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)

INTERIM RESULTS

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

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

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 (the "Listing Rules").

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.

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	2004
	HK$'000	*HK$'000*
Expenses in relation to share options granted to employees	**543**	487
Decrease in profit for the period	**(543)**	(487)

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)	Adjustment	As at 31st March, 2005 and 1st April, 2005 (As restated)
	HK$'000	*HK$'000*	*HK$'000*
Balance sheet items			
Retained earnings	254,759	(1,461)	253,298
Share options reserve	–	1,461	1,461
Total effects on equity	254,759	–	254,759

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	Adjustment	As restated
	HK$'000	*HK$'000*	*HK$'000*
Retained earnings	254,759	(1,461)	253,298
Share options reserve	–	1,461	1,461
Total effects on equity	254,759	–	254,759

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)	–
	235,708	36,394	(1,895)	270,207

Inter-segment sales are charged at prevailing market rates.

	Fashion	Cosmetics	Eliminations	Consolidated
SEGMENT RESULT	28,941	(7,433)		21,508
Unallocated corporate income				15,840
Unallocated corporate expenses				(2,821)
Profit from operations				34,527
Finance costs				(10)
Profit before taxation				34,517
Taxation				(2,858)
Profit attributable to shareholders				31,659

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.

5. PROFIT FROM OPERATIONS

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

6. TAXATION

	Six months ended 30th September,	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'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	**138**	124
	2,858	3,493

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. **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.

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 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong 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.

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 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.

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.

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.

Pledge of Assets

As at 30th September, 2005, the assets pledged by the Group to certain banks to secure general banking facilities granted to the Group amounted to HK$65,950,000 (31st March, 2005: HK$47,889,000).

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.

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.

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.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The unaudited interim reports of the Group for the six months ended 30th September, 2005 containing the information required by Appendix 16 of the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

As at the date of this announcement, the directors of the Company are as follows:

Executive directors	Cheng Chung Man, Johnny Lam Yuk Sum
Independent non-executive directors	Cheng Chung Hoo Yang Wei Tak Yeung Wing Kay

Cheng Chung Man, Johnny
Chairman

Hong Kong, 19th December, 2005

Please also refer to the published version of this announcement South China Morning Post-Classified.