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**Veeko®**

**VEEKO INTERNATIONAL HOLDINGS LIMITED**

**威高國際控股有限公司**

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

(Stock Code: 1173)

**ANNOUNCEMENT OF INTERIM RESULTS  
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2012**

**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, 2012. The results, together with the comparative figures for the corresponding period in 2011, are summarised below:

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

*For the six months ended 30th September, 2012*

		<b>Six months ended 30th September,</b>	
		(Restated)	
		<b>2012</b>	2011
		<b>(Unaudited)</b>	(Unaudited)
	<i>Notes</i>	<b>HK\$’000</b>	<b>HK\$’000</b>
Turnover	3	<b>615,167</b>	564,514
Cost of goods sold		<b>(302,538)</b>	(260,025)
		<hr/>	<hr/>
Gross profit		<b>312,629</b>	304,489
Selling and distribution costs		<b>(232,908)</b>	(223,579)
Administrative expenses		<b>(67,446)</b>	(64,657)
Other income, gains and losses		<b>3,850</b>	4,457
Increase in fair values of investment properties		<b>3,570</b>	1,750
Finance costs		<b>(731)</b>	(328)
		<hr/>	<hr/>

		<b>Six months ended</b>	
		<b>30th September,</b>	
		(Restated)	
		<b>2012</b>	2011
		<b>(Unaudited)</b>	(Unaudited)
<i>Notes</i>		<b>HK\$'000</b>	<b>HK\$'000</b>
	Profit before tax	<b>18,964</b>	22,132
	Income tax expense	<b>(1,137)</b>	(1,220)
	Profit for the period	<b>17,827</b>	20,912
	<b>Other comprehensive (expense) income</b>		
	Exchange differences arising on translation of foreign operations	<b>(969)</b>	2,779
	Reclassification of exchange differences upon dissolution of a subsidiary	<b>–</b>	(2,037)
	Other comprehensive (expense) income for the period	<b>(969)</b>	742
	<b>Total comprehensive income for the period</b>	<b>16,858</b>	21,654
	Dividends	<b>19,972</b>	23,812
	Earnings per share		
	Basic	<b>HK0.8033 cent</b>	HK0.9660 cent
	Diluted	<b>HK0.8030 cent</b>	HK0.9618 cent

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th September, 2012

		30th September, 2012 (Unaudited) <i>HK\$'000</i>	(Restated) 31st March, 2012 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
<b>Non-current Assets</b>			
Investment properties		28,180	24,610
Property, plant and equipment		147,084	141,197
Prepaid lease payments		14,336	14,558
Rental deposits paid		59,421	49,231
Deferred tax assets		7,292	7,536
Certificate of deposit		6,176	6,176
		<b>262,489</b>	243,308
<b>Current Assets</b>			
Inventories		362,874	299,472
Trade and other receivables	8	55,767	50,891
Prepaid lease payments		446	446
Rental and utility deposits paid		32,316	34,309
Tax recoverable		2	–
Pledged bank deposit		1,235	1,235
Bank balances, deposits and cash		92,772	106,178
		<b>545,412</b>	492,531
<b>Current Liabilities</b>			
Trade and other payables	9	92,634	68,744
Rental deposits received		8	8
Secured bank borrowings			
– due within one year		91,168	57,596
Obligation under a finance lease			
– due within one year		256	296
Tax payable		5,087	6,179
		<b>189,153</b>	132,823
<b>Net Current Assets</b>		<b>356,259</b>	359,708
		<b>618,748</b>	603,016

	<b>30th September, 2012 (Unaudited) HK\$'000</b>	(Restated) 31st March, 2012 (Audited) HK\$'000
Capital and Reserves		
Share capital	22,191	22,191
Reserves	592,419	575,489
	<u>614,610</u>	<u>597,680</u>
Non-current Liabilities		
Secured bank borrowings		
– due after one year	2,296	3,720
Obligation under a finance lease		
– due after one year	–	105
Deferred tax liabilities	1,842	1,511
	<u>4,138</u>	<u>5,336</u>
	<u><b>618,748</b></u>	<u><b>603,016</b></u>

## NOTES TO CONDENSED INTERIM ACCOUNTS

### 1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30th September, 2012 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) (“Listing Rules”).

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th September, 2012 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31st March, 2012.

