



**RAINBOW INTERNATIONAL HOLDINGS LIMITED**

**彩虹國際控股有限公司**

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

**FIRST QUARTERLY RESULTS REPORT**

## **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 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 (the “GEM Listing Rules”) 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.*

## FIRST QUARTER RESULTS (UNAUDITED)

The board (the “Board”) of directors (the “Directors”) of Rainbow International Holdings Limited (the “Company”) would like to report the unaudited consolidated results of the Company and its subsidiaries (together, “the Group”) for the three months ended 31 January 2003, together with the comparative figures for the corresponding period in 2002 as follows:

		Three months ended 31 January	
	Note	2003 HK\$'000	2002 HK\$'000
Turnover	2	3,310	23,913
Cost of sales		(901)	(12,867)
<b>Gross profit</b>		<b>2,409</b>	<b>11,046</b>
Other revenue	3	89	512
		<b>2,498</b>	<b>11,558</b>
<b>Other expenses</b>			
Selling and distribution costs		(2,385)	(11,329)
Administrative expenses		(2,019)	(3,096)
Other operating expenses		(65)	0
<b>Loss from operations</b>		<b>(1,971)</b>	<b>(2,867)</b>
Finance costs		(368)	(742)
<b>Loss before taxation</b>		<b>(2,339)</b>	<b>(3,609)</b>
Taxation	4	0	0
<b>Loss attributable to Shareholders</b>		<b>(2,339)</b>	<b>(3,609)</b>
<b>Loss per share</b>			
— Basic	5(a)	<b>0.37 cents</b>	0.58 cents
<b>Loss per share</b>			
— Diluted	5(b)	<b>0.37 cents</b>	0.55 cents

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 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 the Group.

	<b>(Unaudited)</b>	
	<b>Three months ended</b>	
	<b>31 January</b>	
	<b>2003</b>	<b>2002</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
(a) Turnover by business segment		
Retails and wholesales of beauty products	1,296	22,548
Beauty services	2,014	1,365
	<u>3,310</u>	<u>23,913</u>
(b) Turnover by geographical segment		
Hong Kong	2,595	23,913
Macau	715	—
	<u>3,310</u>	<u>23,913</u>
Total:	<u>3,310</u>	<u>23,913</u>

3. **Other revenue**

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

4. **Taxation**

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 calculated 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 year as the effect of all timing differences is not material.

## 5. Loss per Share

### (a) Basic

The calculation of basic loss per share for the three months ended 31 January 2003 is based on the loss attributable to shareholders of approximately HK\$2,339,000 (three months ended 31 January 2002: approximately HK\$3,609,000) and on the weighted average number of 630,494,565 (three months ended 31 January 2002: 626,500,000(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 31 January 2003 and 2002 have been adjusted to reflect the rights issue completed during the period.

### (b) Diluted

The calculation of diluted loss per share for the three months ended 31 January 2003 is based on the loss attributable to shareholders of approximately HK\$2,339,000 (three months ended 31 January 2002: approximately HK\$3,609,000) and the 633,994,565 (2002: 657,825,000 (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\$0.155).

## 6. Issued capital

	2003		2002	
	<i>No. of shares</i>	<i>HK\$'000</i>	<i>No. of shares</i>	<i>HK\$'000</i>
Authorised:				
Ordinary shares of HK\$0.01 each	<u>4,000,000,000</u>	<u>40,000</u>	<u>2,000,000,000</u>	<u>20,000</u>
Issue and fully paid:				
Beginning of the period	350,000,000	3,500	350,000,000	3,500
Issue of shares through rights issue	<u>350,000,000</u>	<u>3,500</u>	<u>—</u>	<u>—</u>
	<u>700,000,000</u>	<u>7,000</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 3 January 2003, ordinary resolutions in respect of the rights issue and bonus issue have been approved at the extraordinary general meeting of the Company. The rights issue raised 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.

## 7. Reserves

### The Group

	Share premium HK\$'000	Accumulated losses HK\$'000	Capital reserves* HK\$'000	Total HK\$'000
As at 1 November 2001	19,409	(38,648)	28,327	9,088
Loss for the year	—	(58,195)	—	(58,195)
As at 31 October 2002	19,409	(96,843)	28,327	(49,107)
Premium on issue of rights shares	17,500	—	—	17,500
Rights issue expenses	(1,796)	—	—	(1,796)
Loss for the period	—	(2,339)	—	(2,339)
As at 31 January 2003	35,113	(99,182)	28,327	(35,742)

\* *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.*

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operating Environment

The overall Hong Kong economy is still in poor environment. The unemployment rate, bankruptcy and corporate winding up cases remain high level. The war that likely to happen between United States of America and Iraq in the Middle East creates uncertainty on the global economy. The purchasing power of the consumers and the operating environment in Hong Kong are very bad as a result. Therefore, the Group had initiated business consolidation to reduce the adverse economic impact.

