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 AUDITED RESULTS FOR THE YEAR ENDED 31ST MARCH, 2005

AUDITED RESULTS

The board of directors (the "Directors") of Veeko International Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st March, 2005 together with the comparative figures for the previous corresponding year, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31st March, 2005

	Notes	2005 HK$'000	2004 HK$'000
Turnover	2	**509,208**	446,227
Cost of sales		**(153,763)**	(133,055)
Gross profit		**355,445**	313,172
Selling and distribution costs		**(213,279)**	(194,890)
Administrative expenses		**(73,244)**	(64,418)
Other operating income		**12,566**	12,236
Increase in fair values of investment properties		**3,770**	1,180
Surplus arising on revaluation of leasehold land and buildings		**–**	820
Profit from operations	3	**85,258**	68,100
Finance costs		**(36)**	(49)
Profit before taxation		**85,222**	68,051
Taxation	4	**(10,136)**	(9,460)
Profit attributable to shareholders		**75,086**	58,591
Dividends paid		**26,496**	14,407
Earnings per share	5		
– Basic		**HK4.53 cents**	HK3.54 cents
– Diluted		**HK4.49 cents**	HK3.53 cents

Notes:

1. **Basis of preparation and accounting policies**

The financial statements have been prepared under the historical cost convention, as modified for revaluation of investment properties and leasehold land and buildings.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Potential impact arising from the recently issued accounting standards

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRS", herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005 except for HKFRS 3 "Business Combinations". In the current year, the Group resolved to early adopt the following new HKFRS.

HKAS 40	Investment property

HKAS 40 allows a property interest that is held under an operating lease and which meets the definition of an investment property and the lessee recognises the asset by using the fair value model set out in the standard to be classified and accounted for as investment property. The transitional provision of HKAS 40 requires the Group to recognise the effect of the election to classify and account for all eligible property interests held under operating lease as investment property as an adjustment to the retained earnings as at 1st April, 2004. As the carrying amount of the investment property at the beginning of the year approximated to its fair value, no prior year adjustment resulted.

HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1st January, 2005. The Group has not entered into any business combination for which the agreement date is on or after 1st January, 2005. Therefore, HKFRS 3 did not have any impact on the Group for the year ended 31st March, 2005.

For those new HKFRSs that the Group has not early adopted in the financial statements for the year ended 31st March, 2005, the Group does not expect that their issuance will have a material effect on how the results of operations and financial position of the Group are prepared and presented, except for HKFRS 2 "Share-based Payment".

HKFRS 2 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 employees' share options of the Company. Currently, the Group does not expense the share options issued by the Company.

In accordance with HKFRS 2, share options granted after 7th November, 2002 and vested on or after 1st January, 2005 should be accounted for retrospectively.

2. **Turnover and segments information**

Turnover

Turnover represents the amounts received and receivable for goods sold, less returns and allowances, by the Group to outside customers during the year.

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 year ended 31st March, 2005 was organised into two reporting segments comprising manufacture and sales of ladies fashion and sales of cosmetics. For the year ended 31st March, 2004, the Group was solely engaged in the manufacture and sales of ladies fashion. Segment information about these businesses is presented below:

2005

INCOME STATEMENT

	Fashion	**Cosmetics**	**Eliminations**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER				
Sales of goods	498,190	11,018	–	509,208
Inter-segment sales	36	63	(99)	–
	498,226	11,081	(99)	509,208

Inter-segment sales are charged at prevailing market rates.

SEGMENT RESULT	88,787	(6,023)		82,764
Unallocated corporate income				6,929
Unallocated corporate expenses				(4,435)
Profit from operations				85,258
Finance costs				(36)
Profit before taxation				85,222
Taxation				(10,136)
Profit attributable to shareholders				75,086

Geographical segments

The Group's operations are principally located in Hong Kong, Macau, Taiwan and Singapore. The following is an analysis of the Group's sales by geographical market location:

	Turnover	
	2005	2004
	HK$'000	*HK$'000*
Hong Kong and Macau	**305,423**	265,740
Taiwan	**149,642**	124,483
Singapore	**30,412**	33,000
Other regions of the People's Republic of China ("PRC")	**23,731**	23,004
	509,208	446,227