#### **Application of amendments to HKFRSs**

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA:

Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Asset

#### ***Amendments to HKAS 12 “Deferred Tax – Recovery of Underlying Assets”***

Under the amendments to HKAS 12 “Deferred Tax – Recovery of Underlying Assets”, investment properties that are measured using the fair value model in accordance with HKAS 40 “Investment Property” are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances. The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the directors reviewed the Group’s investment property portfolios and concluded that the Group’s investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, and that the presumption set out in the amendments to HKAS 12 is not rebutted.

As a result of the application of the amendments to HKAS 12, the Group does not recognise any deferred taxes on changes in fair value of the investment properties as the Group is not subject to any income taxes on disposal of its investment properties. Previously, the Group recognised deferred taxes on changes in fair value of investment properties on the basis that the entire carrying amounts of the properties were recovered through use.

The amendments to HKAS 12 have been applied retrospectively, resulting in the Group's deferred tax liabilities being decreased by HK\$2,755,000 as at 31st March, 2012, with the corresponding adjustment being recognised in retained profits. In addition, the application of the amendments has resulted in the Group's income tax expense for the six months ended 30th September, 2012 and 30th September, 2011 being reduced by HK\$589,000 and HK\$289,000 respectively and hence resulted in the profit for the six months ended 30th September, 2012 and 30th September 2011 being increased by HK\$589,000 and HK\$289,000 respectively.

***Summary of the effect of the above change in accounting policy***

The effect of the change in accounting policy described above on the results for the current and preceding interim periods by line items presented in the condensed consolidated statement of comprehensive income is as follows:

	<b>Six months ended 30th September,</b>	
	<b>2012</b>	2011
	<b>HK\$'000</b>	HK\$'000
Decrease in income tax expense	<u>589</u>	<u>289</u>
Increase in profit for the period	<u><b>589</b></u>	<u>289</u>

The effect of the change in accounting policy described above on the financial positions of the Group as at the end of the immediately preceding financial year, i.e. 31st March, 2012, and the beginning of the comparative period, i.e. 1st April, 2011, are as follows:

	As at 1.4.2011		As at 31.3.2012		As at 31.3.2012	
	(Originally stated)	Adjustment	(Restated)	(Originally stated)	Adjustment	(Restated)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deferred tax liabilities	<u>(4,660)</u>	<u>2,244</u>	<u>(2,416)</u>	<u>(4,266)</u>	<u>2,755</u>	<u>(1,511)</u>
Total effects on net assets	<u><b>(4,660)</b></u>	<u><b>2,244</b></u>	<u><b>(2,416)</b></u>	<u><b>(4,266)</b></u>	<u><b>2,755</b></u>	<u><b>(1,511)</b></u>
Retained profits	<u>379,668</u>	<u>2,244</u>	<u>381,912</u>	<u>405,745</u>	<u>2,755</u>	<u>408,500</u>
Total effects on equity	<u><b>379,668</b></u>	<u><b>2,244</b></u>	<u><b>381,912</b></u>	<u><b>405,745</b></u>	<u><b>2,755</b></u>	<u><b>408,500</b></u>

The effect of the above change in accounting policy on the Group's basic earnings per share and diluted earnings per share for the current and prior periods is as follows:

***Impact on basic earnings per share***

	<b>Six months ended 30th September, 2012</b>		2011
Basic earnings per share before adjustment	<b>HK0.7768 cent</b>		HK0.9527 cent
Adjustment arising from change in accounting policy in relation to:			
application of amendments to HKAS 12 in respect of deferred taxes on investment properties	<b>HK0.0265 cent</b>	<u>HK0.0133 cent</u>	
Reported basic earnings per share	<b><u>HK0.8033 cent</u></b>		<b><u>HK0.9660 cent</u></b>

***Impact on diluted earnings per share***

	<b>Six months ended 30th September, 2012</b>		2011
Diluted earnings per share before adjustment	<b>HK0.7765 cent</b>		HK0.9485 cent
Adjustment arising from change in accounting policy in relation to:			
application of amendments to HKAS 12 in respect of deferred taxes on investment properties	<b>HK0.0265 cent</b>	<u>HK0.0133 cent</u>	
Reported diluted earnings per share	<b><u>HK0.8030 cent</u></b>		<b><u>HK0.9618 cent</u></b>

**3. SEGMENT INFORMATION**

**Operating Segments**

Information reported to the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered.

