

# Veeko®



## 05/06 Interim Report

For the six months ended 30th September, 2005

# Veeko®

VEEKO  
INTERNATIONAL  
HOLDINGS LIMITED  
威高國際控股有限公司

# wanko®



# colourmix®



[www.veeko.com.hk](http://www.veeko.com.hk)

## **CORPORATE INFORMATION**

### **DIRECTORS**

#### *Executive*

CHENG Chung Man, Johnny  
(Chairman)  
LAM Yuk Sum

#### *Independent Non-Executive*

CHENG Chung Hoo  
YANG Wei Tak  
YEUNG Wing Kay

### **LEGAL ADVISERS AS TO CAYMAN ISLANDS LAW**

Conyers Dill & Pearman, Cayman  
Zephyr House  
George Town  
Grand Cayman  
British West Indies

### **LEGAL ADVISERS AS TO HONG KONG LAW**

Chiu & Partners  
41st Floor, Jardine House  
1 Connaught Place  
Hong Kong

### **AUDITORS**

Deloitte Touche Tohmatsu  
Certified Public Accountants  
26th Floor, Wing On Centre  
111 Connaught Road Central  
Hong Kong

### **AUTHORISED REPRESENTATIVES**

CHENG Chung Man, Johnny  
LAM Yuk Sum

### **COMPANY SECRETARY**

WONG Chi Ying

### **AUDIT COMMITTEE MEMBERS**

CHENG Chung Hoo  
YANG Wei Tak  
YEUNG Wing Kay

### **REGISTERED OFFICE**

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
George Town  
Grand Cayman  
British West Indies

### **HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS**

10th Floor, Wyler Centre Phase II  
192-200, Tai Lin Pai Road  
Kwai Chung, New Territories  
Hong Kong

### **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Bank of Bermuda (Cayman) Limited  
P.O. Box 513 GT  
Strathvale House  
North Church Street  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

### **HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Secretaries Limited  
Ground Floor  
Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai, Hong Kong  
(With effect from 3rd January 2006,  
the address will be changed to:  
26th Floor  
Tesbury Centre  
28 Queen's Road East  
Wanchai, Hong Kong)

### **PRINCIPAL BANKERS**

Bank of China (Hong Kong) Limited  
The Hongkong and Shanghai  
Banking Corporation Limited

### **WEBSITE ADDRESS**

<http://www.veeko.com.hk>

**UNAUDITED INTERIM RESULTS**

The board of directors of Veeko International Holdings Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th September, 2005. The results, together with the comparative figures for the corresponding period in 2004, are summarised below:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

*For the six months ended 30th September, 2005*

		<b>Six months ended 30th September,</b>	
		<b>2005</b>	2004
		(Unaudited)	(Unaudited)
			(As restated)
	Notes	HK\$'000	HK\$'000
Turnover	4	<b>270,207</b>	217,898
Cost of sales		<b>(88,806)</b>	(62,990)
Gross profit		<b>181,401</b>	154,908
Selling and distribution costs		<b>(123,096)</b>	(97,014)
Administrative expenses		<b>(39,704)</b>	(31,581)
Other operating income		<b>3,176</b>	7,111
Increase in fair values of investment properties		<b>12,750</b>	–
Profit from operations	5	<b>34,527</b>	33,424
Finance costs		<b>(10)</b>	(18)
Profit before taxation		<b>34,517</b>	33,406
Taxation	6	<b>(2,858)</b>	(3,493)
Profit attributable to shareholders		<b>31,659</b>	29,913
Interim dividend		<b>14,904</b>	13,248
Earnings per share	8		
Basic		<b>HK1.91 cents</b>	HK1.81 cents
Diluted		<b>HK1.90 cents</b>	HK1.80 cents

