



RAINBOW INTERNATIONAL HOLDINGS LIMITED

彩虹國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

2001/2002 First Quarterly Report

Period ended 31st January 2002



First Quarterly Report



2001/2002



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

SUMMARY OF RESULTS

Turnover of the Group for the three months ended 31st January, 2002 amounted to approximately HK\$23.91 million, representing a decrease of approximately 18 per cent. as compared with the same period in the last year.

Net loss of the Group for the three months ended 31st January, 2002 amounted to approximately HK\$3.61 million, representing an increase of approximately 340 per cent. as compared with the same period in the last year.

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

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

RESULTS

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

| | | For the three months ended 31st January, | |
|--|-------------|---|-----------------|
| | | 2002 | 2001 |
| | <i>Note</i> | HK\$'000 | HK\$'000 |
| Turnover | 2 | 23,913 | 29,205 |
| Cost Of Sales | | (12,867) | (16,242) |
| | | <hr/> | <hr/> |
| Gross Profit | | 11,046 | 12,963 |
| Other Revenue | 3 | 512 | 418 |
| | | <hr/> | <hr/> |
| | | 11,558 | 13,381 |
| Other Expenses | | | |
| Selling And Distribution Costs | | (11,329) | (10,822) |
| Administrative Expenses | | (3,096) | (2,285) |
| | | <hr/> | <hr/> |
| (Loss)/Profit From Operations | | (2,867) | 274 |
| Finance Cost | | (742) | (1,094) |
| | | <hr/> | <hr/> |
| Loss Before Taxation | | (3,609) | (820) |
| Taxation | 4 | 0 | 0 |
| | | <hr/> | <hr/> |
| Loss Attributable To Shareholders | | (3,609) | (820) |
| | | <hr/> <hr/> | <hr/> <hr/> |
| Loss Per Share – Basic | 5a | 1.03 cents | 0.23 cents |
| | | <hr/> <hr/> | <hr/> <hr/> |
| Loss Per Share – Diluted | 5b | 0.98 cents | 0.22 cents |
| | | <hr/> <hr/> | <hr/> <hr/> |

Notes:

1. Basis Of Preparation

The principal accounting policies adopted in preparing the unaudited consolidated results of the 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.

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. Loss Per Share

(a) Basic

The calculation of basic loss per share for the three months ended 31st January, 2002 is based on the loss attributable to shareholders of approximately HK\$3,609,000 (2001: approximately HK\$820,000) and on the weighted average number of 350,000,000 (2001: 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 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 January, 2002 is based on the loss attributable to shareholders of approximately HK\$3,609,000 (2001: approximately HK\$820,000) and the 367,500,000 (2001: 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 at HK\$0.25.

PROFIT AND TURNOVER

Rainbow Group recorded turnover of approximately HK\$23.91 million for the three months ended 31st January, 2002 as compared with approximately HK\$29.21 million for the same period in the last year, representing a decrease of approximately 18 per cent. Rainbow Group's net loss from operations attributable to shareholders for the three months ended 31st January, 2002 was approximately HK\$3.61 million, compared with a loss of approximately HK\$0.82 million of the same period in the last year.

| | For the three months ended 31st January | |
|---|--|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Turnover | | |
| Retails and wholesales of beauty products | 22,548 | 28,618 |
| Beauty services | 1,365 | 587 |
| | <hr/> | <hr/> |
| | 23,913 | 29,205 |
| | <hr/> <hr/> | <hr/> <hr/> |

MOVEMENT OF RESERVE

There is no movement of reserve during the period under review.

LIQUIDITY AND FINANCIAL RESOURCES

Rainbow Group generally finances its operations with internally generated financial resources. As at 31st January, 2002, Rainbow Group had cash and bank balances amounting to an aggregate of approximately HK\$16,722 million and had outstanding short-term loan of approximately HK\$36,627 million. With the above cash and bank balances and banking facilities, the Board believes that Rainbow Group has adequate financial resources to finance its business objectives as stated in the prospectus of the Company dated 28th September, 2001.