The Group's reportable and operating segments under HKFRS 8 "Operating Segments" are Fashion and Cosmetics, of which principal activities are as follows:

- Fashion – Manufacture and sales of ladies fashion
- Cosmetics – Sales of cosmetics

## SEGMENT REVENUE AND RESULTS

The following is an analysis of the Group's revenue and results by reportable and operating segments.

	Unaudited six months ended 30th September, 2012				
	Fashion <i>HK\$'000</i>	Cosmetics <i>HK\$'000</i>	Segment Total <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER					
External sales	258,748	356,419	615,167	-	615,167
Inter-segment sales	17	-	17	(17)	-
	<u>258,765</u>	<u>356,419</u>	<u>615,184</u>	<u>(17)</u>	<u>615,167</u>

Inter-segment sales are charged at prevailing market rates.

SEGMENT PROFIT	<u>7,198</u>	<u>10,613</u>	<u>17,811</u>	-	17,811
Increase in fair values of investment properties					3,570
Other income					338
Central administration costs					(2,024)
Finance costs					(731)
Profit before tax					<u>18,964</u>

	Unaudited six months ended 30th September, 2011				
	Fashion <i>HK\$'000</i>	Cosmetics <i>HK\$'000</i>	Segment Total <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER					
External sales	268,412	296,102	564,514	-	564,514
Inter-segment sales	54	-	54	(54)	-
	<u>268,466</u>	<u>296,102</u>	<u>564,568</u>	<u>(54)</u>	<u>564,514</u>

Inter-segment sales are charged at prevailing market rates.

SEGMENT PROFIT	<u>8,113</u>	<u>14,065</u>	<u>22,178</u>	-	22,178
Increase in fair values of investment properties					1,750
Other income					506
Central administration costs					(1,974)
Finance costs					(328)
Profit before tax					<u>22,132</u>



## OTHER SEGMENT INFORMATION

Amounts included in the measurement of segment profit:

	Unaudited six months ended 30th September, 2012				
	Fashion <i>HK\$'000</i>	Cosmetics <i>HK\$'000</i>	Segment Total <i>HK\$'000</i>	Corporate <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital expenditure	10,933	12,874	23,807	–	23,807
Depreciation of property, plant and equipment	<u>9,330</u>	<u>6,393</u>	<u>15,723</u>	<u>722</u>	<u>16,445</u>

  

	Unaudited six months ended 30th September, 2011				
	Fashion <i>HK\$'000</i>	Cosmetics <i>HK\$'000</i>	Segment Total <i>HK\$'000</i>	Corporate <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital expenditure	13,495	11,251	24,746	–	24,746
Depreciation of property, plant and equipment	<u>11,712</u>	<u>3,974</u>	<u>15,686</u>	<u>721</u>	<u>16,407</u>

## 4. INCOME TAX EXPENSE

	Six months ended 30th September,	
	2012 (Unaudited) <i>HK\$'000</i>	(Restated) 2011 (Unaudited) <i>HK\$'000</i>
The expense comprises:		
Profits tax		
Hong Kong Profits Tax	1,088	343
Other jurisdictions	(543)	(190)
Deferred tax	<u>592</u>	<u>1,067</u>
	<u>1,137</u>	<u>1,220</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both periods. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

## 5. PROFIT FOR THE PERIOD

Six months ended 30th September,	
2012	2011
(Unaudited)	(Unaudited)
HK\$'000	HK\$'000

Profit for the period has been arrived at after charging:

Amortisation of prepaid lease payments	221	218
Depreciation of property, plant and equipment	16,445	16,407
Loss on disposal of property, plant and equipment	667	437
	<u>17,333</u>	<u>17,062</u>

and after crediting:

Gain on dissolution of a subsidiary (included in other income, gains and losses)	–	2,037
Rental income	34	42
Interest income	304	289
	<u>338</u>	<u>2,368</u>

## 6. DIVIDENDS

Six months ended 30th September,	
2012	2011
(Unaudited)	(Unaudited)
HK\$'000	HK\$'000

Dividends recognised as distribution during the period:

2012 final dividend of HK0.9 cent (2011: HK1.1 cents) per share	19,972	23,812
	<u>19,972</u>	<u>23,812</u>

The 2012 final dividend of HK0.9 cent per share in cash has been approved in the annual general meeting held on 5th September, 2012. HK\$19,972,000 cash dividend has been paid on 5th October, 2012.

