ended 31st October, 2001 and the combined audited results of the Group for the year ended 31st October, 1999 as extracted from the prospectus of the Company dated 28th September, 2001.

## CONSOLIDATED INCOME STATEMENT

	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>TURNOVER</b>	110,047	126,157	128,887
<b>COST OF SALES</b>	<u>(72,269)</u>	<u>(79,972)</u>	<u>(89,567)</u>
<b>GROSS PROFIT</b>	37,778	46,185	39,320
<b>OTHER REVENUE</b>	1,080	7,085	2,413
<b>OTHER EXPENSES</b>			
Selling and distribution costs	46,722	(37,951)	(33,596)
Administrative expenses	(14,015)	(8,585)	(6,618)
	<u>(60,737)</u>	<u>(46,536)</u>	<u>(40,214)</u>
<b>(LOSS)/PROFIT FROM OPERATIONS</b>	(21,879)	6,734	1,519
<b>DEFICIT ON REVALUATION OF INVESTMENT PROPERTY</b>	—	—	(11,662)
<b>FINANCE COSTS</b>	<u>(3,924)</u>	<u>(4,174)</u>	<u>(3,833)</u>
<b>(LOSS)/PROFIT BEFORE TAXATION</b>	(25,803)	2,560	(13,976)
<b>TAXATION</b>	<u>—</u>	<u>(395)</u>	<u>(280)</u>
<b>(LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>	<u>(25,803)</u>	<u>2,165</u>	<u>(14,256)</u>
<b>(LOSS)/EARNINGS PER SHARE</b>			
— BASIC	(7.37) cents	0.62 cents	(4.07) cents
<b>(LOSS)/EARNINGS PER SHARE</b>			
— DILUTED	<u>(7.02) cents</u>	<u>0.59 cents</u>	<u>(3.88) cents</u>

Set out below is the summary of the audited consolidated financial statements of the Group as contained in the annual report of the Company for the year ended 31st October, 2001.

### CONSOLIDATED INCOME STATEMENT

	<i>Note</i>	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
<b>TURNOVER</b>	3	110,047	126,157
<b>COST OF SALES</b>		<u>(72,269)</u>	<u>(79,972)</u>
<b>GROSS PROFIT</b>		37,778	46,185
<b>OTHER REVENUE</b>	3	1,080	7,085
<b>OTHER EXPENSES</b>			
Selling and distribution costs		(46,722)	(37,951)
Administrative expenses		(14,015)	(8,585)
		<u>(60,737)</u>	<u>(46,536)</u>
<b>(LOSS)/PROFIT FROM OPERATIONS</b>		(21,879)	6,734
<b>FINANCE COSTS</b>		<u>(3,924)</u>	<u>(4,174)</u>
<b>(LOSS)/PROFIT BEFORE TAXATION</b>	4	(25,803)	2,560
<b>TAXATION</b>	5	<u>—</u>	<u>(395)</u>
<b>(LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>	6	(25,803)	2,165
<b>ACCUMULATED LOSSES BROUGHT FORWARD</b>		<u>(2,138)</u>	<u>(4,303)</u>
<b>ACCUMULATED LOSSES CARRIED FORWARD</b>		<u><u>(27,941)</u></u>	<u><u>(2,138)</u></u>
<b>(LOSS)/EARNINGS PER SHARE</b>			
— BASIC	7a	(7.37) cents	0.62 cents
<b>(LOSS)/EARNINGS PER SHARE</b>			
— DILUTED	7b	<u>(7.02) cents</u>	<u>0.59 cents</u>

## CONSOLIDATED BALANCE SHEET

	<i>Note</i>	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets	9	6,740	5,235
Investments in trust funds	11	8,530	—
		15,270	5,235
<b>Current assets</b>			
Due from a director	12	—	238
Due from related companies	13	—	31,889
Prepayments, deposits and other receivables		8,785	7,174
Inventories	14	27,597	23,238
Trade receivables		171	1,090
Cash and bank balance		29,104	147
		65,657	63,776
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Convertible loan notes	15	—	2,500
Due to a director	16	—	8,369
Bank overdrafts - secured		20,520	19,164
Current portion of interest-bearing borrowings - secured	17	4,393	9,459
Current portion of obligation under hire purchase contract	18	5	—
Trust receipt loans - secured		13,405	15,415
Trade payables		15,129	5,656
Other payables and accruals		13,687	6,002
Taxation payable	5	706	670
		67,845	67,235
<b>Net current liabilities</b>		(2,188)	(3,459)
<b>Total assets less current liabilities</b>		13,082	1,776
<b>Non-current liabilities</b>			
Interest-bearing borrowings - secured	17	469	3,840
Obligation under hire purchase contract	18	25	—
		494	3,840
		12,588	(2,064)
<b>CAPITAL AND RESERVES</b>			
Issued capital	20	3,500	74
Reserves	21	9,088	(2,138)
		12,588	(2,064)

## BALANCE SHEET

	<i>Note</i>	<b>2001</b> <i>HK\$'000</i>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Investments in subsidiaries	<i>10</i>	4,193
Investments in trust funds	<i>11</i>	4,525
		8,718
<b>Current assets</b>		
Other receivables		407
Bank balance		16,124
		16,531
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank overdrafts - secured		340
Other payables		1,985
		2,325
<b>Net current assets</b>		<u>14,206</u>
<b>Total assets less current liabilities</b>		<u><u>22,924</u></u>
<b>CAPITAL AND RESERVES</b>		
Issued capital	<i>20</i>	3,500
Reserves	<i>21</i>	19,424
		<u><u>22,924</u></u>

## CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

	<i>Note</i>	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
<b>(LOSS)/PROFIT FOR THE YEAR</b>		(25,803)	2,165
<b>GOODWILL ELIMINATED DIRECTLY AGAINST RESERVES</b>	21	<u>(10,707)</u>	<u>—</u>
		<u>(36,510)</u>	<u>2,165</u>



## CONSOLIDATED CASH FLOW STATEMENT

	<i>Note</i>	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	<i>22(a)</i>	3,210	(11,738)
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest received		546	1,382
Interest paid		(3,924)	(4,174)
<b>NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		(3,378)	(2,792)
<b>TAXATION</b>			
Hong Kong profits tax refund/(paid)		36	(76)
<b>INVESTING ACTIVITIES</b>			
Payment for purchase of fixed assets		(2,162)	(5,022)
Proceeds from sales of fixed assets		—	14,863
Investments in trust funds		(8,530)	—
Payment for purchase of subsidiaries	<i>22(b)</i>	(288)	—
<b>NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES</b>		<u>(10,980)</u>	<u>9,841</u>
<b>NET CASH OUTFLOW BEFORE FINANCING</b>		(11,112)	(4,765)
<b>FINANCING</b>			
Proceeds from issue of ordinary shares		53,065	—
Share issue expenses		(6,945)	—
Proceeds from issue of convertible loan notes		1,000	2,500
New loans raised		9,887	9,300
Repayment of loans		(18,324)	(12,682)
Inception of hire purchase contract		31	—
Capital element of hire purchase contract paid		(1)	(89)
<b>NET CASH INFLOW/(OUTFLOW) FROM FINANCING</b>	<i>22(c)</i>	<u>38,713</u>	<u>(971)</u>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		27,601	(5,736)

	<i>Note</i>	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		27,601	(5,736)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<u>(19,017)</u>	<u>(13,281)</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u>8,584</u>	<u>(19,017)</u>
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balance		29,104	147
Bank overdrafts		<u>(20,520)</u>	<u>(19,164)</u>
		<u>8,584</u>	<u>(19,017)</u>

## NOTES TO THE FINANCIAL STATEMENTS

## 1. GROUP REORGANISATION AND BASIS OF PREPARATION

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.

On 21st September, 2001, pursuant to a group reorganisation scheme (the “Reorganisation”), the Company acquired the entire issued share capital of Rainbow Cosmetic (BVI) Limited (“Rainbow BVI”) through a share exchange as described in Note 20(d). Since then the Company became the holding company of Rainbow BVI and its subsidiaries (collectively referred to as “Rainbow BVI Group”). The Company and Rainbow BVI Group are companies under common control and accordingly regarded as a continuing group. The Company and its subsidiaries are collectively referred to as (the “Group”). The Company’s shares were listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited on 15th October, 2001.

Prior to the Reorganisation, on 11th November, 2000, Newide International Limited (“Newide”), entered into a sale and purchase agreement to acquire all business and assets of a sole proprietorship namely Rainbow Trading Company (“RTC”) from Mr. Elbert Lee. Under the terms of the agreement, all business and assets of RTC were transferred to Newide after the close of business on 31st December, 2000 at a consideration of HK\$1 paid by Newide. The results of the operations of RTC were included in the consolidated financial statements under the acquisition method of accounting from 1st January, 2001, being the date immediately after the date of acquisition.

On 11th November, 2000, Jet Legend Limited (“Jet Legend”), entered into two separate sale and purchase agreements to acquire all business and assets of a sole proprietorship namely Rainbow Cosmetic Company (“SRCC”) from Ms. Li Ngar Kwan, Aldy (“Ms. Aldy Li”), and of a partnership namely Rainbow Cosmetic Company (“PRCC”) from Ms. Aldy Li and her business partner.

Under the terms of the agreement, all business and assets of SRCC were transferred to Jet Legend after the close of business on 31st December, 2000 at a consideration of HK\$3,500,000. The consideration was satisfied by issuance of shares in Jet Legend to Ms. Aldy Li. The results of the operations of SRCC were included in the consolidated financial statements under the merger accounting method.

Under the terms of the agreement, all business and assets of PRCC were transferred to Jet Legend after the close of business on 31st December, 2000 at a consideration of HK\$500,000. The consideration was satisfied by issuance of shares in Jet Legend for an aggregate amount of HK\$200,000 to Ms. Aldy Li and HK\$300,000 paid to her business partner. The results of the operations of PRCC were included in the consolidated financial statements under the acquisition method of accounting from 1st January, 2001, being the date immediately after the date of acquisition.

The consolidated financial statements include the results of operations of Rainbow Group as if the group structure resulting from the Reorganisation executed on 21st September, 2001 had been in existence throughout the years ended 31st October, 2000 and 2001 or since the dates of acquisition as described above or since the date of incorporation of the respective group companies where there was of a shorter period.

