



RAINBOW INTERNATIONAL HOLDINGS LIMITED

彩虹國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

**THIRD QUARTERLY RESULTS REPORT
FOR THE NINE MONTHS ENDED 31ST JULY 2003**

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

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

THIRD QUARTER UNAUDITED RESULTS

The board of Directors (the “Board”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months and nine months ended 31 July 2003, together with the comparative unaudited figures for the corresponding periods in 2002 as follows: -

Consolidated profit and loss account

For the three months and nine months ended 31 July 2003

	Note	(Unaudited) For the three months ended 31 July		(Unaudited) For the nine months ended 31 July	
		2003 HK\$'000	2002 (restated) HK\$'000	2003 HK\$'000	2002 (restated) HK\$'000
TURNOVER	2	3,184	7,792	8,736	45,998
COST OF SALES		(368)	(20,370)	(1,581)	(41,282)
GROSS (LOSS)/PROFIT		2,816	(12,578)	7,155	4,716
OTHER REVENUE		92	—	182	459
OTHER EXPENSES					
Selling and distribution costs		(2,898)	(8,761)	(7,525)	(30,978)
Administrative expenses		(1,411)	(5,988)	(5,404)	(13,334)
Other operating expenses		(19)	(3,221)	(188)	(3,221)
		<u>(4,328)</u>	<u>(17,970)</u>	<u>(13,117)</u>	<u>(47,533)</u>
LOSS FROM OPERATIONS		(1,420)	(30,548)	(5,780)	(42,358)
FINANCE COSTS		(58)	(439)	(576)	(2,043)
LOSS BEFORE TAXATION		(1,478)	(30,987)	(6,356)	(44,401)
TAXATION	3	—	—	—	—
LOSS ATTRIBUTABLE TO SHAREHOLDERS		<u>(1,478)</u>	<u>(30,987)</u>	<u>(6,356)</u>	<u>(44,401)</u>
LOSS PER SHARE					
— BASIC	5(a)	(0.06) cents	(1.41) cents	(0.27) cents	(2.02) cents
LOSS PER SHARE					
— DILUTED	5(b)	<u>(0.06) cents</u>	<u>(1.36) cents</u>	<u>(0.27) cents</u>	<u>(1.95) cents</u>

Notes:

1. **Basis of preparation**

The principal accounting policies adopted in preparing the unaudited consolidated results confirm with accounting principles generally accepted in Hong Kong and accounting standards issued by the Hong Kong Society of Accountants.

Certain comparative figures have been reclassified to conformity with the current period's presentation.

2. **Turnover**

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

	(Unaudited) For the three months ended 31 July		(Unaudited) For the nine months ended 31 July	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(a) Turnover by business segment				
Retails and wholesales of				
Beauty products	388	6,531	2,893	41,869
Beauty services	2,796	1,261	5,843	4,129
	<u>3,184</u>	<u>7,792</u>	<u>8,736</u>	<u>45,998</u>
(b) Turnover by geographical segment				
Hong Kong	2,361	6,988	6,524	45,194
Macau	823	804	2,212	804
	<u>3,184</u>	<u>7,792</u>	<u>8,736</u>	<u>45,998</u>

3. **Taxation**

The Company is exempted from taxation in the Cayman Islands. No Hong Kong profits tax was provided for, as the Group had no assessable profits arising in Hong Kong (2002: Nil). Provision for taxation by a subsidiary operating in Macau has been calculation at the rates applicable, based on existing laws, interpretations and practice, during the period (2002: Nil).

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

4. **Dividend**

The directors do not recommend the payment of an interim dividend for the nine months ended 31 July 2003 (2002:HK\$Nil).

5. Loss Per Share

(a) Basic

The calculation of basic loss per share for the three months and nine months ended 31 July 2003 is based on the loss attributable to shareholders of approximately HK\$1,478,000 and HK\$6,356,000 respectively (three months and nine months ended 31 July 2002: approximately HK\$30,987,000 and HK\$44,401,000 respectively) and on the weighted average number of 2,369,229,423 (three months and nine months ended 31 July 2002: 2,196,547,500(restated)) shares.

