

Veeko®

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



Veeko®



06/07 Interim Report

www.veeko.com.hk

For the six months ended 30th September, 2006

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

35th Floor, One Pacific Place

88 Queensway

Hong Kong

AUTHORISED REPRESENTATIVES

CHENG Chung Man, Johnny

LAM Yuk Sum

COMPANY SECRETARY

WONG Chi Ying

AUDIT COMMITTEE MEMBERS

CHENG Chung Hoo *(Chairman)*

YANG Wei Tak

YEUNG Wing Kay

REMUNERATION COMMITTEE MEMBERS

CHENG Chung Hoo *(Chairman)*

CHENG Chung Man, Johnny

LAM Yuk Sum

YANG Wei Tak

YEUNG Wing Kay

REGISTERED OFFICE

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

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

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 (the "Board") 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, 2006. The results, together with the comparative figures for the corresponding period in 2005, are summarised below:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2006

		Six months ended	
		30th September,	
		2006	2005
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Turnover	3	296,316	270,207
Cost of sales		(100,904)	(88,806)
Gross profit		195,412	181,401
Selling and distribution costs		(136,274)	(123,096)
Administrative expenses		(46,709)	(39,704)
Other income		3,562	3,176
Increase in fair values of investment properties		200	12,750
Finance costs		(122)	(10)
Profit before taxation	4	16,069	34,517
Taxation	5	(1,460)	(2,858)
Profit for the period		14,609	31,659
Dividend paid	6	18,290	–
Earnings per share	7		
Basic		HK0.88 cent	HK1.91 cents
Diluted		HK0.88 cent	HK1.90 cents

Veeko International Holdings Limited

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September, 2006

	Notes	30th September, 2006 (Unaudited) HK\$'000	31st March, 2006 (Audited) HK\$'000
Non-current Assets			
Investment properties		46,550	46,550
Property, plant and equipment		40,601	41,577
Prepaid lease payments		3,551	3,596
Rental and utility deposits		26,691	25,921
Deferred tax assets		1,283	1,411
		118,876	119,055
Current Assets			
Inventories		149,647	121,521
Trade and other receivables	8	51,076	59,424
Prepaid lease payments		89	89
Rental and utility deposits		17,823	12,586
Tax recoverable		2,358	2,639
Pledged bank deposits		1,000	1,000
Bank balances and cash		18,715	52,065
		240,708	249,324
Current Liabilities			
Trade and other payables	9	55,816	69,339
Obligations under finance leases			
– due within one year		–	80
Tax payable		1,128	1,865
Bank import loans		2,923	–
Bank overdraft		5,008	–
		64,875	71,284
Net Current Assets			
		175,833	178,040
		294,709	297,095
Capital and Reserves			
Share capital	10	16,627	16,617
Reserves		273,912	276,532
		290,539	293,149
Non-current Liability			
Deferred tax liabilities		4,170	3,946
		294,709	297,095

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30th September, 2006*

	Six months ended 30th September, 2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Net cash used in operating activities	(15,518)	(17,659)
Net cash used in investing activities	(7,174)	(9,660)
Net cash used in financing activities	(15,285)	(98)
Net decrease in cash and cash equivalents	(37,977)	(27,417)
Cash and cash equivalents at 1st April	52,065	93,575
Effect of foreign exchange rates changes	(381)	(782)
Cash and cash equivalents at 30th September, representing bank balances and cash	13,707	65,376