INTERIM DIVIDEND

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

BUSINESS REVIEW

The second half of the year 2001 had been a difficult period to most of the industries, in particular the retail sector, in Hong Kong. The repercussion of the 911 attack on the US had its lingering effect on the Hong Kong economy. Rainbow Group's retail and wholesale businesses were adversely affected in the months after such attack, which resulted in a decrease of approximately 18 per cent. in Rainbow Group's turnover for the three months ended 31st January, 2002 as compared with the same in the last year.

Comparing with the three months ended 31st January, 2001, Rainbow Group's operating costs had climbed up by approximately 10 per cent. during the period under review. The increased operating costs were mainly attributed to Rainbow Group's expansion, which resulted in upsurges in rental and rates, salary expenses and contribution to mandatory provident fund.

In view of the macroeconomic environment and Rainbow Group's future development plan, Rainbow Group continued to implement business consolidation during the period under review. Rainbow Group continued to enhance its operation efficiency and to lower expenses through stringent cost control and introduction of advanced information technology. Rainbow Group completed the implementation of point-of-sales inventory control systems at four outlets (only one remains to be completed during the first half of 2002). The development of an integrated management information system, which incorporates an electronic point-of-sales platform, was in progress during the period under review.

SALES REVIEW

Retail Business

Due to the slack market demand, Rainbow Group's total retail sales at eight outlets under the trade name of Rainbow Cosmetic fell by approximately 21 per cent. for the three months ended 31st January, 2002 when compared with that of the same period in the last year.

Three of the retail outlets, located at Lockhart Road, Mongkok Sai Yeung Choi Street South and Argyle Street, were particularly affected due to low turnover and high operating costs. In view of their continued inefficient operations, which was mainly due to the pedestrian construction outside the pavement of those retail outlets, the Directors have decided to discontinue these three outlets when their respective rental leases expire. In February 2002, Rainbow Group closed one of these retail outlets in Argyle Street and merged the operation of two nearby retail outlets in Mongkok. The Directors expect that the third retail outlet at Lockhart Road will be closed in March 2002. The Directors believe that the saving in costs as a result of these steps will be reflected in the results of Rainbow Group for the six months ending 30th April, 2002.

The performance of the remaining five Rainbow Cosmetic outlets maintained relatively stable turnover during the period under review. Sales of higher profit margin products, including Nutriplus, Helvance and Bicosmetic skin care beauty products, of which Rainbow Group has exclusive distribution rights, remained stable during the three months ended 31st January, 2002. The Directors intend to strengthen the sales of these products in order to enhance the profitability of Rainbow Group.

Beauty Services Business

Comparing Rainbow Group's three business lines, the beauty services segment fared better than others during the period under review. Despite the depressed economic environment, the three beauty centres of Rainbow Group reported modest growth in turnover during the three months ended 31st January, 2002.

These results were due partly to the warm reception of Nutriplus skin-care treatments, which were used in all beauty centres operated by Rainbow Group; and due partly to the growing demand for beauty and personal care services in Hong Kong, which is expected to continue to develop in the near future.

Wholesale Business

During the three months ended 31st January, 2002, Rainbow Group's wholesale business of branded beauty products was also affected by sluggish market demand. With a relatively weak consumption sentiment, Rainbow Group's wholesale customers, including wholesale agents and distributors in Hong Kong, had become more cautious and conservative in placing purchase orders. As a result, Rainbow Group experienced a mild adjustment in the turnover of its wholesale business for the period.

FUTURE PLANS

With enhanced efficiency and successful consolidation, the Directors expect the performance of Rainbow Group to improve during the second half of 2002. Pursuant to its current plan on retail business rationalisation, Rainbow Group would not only be able to make substantial savings from reduction of fixed monthly overheads, but also to redirect its resources to the retail outlets in favourable locations. The Directors plans that, by the end of this year, Rainbow Group may have one or two additional Rainbow Cosmetic outlets in the New Territories, possibly in Tsuen Wan and Tuen Mun, where the rental cost is low but with substantial purchasing power.

Meanwhile, Rainbow Group's wholesale business in Macau has already started to operate, and preparation work for opening the retail outlet is proceeding on schedule. The retail outlet of Rainbow Group in Macau is expected to commence operation during the second half of the current financial year.

Rainbow Group will continue to implement cost control measures. Since rental and labour costs account for about half of Rainbow Group's cost of sales, Rainbow Group successfully negotiated for reasonable prices and rental with suppliers and landlords. The results of such cost saving are expected to be reflected in the results for the six months ending 30th April, 2002.