3. Profit from operations

	2005	2004
	HK$'000	*HK$'000*
Profit from operations has been arrived at after charging:		
Staff costs (including directors' emoluments):		
Salaries and other benefits	**118,399**	102,068
Retirement benefits scheme contributions	**2,648**	2,274
	121,047	104,342
Auditors' remuneration:		
Current year	**1,135**	808
(Over)underprovision in previous year	**(1)**	39
Depreciation and amortisation:		
Owned assets	**15,156**	16,267
Assets held under finance leases	**280**	356
Loss on disposal of property, plant and equipment	**296**	655
and after crediting:		
Rental income, with negligible outgoings	**2,472**	2,410
Exchange gain	**2,100**	1,833
Interest income	**332**	204

4. Taxation

	2005	2004
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax		
Current year	**5,267**	2,150
Under(over)provision in prior years	**124**	(3)
	5,391	2,147
Overseas taxation	**4,066**	4,356
	9,457	6,503
Deferred tax:		
– current year	**679**	3,365
– attributable to a change in tax rate	**–**	(408)
	679	2,957
	10,136	9,460

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

5. **Earnings per share**

The calculation of basic earnings per share is based on the profit attributable to shareholders for the year of HK$75,086,000 (2004: HK$58,591,000) and 1,656,000,000 (2004: 1,656,000,000) shares in issue during the year.

The calculation of diluted earnings per share is based on the profit attributable to shareholders for the year of HK$75,086,000 (2004: HK$58,591,000) and on the weighted average number of 1,673,365,251 (2004: 1,658,518,012) shares issued and issuable, assuming that all of the outstanding share options had been exercised on the date of issue.

DIVIDEND

The Board of Directors is pleased to resolve that a final dividend of HK1.2 cents per share be proposed at the forthcoming annual general meeting (2004: HK0.8 cent). The said dividend will be paid to shareholders whose names appear in the register of members of the Company as at 20th September, 2005. Together with the paid interim dividend of HK0.8 cent (2004: HK0.3 cent), the total dividend for the year will be HK2.0 cents (2004: HK1.1 cents) per share.

BUSINESS REVIEW & PROSPECTS

Business Overview

As at 31st March, 2005, the Group recorded a turnover of HK$509,208,000 (2004: HK$446,227,000), representing an increase of 14.1% compared with the corresponding period last year. The year's gross profit margin decreased slightly by 0.38% from last year, mainly due to the dilution of gross profit margin by the cosmetics business. Profit attributable to shareholders for the period was HK$75,086,000 (2004: HK$58,591,000), representing an increase of 28.2% compared with the corresponding period last year. The improvement in results was mainly attributable to the ameliorating economic conditions in Southeast Asia, which promoted consumption and travel to Hong Kong. Compared with last year, turnover of the Group's fashion business increased by 10.8% in Hong Kong and Macau and 20.2% in Taiwan, while the business in Singapore has returned to profit. As a result of the above, and along with effective cost control measures, the overall results recorded an increase of 28.2% despite the losses sustained by the newly developed multi-brand cosmetics business at the initial investment stage.

Fashion Business

The fashion business remained the key contributor to the Group's turnover and profit during last year. Turnover of this segment increased from HK$446,227,000 last year to HK$498,190,000, by 11.6%. The segment result of the fashion business amounted to HK$88,787,000, representing an increase of 31% from HK$67,760,000 last year.

Fashion Business – Hong Kong and Macau Markets

As at 31st March, 2005, the Group had altogether 61 outlets in Hong Kong and Macau (2004: 59 outlets). During the period under review, the retail business in both cities continued to register growth, as a result of improving local economic climate, declining unemployment rate, and the mainland's relaxation of policy governing cross-border visits to Hong Kong and Macau. The Group also instituted sound internal consolidation measures, such as improvement of product quality and effective cost control. During the period under review, the Group closed down 5 outlets with undesirable performance, and opened 7 new ones at premium locations available at reasonable rentals. These measures were conducive to the improvement of the Group's operating efficiency. During this financial year, the fashion business in Hong Kong and Macau recorded a turnover of HK$294,405,000, representing an increase of 10.8% compared with HK$265,740,000 last year.