Veeko International Holdings Limited

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2006

	(Unaudited)							Total HK\$'000
	Share Capital	Share Premium	Property Revaluation Reserve	Exchange Translation Reserve	Special Reserve	Share Option Reserve	Retained Profits	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1st April, 2006	16,617	9,933	713	(5,074)	2,266	2,075	266,619	293,149
Exchange differences on translation of overseas operations	-	-	-	70	-	-	-	70
Surplus on revaluation of leasehold buildings	-	-	685	-	-	-	-	685
Deferred tax liability arising on revaluation of leasehold buildings	-	-	(120)	-	-	-	-	(120)
Net income recognised directly in equity	-	-	565	70	-	-	-	635
Profit for the period	-	-	-	-	-	-	14,609	14,609
Total recognised income for the period	-	-	565	70	-	-	14,609	15,244
Recognition of equity-settled share based payments	-	-	-	-	-	274	-	274
Share issued upon exercise of share options	10	152	-	-	-	-	-	162
Transfer of reserve upon exercise of share options	-	80	-	-	-	(80)	-	-
Dividend paid	-	-	-	-	-	-	(18,290)	(18,290)
At 30th September, 2006	<u>16,627</u>	<u>10,165</u>	<u>1,278</u>	<u>(5,004)</u>	<u>2,266</u>	<u>2,269</u>	<u>262,938</u>	<u>290,539</u>
At 1st April, 2005	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 on revaluation of leasehold buildings	-	-	6,043	-	-	-	-	6,043
Deferred tax liability arising on revaluation of leasehold buildings	-	-	(1,057)	-	-	-	-	(1,057)
Net income and expenses recognised in equity	-	-	4,986	(2,740)	-	-	-	2,246
Profit for the period	-	-	-	-	-	-	31,659	31,659
Total recognised income and expense for the period	-	-	4,986	(2,740)	-	-	31,659	33,905
Recognition of equity-settled share based 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>

NOTES TO CONDENSED INTERIM ACCOUNTS

1. BASIS OF PREPARATION

The unaudited consolidated condensed interim accounts for the six months ended 30th September, 2006 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, 2006 except as described below.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations issued by the HKICPA (hereinafter collectively referred to as the "new HKFRSs") that are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The application of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standard, amendment and interpretations will have no material impact on the results and financial positions of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC)-INT 8	Scope of HKFRS 2 ²
HK(IFRIC)-INT 9	Reassessment of embedded derivatives ³

¹ Effective for annual periods beginning on or after 1st January, 2007.

² Effective for annual periods beginning on or after 1st May, 2006.

³ Effective for annual periods beginning on or after 1st June, 2006.

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3. SEGMENT INFORMATION

Business Segments

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 was organised into two reporting segments comprising manufacture and sale of ladies fashion and sale of cosmetics. Segment information about these businesses is presented below:

	Unaudited six months ended 30th September, 2006			
	Fashion	Cosmetics	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER				
Sales of goods	239,315	57,001	–	296,316
Inter-segment sales	68	103	(171)	–
	<u>239,383</u>	<u>57,104</u>	<u>(171)</u>	<u>296,316</u>

Inter-segment sales are charged at prevailing market rates.

SEGMENT RESULT	<u>22,814</u>	<u>(5,645)</u>		17,169
Unallocated corporate income				1,857
Unallocated corporate expenses				(2,835)
Finance costs				<u>(122)</u>
Profit before taxation				16,069
Taxation				<u>(1,460)</u>
Profit for the period				<u>14,609</u>

3. SEGMENT INFORMATION *(Continued)*

Business Segments *(Continued)*

	Unaudited six months ended 30th September, 2005			
	Fashion HK\$'000	Cosmetics HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
TURNOVER				
Sales of goods	235,655	34,552	–	270,207
Inter-segment sales	<u>53</u>	<u>1,842</u>	<u>(1,895)</u>	<u>–</u>
	<u><u>235,708</u></u>	<u><u>36,394</u></u>	<u><u>(1,895)</u></u>	<u><u>270,207</u></u>

Inter-segment sales are charged at prevailing market rates.

SEGMENT RESULT	<u><u>28,941</u></u>	<u><u>(7,433)</u></u>	21,508
Unallocated corporate income			15,840
Unallocated corporate expenses			(2,821)
Finance costs			<u>(10)</u>
Profit before taxation			34,517
Taxation			<u>(2,858)</u>
Profit for the period			<u><u>31,659</u></u>

4. PROFIT BEFORE TAXATION

	Six months ended 30th September,	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	<u><u>8,327</u></u>	<u><u>8,072</u></u>
and after crediting:		
Interest income	<u><u>236</u></u>	<u><u>389</u></u>

Veeko International Holdings Limited

5. TAXATION

	Six months ended 30th September,	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
The charge comprises:		
Current taxation		
Hong Kong Profits Tax	1,596	930
Overseas taxation	(357)	1,790
Deferred taxation		
Current year	221	138
	<u>1,460</u>	<u>2,858</u>

Hong Kong Profits Tax is calculated at 17.5% (2005: 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.