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

The Group’s 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. 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 issued by the Hong Kong Society of Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM. The financial statements are prepared under the historical cost convention. Principal accounting policies are summarised below:

### (a) Revenue recognition

- (i) Revenue from 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 provision of services is recognised when the services are rendered.
- (iii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (iv) Operating lease rental income is recognised on a straight-line basis over the period of the respective leases.

### (b) Borrowing costs

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

### (c) Goodwill and capital reserves

Goodwill, which represents the excess of purchase consideration over the fair values ascribed to the separable net assets of subsidiaries acquired at date of acquisition is written off directly to reserves in the year of acquisition. Negative goodwill is credited directly to reserves.

### (d) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	20% or over the lease term, if shorter
Equipment	20% to 33 $\frac{1}{3}$ %
Furniture and fixtures	20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the company.

The carrying amount of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised 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 term and their estimated useful lives on the same basis as owned assets.

**(f) Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rental payables under such operating leases are accounted for in the income statement on a straight-line basis over the periods of the respective lease.

**(g) 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.

**(h) Investments in trust funds**

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

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

**(i) 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.

**(j) Inventories**

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

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

**(k) Trade receivables**

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

**(l) Cash equivalents**

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

**(m) Deferred taxation**

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

**(n) 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.

**(o) Staff retirement benefits**

The costs of staff retirement benefits are expensed in the period in which they are incurred.

## 3. TURNOVER AND REVENUE

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

	2001 HK\$'000	2000 HK\$'000
Turnover		
Retails and wholesales of beauty products	103,558	124,240
Beauty services	6,489	1,917
	110,047	126,157
Other revenue		
Rental income – Investment properties	—	192
Interest income	546	1,382
Exchange gain	123	21
Insurance compensation income	46	4,642
Surplus on fixed assets written off against insurance compensation	—	509
Sundry income	365	339
	<u>1,080</u>	<u>7,085</u>
Total revenue	<u><u>111,127</u></u>	<u><u>133,242</u></u>

Turnover by principal activities and their respective contributions to (loss)/profit before taxation are:

	2001		2000	
	Turnover	(Loss) before taxation	Turnover	Profit before taxation
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Retails and wholesales of beauty products	103,558	(25,689)*	124,240	2,162*
Beauty services	<u>6,489</u>	<u>(114)</u>	<u>1,917</u>	<u>398</u>
	<u><u>110,047</u></u>	<u><u>(25,803)</u></u>	<u><u>126,157</u></u>	<u><u>2,560</u></u>

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

\* The result of beauty services generated from turnover of approximately HK\$523,000 (2000: approximately HK\$1,244,000) has been included.

## 4. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is stated after crediting and charging the following:

	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Crediting</b>		
Rental income	—	192
Interest income	546	1,382
Net exchange gain	<u>123</u>	<u>21</u>
<b>Charging</b>		
Auditors' remuneration		
Current year	360	336
<i>Less: Over provision in previous years</i>	(240)	—
	120	336
Cost of inventories sold (excluding provision for slow-moving inventory for the year)	71,819	79,501
Staff costs (excluding directors' remuneration)		
– Basic salaries and allowances	18,870	16,068
– Pension scheme contribution	795	—
Borrowing costs		
Interest on bank advances and other borrowings wholly repayable within 5 years	3,924	4,174
Depreciation		
Owned assets	3,621	2,139
Asset held under hire purchase contract	6	—
Operating lease rentals in respect of land and buildings	26,095	17,836
Provision for slow-moving inventories	450	471
Loss on disposal of fixed assets	<u>—</u>	<u>303</u>

## 5. TAXATION

Hong Kong profits tax has been provided for at the rate of 16% (2000: 16%) on the estimated assessable profits for the year.

The amount of taxation charged to the consolidated income statement represents:

	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax	—	498
Deferred taxation ( <i>note 19</i> )	<u>—</u>	<u>(103)</u>
	<u>—</u>	<u>395</u>



Taxation in the consolidated balance sheet represents provision for taxation for prior years less amount of tax paid.

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

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

	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
Accelerated depreciation allowances	200	400
Tax losses	<u>(4,100)</u>	<u>(400)</u>
	<u><u>(3,900)</u></u>	<u><u>—</u></u>

#### 6. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The (loss)/profit attributable to shareholders includes a profit of approximately HK\$15,000 (2000: HK\$Nil) which has been dealt with in the financial statements of the Company.

#### 7. (LOSS)/EARNINGS PER SHARE

##### (a) Basic

The calculation of basic (loss)/earnings per share is based on the (loss) attributable to shareholders of approximately HK\$(25,803,000) (2000: a profit of approximately HK\$2,165,000) and the weighted average number of 350,000,000 (2000: 350,000,000) shares, after adjusting for the effects of capitalization issue deemed to be in issue throughout the year on the assumption that the Reorganisation had been completed on 1st November, 1998 (pro forma formation date of the Group).

##### (b) Diluted

The calculation of diluted (loss)/earnings per share is based on the (loss) attributable to shareholders of approximately HK\$(25,803,000) (2000: a profit of approximately HK\$2,165,000) and the 367,500,000 (2000: 367,500,000) shares, which represented the 350,000,000 shares deemed to be in issue throughout the year on the assumption that the Reorganisation had been completed on 1st November, 1998 and after adjusting for the number of shares which are deemed to have been issued for no consideration under the Pre-IPO Share Option Scheme as defined in the prospectus of the Company dated 28th September, 2001 based on the subscription price per share of HK\$0.25.

## 8. 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:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Fees	—	—
Other emoluments		
Basic salaries, allowances and benefits in kind	1,497	241
Pension scheme contribution	<u>25</u>	<u>—</u>
	<u>1,522</u>	<u>241</u>

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

<b>Executive directors</b>	<b>2001</b>	<b>2000</b>
Nil to HK\$1,000,000	3	4
HK\$1,000,001 to HK\$1,500,000	<u>1</u>	<u>—</u>
<b>Non-executive and independent non-executive directors</b>	<b>2001</b>	<b>2000</b>
Nil to HK\$1,000,000	<u>3</u>	<u>3</u>

During the year ended 31st October, 2001, the four executive directors received individual emoluments of approximately HK\$1,022,000 (2000: HK\$105,000), HK\$359,000 (2000: HK\$136,000), HK\$120,000 (2000: HK\$Nil) and HK\$20,000 (2000: HK\$Nil) respectively. Each of the non-executive and independent non-executive directors received director fees of HK\$Nil (2000: HK\$Nil).

No director 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 director.

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

In the absence of a ready market for the share options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the share options granted to the respective directors.

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

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

	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries, allowances and benefits in kind	2,579	1,556
Pension scheme contribution	<u>52</u>	<u>—</u>
	<u><u>2,631</u></u>	<u><u>1,556</u></u>

Of the five highest paid individuals, two (2000: one) are directors whose emoluments are disclosed in note 8(a) above.

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

<b>Directors</b>	<b>2001</b>	<b>2000</b>
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	<u>1</u>	<u>—</u>
<b>Other employees</b>	<b>2001</b>	<b>2000</b>
Nil to HK\$1,000,000	<u>3</u>	<u>4</u>

## 9. FIXED ASSETS

## The Group

	Leasehold improvements <i>HK\$'000</i>	Equipment <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicle <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost</b>					
At 1/11/2000	6,222	1,303	3,258	540	11,323
Additions	<u>1,504</u>	<u>3,591</u>	<u>37</u>	<u>—</u>	<u>5,132</u>
At 31/10/2001	<u>7,726</u>	<u>4,894</u>	<u>3,295</u>	<u>540</u>	<u>16,455</u>
<b>Accumulated depreciation</b>					
At 1/11/2000	2,594	393	2,561	540	6,088
Charge for the year	<u>1,607</u>	<u>1,399</u>	<u>621</u>	<u>—</u>	<u>3,627</u>
At 31/10/2001	<u>4,201</u>	<u>1,792</u>	<u>3,182</u>	<u>540</u>	<u>9,715</u>
<b>Net book value</b>					
At 31/10/2001	<u><u>3,525</u></u>	<u><u>3,102</u></u>	<u><u>113</u></u>	<u><u>—</u></u>	<u><u>6,740</u></u>
At 31/10/2000	<u><u>3,628</u></u>	<u><u>910</u></u>	<u><u>697</u></u>	<u><u>—</u></u>	<u><u>5,235</u></u>

*Note:* The gross amount of asset held for use under hire purchase contract and the related accumulated depreciation charge at the balance sheet date of approximately HK\$31,000 (2000: HK\$Nil) and of approximately HK\$6,000 (2000: HK\$Nil) respectively.

## 10. INVESTMENTS IN SUBSIDIARIES

## The Company

	<b>2001</b> <i>HK\$'000</i>
Investments at cost:	
Unlisted shares	1,097
Due from subsidiaries	6,146
Due to subsidiaries	<u>(3,050)</u>
	<u><u>4,193</u></u>

## 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, 2001:

Name of subsidiaries	Place of incorporation	Issued and fully paid share capital	Percentage of equity interest attributable to the Group		Principal activities
			Direct	Indirect	
Rainbow Cosmetic (BVI) Limited	British Virgin Islands	US\$50,000	100%		Investment holding
Rainbow Cosmetic Company Limited	Hong Kong	HK\$100		100%	Wholesaling and retailing of beauty products
Rainbow Cosmetic (Central) Company Limited	Hong Kong	HK\$100		100%	Retailing of beauty products
Newide International Limited	Hong Kong	HK\$10		100%	Wholesaling of beauty products
Nutriplus Cosmetics International Limited (Formerly known as Fans Cosmetics Limited)	Hong Kong	HK\$100		100%	Provision of beauty services
Jet Legend Limited	Hong Kong	HK\$2		100%	Wholesaling and retailing of beauty products
Rainbow HK Cosmetic Company Limited	Macau	MOP60,000		100%	Not yet commence business

Except for as disclosed in Note 15 to the financial statements, none of the subsidiaries had any loan capital in issue at any time during the year ended 31st October, 2001.