# Veeko International Holdings Limited

## CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September, 2005

	Notes	30th September, 2005 (Unaudited) HK\$'000	31st March, 2005 (Audited) (As restated) HK\$'000
<b>Non-current Assets</b>			
Investment properties		42,650	29,900
Property, plant and equipment		55,526	47,898
Rental deposits		25,610	22,420
Deferred tax assets		2,576	2,127
		<u>126,362</u>	<u>102,345</u>
<b>Current Assets</b>			
Inventories		131,458	84,385
Trade and other receivables	9	42,614	28,521
Rental and other deposits		14,137	15,084
Taxation recoverable		505	505
Bank deposits		2,000	55,389
Bank balances and cash		65,376	40,186
		<u>256,090</u>	<u>224,070</u>
<b>Current Liabilities</b>			
Trade and other payables	10	58,645	39,895
Taxation payable		3,238	2,016
Obligations under finance leases – due within one year		179	198
		<u>62,062</u>	<u>42,109</u>
<b>Net Current Assets</b>			
		<u>194,028</u>	<u>181,961</u>
		<u><b>320,390</b></u>	<u><b>284,306</b></u>
<b>Capital and Reserves</b>			
Share capital	11	16,560	16,560
Reserves		300,339	265,891
		<u>316,899</u>	<u>282,451</u>
<b>Non-current Liabilities</b>			
Obligations under finance leases – due after one year		–	80
Deferred tax liabilities		3,491	1,775
		<u>3,491</u>	<u>1,855</u>
		<u><b>320,390</b></u>	<u><b>284,306</b></u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30th September, 2005*

	<b>Six months ended</b>	
	<b>30th September,</b>	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash (used in)/from operating activities	(17,659)	6,504
Net cash used in investing activities	(9,660)	(9,210)
Net cash used in financing activities	(98)	(93)
Decrease in cash and cash equivalents	(27,417)	(2,799)
Cash and cash equivalents at 1st April	93,575	97,897
Effect of foreign exchange rates changes	(782)	(215)
Cash and cash equivalents at 30th September represented by bank balances and cash	<u>65,376</u>	<u>94,883</u>

# Veeko International Holdings Limited

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2005

	(Unaudited)							
	Share Capital HK\$'000	Share Premium HK\$'000	Property Revaluation Reserve HK\$'000	Exchange Translation Reserve HK\$'000	Special Reserve HK\$'000	Share Option Reserve HK\$'000	Retained Profits HK\$'000	Total HK\$'000
At 1st April, 2005, as originally stated	16,560	8,611	2,101	(1,846)	2,266	-	254,759	282,451
Effect of changes in accounting policies (Note 3)	-	-	-	-	-	1,461	(1,461)	-
At 1st April, 2005, as restated	16,560	8,611	2,101	(1,846)	2,266	1,461	253,298	282,451
Exchange differences on translation of overseas operations	-	-	-	(2,740)	-	-	-	(2,740)
Surplus arising on revaluation of leasehold land and building	-	-	6,043	-	-	-	-	6,043
Deferred tax liability arising on revaluation of leasehold land and buildings	-	-	(1,057)	-	-	-	-	(1,057)
Net profit not recognised in the income statement	-	-	4,986	(2,740)	-	-	-	2,246
Profit attributable to shareholders	-	-	-	-	-	-	31,659	31,659
Total recognised income and expense for the period	-	-	4,986	(2,740)	-	-	31,659	33,905
Recognition of share option payments	-	-	-	-	-	543	-	543
At 30th September, 2005	<u>16,560</u>	<u>8,611</u>	<u>7,087</u>	<u>(4,586)</u>	<u>2,266</u>	<u>2,004</u>	<u>284,957</u>	<u>316,899</u>
At 1st April, 2004, as originally stated	16,560	8,611	130	(1,377)	2,266	-	206,169	232,359
Effect of changes in accounting policies	-	-	-	-	-	379	(379)	-
At 1st April, 2004, as restated	16,560	8,611	130	(1,377)	2,266	379	205,790	232,359
Exchange differences on translation of overseas operations	-	-	-	(708)	-	-	-	(708)
Profit attributable to shareholders	-	-	-	-	-	-	29,913	29,913
Total recognised income and expense for the period	-	-	-	(708)	-	-	29,913	29,205
Recognition of share option payments	-	-	-	-	-	487	-	487
At 30th September, 2004	<u>16,560</u>	<u>8,611</u>	<u>130</u>	<u>(2,085)</u>	<u>2,266</u>	<u>866</u>	<u>235,703</u>	<u>262,051</u>