6. DIVIDEND PAID

	Six months ended 30th September,	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
2006 final dividend of HK\$1.1 cents per share	<u>18,290</u>	<u>–</u>

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the period of HK\$14,609,000 (2005: HK\$31,659,000) and 1,662,172,678 shares (2005: 1,656,000,000 shares) in issue during the period.

The calculation of diluted earnings per share is based on the profit for the period of HK\$14,609,000 (2005: HK\$31,659,000) and the weighted average number of 1,665,860,525 shares (2005: 1,665,676,667 shares) issued and issuable, assuming that all of the outstanding share options had been exercised on the date of issue.

8. TRADE AND OTHER RECEIVABLES

At 30th September, 2006, included in the Group's trade and other receivables were trade receivables of HK\$47,409,000 (31st March, 2006: HK\$55,332,000). 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:

	30th September, 2006 (Unaudited) HK\$'000	31st March, 2006 (Audited) HK\$'000
Within 30 days	15,833	15,872
31 – 60 days	6,237	6,898
61 – 90 days	6,124	8,285
Over 90 days	19,215	24,277
	<u>47,409</u>	<u>55,332</u>

The fair value of the Group's trade and other receivables approximates to the corresponding carrying amount.

9. TRADE AND OTHER PAYABLES

At 30th September, 2006, included in the Group's trade and other payables were trade payables of HK\$28,890,000 (31st March, 2006: HK\$42,905,000). Details of the aged analysis of the trade payables are as follows:

	30th September, 2006 (Unaudited) HK\$'000	31st March, 2006 (Audited) HK\$'000
Within 30 days	6,760	9,355
31 – 60 days	2,099	3,573
61 – 90 days	4,529	8,793
Over 90 days	15,502	21,184
	<u>28,890</u>	<u>42,905</u>

The fair value of the Group's trade and other payables approximates to the corresponding carrying amount.

Veeko International Holdings Limited

10. SHARE CAPITAL

	Number of ordinary shares	Value HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1st April, 2006 and 30th September, 2006	10,000,000,000	100,000
Issued and fully paid:		
At 1st April, 2006	1,661,700,000	16,617
Issue of shares upon exercise of share options (Note)	1,000,000	10
At 30th September, 2006	1,662,700,000	16,627

Note: During the period ended 30th September, 2006, 1,000,000 share options were exercised at prices of HK\$0.162 per share, resulting in issue of a total of 1,000,000 ordinary shares of HK\$0.01 each in the Company.

11. OPERATING LEASES

The Group as Lessee

At 30th September, 2006, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30th September, 2006 (Unaudited) HK\$'000	31st March, 2006 (Audited) HK\$'000
Within one year	144,709	128,975
In the second to fifth year inclusive	134,019	136,191
Over five years	388	485
	<u>279,116</u>	<u>265,651</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, 2006, the Group had contracted with tenants for the following future minimum lease payments:

	30th September, 2006 (Unaudited) HK\$'000	31st March, 2006 (Audited) HK\$'000
Within one year	3,212	3,198
In the second to fifth year inclusive	1,153	2,666
	<u>4,365</u>	<u>5,864</u>

12. PLEDGE OF ASSETS

At 30th September, 2006, the following assets were pledged by the Group to certain banks to secure general banking facilities granted to the Group:

	30th September, 2006 (Unaudited) HK\$'000	31st March, 2006 (Audited) HK\$'000
Investment properties	46,750	46,550
Leasehold buildings	9,660	9,416
Prepaid lease payments	3,248	3,287
Short term bank deposits	1,000	1,000
	60,658	60,253

INTERIM DIVIDEND

At the Board Meeting held on 18th December, 2006, the Board has resolved to declare the payment of an interim dividend of HK0.70 cent (2006: HK0.90 cent) per share of HK\$0.01 each for the financial year ending 31st March, 2007. The interim dividend will be payable on 26th January, 2007 to shareholders whose names appeared on the register of members of the Company at the close of business on 16th January, 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 17th January, 2007 to Friday, 19th January, 2007 (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 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on Tuesday, 16th January, 2007.