## 11. INVESTMENTS IN TRUST FUNDS

**The Group**

	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
Held-to-maturity debt securities, at cost		
Listed in Hong Kong	<u>8,530</u>	<u>—</u>
Market value	<u>8,239</u>	<u>—</u>

**The Company**

	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
Held-to-maturity debt securities, at cost		
Listed in Hong Kong	<u>4,525</u>	<u>—</u>
Market value	<u>4,524</u>	<u>—</u>

## 12. DUE FROM A DIRECTOR

**The Group**

	<b>Mr. Elbert Lee</b> <i>HK\$'000</i>
Balance at end of year	<u>—</u>
Balance at beginning of year	<u>238</u>
Maximum outstanding balance during the year	
— 2001	238
— 2000	<u>258</u>

The amount is unsecured, interest free and repayable on demand. At 31st October, 2001 and 31st October, 2000, there was no interest due and no provision for doubtful debt was made against the amount.

## 13. DUE FROM RELATED COMPANIES

## The Group

Name	Connected parties	Balance at end of year	Balance at beginning of year	Maximum outstanding balance during the year	
				2001	2000
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Rainbow Trading Company ( <i>Note b</i> )	Mr. Elbert Lee	—	26,917	26,917	26,917
Alpha Perfect Limited	Ms. Aldy Li	—	4,148	4,148	4,148
Rainbow Cosmetic Company ( <i>Note c</i> )	Ms. Aldy Li	—	824	824	824
		—	31,889		

## Notes:

- (a) The amounts are unsecured, interest free and repayable on demand. At 31st October, 2001 and 31st October, 2000 there was no interest due and no provision for doubtful debt was made against the amounts.
- (b) On 11th November, 2000, Newide entered into a sale and purchase agreement to acquire all business and assets (including all debts and liabilities) of RTC, a sole proprietorship owned by Mr. Elbert Lee. Therefore the amount has been transferred to Newide and eliminated on consolidation.
- (c) On 11th November, 2000, Jet Legend entered into a sale and purchase agreement to acquire all business and assets (including all debts and liabilities) of PRCC, a partnership owned by Ms. Aldy Li and her business partner. Therefore the amount has been transferred to Jet Legend and eliminated on consolidation.

## 14. INVENTORIES

## The Group

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Merchandise	28,047	23,709
<i>Less: provision for slow-moving inventories</i>	<u>450</u>	<u>471</u>
	<u>27,597</u>	<u>23,238</u>

## 15. CONVERTIBLE LOAN NOTES

## The Group

On 19th October, 2000, E-Teck Business Limited (“E-Teck”) entered into a subscription agreement (as supplemented by a supplemental deed dated 8th June, 2001) with Rainbow BVI. Pursuant to the agreement, Rainbow BVI issued 5 convertible loan notes and 2 convertible loan notes of HK\$500,000 each i.e. HK\$2,500,000 and HK\$1,000,000 on 19th October, 2000 and 4th December, 2000 respectively.

The convertible loan notes carried interest at prime rate plus 2% per annum. Interest on the convertible loan notes is payable every six months in arrear commencing 19th April, 2001.

On 14th September, 2001, 8,750 shares of US\$1.00 each in the capital of Rainbow BVI were allotted and issued to E-Teck upon the exercise of the conversion right attaching to the convertible loan notes.

## 16. DUE TO A DIRECTOR

## The Group

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



## 17. INTEREST-BEARING BORROWINGS — SECURED

## The Group

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Bank loans		
Repayable within one year	4,393	9,459
Repayable after one year but within two years	469	3,840
	4,862	13,299
Current portion of bank loans	<u>(4,393)</u>	<u>(9,459)</u>
	<u>469</u>	<u>3,840</u>

## 18. OBLIGATION UNDER HIRE PURCHASE CONTRACT

## The Group

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

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Repayable within one year	5	—
Repayable after one year but within two years	6	—
Repayable after two years but within five years	19	—
	30	—
Current portion of obligation under hire purchase contract	<u>(5)</u>	<u>—</u>
	<u>25</u>	<u>—</u>

## 19. DEFERRED TAXATION

## The Group

	2001 HK\$'000	2000 HK\$'000
At 1st November	—	103
Transfer to taxation ( <i>note 5</i> )	<u>—</u>	<u>(103)</u>
At 31st October	<u>—</u>	<u>—</u>
The potential deferred tax liability/(asset) not provided for in the financial statements amounts to:		
Accelerated depreciation allowances	400	200
Tax losses	<u>(4,500)</u>	<u>(400)</u>
	<u>(4,100)</u>	<u>(200)</u>

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

## 20. ISSUED CAPITAL

	2001 Number of shares	HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.01 each	<u>2,000,000,000</u>	<u>20,000</u>
	2001 Number of shares	HK\$'000
<i>Issued and fully paid:</i>		
Issue of shares upon incorporation	(a) & (b) 10	—
Issue of shares arising from reorganisation	(d) 109,699,990	1,097
Private placement on 21st September, 2001	(e) 6,300,000	63
Issue of shares through public offer and placing	(g) 60,000,000	600
Capitalisation issue	(h) 173,000,000	1,730
Remuneration shares	(f) <u>1,000,000</u>	<u>10</u>
	<u>350,000,000</u>	<u>3,500</u>

*Notes:*

- (a) The Company was incorporated in the Cayman Islands on 6th March, 2001 with authorised share capital of HK\$350,000 divided into 3,500,000 shares of HK\$0.10 each, of which one share was issued and allotted for cash at par to the initial subscriber of the Company.
- (b) On 17th September, 2001, the share capital of the Company was subdivided into 10 issued shares and 34,999,990 unissued shares.

- (c) On 21st September, 2001, the authorised share capital of the Company was increased from HK\$350,000 to HK\$20,000,000 by the creation of 1,965,000,000 additional shares, such new shares to rank pari passu in all respects with the then existing shares.
- (d) On 21st September, 2001, an aggregate of 109,699,990 shares were allotted and issued, credited as fully paid, as consideration for the acquisition of the entire issued share capital of Rainbow BVI.
- (e) On 21st September, 2001, 4,200,000 shares and 2,100,000 shares were issued and allotted to Ms. Aldy Li and Mr. Elbert Lee respectively at a subscription price of HK\$0.05 per share, which was fully paid in cash.
- (f) On 25th September, 2001, the share premium of HK\$10,000 was capitalised and applied in paying up in full of 1,000,000 shares of HK\$0.01 each which were allotted and issued as fully paid to International Capital Network Limited (“ICN”), being part of the financial advisory fee (“Remuneration Shares”).
- (g) On 10th October, 2001, 60,000,000 shares of HK\$0.01 each were issued at HK\$0.50 per share through public offer and placing (“New Issue”), resulting in net cash proceeds of approximately HK\$21,247,000.
- (h) Immediately after the New Issue, share premium of HK\$1,730,000 was capitalised and applied in paying up in full of 173,000,000 shares of HK\$0.01 each which were allotted and issued as fully paid on a pro-rata basis to the Company’s shareholders registered on 22nd September, 2001.

## 21. RESERVES

### The Group

	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Capital reserve* <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1/11/1999	—	(4,303)	—	(4,303)
Profit for the year	<u>—</u>	<u>2,165</u>	<u>—</u>	<u>2,165</u>
At 31/10/2000 as reported	—	(2,138)	—	(2,138)
Premium on issue of shares	29,892	—	—	29,892
Share issue expenses	(8,753)	—	—	(8,753)
Capitalisation of share premium	(1,730)	—	—	(1,730)
Loss for the year	—	(25,803)	—	(25,803)
Effect of the reorganisation	—	—	28,327	28,327
Goodwill written off	<u>—</u>	<u>(10,707)</u>	<u>—</u>	<u>(10,707)</u>
At 31/10/2001	<u>19,409</u>	<u>(38,648)</u>	<u>28,327</u>	<u>9,088</u>

\* Capital reserve of the Group represents the difference between the nominal value of the shares of subsidiaries acquired and the nominal value of shares issued by the Company as consideration thereof pursuant to the Reorganisation.

## The Company

	Share premium <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Premium on issue of shares	29,892	—	29,892
Share issue expenses	(8,753)	—	(8,753)
Capitalisation of share premium	(1,730)	—	(1,730)
Profit for the year	<u>—</u>	<u>15</u>	<u>15</u>
	<u>19,409</u>	<u>15</u>	<u>19,424</u>

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.

## 22. NOTES TO CASH FLOW STATEMENT

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

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
(Loss)/profit before taxation	(25,803)	2,560
Depreciation	3,627	2,139
Loss on disposal of fixed assets	—	303
Interest income	(546)	(1,382)
Interest expenses	3,924	4,174
Decrease/(increase) in due from a director	13,551	(203)
Decrease/(increase) in due from related companies	3,192	(4,136)
Increase in prepayments, deposits and other receivables	(1,135)	(2,871)
Decrease/(increase) in inventories	4,318	(3,013)
Decrease/(increase) in trade receivables	920	(533)
Increase in trade payables	6,039	141
Increase in other payables and accruals	5,502	1,093
Decrease in due to a director	(8,369)	(11,234)
(Decrease)/increase in trust receipts loans – secured	<u>(2,010)</u>	<u>1,224</u>
Net cash inflow/(outflow) from operating activities	<u>3,210</u>	<u>(11,738)</u>

## (b) Purchase of subsidiaries

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Net assets acquired:		
Fixed assets	70	—
Inventories	8,677	—
Prepayments and deposits	70	—
Due from related companies	85,110	—
Bank balance	12	—
Due to directors	13,313	—
Trade payables	(3,434)	—
Other payables and accruals	(218)	—
Due to related companies	(113,807)	—
Goodwill on consolidation	10,707	—
	<u>500</u>	<u>—</u>
Satisfied by:		
Cash consideration	300	—
Consideration shares	200	—
	<u>500</u>	<u>—</u>

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

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Cash consideration paid	300	—
Cash and cash equivalents acquired	<u>(12)</u>	<u>—</u>
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	<u>288</u>	<u>—</u>