## NOTES TO CONDENSED INTERIM ACCOUNTS

### 1. BASIS OF PREPARATION

The unaudited consolidated condensed interim accounts for the six months ended 30th September, 2005 are prepared in accordance with Hong Kong Accounting Standard 34, "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed interim accounts have been prepared on the historical cost basis except for certain properties, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies used in the condensed interim accounts are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st March, 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

#### Share-based Payments

In the current period, the Group has applied HKFRS 2 "*Share-based Payment*" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January, 2005. In accordance with the relevant transitional provisions, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7th November, 2002 and had not yet vested on 1st April, 2005.

The effect of adoption of this standard is set out in Note 3.

#### Owner-occupied Leasehold Interest in Land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current period, the Group has applied HKAS 17 "*Leases*". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. Since the Group is unable to allocate lease payments between land and building elements reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. The adoption of HKAS 17 has had no material impacts on the Group's results.

# Veeko International Holdings Limited

## 3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior periods are as follows:

	Six months ended 30th September,	
	2005 HK\$'000	2004 HK\$'000
Expenses in relation to share options granted to employees	543	487
Decrease in profit for the period	<u>(543)</u>	<u>(487)</u>

The cumulative effects of the application of the new HKFRSs as at 31st March, 2005 and 1st April, 2005 are summarised below:

	As at 31st March, 2005 (As originally stated) HK\$'000	Adjustment HK\$'000	As at 31st March, 2005 and 1st April, 2005 (As restated) HK\$'000
<b>Balance sheet items</b>			
Retained earnings	254,759	(1,461)	253,298
Share options reserve	—	1,461	1,461
Total effects on equity	<u>254,759</u>	<u>—</u>	<u>254,759</u>

The financial effects of the application of the new HKFRSs to the Group's equity at 1st April, 2005 are summarised below:

	As originally stated HK\$'000	Adjustment HK\$'000	As restated HK\$'000
Retained earnings	254,759	(1,461)	253,298
Share options reserve	—	1,461	1,461
Total effects on equity	<u>254,759</u>	<u>—</u>	<u>254,759</u>

**4. SEGMENT INFORMATION****Business Segments**

In October 2004, the Group commenced operations in the retailing of cosmetics and skin care products. The Group operates and manages the business segments as a strategic organisational unit for internal financial reporting purposes and determined that business segments by products are its primary reporting segments. As a result, the Group's operations for the six months ended 30th September, 2005 was organised into two reporting segments comprising manufacture and sales of ladies fashion and sales of cosmetics. For the six months ended 30th September, 2004, the Group was solely engaged in the manufacture and sales of ladies fashion. Segment information about these businesses is presented below:

	<b>Unaudited six months ended 30th September, 2005</b>			
	<b>Fashion</b>	<b>Cosmetics</b>	<b>Eliminations</b>	<b>Consolidated</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>TURNOVER</b>				
Sales of goods	235,655	34,552	-	270,207
Inter-segment sales	53	1,842	(1,895)	-
	<u>235,708</u>	<u>36,394</u>	<u>(1,895)</u>	<u>270,207</u>
Inter-segment sales are charged at prevailing market rates.				
<b>SEGMENT RESULT</b>	<u>28,941</u>	<u>(7,433)</u>		21,508
Unallocated corporate income				15,840
Unallocated corporate expenses				<u>(2,821)</u>
Profit from operations				34,527
Finance costs				<u>(10)</u>
Profit before taxation				34,517
Taxation				<u>(2,858)</u>
Profit attributable to shareholders				<u><u>31,659</u></u>

During the six months ended 30th September, 2004, the Group was solely engaged in the manufacture and sale of ladies fashion. All of the Group's turnover and most of the Group's contribution to operating profits and assets were attributable to this business segment.