MANAGEMENT DISCUSSION AND ANALYSIS BUSINESS REVIEW

For the six months ended 30th September, 2006, the Group recorded a turnover of HK\$296,316,000 (2005: HK\$270,207,000), representing an increase of 9.7% as compared with the corresponding period of the previous year. An amount of HK\$57,001,000 of the turnover was contributed by the cosmetics business, representing an increase of 65% as compared with the corresponding period of the previous year (2005: HK\$34,552,000). The turnover from fashion business increased by 1.6% from the corresponding period of the previous year. The profit for the period was HK\$14,609,000 (2005: HK\$31,659,000), representing a decrease of 53.9% over the corresponding period of the previous year. This was attributable to the fact that the increase in fair values of investment properties was HK\$12,750,000 during the corresponding period of the previous year, while this amount of income recorded during the six months ended 30th September, 2006 was only HK\$200,000. If the effect of such special income was excluded, the profit before taxation would have recorded a 27.1% decrease as compared with the corresponding period of the previous year.

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 60.1% of the overall turnover of its fashion business. For the six months ended 30th September, 2006, the Hong Kong and Macau market recorded a turnover of HK\$143,925,000, representing an increase of 10.9% as compared with the corresponding period of the previous year. As at 30th September, 2006, the Group had altogether 59 outlets in Hong Kong and Macau (30th September, 2005: 62 outlets). The Group will maintain the number of its outlets at the existing level, making adjustments according to rental levels.

Fashion Business – Taiwan Market

In the first half of this financial year, the retail business in Taiwan recorded a turnover of HK\$61,133,000, representing a 13% decrease over the corresponding period of the previous year. This was primarily attributable to the weak economy and unstable political status in Taiwan which continuously weakened its consumption capability and confidence and aggravated the market environment. As at 30th September, 2006, the Group had 63 outlets in Taiwan, similar to the number of the previous year. During the period under review, Taiwan market accounted for 25.5% of the Group's total turnover in the fashion business.

Fashion Business – Singapore Market

In the first half of this financial year, the retail business in Singapore recorded a turnover of HK\$17,331,000, representing a 17.1% 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 during the previous year. Together with the strengthened local management team, the segment results in Singapore experienced a significant improvement and maintained positive momentum. As at 30th September, 2006, the Group had 11 outlets in Singapore (30th September, 2005: 10 outlets).

Fashion Business – Other Markets

As at 30th September, 2006, there were 62 outlets in China offering the Group's **Veeko** and **Wanko** products (30th September 2005: 53 outlets) apart from the markets in Hong Kong and Macau, Taiwan and Singapore. 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 includes other cities such as Chongqing, Wuhan, Nanjing, Tianjin, Xiamen, Quanzhou, Nanning, Qingdao, Yantai, Jiangmen, Zhongshan and Yibin.

Cosmetics Business

The Group launched its cosmetics retail chain business in October 2004 and established the **Colourmix** stores. As at 30th September, 2006, the Group had 15 outlets (30th September 2005: 11 outlets), of which 12 were in Hong Kong and 3 in Macau. During the period under review, the Group's cosmetics retail business recorded a turnover of HK\$57,001,000 (30th September 2005: HK\$34,552,000), accounting for 19.2% of the Group's total turnover. An approximate loss of HK\$5,645,000 was recorded, representing an approximate decrease of 24.1% as compared with the loss of HK\$7,433,000 of the corresponding period of the previous year. The improvement was largely attributable to the positive response to the exclusive products directly imported from overseas since the end of 2005, which brought along a significant growth of gross profit margin. The turnover of the exclusive brands of skin care product series accounted for approximately 36% of the total turnover for the six months ended 30th September, 2006 while the percentage was approximately 24% during the corresponding period of the previous year. The overall gross profit margin was approximately 45.9% during the period under review and approximately 31.2% during the corresponding period of the previous year. Since the middle of March 2006, the Group has successively established **Colourmix** counters in the **Veeko** and **Wanko** fashion outlets in Taiwan, which mainly sold its exclusive branded cosmetics and skin care products of the Group to make initial trials in the Taiwan market. The Group has established 14 **Colourmix** counters so far and the response received was up to expectation. Although a loss was still recorded for the cosmetics business, the Group will continue the development of cosmetics business with prudence.