## (c) Analysis of changes in financing during the year

	Share capital and share premium HK\$'000	Convertible loan notes HK\$'000	Bank loans HK\$'000	Obligation under hire purchase contract HK\$'000	Total HK\$'000
Balance as at 1st November, 1999	—	—	16,681	89	16,770
Non cash movement					
New share issue for acquiring subsidiaries	74	—	—	—	74
	74	—	16,681	89	16,844
Issue of convertible loans note	—	2,500	—	—	2,500
New bank loans	—	—	9,300	—	9,300
Repayment of bank loans	—	—	(12,682)	—	(12,682)
Capital element of hire purchase contract paid	—	—	—	(89)	(89)
Balance as at 31st October, 2000	74	2,500	13,299	—	15,873
Non cash movement					
Accruals for share issue expenses	(1,558)	—	—	—	(1,558)
New share issue for acquiring subsidiaries	1,097	—	—	—	1,097
Share swap for acquiring subsidiaries	(29,224)	—	—	—	(29,224)
Share issue for purchase of fixed assets	2,900	—	—	—	2,900
Conversion of convertible loan notes	3,500	(3,500)	—	—	—
	(23,211)	(1,000)	13,299	—	(10,912)
New shares issue of the Company	30,315	—	—	—	30,315
Share issue expenses	(6,945)	—	—	—	(6,945)
New shares issue of a subsidiary	22,750	—	—	—	22,750
Issue of convertible loan notes	—	1,000	—	—	1,000
New bank loans	—	—	9,887	—	9,887
Repayment of bank loans	—	—	(18,324)	—	(18,324)
Inception of hire purchase contract	—	—	—	31	31
Capital element of hire purchase contract paid	—	—	—	(1)	(1)
Net cash inflow/(outflow) from financing	46,120	1,000	(8,437)	30	38,713
Balance as at 31st October, 2001	22,909	—	4,862	30	27,801

**(d) Major non-cash transactions**

- (i) On 21st September, 2001, an aggregate of 109,699,990 shares were allotted and issued, credited as fully paid, as consideration for the acquisition of the entire issued share capital of Rainbow BVI.
- (ii) On 11th November, 2000, Jet Legend entered into a sale and purchase agreement to acquire net assets of HK\$4,964,470. Consideration for this transaction was the issuance by Jet Legend of 4 shares of HK\$1 each credited as fully paid to Ms. Aldy Li. These shares were exchanged for capital of Rainbow BVI on 31st January, 2001. The shares then were exchanged for capital of the Company on 21st September, 2001.
- (iii) On 11th November, 2000, Jet Legend entered into another sale and purchase agreement to acquire net assets of HK\$131,500. Consideration of this transaction was the issuance by Jet Legend of 4 shares of HK\$1 each credited as fully paid to Ms. Aldy Li and HK\$300,000 paid to her business partner. These shares were exchanged for capital of Rainbow BVI on 31st January, 2001. The shares were then exchanged for capital of the Company on 21st September, 2001.

**23. 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. The exercise price of the share options is HK\$0.25.

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

Except for options granted to ICN as part of the remuneration for its financial advisory service rendered to the Group, each option shall lapse if the relevant grantee ceases to be a director or an employee of the Group or on any other ground set forth in the Pre-IPO Share Option Scheme.

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 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.

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

## 24. RELATED PARTY TRANSACTIONS

Particulars of significant transactions between the Group and related parties during the year are summarised below:

	<i>Notes</i>	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
Purchase of beauty products from a company connected with Ms. Aldy Li	<i>(i)</i>	2,091	—
Sales of beauty products to a company connected with Ms. Aldy Li	<i>(i)</i>	6	—
Purchase of beauty products from Rainbow Trading Company	<i>(ii)</i>	9,013	55,365
Sales of beauty products to Rainbow Cosmetic Company	<i>(iii)</i>	63	238
Purchase of beauty products from Rainbow Cosmetic Company	<i>(iii)</i>	—	52
Interest income received from Rainbow Trading Company	<i>(ii)</i>	367	1,382
Letter of credit handling fee income received from Rainbow Trading Company	<i>(ii)</i>	42	278
Rental expenses paid to Ms. Aldy Li	<i>(iv)</i>	<u>105</u>	<u>—</u>

*Notes:*

- (i) The company connected with Ms. Aldy Li is owned by her brother.
- (ii) Mr. Elbert Lee was the sole proprietor of Rainbow Trading Company.
- (iii) Ms. Aldy Li was one of the two partners in the partnership, Rainbow Cosmetic Company.
- (iv) The headquarters of the Group and the warehouse of Newide are located at the premises owned by Ms. Aldy Li. No rent was paid to Ms. Aldy Li for the year ended 31st October, 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 from 1st June, 2001 at a monthly rent of HK\$21,000.
- (v) On 11th November, 2000, Newide entered into a sale and purchase agreement to acquire all business and assets of a sole proprietorship namely RTC from Mr. Elbert Lee. Under the terms of the agreement, all business and assets of RTC with the net liabilities in the sum of approximately HK\$10,338,000 were transferred to Newide after the close of business on 31st December, 2000 at a nominal consideration of HK\$1 paid by Newide, the consideration of which was determined on arm's length basis and after negotiations with the relevant parties.
- (vi) On 11th November, 2000, Jet Legend entered into two separate sale and purchase agreements to acquire all business and assets of a sole proprietorship namely SRCC from Ms. Aldy Li and a partnership namely PRCC from Ms. Aldy Li and her business partner.

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



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

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

## 25. COMMITMENTS

At 31st October, 2001, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Within one year	21,364	17,103
In the second to fifth years inclusive	<u>13,591</u>	<u>10,255</u>
	<u>34,955</u>	<u>27,358</u>

## 26. BANKING FACILITIES AND PLEDGE OF ASSETS

At 31st October, 2001, the Group's total available banking facilities of approximately HK\$38,384,000 of which of approximately HK\$33,566,000 was utilised. These facilities were secured by the following:

- (i) Bank fixed deposits of approximately HK\$12 million and units of trust fund of the Group.
- (ii) Corporate guarantee executed by Jet Legend of approximately HK\$10 million.
- (iii) Corporate guarantee executed by the Company of appropriately HK\$9 million.
- (iv) Legal charges on certain properties and units of trust fund held by, and the fixed deposits maintained in the name of Ms. Aldy Li.
- (v) Personal guarantee executed by Ms. Aldy Li.
- (vi) Fixed deposits held by an individual connected with Ms. Aldy Li.

Subsequent to the balance sheet date, on 14th January, 2002, the personal guarantee executed by Ms. Aldy Li, units of trust fund held by, and the fixed deposits maintained in the name of Ms. Aldy Li as security for the banking facilities granted by Shanghai Commercial Bank Limited has been released.

The release of the legal charges on fixed deposits held by an individual connected with Ms. Aldy Li as security for the banking facilities granted by Shanghai Commercial Bank Limited is still under negotiation. The Directors are of the opinion that the release of security could be completed shortly.

The release of the personal guarantee executed by Ms. Aldy Li and fixed deposits maintained in the name of Ms. Aldy Li as security for the banking facilities granted by Hang Seng Bank Limited is still under negotiation. The Directors are of the opinion that the release of security could be completed shortly.

The release of the legal charges on certain properties held by, and fixed deposits maintained in the name of Ms. Aldy Li as security for the banking facilities granted by Chekiang First Bank Limited is still under negotiation. The Directors are of the opinion that the release of security could be completed shortly.

## **27. 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, 2001, the aggregate amount of employer's contribution made by the Group to the retirement scheme was approximately HK\$820,000 (2000: HK\$Nil).

## **28. CHANGE OF NAME**

The Company changed its corporate name from "Rainbow Cosmetic International Holdings Limited also known as 彩虹化粧品國際控股有限公司" to "Rainbow International Holdings Limited also known as 彩虹國際控股有限公司" on 11th September, 2001.

## **29. CONTINGENT LIABILITIES**

As at 31st October, 2001, the Company had guarantees given to banks for banking facilities utilised by certain subsidiaries to the extent of approximately HK\$9 million.

Apart from the above, the Group and the Company had no material litigation or contingent liabilities as at 31st October, 2001 and up to the date of the approval of the financial statements.

## 3. QUARTERLY FINANCIAL INFORMATION

The following information is extracted from the Company's announcement dated 10th September, 2002 of its quarterly results for the three months and the nine months ended 31st July, 2002:

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

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

Notes:

### 1. Basis Of Preparation

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

### 2. Turnover

Turnover represents (a) the invoiced value of beauty products sold less discounts and sales returns and (b) services income generated from the provision of beauty services during the period after the elimination of all material inter-company transactions within Rainbow Group.

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

### 3. Other Revenue

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

### 4. Taxation

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

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

### 5. Extraordinary Loss

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

### 6. Loss Per Share

#### (a) Basic

The calculation of basic loss per share for the three months ended 31st July, 2002 and nine months ended 31st July, 2002 is based on the loss attributable to shareholders of approximately HK\$27,766,000 and HK\$44,401,000 respectively (three months ended 31st July, 2001 and nine months ended 31st July, 2001:

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

(b) *Diluted*

The calculation of diluted loss per share for the three months ended 31st July, 2002 and nine months ended 31st July, 2002 is based on the loss attributable to shareholders of approximately HK\$27,766,000 and HK\$44,401,000 respectively (three months ended 31st July, 2001 and nine months ended 31st July, 2001: approximately HK\$2,068,000 and HK\$6,301,000 respectively) and the 362,941,250 (2001: 367,500,000) shares, which represented the 350,000,000 shares deemed to be in issue throughout the period under review on the assumption that the Reorganization had been completed on 1st November, 1998 and after adjusting for the number of shares which are deemed to have been issued for no consideration under the Pre-IPO Share Option Scheme as defined in the prospectus of the Company dated 28th September, 2001 based on the subscription price per share at HK\$0.25.

7. **Reserves**

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

Capital reserve of Rainbow Group represents the difference between the nominal value of the shares of subsidiaries acquired and the nominal value of shares issued by the company as consideration thereof pursuant to Rainbow Group reorganization scheme (please refer to the prospectus dated 28th September, 2001 for details).

## 4. UNAUDITED MANAGEMENT ACCOUNTS AS AT 31ST OCTOBER, 2002

Set out below are the turnover and the operating loss of the Group based on the **UNAUDITED MANAGEMENT ACCOUNTS** for two periods from 1st August, 2002 to 31st October, 2002 and 1st November, 2001 to 31st October, 2002.