# Veeko International Holdings Limited

## 5. PROFIT FROM OPERATIONS

	Six months ended 30th September, 2005 (Unaudited) HK\$'000		2004 (Unaudited) HK\$'000
Profit from operations has been arrived at after charging:			
Depreciation of property, plant and equipment	<u>8,072</u>	<u>7,084</u>	
and after crediting:			
Interest income	<u>389</u>	<u>144</u>	

## 6. TAXATION

	Six months ended 30th September, 2005 (Unaudited) HK\$'000		2004 (Unaudited) HK\$'000
The charge comprises:			
Current taxation			
Hong Kong Profits Tax	930	2,186	
Overseas Taxation	1,790	1,183	
Deferred taxation relating to the origination and reversal of temporary difference	<u>138</u>	<u>124</u>	
	<u>2,858</u>	<u>3,493</u>	

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) on the estimated assessable profits for the period. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

**7. SHARE OPTIONS**

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the current period are as follows:

	<b>Number of share options</b>
Outstanding at the beginning of the period	40,000,000
Cancelled during the period	<u>(1,000,000)</u>
Outstanding at the end of the period	<u><u>39,000,000</u></u>

As mentioned in Note 2, the Group has, for the first time, applied HKFRS 2 "Share-based Payments" to account for its share options in the current period. In accordance with HKFRS 2, fair value of share options granted to employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group's share option reserve. In the current period, an amount of share option expense of HK\$543,000 has been recognised in the current period, with a corresponding adjustment recognised in the Group's share option reserve.

The closing price of the Company's shares immediately before 18th November, 2003 and 21st September, 2004, the dates of grant of the options were HK\$0.164 and HK\$0.28 respectively.

For the purposes of calculating of fair value, no adjustment has been made in respect of options expected to be forfeited, due to lack of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

**8. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$31,659,000 (2004 restated: HK\$29,913,000) and 1,656,000,000 shares (2004: 1,656,000,000 shares) in issue during the period.

The calculation of diluted earnings per share is based on the profit attributable to shareholders of HK\$31,659,000 (2004 restated: HK\$29,913,000) and the weighted average number of 1,665,676,667 shares (2004: 1,658,503,852 shares) issued and issuable, assuming that all of the outstanding share options had been exercised on the date of issue.

## 9. TRADE AND OTHER RECEIVABLES

At 30th September, 2005, included in the Group's trade and other receivables were trade receivables of HK\$38,411,000 (31st March, 2005: HK\$25,360,000). The Group allows 30 to 60 days credit period for receivables from sales counters and an average credit period of 60 to 120 days to its wholesale customers. Details of the aged analysis of trade receivables are as follows:

	<b>30th September, 2005 (Unaudited) HK\$'000</b>	31st March, 2005 (Audited) HK\$'000
Within 30 days	14,129	8,630
31 – 60 days	9,148	5,007
61 – 90 days	4,832	4,107
Over 90 days	10,302	7,616
	<u>38,411</u>	<u>25,360</u>

## 10. TRADE AND OTHER PAYABLES

At 30th September, 2005, included in the Group's trade and other payables were trade payables of HK\$32,090,000 (31st March, 2005: HK\$15,903,000). Details of the aged analysis of the trade payables are as follows:

	<b>30th September, 2005 (Unaudited) HK\$'000</b>	31st March, 2005 (Audited) HK\$'000
Within 30 days	16,415	5,841
31 – 60 days	6,746	1,960
61 – 90 days	2,491	3,601
Over 90 days	6,438	4,501
	<u>32,090</u>	<u>15,903</u>

**11. SHARE CAPITAL**

	<b>30th September, 2005 (Unaudited) HK\$'000</b>	31st March, 2005 (Audited) HK\$'000
Authorised:		
10,000,000,000 ordinary shares of HK\$0.01 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
1,656,000,000 ordinary shares of HK\$0.01 each	<u>16,560</u>	<u>16,560</u>

**12. CONTINGENT LIABILITIES**

At 30th September, 2005, the Company had provided guarantees of HK\$106,390,000 (31st March, 2005: HK\$106,390,000) to certain banks in respect of banking facilities granted to certain subsidiaries of the Company. The amount utilised by the subsidiaries was HK\$6,799,000 (31st March, 2005: HK\$2,885,000) as at 30th September, 2005.