PROSPECTS

Fashion Business

As at 30th September, 2006, there were a total of 195 outlets under the Group's brand names, of which 59 were in Hong Kong and Macau, 63 in Taiwan, 11 in Singapore and 62 in mainland China. In the future, the Group will concentrate on the growth of its existing outlets in Hong Kong and Macau by maintaining the number of its outlets at the existing level and strengthening its cost control and human resources management. As such, the Group will be able to increase its turnover and profit and counter part of the pressure arising from rental increase. The total turnover of the comparable outlets in Hong Kong and Macau from October to November 2006 recorded an approximate 9.9% increase as compared with the corresponding period of the previous year. **Veeko** and **Wanko** brands have occupied a leading position in Taiwan's ladies fashion market. In the future, the Group will make corresponding adjustments based on the considerations towards the economic environment in Taiwan and close the outlets with unsatisfactory performance. 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 already established a foreign-invested company in September 2006 and successfully obtained a foreign-owned business license in the mainland which allows it to carry out retail and wholesale business in the territory directly. The Group plans to open self-operating outlets successively in key cities in the mainland, realizing a parallel development with the existing franchised operations. The Group has been implementing internal strengthening measures including continuous enhancement of product quality and 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 arising from rental increase. The Group is confident about its future development in fashion retail business, especially in China market.

Cosmetics Business

It has been two years since the establishment of the cosmetics business. With two years' 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 number of the existing outlets was close to the budget base and the basic scale of operation has been achieved. The Group will concentrate on the integration of internal management, such as enriching the product series, increasing exclusive cosmetics products and training employees to offer excellent and professional services. The major brands of exclusive cosmetics products retailed by the Group include *Amadoris*, *Coréana*, *Entia*, *Esterel*, *Frais Monde*, *Geo*, *Helenere*, *Inseta* and *Swissological*, which are mainly brands from France, Switzerland, Italy and Korea. Besides the above series of skin care products, the Group has also obtained some perfume and other personal care products which are exclusively and directly imported from foreign countries, which helped to increase the gross profit margin. As a result, the loss of the cosmetics business during the period under review has experienced a significant improvement as compared with the corresponding period of the previous year and the operation performance has gradually turned up. From October to November 2006, the turnover of comparable outlets recorded an approximate 8.9% increase over the corresponding period of the previous year and the gross profit margin of these two months was approximately 47.8%, representing a remarkable increase as compared with the corresponding period of the previous year, which was 36.9%. Although a loss was still recorded for the cosmetics business, the Group believes that it has promising long-term prospects.

The Group will continue to offer products with superb value, and 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 its brands' development.

LIQUIDITY & FINANCIAL RESOURCES

The Group's working capital decreased from HK\$178,040,000 as at 31st March, 2006 to HK\$175,833,000 for the period end while its current ratio and quick ratio were maintained at a healthy level of 3.7 and 1.4 times respectively.

As at 30th September, 2006, the Group's cash and bank balances amounted to HK\$19,715,000 (31st March, 2006: HK\$53,065,000) and the outstanding bank borrowings and overdraft amounted to HK\$7,931,000 (31st March, 2006: Nil) whereas the total borrowings was HK\$7,931,000 (31st March, 2006: HK\$80,000).

As at 30th September, 2006, the gearing ratio of the Group is 0.027 (31st March, 2006: 0.0003) which is calculated based on the Group's total borrowings of HK\$7,931,000 (31st March, 2006: HK\$80,000) and the shareholders' fund of HK\$290,539,000 (31st March, 2006: HK\$293,149,000).

As at 30th September, 2006, the Group had banking facilities amounting to HK\$108,200,000 (31st March, 2006: HK\$108,200,000), of which HK\$11,247,000 (31st March, 2006: HK\$8,732,000) 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.

CONTINGENT LIABILITIES

At 30th September, 2006, the Company had provided guarantees of HK\$121,200,000 (31st March, 2006: HK\$121,200,000) to certain banks in respect of banking facilities granted to certain subsidiaries of the Company. The amount utilised by the subsidiaries was HK\$11,247,000 (31st March, 2006: HK\$8,732,000) as at 30th September, 2006.