	<b>Three months Ended 31/10/2002 HK\$'000</b>	<b>Twelve months Ended 31/10/2002 HK\$'000</b>
Turnover ( <i>Note A</i> )	4,380	50,377
Cost of Sales	<u>(2,596)</u>	<u>(43,878)</u>
Gross Profit	1,784	6,499
Other Revenue	<u>180</u>	<u>639</u>
Total Income	1,964	7,138
Operating Expenses		
Selling and Distribution Costs	(2,145)	(35,283)
Administrative Expenses	(4,023)	(14,843)
Finance Costs	<u>(343)</u>	<u>(2,388)</u>
Operating Loss	(4,547)	(45,376)
Exceptional Items ( <i>Note B</i> )	<u>(998)</u>	<u>(4,569)</u>
Loss Before Taxation	(5,545)	(49,945)
Taxation	<u>N/A</u>	<u>N/A</u>
Loss Attributable to Shareholders	<u><u>(5,545)</u></u>	<u><u>(49,945)</u></u>

Note A:

*Turnover for the year  
ended 31st October, 2002*

	<b>Macau</b> <i>HK\$'000</i>	<b>Hong Kong</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Retail Outlet Sales	1,485	43,271	44,756
Retail Direct Sales	N/A	65	65
Beauty Services	<u>290</u>	<u>5,266</u>	<u>5,556</u>
Total:	<u><u>1,775</u></u>	<u><u>48,602</u></u>	<u><u>50,377</u></u>

*Turnover for the three months  
ended 31st October, 2002*

	<b>Macau</b> <i>HK\$'000</i>	<b>Hong Kong</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Retail Outlet Sales	682	2,206	2,888
Retail Direct Sales	N/A	65	65
Beauty Services	<u>290</u>	<u>1,137</u>	<u>1,427</u>
Total:	<u><u>972</u></u>	<u><u>3,408</u></u>	<u><u>4,380</u></u>

Note B:

*Exceptional Items*

	<b>Three months</b> <b>Ended</b> <b>31/10/2002</b> <i>HK\$'000</i>	<b>Twelve months</b> <b>Ended</b> <b>31/10/2002</b> <i>HK\$'000</i>
Provision for Trust Fund	142	209
Staff Severance Payment	1,977	2,068
Assets Written off on closure of retail outlets	1,668	5,082
Liabilities Written back items*	<u>(2,789)</u>	<u>(2,789)</u>
Total:	<u><u>998</u></u>	<u><u>4,569</u></u>

\* Such written back items were re-classification of entries

## 5. INDEBTEDNESS

### **Borrowings**

As at the close of business on 31st October, 2002, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Company had outstanding borrowings of approximately HK\$26.7 million, of which HK\$16.9 million are secured and HK\$9.8 million due to a director, is unsecured, interest free and repayable on demand.

The Company's borrowings at 31st October, 2002 were denominated in either Hong Kong Dollars or United States Dollars. For the purpose of this indebtedness statement, amounts denominated in United States Dollar have been translated into Hong Kong Dollars at the exchange rate of HK\$7.8 to US\$1.00.

### **Securities**

As at 31st October, 2002, the Company's total credit facilities were secured by the following:

- (i) corporate guarantees given by the Company and its subsidiaries and personal guarantees from a director of the Company and a third party;
- (ii) a legal charge over the investment on a fund owned by the Company's subsidiary with market value of approximately HK\$3.9 million; and
- (iii) a legal charge over the promissory notes and the post-dated cheques issued by the Company.

### **Contingent liabilities**

As at 31st October, 2002, the Group had no material contingent liabilities which had not been disclosed in this circular.

### **Disclaimer**

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal accounts payable in the ordinary course of business of the Group, the Group did not have, at the close of business on 31st October, 2002, any loan capital issued outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, obligations under hire purchases or finance leases, guarantees or other material contingent liabilities.



## 6. WORKING CAPITAL

**The Group is currently unable to settle all its overdue liabilities.** Based on the **UNAUDITED MANAGEMENT ACCOUNTS** as at 31st October, 2002, cash at bank of the Group was HK\$0.36 million. Taking into account the facility granted to the Group by Ever-Long Capital Limited on 2nd October, 2002, of which HK\$1.5 million has not yet been utilised as at the Latest Practicable Date, the Group is still unable to settle all its overdue liabilities. Even if the Rights Issue were to proceed, the proceeds thereof would not be sufficient to settle all the outstanding liabilities and the Group will still be in a net liabilities position and in financial difficulties. The Directors consider and the on-going sponsor of the Company, MasterLink Securities (Hong Kong) Corporation Limited, concurs with the Directors' view that the Group's existing available funding resources would be able to settle its operating expenses in respect of the Existing Subsidiaries until the Rights Issue becoming unconditional which is expected to be on 23rd January, 2003. However, if the Group's banks and creditors take legal actions against the Group to demand immediate settlement of the overdue liabilities, the Group would not have sufficient working capital to settle all its overdue liabilities.

Upon completion of the Rights Issue, proceeds of approximately HK\$4.54 million will be applied as working capital of the Group. The Directors consider that these additional funds can assist the Group to finance its operating expenses but are still not sufficient to settle all its overdue liabilities.

**It should be noted that the Rights Issue is subject to various conditions which include the approval from the Independent Shareholders in the EGM and therefore the Rights Issue may or may not proceed. If the Rights Issue fails to complete, the financial position of the Group may be further affected adversely. If the Rights Issue becomes unconditional but the Group fails to agree with the banks and creditors on the restructuring of the debts, the banks and creditors may proceed to take legal actions to demand immediate settlement, the Group would be unable to satisfy all these liabilities and the Group's financial position would be further adversely affected.**

Whether or not the proposed Rights Issue would become unconditional, the Group will commence to negotiate with the banks and creditors on the debt restructuring immediately after the EGM. Moreover, the Company will continue to explore new funding resources such as negotiating with banks and other financial institutions for further bank loans and credit facilities or raising equity capital when and as circumstances are appropriate.

## 7. MATERIAL CHANGES

As at the Latest Practicable Date, save for the information disclosed in the Letter from the Board set out in pages 7 to 43 of this circular and information as set out in this appendix, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st October, 2001, the date to which the latest published annual report of the Group was made up.

## 8. DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

The Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

### 9. PRO FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is a pro forma statement of the unaudited adjusted consolidated net tangible assets of the Group following completion of the Rights Issue. It is based on the audited consolidated financial statements of the Group as at 31st October, 2001 and the unaudited management accounts of the Group as at 31st October, 2002.

	<i>HK\$'000</i>
Audited consolidated net assets as at 31st October, 2001	12,588
Unaudited loss for the twelve months ended 31st October, 2002	<u>(49,945)</u>
Unaudited consolidated net deficit of the Group as at 31st October, 2002	(37,357)
Estimated net proceeds from the Rights Issue of 350,000,000 Rights Shares	<u>19,000</u>
Unaudited pro forma adjusted consolidated net deficit following the completion of the Rights Issue	<u><u>(18,357)</u></u>
Unaudited pro forma adjusted consolidated net deficit per Share immediately prior to the Rights Issue based on 350,000,000 Shares in issue as at the Latest Practicable Date	<u><u>(HK\$0.107)</u></u>
Unaudited pro forma adjusted consolidated net deficit per Share immediately following the completion of the Rights Issue based on 700,000,000 Shares in issue as enlarged by the issue of 350,000,000 Rights Shares (based on (i) 350,000,000 Shares in issue as at the Latest Practicable Date; and (ii) on the assumption that (a) the subscription rights attaching to the outstanding Options have not been exercised on or before the Record Date and (b) the provisional allotments of 350,000,000 Rights Shares have been fully taken up upon completion of the Rights Issue)	<u><u>(HK\$0.026)</u></u>

This explanatory statement is provided to enable the Shareholders to make an informed decision on whether to vote for or against the resolution to approve the granting of the Repurchase Mandate.

## 1. INFORMATION ON GEM LISTING RULES RELATING TO SHARE REPURCHASES

The GEM Listing Rules permit companies whose primary listings are on GEM to repurchase their securities on GEM subject to certain restrictions, the most important of which are summarised below:

### (i) Shareholders' approval

All proposed repurchases of securities (which must be fully-paid up) by a company with its primary listing on GEM must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval in relation to specific transactions.

### (ii) Source of funds

Any repurchases by a company may only be funded out of funds legally available for the purposes in accordance with its memorandum of association and articles of association and the applicable laws of the Cayman Islands. A company may not repurchase its own securities on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

### (iii) Trading restrictions

A company is authorised to repurchase on GEM or on another stock exchange recognised for this purpose by the Securities and Futures Commission and the Stock Exchange a total number of shares which represent up to a maximum of 10 per cent. of the existing issued share capital in the company at the date of the passing of the ordinary resolution approving the repurchase mandate without the prior approval of the Stock Exchange.

A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase whether on GEM or otherwise (except pursuant to the exercise of share options or similar instruments outstanding prior to such repurchase).

In addition, the purchase price of securities purchased on GEM should not be higher than the latest or current independent bid price or the last independent sale (contract) price quoted or reported on the system (as defined in the Rules of the Stock Exchange), whichever is higher. A company shall not make the opening bid or any bid in the last 30 minutes before the close of normal trading hours as stipulated in the Rules of the Stock Exchange.

A company is also prohibited from making securities repurchases on GEM if the repurchase would result in the number of listed securities in the hands of the public falling below the relevant minimum prescribed percentage as required by the Stock Exchange.

A company shall procure that any broker appointed by it to effect the purchase of its own securities shall disclose to the Stock Exchange such information with respect to purchase made on behalf of the company as the Stock Exchange may request.

**(iv) Status of repurchased securities**

The listing of all securities which are repurchased by a company (whether on GEM or otherwise) is automatically cancelled and the certificates of those securities must be cancelled and destroyed as soon as reasonably practicable.

**(v) Suspension or repurchases**

Any repurchase of securities is prohibited after a price sensitive development has occurred or has been the subject of a decision until the price sensitive information has been made publicly available. In particular, during the period of one month immediately preceding either the preliminary announcement of the company's annual results or the publication of the company's half-year report or a quarterly report, a company may not repurchase its securities on GEM, unless the circumstances are exceptional. In addition, the Stock Exchange reserves the right to prohibit a company from making any repurchase of securities on GEM if the company has breached any of the GEM Listing Rules.