The weighted average number of ordinary shares in issue during the period used in the calculation of basic loss per share for the three months ended and nine months ended 31 July 2003 and 2002 have been adjusted to reflect the rights issue and bonus issue completed during the period.

(b) Diluted

The calculation of diluted loss per share for the three months and nine months ended 31 July 2003 is based on the loss attributable to shareholders of approximately HK\$1,478,000 and HK\$6,356,000 respectively (three months and nine months ended 31 July 2002: approximately HK\$30,987,000 and HK\$44,401,000 respectively) and the 2,381,479,423 (2002: 2,277,764,844(restated)) shares, which represented the weighted average number of shares in issue and after adjusting for the number of shares which are deemed to have been issued for no consideration under the Pre-IPO Share Option Scheme based on the subscription price per share at 50 per cent of the offer price of the Company's shares as disclosed in the prospectus dated 28 September 2001 (i.e. HK\$0.044).

6. Issued capital

	As at 31 July 2003		As at 31 October 2002	
	<i>No. of shares HK\$'000</i>		<i>No. of shares HK\$'000</i>	
Authorised:				
Ordinary shares of HK\$0.01	<u>4,000,000,000</u>	<u>40,000</u>	<u>2,000,000,000</u>	<u>20,000</u>
Issue and fully paid (ordinary shares of HK\$0.01 each):				
Beginning of the year	350,000,000	3,500	350,000,000	3,500
Rights issue	350,000,000	3,500	—	—
Bonus issue	<u>1,750,000,000</u>	<u>17,500</u>	—	—
End of third quarter	<u>2,450,000,000</u>	<u>24,500</u>	<u>350,000,000</u>	<u>3,500</u>

The following changes in the share capital of the Company took place during the period:

- (a) The authorised share capital of the Company was increased from HK\$20,000,000 to HK\$40,000,000 by the creation of an additional 2,000,000,000 new ordinary shares of HK\$0.01 each ranking pari passu in all respects with the existing ordinary shares of the Company; and

- (b) On 3rd January, 2003, an ordinary resolutions in respect of the rights issue and bonus issue have been approved at the extraordinary general meeting of the Company. The rights issue raised gross proceeds of approximately HK\$21 million by issuing 350,000,000 new shares at a subscription price of HK\$0.06 per rights share on the basis of one rights share for every share held by qualifying shareholders. Bonus shares were then issued to the shareholders of the Company on the basis of five bonus shares for every two shares held on 6 February 2003. Further details about the right issue and the bonus issue are described below.

7. Reserves

The Group

	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Capital reserves* <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1/11/2002	19,409	(96,843)	28,327	(49,107)
Premium on issue of rights shares	17,500	—	—	17,500
Bonus issue	(17,500)	—	—	(17,500)
Share issuing expenses	(1,828)	—	—	(1,828)
Loss for the period	—	(6,356)	—	(6,356)
	<u>17,581</u>	<u>(103,199)</u>	<u>28,327</u>	<u>(57,291)</u>
	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Capital reserves* <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1/11/2001	19,409	(38,648)	28,327	9,088
Loss for the period	—	(44,401)	—	(44,401)
	<u>19,409</u>	<u>(83,049)</u>	<u>28,327</u>	<u>(35,313)</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 of the Group for the purpose of listing.

8. Share option schemes

- (a) On 24 September 2001, pursuant to the Pre-IPO Share Option Scheme, options to subscribe for 35,000,000 shares were granted to certain directors, employees, consultants and advisers of the Group. After the issuance of the rights issue and bonus issue approved at the extraordinary general meeting of the Company on 3 January 2003, the number of option shares was adjusted to 245,000,000. The adjusted exercise price of the share options is HK\$0.044.