## 7. EARNINGS PER SHARE

	Six months ended 30th September, (Restated)	
	2012 (Unaudited)	2011 (Unaudited)
Earnings:		
Profit for the period and earnings for the purpose of basic and diluted earnings per share	<b>HK\$17,827,000</b>	HK\$20,912,000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>2,219,147,641</b>	2,164,739,128
Effect of dilutive potential ordinary shares in respect of share options	<b>865,996</b>	9,592,022
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>2,220,013,637</b>	2,174,331,150

## 8. TRADE AND OTHER RECEIVABLES

At 30th September, 2012, included in the Group's trade and other receivables were trade receivables of HK\$39,618,000 (31st March, 2012: HK\$39,523,000). The Group allows a 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. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period:

	30th September, 2012 (Unaudited) <i>HK\$'000</i>	31st March, 2012 (Audited) <i>HK\$'000</i>
Within 30 days	23,586	19,001
31 – 60 days	4,795	5,741
61 – 90 days	1,018	1,150
Over 90 days	10,219	13,631
	<b>39,618</b>	39,523

## 9. TRADE AND OTHER PAYABLES

At 30th September, 2012, included in the Group's trade and other payables were trade payables of HK\$46,023,000 (31st March, 2012: HK\$22,148,000). Details of the aged analysis of trade payables presented based on the invoice date at the end of the reporting period are as follows:

	<b>30th September, 2012 (Unaudited) HK\$'000</b>	31st March, 2012 (Audited) HK\$'000
Within 30 days	<b>29,531</b>	9,194
31 – 60 days	<b>8,087</b>	5,865
61 – 90 days	<b>4,836</b>	1,432
Over 90 days	<b>3,569</b>	5,657
	<hr/> <b>46,023</b> <hr/>	<hr/> 22,148 <hr/>

## 10. EVENT AFTER THE REPORTING PERIOD

The Group had entered into a sales and purchase agreement with an independent third party to dispose of a factory located at Unit 7, Zhujin First Street, Zhujin Industrial Zone, Longhu District, Shantou City, the People's Republic of China on 8th October, 2012 at a consideration of RMB39,000,000 (equivalent to approximately HK\$48,148,000). It is expected that the Company will realize a gain from the disposal of approximately RMB14,221,000 (equivalent to approximately HK\$17,557,000) after deduction of estimated costs and related taxes incurred in connection with the disposal. The Company intends to use the net sales proceeds from the disposal as general working capital. It is expected that completion would take place on or before 15th December, 2012.

## INTERIM DIVIDEND

At the Board Meeting held on 29th November, 2012, the Board has resolved to declare the payment of an interim dividend of HK0.50 cent (2012: HK0.60 cent) per share of HK\$0.01 each for the financial year ending 31st March, 2013. The interim dividend will be payable on or about Wednesday, 30th January, 2013, to the shareholders whose names appeared on the register of members of the Company on Friday, 21st December, 2012.

## CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the entitlements to the interim dividend for the year ending 31st March, 2013, the register of members of the Company will be closed from Wednesday, 19th December, 2012 to Friday, 21st December, 2012 (both days inclusive) during which period no transfer of shares will be registered. The last day for dealing in shares cum entitlements to the interim dividend for the year ending 31st March, 2013 will be Friday, 14th December, 2012. Shareholders are reminded that in order to qualify for the interim dividend for the year ending 31st March, 2013, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrars in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 18th December, 2012.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the six months ended 30th September, 2012, the Group recorded a turnover of HK\$615,167,000 (2011: HK\$564,514,000), representing an increase of 9.0% as compared with the corresponding period of last year. Included in the amount of turnover was HK\$356,419,000 (2011: HK\$296,102,000) generated by the cosmetics business, representing an increase of 20.4% over the same period last year and accounting for 57.9% (2011: 52.5%) of the Group's total turnover. Turnover of the fashion business reached HK\$258,748,000 (2011: HK\$268,412,000), representing a decrease of 3.6% as compared with the same period in the preceding year. The gross profit margin of the fashion business was 69.1%, representing a decrease of 1.2 percentage points as compared with 70.3% for the corresponding period of last year. The gross profit margin of the cosmetics business for the period was 37.5%, representing a decrease of 1.7 percentage points as compared with 39.2% for the corresponding period of last year. Profit attributable to shareholders for the period amounted to HK\$17,827,000 (2011 (restated): HK\$20,912,000), representing a decrease of 14.8% as compared with the corresponding period of last year. One of the reasons was the exchange gain on the dissolution of a subsidiary of HK\$2,037,000 in the same period last year but no such gain was recorded in this period. The cosmetics business recorded a segment profit of HK\$10,613,000 in this period, representing a decrease of 24.5% over that of the same period last year, which was HK\$14,065,000. The fashion business recorded a segment profit of HK\$7,198,000 in this period, representing a decrease of 11.3% as compared to that of HK\$8,113,000 for the same period last year. In addition, an increase in fair values of investment properties of HK\$3,570,000 was recorded for the period.