**13. OPERATING LEASE COMMITMENTS****The Group as Lessee**

At 30th September, 2005, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>30th September, 2005 (Unaudited) HK\$'000</b>	31st March, 2005 (Audited) HK\$'000
Within one year	139,441	120,017
In the second to fifth year inclusive	170,989	147,002
Over five years	582	893
	<u>311,012</u>	<u>267,912</u>

In addition to these commitments, the Group may pay additional rental expenses in respect of certain premises which are dependent upon the level of sales achieved by particular shops.

**The Group as Lessor**

At 30th September, 2005, the Group had contracted with tenants for the following future minimum lease payments:

	<b>30th September, 2005 (Unaudited) HK\$'000</b>	31st March, 2005 (Audited) HK\$'000
Within one year	2,737	2,834
In the second to fifth year inclusive	2,702	3,319
	<u>5,439</u>	<u>6,153</u>

# Veeko International Holdings Limited

## 14. PLEDGE OF ASSETS

At 30th September, 2005, the following assets were pledged by the Group to certain banks to secure general banking facilities granted to the Group:

	30th September, 2005 (Unaudited) HK\$'000	31st March, 2005 (Audited) HK\$'000
Investment properties	42,650	29,900
Leasehold land and buildings	22,300	16,600
Short term bank deposits	1,000	1,389
	<u>65,950</u>	<u>47,889</u>

## 15. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the interim reporting date, the Group entered the provisional agreement with an outsider for the disposal of certain properties of the Group at a consideration of HK\$6,700,000. The expected completion date will be on or before 31st March, 2006.

## INTERIM DIVIDEND

At the Board Meeting held on 19th December, 2005, the board of directors has resolved to declare the payment of an interim dividend of HK0.90 cent (2005: HK0.80 cent) per share of HK\$0.01 each for the financial year ending 31st March, 2006. The interim dividend will be payable on 20th January, 2006 to shareholders whose names appeared on the register of members of the Company at the close of business on 11th January, 2006.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the company will be closed from Thursday, 12th January, 2006 to Monday, 16th January, 2006 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong (which will be relocated to 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong with effect from 3rd January 2006) for registration no later than 4:00 p.m. on Wednesday, 11th January, 2006.

## MANAGEMENT DISCUSSION AND ANALYSIS BUSINESS REVIEW

For the six months ended 30th September, 2005, the Group recorded a turnover of HK\$270,207,000 (2004: HK\$217,898,000), representing an increase of 24% as compared with the corresponding period of the previous year. HK\$34,552,000 of the turnover was contributed by the new cosmetics business. The turnover from fashion business increased by 8.1% from the corresponding period of the previous year. The profit attributable to shareholders during the period was HK\$31,659,000 (2004 restated: HK\$29,913,000), representing an increase of 5.8% as compared with the corresponding period of the previous year. During the period under review, the gross profit margin decreased by approximately 4% as compared with the corresponding period of the previous year, mainly due to the dilution of gross profit margin by the new cosmetics retail business.

### Fashion Business

#### *Fashion Business – Hong Kong and Macau Market*

The fashion retail business in Hong Kong and Macau remained the major source of income of the Group, accounting for 55.1% of the overall turnover of its fashion business. For the six months ended 30th September, 2005, the Hong Kong and Macau Market recorded a turnover of HK\$129,793,000, representing a slight increase as compared with the corresponding period of the previous year. As at 30th September, 2005, the Group had altogether 62 outlets in Hong Kong and Macau (30th September, 2004: 60 outlets). During the period under review, the rental charge increased by 12.8% from the corresponding period of the previous year due to the general increase in rental levels in Hong Kong and Macau. The Group will maintain the number of its outlets at the existing level, making adjustments according to rental levels.

# Veeko International Holdings Limited

## *Fashion Business – Taiwan Market*

In the first half of the financial year, the retail business in Taiwan recorded a turnover of HK\$70,230,000, representing a 14.7% increase over the corresponding period of the previous year. As at 30th September, 2005, the number of outlets in Taiwan increased to 62 from 56 in the corresponding period of the previous year. During the period under review, Taiwan market accounted for 29.8% of the Group's total turnover in the fashion business.