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

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

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

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

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

- (c) During the period, 24,500,000 options granted to ICN were under dispute in relation to its validity. In addition, 164,150,000 options have lapsed and the remaining balance of 56,350,000 options (the holders of which have given irrevocable undertakings not to exercise the options within 10 years from their respective date of grant) have been regarded as unexercisable as at 31 July 2003.

9. Litigation to the Group

As of the date hereof, the Group has received two winding up petitions (details of which was disclosed in the announcement of the Company dated 20th January, 2003 and 6th March, 2003), twelve writs of summons, forty-seven claims under the Small Claims Tribunal and eleven claims under Labour Tribunal. The total gross amount claimed under all writs and claims is approximately HK\$11.40 million.

On 5 March 2003, the High Court in Hong Kong granted winding up order in respect of two winding up petitions against Rainbow Cosmetic Company Limited and Harmony Century Hong Kong Limited which are insolvent subsidiaries that had ceased business operations since 1 August 2002 and 31 October 2002 respectively. The Directors do not expect that the winding up order would have any negative material effect on the existing operations of the Company.

Apart from the above, the Group and the Company had no other material litigation or contingent liabilities as at 31 July 2003 and up to the date of the approval of the unaudited results of the Group for the six months ended 31 July 2003.

MANAGEMENT DISCUSSION AN ANALYSIS

Operating Environment

The retail environment of Hong Kong continued to be shrouded by sluggish economic activities during the first half of 2003. The unemployment rate, bankruptcy and corporate winding up cases remain high level. In respond to this gloomy outlook, consumers have been tightening their purse strings.

Moreover, the outbreak of atypical pneumonia in Hong Kong and other parts of the world have an impact on the business, financial position and operations of many industries, especially retails industry, Restaurants and hotel accommodation industry, entertainment industry, traveling industry. The operating environment in Hong Kong is very bad as a result.

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

With the recovery of Hong Kong economy after SARS, installation new equipments and launching more promotional plans for beauty services business, we derived a significant increase in revenue from the beauty service business.

Operating Results

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

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

For the nine months ended 31 July 2003, the turnover and gross profit of the Group amounted to approximately HK\$8,736,000 and HK\$7,155,000 respectively, representing a decrease of approximately 81% and a significant increase of approximately 52% respectively as compared with that of the corresponding period in 2002. Loss attributable to shareholders for the nine months ended 31 July 2003 was approximately HK\$6,356,000, representing a sharp decrease of approximately 86% from that of the corresponding period in 2002.

Comparing with the results in the second quarter, the Group's turnover for the third quarter increased by 42% to HK\$8,736,000.

In April 2003, the Causeway Bay beauty salon is relocated and its occupied gross floor area increased from 1,100 to 4,000 square feet.

The performance of the Group in July 2003 is far better than the past months. Such increase was due to the recovery of Hong Kong economy after SARS and in addition to the fact that the Group has installed new equipments and launched more promotional plans for beauty services business. The Directors believe that as the Group continues to develop its business and expand its clientele, and with more effort in cost control, it would be able to generate sufficient cash inflow to sustain its operations in the foreseeable future.

Retail operations

In retail operations, the Group is engaged in the sale of various branded beauty and personal care products, and in the exclusive distribution of some distinguished product lines for skin care.

During the period under review, retail operations accounting for 33% of the Group's total turnover. Turnover from these operations was HK\$2,893,000 for the period, representing a decline of 93% from that of the first nine months of the previous year, largely due to the unfavourable retail market environment and the closure of eight outlets and one beauty services center in February and November 2002.

Beauty services operations

The Group's beauty services operations maintained its growth momentum during the period under review. Turnover from this segment amounted to HK\$5,843,000 for the nine months ended 31 July 2003, accounting for 67% of the Group's total turnover and a increasing 42% from that of the same period of the last year. In juxtaposition with the previous quarter figure, turnover from the Group's beauty services in the third quarter rocketed by 171% as the aforesaid.