### Fashion Business

As of 30th September, 2012, the Group had altogether 210 fashion outlets in Hong Kong, Macau, Taiwan, Singapore and Mainland China (30th September, 2011: 231 outlets). Given that the number of outlets has decreased by 21 as compared to the same period last year, the turnover of the fashion business amounted to HK\$258,748,000 (2011: HK\$268,412,000) for the period, representing a decrease of 3.6% over the same period last year, and accounting for 42.1% of the Group's total turnover. The reason for the decrease in number of outlets compared to the same period last year was that the Group has restructured its retail network in China market during the period by closing down some underperforming outlets so as to enhance operation efficiency. During the period, the gross profit margin of the fashion business was 69.1%, representing a decrease of 1.2 percentage points as compared to 70.3% for the same period last year. The fashion business recorded a segment profit of HK\$7,198,000, representing a decrease of 11.3% as compared to HK\$8,113,000 for the same period last year. The decrease in profit was mainly due to the unsatisfactory performance in the markets other than Hong Kong and Macau, in particular in Taiwan and Mainland China markets, and the price reduction promotion in those markets led to a decrease in gross profit margin. Although the unit production cost was lower than that of the same period last year, gross profit margin of the overall fashion business was negatively affected.

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

The fashion retail business in Hong Kong and Macau accounted for 65.1% of the total turnover of fashion business of the Group. For the six months ended 30th September, 2012, turnover from the Hong Kong and Macau market amounted to HK\$168,486,000 (2011: HK\$158,564,000), representing a 6.3% increase over the same period last year, and the turnover of comparable outlets also recorded an increase of 16.8%, as compared to an increase of only 8.1% over the same period last year. Moreover, gross profit margin in Hong Kong and Macau market remained at an approximate level as compared to that of the same period last year, which indicated a strong growth. As of 30th September, 2012, the Group had altogether 71 outlets in Hong Kong and Macau (30th September, 2011: 72 outlets).

### **Fashion Business – Taiwan Market**

Turnover of the retail business in Taiwan for the first half of the financial year was HK\$36,929,000 (2011: HK\$41,249,000), representing a decrease of 10.5% over the same period last year. As of 30th September, 2012, the Group had 46 outlets in Taiwan (30th September, 2011: 44 outlets).

### **Fashion Business – Singapore Market**

During the first half of the financial year, turnover of the retail business in Singapore decreased 15.2% over the same period last year to HK\$24,542,000 (2011: HK\$28,955,000). As of 30th September, 2012, the Group had 14 outlets in Singapore (30th September, 2011: 15 outlets).

### **Fashion Business – China Market**

During the period under review, turnover of the China market amounted to HK\$28,791,000 (2011: HK\$39,644,000), representing a decrease of 27.4% over the same period last year. The decrease in turnover is mainly due to the closing of some underperforming outlets. As of 30th September, 2012, the number of *Veeko* and *Wanko* outlets in China was 79 (30th September, 2011: 100 outlets).