## *Fashion Business – Singapore Market*

In the first half of the financial year, the retail business in Singapore recorded a turnover of HK\$14,803,000, representing a 3.1% increase over the corresponding period of the previous year, which was mainly attributable to the strategic closing of several outlets with unsatisfactory performance in Singapore since last year. Together with the strengthened local management team, the segment results in Singapore returned to profit with significant improvement starting from the second half of last year. As at 30th September, 2005, the Group had 10 outlets in Singapore (30th September, 2004: 9 outlets).

## *Fashion Business – Other Markets*

As at 30th September, 2005, besides the markets in Hong Kong and Macau, Taiwan and Singapore, there were 53 outlets on the mainland offering the Group's **Veeko** and **Wanko** products (30th September 2004: 43 outlets). Most of these outlets operated by way of franchise. The outlet network under **Veeko** and **Wanko** brand names now covers not only first-tier cities such as Beijing, Shanghai, Chengdu, Guangzhou, Shenzhen and Zhuhai, but also other cities, including Chongqing, Wuhan, Nanjing, Kunming, Xiamen, Nanchang, Nanning, Zhengzhou and Xi'an. Thanks to the ongoing economic growth in mainland China, sales in the mainland market was impressive during the period under review.

## **Cosmetics Business**

The Group launched its cosmetics retail chain business in October, 2004 and established the **Colourmix** stores. As at 30th September, 2005, one year after the launch of the cosmetics business, the Group had 11 outlets, of which 8 were in Hong Kong and 3 in Macau. During the period under review, the Group's cosmetics retail business recorded a turnover of HK\$34,552,000, accounting for 12.8% of the Group's total turnover. A loss of HK\$7,433,000 was recorded due to the necessary reviews and adjustments on the operation mode and product mix throughout the initial development stage. In particular, a further number of exclusively distributed cosmetics products were necessary for reducing procurement cost and increasing gross profit. Moreover, the launch of the cosmetics business coincided with the surge of rental levels. At first, the **Colourmix** outlets were opened in large shopping malls, where they were less affected by rental increase. Since April, 2005, however, we began opening new outlets in tourist districts, such as the Park Lane Shoppers Boulevard in Tsim Sha Tsui and Mongkok, where rental levels are high. The reasons are to ensure the completeness of our retail network and boost the reputation of the **Colourmix** brand. As a result, high rental brought pressure to the new cosmetics business.

## PROSPECTS

### Fashion Business

As at 30th September, 2005, there were a total of 187 outlets under the Group's brand name, of which 62 were in Hong Kong and Macau, 62 in Taiwan, 10 in Singapore and 53 in China. In the future, the Group will maintain the number of its outlets in Hong Kong and Macau at the existing level, making adjustments according to rental levels. **Veeko** and **Wanko** brands have occupied a leading position in Taiwan's ladies fashion market. The Group will continue to develop its business in Taiwan progressively. Meanwhile, as the Singapore market is turning up, the Group will prudentially develop its local business. The China market will become the Group's key market for future development. In the China market, after years of development by way of franchise, the outlet network under **Veeko** and **Wanko** brand names now covers not only those first-tier cities, but also other second-tier cities. According to the franchisees, these two brands are well-received by female consumers in China. To capture this business opportunity, the Group is planning a parallel development approach. On one hand, it will continue to develop the China market by way of franchise; on the other hand, it is studying the feasibility of direct operation in China. The Group has been implementing internal strengthening measures including continuous enhancement of product quality, commitment in staff training to improve the overall service quality of staff and effective cost control. These measures will be helpful in countering part of the pressure from rental increase. The Group is confident about its future development in retail business.

### Cosmetics Business

It has been one year since the establishment of the cosmetics business. With a year's experience, the Group has mastered the operation and management of the business and is actively improving its operation mode and strategy. As a result, the business is on the track. The exclusive retail cosmetics products that the Group has currently obtained include Academie, Chen Yu make up series, Coréana, Entia, Ericson, Gatineau, Geo, Gerard's, Helenere, Isomarine and Monteil, which are mainly brands from France, Switzerland and Korea. The Group will increase the number of exclusively distributed products. In order to reduce procurement cost, increase gross profit and enhance its product mix, the Group will also improve the quality of the procurement team by recruiting professional merchandisers and purchasing high-quality cosmetics products around the world for exclusive distribution. Furthermore, as the current rentals, especially that of the tourist districts, have reached an unreasonable level, the Group has slowed down its outlet expansion since the middle of the year. The Group will continue the expansion when the rentals have returned to a reasonable level. Although a loss was still recorded for the cosmetics business, the Group believes that it has promising long-term prospects. We expect that this segment will begin contributing to the Group's business in short time, and are confident that it will become a major source of growth for the Group in future.