**(vi) Reporting requirements**

A company must report to the Stock Exchange on any repurchases of securities on GEM or otherwise not later than 9:30 a.m. (Hong Kong time) on the following business day. In addition, a company's annual report and accounts are required to include a monthly breakdown of securities repurchases made during the financial year under review, showing the number of securities repurchased each month (whether on GEM or otherwise), the repurchase price per share or the highest and lowest prices paid for all such repurchases and the total prices paid. The directors' report is also required to contain reference to the repurchases made during the year and the directors' reasons for making such repurchases.

The company shall make arrangements with its brokers who effect repurchases to provide the company in a timely fashion with the necessary information in relation to the purchase made on behalf of the company to enable the company to report to the Stock Exchange.

**(vii) Connected parties**

A company is prohibited from knowingly repurchasing securities on GEM from a "connected person", that is, a director, chief executive, substantial shareholder or management shareholder of the company or an associate of any of them (as defined in the GEM Listing Rules), and a connected person is prohibited from knowingly selling his securities to the company on GEM.

## **2. EXERCISE OF THE REPURCHASE MANDATE**

Based on 350,000,000 Shares in issue as at the Latest Practicable Date and on the basis that (i) the resolutions approving the Rights Issue, the Bonus Issue and the Repurchase Mandate are passed at the EGM; (ii) no further Shares of the Company are issued or repurchased between the Latest Practicable Date and the date of the EGM; (iii) the outstanding Options are not exercised prior to the EGM; and (iv) the Rights Shares and the Bonus Shares are duly allotted and issued, the Company would be allowed under the Repurchase Mandate to repurchase to a maximum of 245,000,000 Shares up to (a) the conclusion of the next annual general meeting of the Company; (b) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held; or (c) the revocation, variation or renewal of the Repurchase Mandate by ordinary resolution of the shareholders of the Company in general meeting, whichever occurs first.

## **3. REASONS FOR REPURCHASES**

The Directors believe that the Repurchase Mandate is in the best interests of the Company and its Shareholders. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of the net asset value and/or earnings per Share of the Company and will only be made when the Directors believe that such a repurchase will benefit the Company and its shareholders.

## **4. FUNDING OF REPURCHASES**

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with its memorandum and articles of association, the GEM Listing Rules and the applicable laws of the Cayman Islands. The Company may not purchase its own securities on the GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

## **5. IMPACT ON WORKING CAPITAL OR GEARING POSITION**

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in the audited financial statements contained in the annual report of the Company for the year ended 31st October, 2001) in the event that the Repurchase Mandate is exercised in full. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or on its gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

## 6. SHARE PRICES

The highest and lowest prices at which the Shares were traded on GEM during the twelve months preceding the Latest Practicable Date were as follows:

	Shares	
	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
December 2001	0.67	0.57
January 2002	0.70	0.58
February 2002	0.75	0.67
March 2002	0.84	0.77
April 2002	0.82	0.70
May 2002	0.83	0.65
June 2002	0.75	0.70
July 2002	0.77	0.60
August 2002	0.77	0.77
September 2002	—	— ( <i>Note</i> )
October 2002	—	— ( <i>Note</i> )
November 2002	0.75	0.68

*Note:* Trading of the Shares has been suspended for the months of September and October, 2002.

## 7. UNDERTAKING

The Directors have given undertaking to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules, the memorandum and articles of association of the Company and the applicable laws of the Cayman Islands.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, their associates, have any present intention to sell any Shares to the Company under the Repurchase Mandate if such is approved by the shareholders of the Company.

As at the Latest Practicable Date, no connected person (as defined in the GEM Listing Rules) has notified the Company that it has a present intention to sell Shares to the Company, or has undertaken not to do so, in the event that the Repurchase Mandate is approved by the shareholders of the Company.

## 8. THE HONG KONG CODE ON TAKEOVERS AND MERGERS

If as a result of a repurchase of Shares, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of Rule 32 of the Hong Kong Code on Takeovers and Merger ("Code"). As a result, a shareholder, or a group of shareholders acting in concert (within the meaning under the Code), depending on the level of increase in the shareholder's interests, could obtain or consolidate control of the Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Code.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, their associates, have any present intention to exercise the Repurchase Mandate if such is approved by the shareholders of the Company, to such an extent as would give rise to an obligation to make a mandatory general offer under Rule 26 or Rule 32 of the Code.

Assuming the Rights Issue and the Bonus Issue becoming unconditional and Ms. Li subscribe for 138,000,000 Rights Shares as undertaken under the Rights Issue, Ms. Li will be interested in an aggregate of 320,133,840 Shares, representing approximately 45.28% of the issued share capital of the Company (assuming full exercise of the outstanding Options before the Record Date). In the event that the Directors exercise in full the power to repurchase Shares in accordance with Repurchase Mandate the interest of Ms. Li in the Company would be increased to approximately 50.31% of the issued share capital of the Company. The Directors consider that such an increase would give rise to an obligation on the part of Ms. Li to make a mandatory offer under Rule 26 of the Takeover Code. The Directors would review the position of the Company and consider from time to time whether to exercise the Repurchase Mandate in full.

## 9. SHARE PURCHASE MADE BY THE COMPANY

No purchases of Shares have been made by the Company since dealings in Shares on GEM in the six months preceding the Latest Practicable Date, whether on the Stock Exchange or otherwise.

**RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purposes 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:

- the information contained in this circular is accurate and complete in all material respects and not misleading;
- there are no other matters the omission of which would make any statement in this circular misleading; and
- all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

**DISCLOSURE OF INTERESTS**

As at the Latest Practicable Date, the interests of the directors and the chief executive of the Company in the share capital of the Company or any of its associated corporations, within the meaning of the SDI Ordinance, which were notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance, including interests which they were taken or deemed to have under section 31 of, or Part 1 of the schedule to, the SDI Ordinance, or which were required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

<b>Name of Directors</b>	<b>Type of interest</b>	<b>Number of shares</b>
Li Ngar Kwan, Aldy	Personal	182,133,840
Lai Tin Ying, Michael (alias Lai Siu Tin)	Personal	2,186,434
Chiu Wai	Personal	348,000

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their associates had any personal, family, corporate or other interests in the shares of the Company or any of its associated corporations as defined in the SDI Ordinance or which, under Rules 5.40 to 5.59 of the GEM Listing Rules, were required to be notified to the Company and the Stock Exchange.

None of the Directors is materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Company.

Save as disclosed herein, none of the Directors has since 31st October, 2001, being the date to which the latest published audited consolidated financial statements of the Company have been made up, any direct or indirect interests in any assets acquired or disposed of by or leased to or proposed to be acquired or disposed of by or leased to any member of the Group.



Save as disclosed herein, neither the Company, nor any of its subsidiaries or holding company is a party to any arrangements to enable the Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares, or debentures of, the Company or any other body corporate.

Other than as disclosed above, neither the Directors nor the chief executive of the Company, nor any of their associates, had any interests in any securities of the Company or any of its associated corporations as defined by the SDI Ordinance.

### SUBSTANTIAL SHAREHOLDERS

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

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

*Note:*

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

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

### OUTSTANDING SHARE OPTIONS

As at the Latest Practicable Date, Options comprising an aggregate of 3,500,000 underlying Shares were outstanding.

### Pre-IPO Share Option Scheme

As at the Latest Practicable Date, options granted under the Pre-IPO Share Option Scheme comprising an aggregate of 3,500,000 underlying Shares granted on 24th September, 2001 at an exercise price of HK\$0.25 per Share were outstanding. These Options were granted to the following grantee:

Name of grantee	Address of grantee	No. of underlying Shares comprised in the Options granted under the Pre-IPO Share Option Scheme
Consultant	Room 4003, Two Exchange Square, 8 Connaught Place, Central, Hong Kong	3,500,000 ( <i>Note 1</i> )

*Notes:*

1. The validity of these Options is currently under dispute.
2. As at the Latest Practicable Date, the Company granted the Options to the Directors, ICN and the employees of the Group which entitling the holders thereof to subscribe up to 35,000,000 Shares of which 3,500,000 Options have been granted to ICN with its validity being currently under dispute, 15,137,500 Options have been lapsed and the remaining balance of 16,362,500 Options (the holders of which have given irrevocable undertakings not to exercise the Options within 10 years from date of grant) have been regarded as unexercisable.

### 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.

### COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had any interest in any business (as defined in Rule 11.04 of the GEM Listing Rules) which competes or may compete with the business of the Group.

**MATERIAL CONTRACTS**

The following contracts, not being contracts in the ordinary course of business, have been entered into by the Company and its subsidiaries within the two years preceding the date of this circular and are or may be material:

- (i) a sale and purchase agreement dated 31st January, 2001 entered into between Ms. Li and Rainbow (BVI) Limited (“Rainbow (BVI)”) pursuant to which Ms. Li agreed to sell and Rainbow Cosmetic (BVI) agreed to purchase 10 shares of HK\$1.00 each in the capital of Jet Legend Limited (“Jet Legend”) and 2 shares of HK\$1.00 each in the capital of Newide International Limited (“Newide International”) in consideration of Rainbow (BVI) allotting and issuing 4 shares of US\$1.00 each in its capital, credited as fully paid, to Ms. Li;
- (ii) a deed of assignment of shareholder’s loans dated 31st January, 2001 entered into between Ms. Li, Rainbow (BVI), Newide International and Jet Legend pursuant to which Ms. Li assigned her shareholder’s loans of HK\$32,151 and HK\$323,796 in Newide International and Jet Legend respectively to Rainbow (BVI) and in consideration of such assignment, Ms. Li shall be deemed to have granted a shareholder’s loan in the amount of HK\$355,947 to Rainbow (BVI);
- (iii) a subscription agreement dated 8th June, 2001 entered into between (i) Rainbow (BVI); and (ii) Chan See Han, Lai Tin Ying, Michael (alias Lai Siu Tin), Cheang Weng Sam (alias Cheang Song Wai), Chiu Wai, Lau Cheung Wai, ICN, Standard Network Limited and Forebest Limited pursuant to which Rainbow (BVI) agreed to allot and issue and Chan See Han, Lai Tin Ying, Michael (alias Lai Siu Tin), Cheang Weng Sam (alias Cheang Song Wai), Chiu Wai, Lau Cheung Wai, ICN, Standard Network Limited and Forebest Limited agreed to subscribe for 280, 400, 400, 600, 400, 100, 200, 320 shares of US\$1.00 each in the capital of Rainbow (BVI) at a consideration of HK\$700,000, HK\$1,000,000, HK\$1,000,000, HK\$1,500,000, HK\$1,000,000, HK\$250,000, HK\$500,000, HK\$800,000 in cash respectively;
- (iv) a supplemental deed dated 8th June, 2001 entered into between Rainbow (BVI), E-Teck and Ms. Li in relation to the 7 convertible loan notes due 2001 in the aggregate principal amount of HK\$3,500,000, pursuant to which the conversion price of the 7 convertible loan notes was amended;
- (v) a deed dated 20th September, 2001 made between Ms. Li, Liang Kwong Lim and Cheang Weng Sam (alias Cheang Song Wai) and Rainbow (BVI) pursuant to which Rainbow (BVI) acquired the entire registered capital of Rainbow Macau from Ms. Li, Liang Kwong Lim and Cheang Weng Sam (alias Cheang Song Wai) at a total cash consideration of MOP60,000;
- (vi) a sale and purchase agreement dated 21st September, 2001 entered into between (i) Ms. Li, E-Teck, ISL, Chan See Han, Lai Tin Ying (alias Lai Siu Tin), Michael, Cheang Weng Sam (alias Cheang Song Wai), Chiu Wai, Lau Cheung Wai, ICN, Standard Network Limited and Forebest Limited; and (ii) the Company pursuant to which Ms. Li, E-Teck, ISL, Chan See