### **Cosmetics Business**

As of 30th September, 2012, the Group had established 64 *Colourmix* outlets (30th September, 2011: 53 outlets), of which 57 outlets were situated in Hong Kong, 5 outlets were situated in Macau and 2 outlets were situated in China. For the period under review, cosmetics retail business recorded a turnover of HK\$356,419,000 (2011: HK\$296,102,000), representing an increase of 20.4%, and accounted for 57.9% of the total turnover of the Group. The turnover of comparable outlets also increased by 6% over the same period last year. During the period, average sales amount per transaction also increased by 6.2% year on year to HK\$308 from HK\$290 for the same period last year. The gross profit margin of cosmetics business for the period was 37.5%, representing a decrease of 1.7 percentage points as compared to 39.2% of the same

period last year. The cosmetics business recorded a segment profit of HK\$10,613,000 during the period, which represented a decrease of 24.5% when compared with that of HK\$14,065,000 for the same period last year, and the cosmetics business continued to contribute to the Group's results.

## **PROSPECTS**

### **Fashion Business**

In respect of the fashion business, the soaring prices of raw materials and wages of the production workforce have added pressure on the Group's production costs in China. However, the Group has continued to intensify its investment in advanced production machinery equipment and enhance overall production effectiveness. During the period, production cost per unit was substantially lower than that of the same period last year. The Group also strengthened product design, and provided more popular products with higher profit margin, such that even though the gross profit margin of the fashion business for the period was diluted from the price reduction promotion in overseas market, the gross profit margin only decreased by 1.2 percentage points to 69.1%. Moreover, as the core market of the Group, Hong Kong and Macau market not only recorded a satisfactory growth of 16.8% in terms of same-store sales but also managed to maintain at an approximate level in gross profit margin as compared to the same period last year. For the month of October 2012, despite of the relatively high base last October, same-store sales in Hong Kong and Macau still recorded a growth of approximately 14%. In the future, the Group will adjust its operating strategy and focus on expanding its business in a prudent manner in Hong Kong and Macau. Also, it will open new outlets in shopping malls in residential areas to reduce pressure from the rise in rental cost. As to the markets other than Hong Kong and Macau, the overall economy in Taiwan remained weak and China economy was also experiencing a slowdown. The Group will, through prudent evaluation, close down underperforming outlets and improve the retail operation of the remaining outlets. It will also focus on reinforcing inventory management and cost control to enhance operational effectiveness.

In order to make good use of the utilization rate of existing factory in China to further enhance the efficiency of production cost, the Group has integrated and combined the production resources of the two existing factories into a factory covering an area of approximately 36,175 sq.m.. Another remaining factory covering an area of approximately 18,888 sq.m. was disposed at RMB39,000,000 pursuant to an agreement entered into with a purchaser, an independent third party, on 8th October, 2012. The net proceeds of disposal, after deducting estimated costs and related taxes, will improve the working capital condition of the Group for future use when potential opportunities arise.



## Cosmetics Business

Cosmetics business continued to contribute to the Group's profit and accounted for 57.9% to the Group's total turnover for the period, and a segment profit of HK\$10,613,000 was recorded, representing a decrease of 24.5% as compared with the profit of HK\$14,065,000 for the same period last year. This was because the Group continuously promoted the shop image during the period with a few outlets renovated with new images. In addition to the increase in the amount written off for certain fixed assets, turnover decreased inevitably during the renovation period. Moreover, the Group moved a few of its outlets due to unreasonable rentals increment, which resulted in expenditure for restoration, while depreciation expenses was also increased. The Group believed that the abovementioned were temporary impacts and the turnover of those outlets even recorded a significant increase after renovation, which is favorable to the future development of the business. For the period, gross profit margin of cosmetics business was 37.5%, representing a decrease of 1.7 percentage points from 39.2% of same period last year, which was mainly due to opening of outlets in influential tourist attractions, since which *Colourmix* has enhanced its position and image gradually in the market and become well known among tourists from Mainland China and hence increased its popularity. However, the gross profit margin of those outlets in the tourist attractions would be lower in the starting period of their businesses, and the gross profit margin of such will rise after the tourists become familiar with the products with exclusive distributorship. Of the 12 newly opened outlets during financial year 2011/2012, 8 outlets are situated in tourist attractions; hence, it will need a period of time to see an increase in gross profit margin. During the six-month period under review, the *Colourmix* outlet network had added 9 outlets and closed 2 outlets. As the cosmetics business was experiencing an expansion stage for its outlets, the Group needs to deploy experienced staff to support the newly opened outlets but the training of staff was unable to match the expansion pace of outlets, and made special adjustments in inventory planning to cope with such rapid increase. It is confident that the cosmetics business will achieve improvement after such consolidation stage becomes stabilized. During the period under review, sales of exclusively distributed branded products accounted for about 40% of total sales of the cosmetics business. As of 30th September, 2012, the Group had established 64 *Colourmix* outlets with economies of scale in its outlet network. In the future, the Group will focus on internal consolidation, and keep on enriching the product portfolio, increasing the variety of cosmetics products with exclusive distributorship and trendy cosmetics products, and training employees to provide quality and professional services. Meanwhile, the Group is currently investing resources in light of enhancing business efficiency, including better automated and systematic approaches for operating flow, inventory planning, resource management, etc. The management is confident about the future development of the cosmetics business. The Group opened its first *Colourmix* outlet in China in January 2012 and the performance was up to our expectation. Apart from Hong Kong and Macau, the Group also continues to study the feasibility of developing cosmetics business in China.