# Veeko International Holdings Limited

On 6th May, 2005, the Group's **Colourmix**, **Veeko** and **Wanko** brands were awarded "Superbrands (超級品牌)" by the Hong Kong Superbrands Council (香港超級品牌協會). The award has demonstrated the universal recognition of the customer loyalty, product quality, market dominance and acceptance of the Group's brands. Moreover, the Company was named an outstanding enterprise under the "Hong Kong Outstanding Enterprises Parade 2005" by Economic Digest, a reputable economic magazine in Hong Kong, in November, 2005. The award has proved that the outstanding performance of the Company was widely recognized in the past year. The Group will continue to offer products with superb value, improve product quality and enhance the service standards of its employees through staff training, with a view to providing even better services and strong support to the brands' development.

## LIQUIDITY & FINANCIAL RESOURCES

The Group's working capital increased from HK\$181,961,000 (restated) as at 31st March, 2005 to HK\$194,028,000 for the period end while its current ratio and quick ratio were maintained at a healthy level of 4.1 and 2 times respectively.

As at 30th September, 2005, the Group's cash and bank balances amounted to HK\$67,376,000 (31st March, 2005: HK\$95,575,000) and there was no outstanding bank borrowings and overdraft (31st March, 2005: nil) whereas the total borrowings was HK\$179,000 (31st March, 2005: HK\$278,000).

As at 30th September, 2005, the gearing ratio of the Group is 0.001 (31st March, 2005: 0.001) which is calculated based on the Group's total borrowings of HK\$179,000 (31st March, 2005: HK\$278,000) and the shareholders' fund of HK\$316,899,000 (31st March, 2005: HK\$282,451,000).

As at 30th September, 2005, the Group had banking facilities amounting to HK\$80,200,000 (31st March, 2005: HK\$80,572,000), of which approximately HK\$6,799,000 (31st March, 2005: HK\$3,230,000) was utilised by the Group. The management believes that existing financial resources will be sufficient to meet future expansion plans and, if necessary, the Group will be able to obtain additional financing on favorable terms.

## STAFF AND REMUNERATION POLICIES

As at 30th September, 2005, the Group had 3,420 employees. The Group mainly determines staff remuneration (including insurance and medical benefits) in accordance with the industry's practices. The Group also implemented a reward scheme for its staff based on their individual performances. In addition to their basic remuneration and welfare, some key employees were granted share options as reward and incentive to enhance their loyalty to the Group.

## SHARE OPTION SCHEME

Particulars of the share option schemes adopted by the Group are set out in note 7 to the financial statements.

No options were granted to the directors or substantial shareholders of the Company during the period.

The following table discloses details of options held by employees of the Group and movements in such holdings during the period ended 30th September, 2005:

Date of Grant	Vesting period (from the date of grant)	Exercisable period	Exercise price per share	Balance at 1.4.2005	Granted during the period	Cancelled during the period	Outstanding at 30.9.2005
18th November, 2003	18th November, 2003 to 17th November, 2005	18th November, 2005 to 17th November, 2007	HK\$0.162	18,000,000	-	(500,000)	17,500,000
18th November, 2003	18th November, 2003 to 17th November, 2007	18th November, 2007 to 17th November, 2009	HK\$0.162	18,000,000	-	(500,000)	17,500,000
21st September, 2004	21st September, 2004 to 20th September, 2006	21st September, 2006 to 20th September, 2008	HK\$0.255	2,000,000	-	-	2,000,000
21st September, 2004	21st September, 2004 to 20th September, 2008	21st September, 2008 to 20th September, 2010	HK\$0.255	2,000,000	-	-	2,000,000
				40,000,000	-	(1,000,000)	39,000,000
				40,000,000	-	(1,000,000)	39,000,000