From May to June 2003, owing to the affection of SARS, the performance of the business is unsatisfactory. Starting from July 2003, the Group's business was recovered and the Directors expect there could have a continuous growth in the near future.

PROSPECTS AND FUTURE PLANS

Expand retail direct sales center operations

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

Focus on the provision of comprehensive beauty services

It is the Group's intention to expand operations both in terms of scale and scope of business in order to achieve rapid growth. Moreover, the Group aims to become a leading beauty products and services provider in Hong Kong.

Ms. Siu York Chee, joined the Group as an executive Director in June 2003. The new management has tuned up the Group's goal. In order to enhance the beauty service business to meet the market demands, a new beauty services center in Causeway Bay established in April 2003 to replace the old one. Its area increased from 1,100 to 4,000 square feet. The new brand name "Be A Lady" as trade name of our beauty centers has used in Causeway Bay, the new beauty center, and Mongkok. In addition to the fact that new professional beauticians are engaged and the Group has acquired new equipments including equipments and facilities for body slimming and launched more promotional plans for beauty services business such as installment Sales cooperating with the financial institutions that our customers can participate in our beauty courses on the interest-free installment basis. As all the aforesaid, not only strengthening our financial position but also our image can have been changed thoroughly. Virtually, we will focus our resources on the beauty service business such as set up new beauty services center and/or purchase new equipments in future.

As at 31 July 2003, the Group has three retailing direct sale centers and beauty services centers in commercial buildings in Causeway Bay and Mongkok and one retail outlet and beauty services center in Macau.

Furthermore, as of the date hereof, a new beauty center is being in setting up in Shatin and in the process of fitting-out works. The Board believes that the new beauty center can start its operation from November 2003.

Liquidity and financial resources

The Group's financial position was affected by poor economic environment in Hong Kong. Cash and bank balances as of 31 July 2003 amounted to approximately HK\$888,000 (31 October 2002: 490,000). As of 31 July 2003, the Group had an aggregate amount of outstanding bank loans and overdraft of approximately HK\$4,553,000 (31 October 2002: HK\$17,065,000).

Aggregate trade payables and other borrowings and liabilities as of 31 July 2003 amounted to approximately HK\$33,692,000 (31 October 2002: HK\$37,587,000).

Furthermore, aggregate trade payables and other borrowings and liabilities by the Insolvent Subsidiaries (Rainbow Cosmetic Co. Ltd, Rainbow Cosmetic (Central) Co. Ltd., Newide International Ltd., Harmony Century Hong Kong Ltd. and Jet Legend Ltd.), excluding the amounts due to the fellow subsidiaries and the holding companies, as of 31 July 2003 amounted to approximately HK\$28,867,000.

Interim dividend

The Board does not recommend the payment of an interim dividend for the nine months ended 31 July 2003.

Right Issue and bonus issue

To improve the financial situation of the Group, the Group carried out a right issue to raise gross proceeds of approximately HK\$21.0 million in November 2002 (the "Right Issue"). The Rights Issue was completed in January 2003. The Directors consider that the Rights Issue is in the best interest of the Group and the shareholders of the Company as a whole.

The net proceeds of the Rights Issue was approximately HK\$19.0 million of which approximately HK\$4.0 million was applied to repay the shareholder's loan granted by Ms. Li Ngar Kwan, Aldy ("Ms. Li"), an executive Director and the Chairperson of the Company, and was then used for directly setting off the part of the subscription monies payable by Ms. Li under the Rights Issue. As at 30 April 2003, approximately HK\$17.37 million out of the proceeds from the Rights Issue has been utilized. The proposed use of the net proceeds from the Rights Issue of Company dated 3 January 2003 (the "Rights Issue Prospectus") relating to the Rights Issue and the actual use of such proceeds until 31 July 2003 are set out as below:

	Proposed use of the net proceeds as disclosed in the Rights Issue Prospectus HK\$ million	Actual use of the net proceeds as 30 April 2003 HK\$ million
Repayment of shareholder's Loan granted by Ms. Li	4.00	4.00
Repayment of bank loans	4.00	4.80
Repayment of outstanding staff Salary, severance payment and Mandatory provident funds	2.89	0.15
Repayment of advances from Ever-Long (Note 1)	3.57	4.10
To purchase additional equipment for Beauty services	—	0.03
To relocate the Nutriplus beauty center in Hong Kong	—	0.56
General working capital (Note 2)	4.54	5.36
	<u>19.00</u>	<u>19.00</u>

Notes:

1. In December 2002, Ever-Long had advanced a further of HK\$400,000 to the Group. Upon repayment of approximately HK\$4.1 million (inclusive of principal amount due and interests thereon) to Ever-Long in January 2003, there is no outstanding amount due to Ever-Long.
2. The general working capital of approximately HK\$5.36 million has been fully utilized in operation of the Group in July 2003 and there is no outstanding proceeds left as at the date hereof.

Employees

As at 31 July 2003, the Group employs approximately 52 employees in Hong Kong and Macau of which 11 employees for head office, 1 employee for retail direct sales centers, 28 employees for beauty services centers in Hong Kong and 12 employees for retail outlet and beauty services center in Macau. The Company's remuneration packages are generally structured with reference to market terms and individual merit.

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 31 July 2003, no option under the Scheme has been granted by the Company.

Details of the Scheme of the Company are set out in note 8 to the financial statements.

Valuation of share option

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

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

During the period under review, Mr. Chiu Wai resigned as an independent non-executive Director with effect from 12 February 2003 and Mr. Ko Sin Ming, Sammy was appointed as the replacement with effect from 12 February 2003. Ms. Siu York Chee was also appointed as a new executive Director with effect from 16 June 2003. Then Mr. Liang Kwong Lim resigned as an executive Director with effect from 22 July 2003.

Mr. Lee Chap Ming resigned as the company secretary and qualified accountant of the Company on 28 February 2003. Mr. Wang Chin Mong has been appointed as the qualified accountant and company secretary with effect from 10 May 2003.

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

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

(a) Long positions in the shares of the Company

Name	Type of interest	No. of shares	Approximate percentage of interest
Ms. Siu York Chee	Personal	200,000,000	8.16
Ms. Li Ngar Kwan, Aldy	Personal	6,230,000	0.26
Mr. Lai Tin Ying, Michael (alias Lai Siu Tin)	Personal	7,652,519	0.31

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

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

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

* Pursuant to the Share Option Scheme, the share options of Mr. LIANG Kwong Lim lapsed as a result of his resignation during the period under review.

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

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

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

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

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

(a) **Long position in the shares of the Company**

Name	Type of interest	No. of shares	Approximate percentage of interest
Ms. Li Ngar Kwan, Aldy (Note 1)		6,230,000	0.26
Ms. Siu York Chee (Note 2)		200,000,000	8.16
Ms. Lam Yin Ming, Amy (Note 3)		582,174,834	23.76
Best Time Investments Ltd. (Note 4)		637,468,440	26.02
Mr. Lai Tin Ying, Michael (Note 5)		7,652,519	0.31
Inworld System (HK) Ltd. (Note 6)		104,999,999	4.29
Inworld International Ltd. (Note 6)		104,999,999	4.29
Inworld Group Limited. (Note 6)		104,999,999	4.29
E-Teck Business Limited (Note 7)		273,197,778	11.15
Ever-Long Asset Management Ltd. (Note 7)		273,197,778	11.15
Ever-Long Holdings Limited (Note 7)		273,197,778	11.15
Styland Holdings Limited (Note 8)		378,197,777	15.44

Notes:

- 1) Ms. Li Ngar Kwan, Aldy, an executive Director and the chairperson of the Company, disposed of 637,468,440 shares to Best Time Investments Limited on 17th April, 2003. On 19th June 2003, She had entered the agreements to dispose of 200,000,000 shares to Ms. Siu York Chee and 258,500,000 shares to Ms. Lam Yin Ming, Amy respectively as evidenced by the instruments of transfer and the bought and sold notes executed by her but pursuant to the agreements, if she has not received the consideration from Ms. Siu York Chee and Ms. Lam Ying Ming on or before 1st September, 2003 (or such other date as may further be agreed later between the parties to the agreements), the aforementioned parties will return to their original position.
- 2) Ms. Siu York Chee was appointed as an executive Director of the Company with effect from 16 June 2003. On 19th June 2003, she acquired 200,000,000 shares of the Company from Ms. Li Ngar Kwan, Aldy but subject to the completion of the agreement and further details is disclosed in Note (1).
- 3) Ms. Lam Yin Ming, Amy acquired these shares of the Company through the Rights Issue which was completed in January 2003. Presently Ms. Lam Yin Ming, Amy does not have management role nor board representation in the Group. On 19th June 2003, she acquired 258,500,000 shares of the Company from Ms Li Ngar Kwan, Aldy but subject to the completion of the agreement and further details is disclosed in Note (1).
- 4) Best Time Investments Limited is a wholly-owned subsidiary of Digital World Holdings Limited, a company incorporated in Bermuda whose shares are listed on the Main Board of the Stock Exchange. Pursuant to Part XV of the SFO, Digital World Holdings Limited is taken to be interested in the shares held by Best Time Investments Limited in approximately 26.02% of the Company.
- 5) Mr. Lai Tin Ying, Michael is a non-executive Director of the Company. He is also an executive Director of Digital World Holdings Limited.
- 6) Inworld System (HK) Limited is beneficially owned by Inworld International Limited, which is a wholly-owned subsidiary of Inworld Group Limited whose shares are listed on GEM. Styland Holdings Limited is interested in approximately 32.5% of the issued share capital of Inworld Group Limited.
- 7) The 273,197,778 shares are beneficially owned by and registered in the name of E-Teck Business Limited. All the issued share capital of E-Teck Business Limited is beneficially owned by Ever-Long Asset Management Limited, which is a wholly-owned subsidiary of Ever-Long Holdings Limited. Ever-Long Holdings Limited is a wholly-owned subsidiary of Styland Holdings Limited which is a limited liability company incorporated in Bermuda whose shares are listed on the Main Board. Ever-Long Asset Management Limited, Ever-Long Holdings Limited and Styland Holdings Limited are all taken to be interested in the shares held by E-Teck Business Limited pursuant to Part XV of the SFO.
- 8) Styland Holdings Limited is interested in approximately 32.5% of the issued share capital of Inworld Group Limited. In addition, Ever-Long Holdings Limited is a wholly owned subsidiary of Styland Holdings Limited. Pursuant to Part XV of the SFO, Styland Holdings Limited is taken to be interested in the shares held by Inworld System (HK) Limited and E-Teck Business Limited in aggregate of approximately 15.44% of the Company.

SPONSOR'S INTEREST

As updated and notified by the Company's sponsor, MasterLink Securities (Hong Kong) Corporation Limited (the "Sponsor"), as at 31 July 2003, neither the Sponsor, its directors, employees nor their associates had any interest in any securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

Pursuant to the agreement dated 18 October 2002, the Sponsor has been retained for a fee as the continuing sponsor of the Company until 31 October 2003.

COMPLIANCE WITH RULE 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with Rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures during the nine months ended 31 July 2003.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based on the guidelines recommended by the Hong Kong Society of Accountants. The audit committee comprises two independent non-executive Directors, namely Mr. Ko Sin Ming, Sammy and Ms. Tam Fung Chee. Ms. Tam Fung Chee is also the chairperson of the audit committee. The Group's unaudited results for the three months ended 31 July 2003 and nine months ended 31 July 2003 have been reviewed and duly approved by the audit committee of the Board.

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

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

COMPETING INTERESTS

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

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

Hong Kong, 11th September, 2003