### Operating Results

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

During the period under review, the Group turnover and gross profit amounted to HK\$3,310,000 and HK\$2,409,000 respectively, representing decrease of approximately 86% and 78% respectively from the corresponding period in the previous year. The substantial decline in turnover was mainly due to the poor performance in the retail business which was the result of the extremely weak purchasing power of consumers in Hong Kong.

## **Retail Operations**

In retail operations, the Group is engaged in the sale of various branded beauty and personal care products, and in the exclusive distribution of some distinguished product lines for skin care. During the period under review, retail operations remained the core business of the Group, accounting for approximately 39% of the Group's aggregate turnover. Turnover from these operations was HK\$1,296,000 for the period, representing a decline of approximately 94% from that of the first three months of the previous year, largely due to the unfavourable retail market environment.

## **Beauty Services Operations**

The Director is satisfied with the performance of the beauty services operations during the period under review. Turnover from this segment amounted to HK\$2,014,000 for the three months ended 31 January 2003, increasing approximately 48% from that of the same period last year.

The Group opened a new beauty center in Wu Sang House, Mong Kok in November 2002 to replace the beauty center in Sai Yeung Choi Street, Mong Kok which was closed on 31 July 2002. The new beauty center in Mong Kok has about twenty VIP rooms and provides body slimming, sympathetic drainage, body massage and bust treatment as well as other beauty care services.

## RIGHTS ISSUE AND BONUS ISSUE

To improve the financial situation of the Group, the Group proposed to carry out the rights issue (the "Rights Issue") to raise gross proceeds of approximately HK\$21.0 million in November 2002. 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 31 January 2003, approximately HK\$12.1 million out of the proceeds from the Rights Issue had been utilized. The proposed use of the net proceeds from the Rights Issue of approximately HK\$19.0 million as disclosed in the Rights Issue prospectus of the Company dated 3 January 2003 (the "Rights Issue Prospectus") relating to the Rights Issue and the actual use of such proceeds until 31 January 2003 are set out as below:

	<b>Proposed use of the net proceeds as disclosed in the Rights Issue Prospectus</b> <i>HK\$ in million</i>	<b>Actual use of the net proceeds as at 31 January 2003</b> <i>HK\$ in million</i>
Repayment of shareholder's loan granted by Ms. Li	4.0	4.0
Repayment of bank loans	4.0	4.0
Repayment of outstanding staff salary, severance payment and mandatory provident funds	2.9	Not yet applied
Repayment of advances from Ever-Long Securities Co. Ltd. ("Ever-Long") ( <i>Note 1</i> )	3.6	4.1
General working capital ( <i>Note 2</i> )	4.5	6.9
	19.0	19.0

### Notes:

1. In December 2002, Ever-Long 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\$6.9 million composed of cash balance of approximately HK\$6.5 million and the remaining balance was utilized to finance the operations of the Group.

Upon the completion of the Rights Issue, the Group carried out a bonus issue on the basis of five bonus shares for every two existing shares of the Company held on the book closure date on 6 February 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 January 2003 amounted to HK\$6.5 million (as of 31 January 2002: HK\$16.7 million). As of 31 January 2003, the Group had an aggregate amount of outstanding bank loan and overdraft of approximately HK\$5.7 million (as of 31 January 2002: HK\$36.6 million). Aggregate trade payables and other borrowings and liabilities as of 31 January 2003 amounted to approximately HK\$34.7 million (as of 31 January 2002: HK\$26.6 million).

## **EMPLOYEE**

As of the date hereof, the Company employs approximately 53 employees in Hong Kong and Macau of which 13 employees for head office, 2 employees for retail direct sales centers, 24 employees for beauty services centers and 14 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.

## **LITIGATION TO THE GROUP**

As of the date hereof, the Group has received two winding up petitions, eleven writs of summons, thirty two 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\$10.7 million. The eleven writs are related to outstanding bank commercial loans and overdrafts, rent and rates, and unpaid goods sold and delivered in the aggregate amount of approximately HK\$7.8 million. The forty three claims are related to outstanding rentals, rates and management fees, unpaid goods sold and delivered, unpaid salaries and unpaid cleaning fee in the aggregate amount of approximately HK\$2.9 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 operation 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 January 2003 and up to the date of the approval of the unaudited results of the Group for the three months ended 31 January 2003.

## **PROSPECTS AND FUTURE PLAN**

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

### **Expand retail direct sales center operations**

To expand on the retail direct sales center, the Directors will continue to open new retail direct sales centers in prime Hong Kong locations.