Among its core products of personal care products and perfumes, Rainbow Group will put more emphasis on high margin branded products with exclusive distribution rights such as Nutriplus, Helvance and Bicosmetic. In the rest of the financial year, Rainbow Group will continue to promote its corporate image, beauty centres, as well as the exclusively distributed branded products via advertisements on television, in magazines and newspapers, or road shows.

Apart from Hong Kong and Macau, Rainbow Group continues to explore business opportunities in the China market. Following China's admission to the World Trade Organisation and its successful bid to host the Olympic Games in 2008, it is expected that robust economic activities will enhance the living standard and increase awareness of personal and beauty care. It is the intention of Rainbow Group to tap into this enormous market.

Looking ahead, Rainbow Group is expecting a period of gradual expansion and corporate brand enhancement, which is in accordance with its objective to become one of the leading providers of beauty products and services. The management is confident that Rainbow Cosmetic outlets will be able to capture a critical mass of the retail cosmetic market that leads to enormous opportunities for Rainbow Group.

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

As at 31st January, 2002, the interests of the Directors and chief executives in the shares and options of the Company and its associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance ("**SDI Ordinance**") as recorded in the register maintained by the Company pursuant to section 29 of the SDI Ordinance or as required, pursuant to rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(a) shares of the Company

| Name | Type of interest | No. of shares |
|--|-------------------------|----------------------|
| Ms. Li Ngar Kwan, Aldy | Personal | 181,552,291 |
| Mr. Elbert Lee | Personal | 5,231,897 |
| Mr. Lai Tin Ying, Michael (alias Lai Siu Tin) | Personal | 2,186,434 |
| Mr. Chiu Wai | Personal | 3,279,652 |

(b) share options

Ms. Li Ngar Kwan, Aldy, Mr. Liang Kwong Lim, Mr. Elbert Lee, Ms. Chan Sin Kwan and Mr. Lai Tin Ying, Michael (alias Lai Siu Tin), being Directors of the Company, have been granted certain share options under the Pre-IPO Share Option Scheme. The particulars of the share options granted under the Pre-IPO Option Scheme are as follows:

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

Notes:

- * being the executive Directors of the Company
- ** being the non-executive Director of the Company

Save as disclosed herein above, as at 31st January, 2002, none of the Directors or chief executive had any personal, family, corporate or other interests in the share capital of the Company or its associated corporations as recorded in the register maintained under section 29 of the SDI Ordinance or as required, pursuant to rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st January, 2002, the register required to be kept under section 16(1) of the Securities (Disclosure of Interest) Ordinance (Chapter 396 of the Laws of Hong Kong) ("SDI Ordinance") showed that the Company has been notified of the following interest, being 10% or more of the issued share capital of the Company. These interests are in addition to those disclosed above in respect of the Directors:

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

Notes:

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

SPONSOR'S INTEREST

Under a sponsor's agreement dated 27th September, 2001 entered into between the Company and DBS Asia Capital Limited, DBS Asia Capital Limited is entitled to receive a fee in respect of the appointment of the Company as the sponsor of the Company as required under the GEM Listing Rules for a period from 15th October, 2001 to 31st October, 2003.

As at 31st January, 2002, neither DBS Asia Capital Limited, its directors, employees nor their associates had any interest in any securities of the Company or any of its associated corporations.

DETAILS OF OPTIONS GRANTED BY THE COMPANY

No options had been granted to any directors or employees of the company during the period.

MOVEMENT OF SHARE OPTIONS

No share option was exercised during the period.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based on the guidelines recommended by the Hong Kong Society of Accountants. The audit committee comprises two independent non-executive Directors, namely Mr. Chiu Wai and Ms. Tam Fung Chee. Ms. Tam Fung Chee is also the chairperson of the audit committee of the board of Directors. The Group's unaudited results for the three months ended 31st January, 2002 have been reviewed and duly approved by the audit committee of the board of directors.

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

None of the members of Rainbow Group purchased, sold or redeemed any of Rainbow Group's listed securities during the period from 1st November, 2001 to 31st January, 2002.

COMPETING INTERESTS

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

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

Hong Kong, 12th March, 2002