FOREIGN EXCHANGE EXPOSURE

Certain trade payables and purchases of the Group are denominated and settled in foreign currencies. The management will continue to monitor its foreign exchange position and, if necessary, will hedge its foreign currency exposure by way of forward foreign exchange contract.

STAFF AND REMUNERATION POLICIES

As at 30th September, 2006, the Group had 3,461 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

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, 2006:

Date of grant	Vesting period (from the date of grant)	Exercisable period	Exercise price per share	Balance at 1.4.2006	Granted during the period	Exercised during the period	Cancelled during the period	Outstanding at 30.9.2006
18th November, 2003	18th November, 2003 to 17th November, 2005	18th November, 2005 to 17th November, 2007	HK\$0.162	11,800,000	-	(1,000,000)	-	10,800,000
18th November, 2003	18th November, 2003 to 17th November, 2007	18th November, 2007 to 17th November, 2009	HK\$0.162	17,500,000	-	-	(500,000)	17,000,000
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
16th August, 2006	16th August, 2006 to 15th August, 2008	16th August, 2008 to 15th August, 2010	HK\$0.2052	-	3,600,000	-	-	3,600,000
16th August, 2006	16th August, 2006 to 15th August, 2010	16th August, 2010 to 15th August, 2012	HK\$0.2052	-	3,600,000	-	-	3,600,000
				33,300,000	7,200,000	(1,000,000)	(500,000)	39,000,000

The closing price of the Company's shares immediately before 16th August, 2006, the date of grant, was HK\$0.195.

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK\$0.212.

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DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th September, 2006, 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 (the "Model Code") 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 <i>(Note)</i>	59.78%
Ms. Lam Yuk Sum	Held by trust	994,044,180 <i>(Note)</i>	59.78%
	Beneficial owner	<u>124,194,000</u>	<u>7.47%</u>
		<u>1,118,238,180</u>	<u>67.25%</u>

Note: 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.

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, 2006, 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, 2006, 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	153,000,000 <i>(Note)</i>	9.20%
Value Partners Limited	Held by investment managers	153,000,000 <i>(Note)</i>	9.20%
Value Partners High-Dividend Stocks Fund	Beneficial owner	88,160,000	5.30%

Note: Value Partners Limited through its investment managers including Value Partners High-Dividend Stocks Fund owns an aggregate of 153,000,000 ordinary shares of the Company. Mr. Cheah Cheng Hye is deemed to be interested in 153,000,000 ordinary shares of the Company as he beneficially owns 32.77% of Value Partners Limited.

CORPORATE GOVERNANCE

The Group has complied with the code provisions ("Code Provision") set out in the Code on Corporate Governance Practices ("CG Code") in Appendix 14 of the Listing Rules throughout the six months ended 30th September, 2006 except for the deviation from Code Provision A.4.2:

Code Provision A.4.2 of the CG code stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Company's Articles of Association is not compatible with Code Provision A.4.2 of the CG Code and provides that one-third of the directors for the time being (save for the Chairman and the Managing Director), or if their number is not three nor a multiple of three, then the number nearest to but not exceeding one-third, shall retire from office and be eligible, for re-election at annual general meetings and that any new director appointed by the Board during the year shall hold office until the next following annual general meeting after appointment, when he/she shall be eligible for re-election.

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To conform with Code Provision A.4.2 of the CG Code, a special resolution was proposed and approved at the annual general meeting of the Company held on 21st August, 2006 to amend the Company's Articles of Association so that all directors including those appointed for a specific term or holding office as Chairman or Managing Director will be subject to retirement by rotation once every three years and any new director appointed to fill a casual vacancy shall be subject to re-election by shareholders at the first general meeting after his/her appointment.

MODEL CODE FOR SECURITIES TRANSACTIONS

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 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, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30th September, 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The unaudited results of the Group for the six months ended 30th September, 2006 have been reviewed by the Audit Committee. The Audit Committee constitutes 3 independent non-executive directors.

On behalf of the Board
Veeko International Holdings Limited
Cheng Chung Man, Johnny
Chairman

Hong Kong, 18th December, 2006