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

### **Focus on the provision of comprehensive beauty services**

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

### **Improve the quality of services at retail direct sales centers and beauty centers**

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

### **Promote corporate image and strengthen brand loyalty of Nutriplus products**

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

### **Strengthen the management information system of the Group**

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

## **INTERIM DIVIDEND**

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

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

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.

Mr. Lee Chap Ming resigned as the company secretary and qualified accountant of the Company on 28 February 2003. Ms. Li will take up the related responsibility of Mr. Lee Chap Ming with the support from the accounting staff of the Company. The Directors expect that the appointments of the new qualified accountant and company secretary of the Company will be finalised by the end of March 2003.

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

As at 31 January 2003, the interests of the Directors and chief executives in the shares and of the options of the Company and its associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) as recorded in the register maintained by the Company pursuant to section 29 of the SDI Ordinance or as required, pursuant to rules 5.40 to 5.59 to the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

### (a) Shares of the Company

Name	Type of interest	No. of shares
Ms. Li Ngar Kwan, Aldy	Personal	314,913,840
Mr. Lai Tin Yeng, Michael (alias Lai Siu Tin)	Personal	2,186,434
Mr. Chiu Wai	Personal	348,000

(Note)

Note: These shares were fully disposed of on 5 February 2003.

### (b) Share options

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

Name	Number of share options granted on 24 September 2001	Cancelled/lapsed at 11 August 2002	Outstanding at 31 January 2003
LI Ngar Kwan, Aldy	3,500,000	3,500,000	—
LIANG Kwong Lim	3,500,000	3,500,000	—
LAI Tin Ying, Michael (alias Lai Siu Tin)	3,500,000	3,500,000	—

Ms. LI Ngar Kwan, Aldy, Mr. LIANG Kwong Lim 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 options in August 2002 given under the pre-IPO share option scheme (the “Pre-IPO Share Option Scheme”) adopted on 24 September 2001 before expiration.

Save as disclosed herein above, as at 31 January 2003, none of the Directors or chief executive had any personal, family, corporate or other interests in the share capital of the Company or its associated corporations as recorded in the register maintained under section 29 of the SDI Ordinance or as required, pursuant to rules 5.40 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## **SUBSTANTIAL SHAREHOLDERS’ INTERESTS IN THE SHARE CAPITAL OF THE COMPANY**

As at 31 January 2003, 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.

<b>Name</b>	<b>Number of shares</b>	<b>%</b>
Ms. Li Ngar Kwan, Aldy	314,913,840	44.99
Ms. Lam Yin Ming, Amy ( <i>Note 1</i> )	92,478,524	13.21
E-Teck Business Limited ( <i>Note 2</i> )	78,056,508	11.15
Ever-Long Asset Management Limited ( <i>Note 2</i> )	78,056,508	11.15
Ever-Long Holdings Limited ( <i>Note 2</i> )	78,056,508	11.15
Styland Holdings Limited ( <i>Note 2</i> )	78,056,508	11.15

### *Notes:*

- 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.
- These 78,056,508 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**

As updated and notified by the Company's sponsor, MasterLink Securities (Hong Kong) Corporation Limited (the "Sponsor"), as at 31 January 2003, neither the Sponsor, its directors, employees nor their respective associates (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules) 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.

## **OUTSTANDING SHARE OPTIONS**

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

On 24 September 2001, the shareholders of the Company approved the Pre-IPO Share Option Scheme pursuant to which options to subscribe for an aggregate of 35,000,000 shares of the Company at an adjusted exercise price after the Rights Issue of HK\$0.155 per share have been conditionally granted by the Company to (i) four executive Directors and one non-executive Director for an aggregate of 15,575,000 shares; (ii) International Capital Network Limited ("ICN") for 3,500,000 shares; and (iii) 43 full-time employees (including six senior management staff) for an aggregate of 15,925,000 shares.

Pursuant to the Pre-IPO Share Option Scheme, 3,500,000 options granted to ICN were under dispute in relation to its validity. In addition, 15,137,500 options have lapsed in accordance with the terms of the Pre-IPO Share Option Scheme and the remaining balance of 16,362,500 options (the holders of which have given irrevocable undertakings not to exercise the options within 10 years from their respective date of grant) have been regarded as unexercisable as at 31 January 2003.

## **BOARD PRACTICES AND PROCEDURES**

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

## **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. The Group's unaudited results for the three months ended 31 January 2003 and the monthly account from 1 November 2002 to 31 January 2003 have been reviewed and duly approved by the audit committee of the Board.

Mr. Chiu Wai resigned as a member of the audit committee with effect from 12 February, 2003 and Mr. Ko Sin Ming, Sammy has been appointed as the replacement with effect from 12 February 2003.

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

Neither the Company nor any of the members of the Group purchased, sold or redeemed any of the Company's listed securities during the period from 1 November 2002 to 31 January 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 the Group.

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

Hong Kong, 13 March 2003