

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
Balance sheet items			
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:

	Unaudited six months ended 30th September, 2005			
	Fashion	Cosmetics	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER				
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.				
SEGMENT RESULT	<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>31,659</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		2004
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(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		2004
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(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:

	Number of share options
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:

	30th September, 2005 (Unaudited) HK\$'000	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:

	30th September, 2005 (Unaudited) HK\$'000	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

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

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:

	30th September, 2005 (Unaudited) HK\$'000	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
	311,012	267,912

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:

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

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.