## **LIQUIDITY & FINANCIAL RESOURCES**

The Group's working capital decreased from HK\$359,708,000 as at 31st March, 2012 to HK\$356,259,000 for the period end.

At the end of the reporting period, the Group's cash and bank balances (mainly in Hong Kong Dollars and Renminbi), amounted to HK\$94,007,000 (31st March, 2012: HK\$107,413,000). The outstanding bank borrowings (mainly in Hong Kong Dollars) amounted to HK\$93,464,000 (31st March, 2012: HK\$61,316,000) whereas the total borrowings was HK\$93,720,000 (31st March, 2012: HK\$61,717,000). The increase in the total borrowings was mainly attributable to the continuous expansion of cosmetics retail network and opening of fashion outlets in Hong Kong. The borrowings were mainly used for revonvation of newly opened outlets, stock purchase and payment of rental deposits.

At the end of the reporting period, the current ratio was 2.88 times (31st March, 2012: 3.71 times) and the gearing ratio of the Group was 0.15 time (31st March, 2012: 0.10 time) which was calculated based on the Group's total borrowings of HK\$93,720,000 (31st March, 2012: HK\$61,717,000) and the total equity of HK\$614,610,000 (31st March, 2012 (restated): HK\$597,680,000).

As at 30th September, 2012, the Group had banking facilities amounting to HK\$176,702,000 (31st March, 2012: HK\$158,739,000), of which HK\$117,325,000 (31st March, 2012: HK\$88,799,000) 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.

## **FOREIGN EXCHANGE EXPOSURE**

Several subsidiaries of the Company have foreign currency purchases (mainly in Euro and United States Dollar), which expose the Group to foreign currency risk. The management closely monitors foreign exchange exposure and will consider hedging significant foreign currency risk by entering into forward contracts should the need arises.

## **PLEDGE OF ASSETS**

At the end of the reporting period, the amount of assets pledged by the Group to certain banks to secure general banking facilities granted to the Group was HK\$53,086,000 (31st March, 2012: HK\$50,192,000).

## **CONTINGENT LIABILITIES**

At 30th September, 2012, the Company had provided guarantees of HK\$181,601,000 (31st March, 2012: HK\$163,206,000) to certain banks in respect of banking facilities granted to certain subsidiaries of the Company of which HK\$117,325,000 (31st March, 2012: HK\$88,799,000) was utilised by the subsidiaries.

## **STAFF AND REMUNERATION POLICIES**

At the end of the reporting period, the Group had 3,105 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.

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

During the six months ended 30th September, 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **CORPORATE GOVERNANCE**

The Group has complied with the code provisions set out in the Code on Corporate Governance Practices and Corporate Governance Report in Appendix 14 to the Listing Rules throughout the six months ended 30th September, 2012.

## **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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") to 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.

## **AUDIT COMMITTEE**

The unaudited results of the Group for the six months ended 30th September, 2012 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, 29th November, 2012

*As at the date of this announcement, the Board comprises Mr. Cheng Chung Man, Johnny (Chairman) and Ms. Lam Yuk Sum as executive directors, Dr. Fok Kam Chu, John, Mr. Yang Wei Tak and Mr. Yeung Wing Kay as independent non-executive directors.*

*For ease of reference, sums in RMB in this announcement are translated at the rate HK\$1.0 = RMB0.81. This does not mean that HK\$ could be converted into RMB, or vice versa, based on such exchange rate.*