# Veeko International Holdings Limited

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th September, 2005, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Cheng Chung Man, Johnny	Held by trust	994,044,180 (Note 1)	60.03%
	Held by spouse	124,194,000 (Note 2)	7.50%
		<u>1,118,238,180</u>	<u>67.53%</u>
Ms. Lam Yuk Sum	Held by trust	994,044,180 (Note 1)	60.03%
	Beneficial owner	124,194,000	7.50%
		<u>1,118,238,180</u>	<u>67.53%</u>

### Notes:

1. These 994,044,180 shares are beneficially owned by Silver Crown Profits Limited ("Silver Crown"). The shares in Silver Crown are in turn held by the trustee of the J Cheng Family Trust, a discretionary trust, the discretionary objects of which include family members of Mr. Cheng Chung Man, Johnny and Ms. Lam Yuk Sum.
2. Mr. Cheng Chung Man, Johnny is the husband of Ms. Lam Yuk Sum and is deemed to be interested in 124,194,000 shares beneficially owned by Ms. Lam Yuk Sum.

Other than disclosed above and certain nominee shares in subsidiaries held by certain directors in trust for the Group, none of the directors nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of part XV of the SFO) as at 30th September, 2005, as required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS

Other than disclosed above under the section headed "Directors' Interests in Shares, Underlying Shares and Debentures" and other substantial shareholders' interests disclosed in the following table, at 30th September, 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the Company had not been notified of any relevant interests or short positions in the shares or underlying shares of the Company.

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Cheah Cheng Hye	Held by controlled corporation	157,800,000 (Note)	9.53%
Value Partners Limited	Held by investment managers	157,800,000 (Note)	9.53%
Value Partners High-Dividend Stocks Fund	Beneficial owner	88,160,000	5.32%

*Note:* Value Partners Limited through its investment managers including Value Partners High-Dividend Stocks Fund owns an aggregate of 157,800,000 ordinary shares of the Company. Mr. Cheah Cheng Hye is deemed to be interested in 157,800,000 ordinary shares of the Company as he beneficially owns 32.77% of Value Partners Limited.

## CORPORATE GOVERNANCE

The Company has complied throughout the six months ended 30th September, 2005 with code provisions ("the Code") set out in Appendix 14 to the Listing Rules except for the following deviations:

- a. In accordance with Rule A.4.2 of the Code, the Directors are subject to retirement by rotation at least once every three years. Pursuant to the Articles of Association of the Company, any Director appointed either to fill a causal vacancy or as an additional director by the Board during the year shall hold office until the next annual general meeting and shall then be eligible for re-election. One-third of the Directors for the time being, or the number nearest one-third, shall retire from office by rotation at each annual general meeting.

# Veeko International Holdings Limited

- b. In accordance with Rule A.2.1 of the Code, the positions of chairman and chief executive officer should be separated and not to be assumed by the same individual. On 31st August, 2005, Ms. Lam Yuk Sum, an executive director of the Company, was appointed as the Chief Executive Officer and a document setting out clear definitions of duties of the Chairman and Chief Executive Officer has been adopted by the Company.
- c. Rule B.1 of the Code states the requirements in the establishment, composition, scope of authority and responsibility of the Remuneration Committee. Set up on 31st August, 2005, the Remuneration Committee of the Company is composed of 5 members, the majority of which are independent non-executive directors of the Company.

## MODEL CODE

The Company has adopted a code of conduct regarding director's securities transactions on terms no less exacting than the required standard set out in Appendix 10 Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. Having made specific enquiry of all directors, all directors have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

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

During the six months ended 30th September, 2005, there was no purchase, redemption or sale by the Company or any of its subsidiaries of the Company's listed securities.

## AUDIT COMMITTEE

The unaudited results of the Group for the six months ended 30th September, 2005 have been reviewed by the Audit Committee. The Audit Committee constitutes 3 independent non-executive directors.

**Cheng Chung Man, Johnny**  
*Chairman*

Hong Kong, 19th December, 2005