Han, Lai Tin Ying, Michael (alias Lai Siu Tin), Cheang Weng Sam (alias Cheang Song Wai), Chiu Wai, Lau Cheung Wai, ICN, Standard Network Limited and Forebest Limited agreed to sell and the Company agreed to purchase an aggregate 50,000 shares of US\$1.00 each in the capital of Rainbow (BVI) representing its entire issued share capital in consideration of the allotment and issue of an aggregate of 109,699,990 Shares as to 68,672,190 Shares to Ms. Li, 19,197,500 Shares to E-Teck, 15,906,500 Shares to ISL, 614,320 Shares to Chan See Han, 877,600 Shares to Lai Tin Ying, Michael (alias Lai Siu Tin), 877,600 Shares to Cheang Weng Sam (alias Cheang Song Wai), 1,316,400 Shares to Chiu Wai, 877,600 Shares to Lau Cheung Wai, 219,400 Shares to ICN, 438,800 Shares to Standard Network Limited and 702,080 Shares to Forebest Limited;

- (vii) the underwriting agreement as defined in the prospectus of the Company dated 28th September, 2001 (“Prospectus”);
- (viii) a deed of indemnity dated 27th September, 2001 given by Ms. Li and Mr. Elbert Lee in favour of the Company, containing, among other things, indemnities referred to in the subsection headed “Indemnity” in appendix IV to and the subsection headed “Import Restriction” under the section headed “Risk Factors” in the Prospectus;
- (ix) a deed of non-competition dated 27th September, 2001 given by the Directors and the Initial Management Shareholders (as defined in the Prospectus) to the Company, brief particulars of which are set out in the sub-section headed “Competing Business and Non-competition Undertakings” in the section headed “Business of Rainbow Group” in the Prospectus;
- (x) the sponsor agreement dated 27th September, 2001 entered into between the Company and DBS Asia referred to in the subsection headed “Sponsor agreement” in the section headed “Underwriting” in the Prospectus;
- (xi) the sponsor agreement dated 18th October, 2002 entered into between the Company and MasterLink for the appointment of MasterLink as the on-going sponsor of the Company as required under Rule 6.63 of the GEM Listing Rules;
- (xii) the Underwriting Agreement; and
- (xiii) the Supplement Underwriting Agreement.

## SERVICE CONTRACTS

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

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

Save as disclosed above, none of the Directors has entered into any service arrangements with any member of Rainbow Group (excluding contracts expiring or determinable by Rainbow Group within one year without payment of compensation other than statutory compensation).

### **LITIGATION**

Save as disclosed herein, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against either the Company or any of its subsidiaries.

### **SPONSOR'S INTERESTS**

MasterLink and the Company have entered into a sponsors' agreement, under which MasterLink will fulfil its continuing obligations as a sponsor under Rules 6.50 to 6.58 of the GEM Listing Rules for a period up to 31st October, 2003 subject to the terms and conditions contained therein.

As updated and notified by the Company's sponsor, MasterLink, as at the Latest Practicable Date, none of MasterLink, its directors, employees or associates, as referred to in note 3 to Rule 6.35 of the GEM Listing Rules, had any interests in any securities of the Company or any other company in the Group (including options or rights to subscribe for such securities).

No director or employee of MasterLink who is involved in providing advice to the Company has or may, as a result of the Rights Issue, have any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities).

Save as disclosed above, neither MasterLink nor its associates has accrued any material benefit as a result of the successful outcome of the Rights Issue, including, for example, the repayment of material outstanding indebtedness or success fees.

### **HANTEC'S INTERESTS**

As updated and notified by Hantec, as at the Latest Practicable Date, none of Hantec, its directors, employees or associates, as referred to in note 3 to Rule 6.35 of the GEM Listing Rules, had any interests in any securities of the Company or any other company in the Group.

**EXPERTS**

The following is the qualification of the experts who have given opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
MasterLink	an investment adviser registered under the Securities Ordinance
Hantec	an investment adviser registered under the Securities Ordinance
First Asia	an investment adviser registered under the Securities Ordinance
Charles Chan, Ip & Fung CPA Ltd.	certified public accountants

As at the Latest Practicable Date, MasterLink, Hantec, First Asia and Charles Chan, Ip & Fung CPA Ltd. do not have any shareholding interest in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

None of MasterLink, Hantec, First Asia and Charles Chan, Ip & Fung CPA Ltd. has any direct or indirect interest in any assets acquired or disposed of by or leased to or proposed to be acquired or disposed of by or leased to any member of the Group since 31st October, 2001, being the date to which the latest audited consolidated financial statements of the Company have been made up.

**CONSENTS**

As at the Latest Practicable Date, MasterLink, Hantec, First Asia and Charles Chan, Ip & Fung CPA Ltd. have given and have not withdrawn their written consents to the issue of this circular with inclusion of their letters, if applicable, which have been prepared for inclusion in this circular, and reference to their names in the form and context in which they are included.

**MANAGEMENT PROFILES**

The particulars of the existing Directors are set out as follows:

**Executive Directors**

*Ms. Li Ngar Kwan, Aldy*, aged 45, is the chairperson of Rainbow Group since its establishment in 1985. *Ms. Li Ngar Kwan, Aldy* is also the founder of Rainbow Group and an executive Director and is responsible for the overall strategic planning and business development of Rainbow Group. *Ms. Li Ngar Kwan, Aldy* has in-depth knowledge and extensive experience in beauty product retail and wholesale businesses in Hong Kong. Prior to establishment of Rainbow Group, *Ms. Li Ngar Kwan, Aldy* had approximately 15 years of experience in beauty product retail business in Hong Kong.

*Mr. LIANG Kwong Lim*, aged 60, is an executive Director responsible for the sales and marketing functions of Rainbow Group. Prior to joining Rainbow Group in January 2001, Mr. Liang has approximately 30 years of experience in export and import trade businesses.

#### **Non-executive Director**

*Mr. LAI Tin Ying, Michael* (alias LAI Siu Tin), aged 54, is a non-executive Director responsible for public relations of Rainbow Group and other promotion and marketing activities of Rainbow Group. Prior to joining Rainbow Group in June 2001, Mr. Lai has approximately 20 years of experience in public relation and media industry.

#### **Independent non-executive Directors**

*Ms. TAM Fung Chee*, aged 40, was appointed as an independent non-executive Director in June 2001. Ms. Tam is also an associate member of Hong Kong Society of Accountants and a fellow member of Chartered Association of Certified Accountants. Ms. Tam has approximately 20 years of experience in accounting and finance industry.

*Mr. CHIU Wai*, aged 69, was appointed as an independent non-executive Director in June 2001. Mr. Chiu is currently a director of Lai Sun Garment (International) Limited, the shares of which are listed on the Main Board. Mr. Chiu has approximately 40 years of experience in garment manufacturing industry.

The business address of all the Directors is at 23rd Floor, Cigna Tower, 482 Jaffe Road, Causeway Bay, Hong Kong.

#### **GENERAL**

- The English text of this circular and the form of proxy shall prevail over the Chinese text.
- The registered office of the Company is at Uglan House, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies. The head office and principal place of business of the Company is at 23rd Floor, Cigna Tower, 482 Jaffe Road, Causeway Bay, Hong Kong. The Hong Kong's branch share registrar and transfer office of the Company is Standard Registrars Limited at 5th Floor, Wing On Centre, 111 Connaught Road, Central, Hong Kong.
- The qualified accountant and company secretary of the Company is Mr. Lee Chap Ming. Mr. Lee holds a Master Degree in Finance and is a member of the Hong Kong Society of Accountants.
- The compliance officer of the Company is Ms. Li.
- The Company has established an audit committee comprising the independent non-executive Directors, Mr. Chiu Wai and Ms. Tam Fung Chee. The terms of reference of the audit committee

have been established based on the guidelines recommended by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review the Company's annual reports, financial statements, interim reports and quarterly reports and to provide advice and comments thereon to the Board.

- The Company's legal adviser on Hong Kong law in respect of the Rights Issue and the Bonus Issue is Sidley Austin Brown & Wood whose address is at 49th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong.
- The Company's legal adviser on Cayman Islands law is Conyers Dill & Pearman whose address is at 2901 One Exchange Square, 8 Connaught Place Central, Hong Kong.
- The principal banker of the Company is Bank of China (Hong Kong) Ltd. whose address is at 409 Hennessy Road Branch, 409-415 Hennessy Road, Wanchai, Hong Kong.
- Save as disclosed in this circular:
  - (i) none of the Directors or the experts referred to in paragraph headed "Experts" of this Appendix is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group taken as a whole;
  - (ii) none of the Directors or the experts referred to in paragraph headed "Experts" of this Appendix has, as at the Latest Practicable Date, any direct or indirect interest in any assets which have been since 31st October 2001, being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired, disposed of by or leased to, any member of the Group, or are proposed to be acquired, disposed of by or leased to, any member of the Group; and
  - (iii) the Directors are not aware of any person who was, as at the Latest Practicable Date, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company or any of its subsidiaries.

#### DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the office of Sidley Austin Brown & Wood, at 49th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong during normal business hours on any weekday other than public holidays, up to and including 3rd January, 2002:

- the memorandum and articles of association of the Company;
- the prospectus of the Company dated 28th September, 2001;
- the annual report of the Company for the year ended 31st October, 2001;



- the first quarterly report of the Company for the three months ended 30th June, 2002;
- the interim report of the Company for the six months ended 30th April, 2002;
- the third quarterly report of the Company for the nine months ended 31st July, 2002;
- the material contracts referred to in this Appendix;
- the service contracts made between the Directors and the Group referred to under “Service Contracts” of this Appendix.
- the letter from the Independent Board Committee as set out on page 44 of this circular;
- the letter from First Asia to the Independent Board Committee, the text of which is set out on pages 45 to 55 of this circular; and
- the written consents of MasterLink, Hantec, First Asia and Charles Chan, Ip & Fung CPA Ltd. referred to in paragraph headed “Consents” of this Appendix.



## RAINBOW INTERNATIONAL HOLDINGS LIMITED

### 彩虹國際控股有限公司

*(incorporated in the Cayman Islands with limited liability)*

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “meeting”) of Rainbow International Holdings Limited (the “Company”) will be held at Novotel Century Hong Kong, Plaza I-III, Lower Lobby, 238 Jaffe Road, Wanchai, Hong Kong on Friday, 3rd January, 2003 at 9:30 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions:

### ORDINARY RESOLUTIONS

1. **“THAT**, subject to the fulfillment of the conditions in respect of the Rights Issue (as defined in the circular dated 18th December, 2002 (the “Circular”) a copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification;
  - (i) the issue by way of rights (the “Rights Issue”) of not less than 350,000,000 new ordinary shares of HK\$0.01 each in the share capital of the Company (the “Rights Shares”) to those shareholders whose names appear on the register of members of the Company at the close of business on 3rd January, 2003 (the “Record Date”), other than shareholders whose addresses as appear on the register of members of the Company on the Record Date are outside Hong Kong (the “Overseas Shareholders”), in the proportion of one Rights share for every share then held at the subscription price of HK\$0.06 per Rights Share and on the terms and conditions as set out in the Circular, be and is hereby approved;
  - (ii) the directors of the Company (the “Directors”) be and are hereby authorised to allot and issue the Rights Shares in the manner aforesaid under and in connection with the Rights Issue provided that (1) no Rights Shares shall be offered or provisionally allotted or issued to the Overseas Shareholders and the Rights Shares which would otherwise have been offered or provisionally allotted to them shall be sold if a net premium in excess of all expenses of sale can be obtained and to the extent that such Rights Shares can be sold, the net proceeds of such sale (after deducting the expenses of sale, if any) be distributed to the Overseas Shareholders pro rata to their holdings of the shares of the Company as at 4:00 p.m. on the Record Date and individual amounts of HK\$100 or less shall be retained for the benefit of the Company; and (2) to the extent that the Rights Shares referred to in (1) above are not sold as aforesaid, such Rights Shares together with any Rights Shares provisionally allotted but not accepted shall be offered for application under forms of application for excess Rights Shares; and

---

## NOTICE OF EGM

---

- (iii) the Directors be and are hereby authorised to do such acts and things and execute such documents which in their opinion may be necessary, desirable or expedient to carry out or give effect to any or all the transactions contemplated in this resolution and the Circular.”
2. “**THAT** the authorised share capital of the Company be and is hereby increased from HK\$20,000,000.00 to HK\$40,000,000.00 by the creation of 2,000,000,000 new shares of HK\$0.01 each (the “Shares”) and that, upon issue, such new Shares shall rank *pari passu* in all respects with the existing Shares.”
3. “**THAT** subject to completion of the Rights Issue (as defined in resolution numbered 1 set out in the notice of general meeting of the Company, of which this resolution forms part, the passing of resolution numbered 2 set out in the notice of general meeting of the Company, of which this resolution forms part and conditional upon the GEM Listing Committee (as defined in the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited) granting or agreeing to grant (subject to allotment) and not having revoked the listing of and permission to deal in the Shares to be issued pursuant to this resolution,
- (i) a sum of not less than HK\$24,500,000.00 being part of the amount standing to the credit of the share premium account of the Company be capitalised and the Directors be and are authorised and directed to appropriate the said sum in paying up in full at par not less than 2,450,000,000 new Shares (the “Bonus Shares”), such Bonus Shares to be allotted, issued and distributed, credited as fully paid, to those shareholders whose names appear on the register of members of the Company on 6th February, 2003 in the proportion of five Bonus Shares for every two Shares then held and that the Bonus Shares shall rank for all purposes *pari passu* with the then existing issued Shares; and
- (ii) the Directors be and they are hereby authorised to sign and execute such documents and do all such acts and things incidental to the issue of the Bonus Shares or as they consider necessary or expedient in connection with the issue of the Bonus Shares (subject to such amendments which the Directors may consider necessary, desirable and in the best interest of the Company).”
4. “**THAT**:
- (a) subject to paragraphs (b) and (c) hereunder, the granting of an unconditional general mandate to the board of Directors, during the Relevant Period (as defined in paragraph (d) below) to issue, allot and deal with additional shares in the capital of the Company, and to make or grant offers, agreements and options which would or might require shares in the capital of the Company, to be issued, allotted or dealt with, be and is hereby generally and unconditionally approved;
- (b) the unconditional general mandate under paragraph (a) above shall not extend beyond the Relevant Period save the Board may during the Relevant Period make or grant offers, agreement and options which might require the exercise of such powers after the end of the Relevant Period;

---

## NOTICE OF EGM

---

(c) the aggregate nominal amount of shares in the capital of the Company allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Board otherwise than pursuant to:

- (i) the Rights Issue (as defined in paragraph (d) below);
- (ii) the exercise of options granted under any option scheme or similar arrangement for the time being adopted for the grant of issue of shares or rights to acquire shares in the capital of the Company to officers and/or employees of the Company and/or any of its subsidiaries; and
- (iii) any scrip dividend or similar arrangement providing for the allotment of shares in the share capital of the Company implemented in accordance with the articles of association of the Company,

shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue immediately after completion of the Rights Issue (as defined in Resolution No. 1 of the notice convening this meeting of which this resolution forms part) and the Bonus Issue (as defined in Resolution No. 3 of the notice convening this meeting of which this resolution forms part) or if the Rights Issue or the Bonus Issue is not completed, on the date of this resolution; and

(d) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company; or
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Company’s articles of association or any applicable laws to be held; or
- (iii) the date on which the authority set out under this resolution is revoked or varied by an ordinary resolution of the Company’s shareholders in general meeting.

“Rights Issue” means the allotment, issue or grant of shares in the capital of the Company pursuant to an offer of shares open for a period fixed by the Directors made to holders of shares in the capital of the Company on the register of members of the Company on a fixed record date in proportion to their then holdings of such 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 recognised regulatory body or any stock exchange in, or in any territory application to the Company).”

---

## NOTICE OF EGM

---

5. **“THAT:**

- (a) the Directors be and are hereby generally and unconditionally authorised to exercise during the Relevant Period (as defined in paragraph (c) below) all the powers of the Company to purchase its shares in the capital of the Company on The Stock Exchange of Hong Kong Limited or any other stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong, subject to and in accordance with applicable laws;
- (b) the aggregate nominal amount of shares which may be purchased pursuant to the approval in paragraph (a) above shall not in total exceed 10 per cent. of the issued share capital of the Company immediately after completion of the Rights Issue (as defined in Resolution No. 1 of the notice convening this meeting of which this resolution forms part) and the Bonus Issue (as defined in Resolution No. 3 of the notice convening this meeting of which this resolution forms part) or if the Rights Issue or the Bonus Issue is not completed, shall not in total exceed 10 per cent. of the issued share capital of the Company as at the date of this resolution; and
- (c) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company; or
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Company’s articles of association or any applicable laws to be held; or
- (iii) the date on which the authority set out under this resolution is revoked or varied by an ordinary resolution of the Company’s shareholders in general meeting.”

6. **“THAT:**

- (a) conditional upon the Resolutions No. 4 and 5 (as set out in the notice convening this meeting of which this resolution forms part) being passed and becoming unconditional, the general mandate granted to the Directors to exercise the powers of the Company to allot, issue and deal with shares or other securities be and is hereby extended during the Relevant Period by the addition thereto of an amount representing the aggregate nominal amount of shares in the capital of the Company repurchased by the Company under the authority granted pursuant to Resolution No. 5 (as set out in the notice convening this meeting of which this resolution forms part), provided that such extended amount shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue immediately after completion of the Rights Issue (as defined in Resolution No. 1 of the notice convening this meeting of which this resolution forms part) and the Bonus Issue (as defined in Resolution No. 3 of the notice convening this meeting of which this resolution forms part) or if the Rights Issue or the Bonus Issue is not completed, on the date of this resolution.

---

## NOTICE OF EGM

---

(b) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company following the passing of the resolution of which time it shall lapse unless, by ordinary resolution passed at that meeting, the mandate as reviewed, either unconditionally or subject to condition; or

(ii) revoked or varied by ordinary resolution of the shareholders in general meeting

whichever occurs first.”

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

Hong Kong, 18th December, 2002

*Principal place of business of the Company:*

23rd Floor, Cigna Tower  
482 Jaffe Road  
Causeway Bay  
Hong Kong

*Notes:*

1. A member entitled to attend and vote at the extraordinary general meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company but must be present in person to represent the member.
2. In order to be valid, a form of proxy together with any power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited with Standard Registrars Limited at 5th Floor, Wing On Centre, 111 Connaught Road, Central, Hong Kong, not less than 48 hours before the time appointed for holding of the extraordinary general meeting or adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or adjourned meeting should you so wish.
3. In case of joint registered holders of any shares, any one of such person may vote at the meeting, either personally or by proxy, in respect of such shares as if he/she was solely entitled thereto, but if more than one of such joint registered holders be present at the meeting, either personally or by proxy, that one of the said holders so present whose name stands first on the register of members in respect of such shares shall be accepted to the exclusion of the votes of the other joint registered holders.