Fashion Business – Taiwan Market

During the year, the retail business in Taiwan recorded a turnover of HK$149,642,000, representing an increase of 20.2% over last year. As at 31st March, 2005, the number of the Group's Taiwan outlets has increased to 61 from 51 in the corresponding period last year, the expansion path of which was consistent with the planning set by the Group last year. A ***Wanko*** flagship store was opened at Chung Hsiao East Road, one of the most flourishing districts in Taipei, in August 2004. The outstanding image of the flagship store further strengthened the leading position of the ***Wanko*** brand name in Taiwan's ladies fashion market. During the year, the Taiwan market accounted for approximately 30% of the total turnover of the Group's fashion business (2004: 27.9%).

Fashion Business – Singapore Market

During the year, the retail business in Singapore recorded a turnover of HK$30,412,000, representing a decrease of 7.8% compared with the corresponding period last year. As at 31st March, 2005, the number of the Group's outlets in Singapore has decreased from 11 during the corresponding period last year to 8, mainly as a result of the Group's strategic closing of 3 outlets with unsatisfactory performance. The closing of the outlets and the strengthened local management team were reasons contributing to the Singapore operations' return to profit during the year. In fact, the market registered profit for the first year, showing significant enhancement in business performance.

Fashion Business – Other Markets

As at 31st March, 2005, besides the markets in Hong Kong and Macau, Taiwan and Singapore, there were 52 outlets on the mainland offering the Group's ***Veeko*** and ***Wanko*** products (2004: 46 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, Nanchang, Nanning, Zhengzhou and Xi'an.

Cosmetics Business

The Group launched its cosmetics retail chain business in October, 2004 and established the ***Colourmix*** stores. As at 31st March, 2005, there were 7 outlets, of which 4 were in Hong Kong and 3 in Macau. The Group's cosmetics retail business recorded a turnover of HK$11,018,000, accounting for 2.2% of the Group's total turnover. The cosmetics business recorded a loss in the year under review as the investment was still in its initial development stage, during which it had already incurred substantial amount of expenses on advertising, shop image and concept design, trademark registration, initial recruitment and training and relevant formation costs. Nevertheless, the Group will continue to expand the cosmetics business in a prudent manner. We anticipate that the cosmetics business will become a major source of growth for the Group in future.

Prospects

As part of its fashion business development, the Group will concentrate on the sales growth of existing outlets in Hong Kong and Macau in the coming year. Nevertheless, it will close down some underperforming outlets and open new ones in premium locations available at reasonable rentals. These measures will help to improve the Group's turnover and profitability, as well as partly relieve the pressure caused by rental increase. As the overall performance of the Taiwan market remains favorable, there is room for opening further outlets, and the Group will continue to expand its business in Taiwan. After a business review and appropriate strategic adjustments, the Singapore market finally made profit contribution to the Group during the year 2004/2005. The Group will develop the Singapore market in a prudent manner, and plans to increase the number of outlets to 13 by 31st March, 2006. On the mainland, the Group will step up its efforts in promoting the ***Wanko*** and ***Veeko*** brands, taking advantage of the ongoing economic growth. For the coming year, the Group plans to enlarge the retail network in the PRC by adding approximately 20 franchise outlets.

As for the cosmetics business, after six months of development and marketing efforts, the Group has already established the ***Colourmix*** brand. The colorful, trendy and spacious shop design provides the customers with a comfortable environment for shopping. The Group also implemented a range of proactive marketing initiatives, such as sponsoring the Miss Chinese International Pageant 2005, in which it was designated as "Preferred Retail Shop for Cosmetics and Beauty Products to the Miss Chinese International Pageant 2005", and sponsoring several popular TV shows. All these measures have contributed to the ***Colourmix*** brand's rising reputation, laying a solid foundation for its future development. The Group will continue to expand the number of ***Colourmix*** outlets, focusing on tourist districts where response to existing outlets has been up to expectation. For example, a ***Colourmix*** flagship store will be opened in Park Lane, Tsim Sha Tsui in July 2005. The Group expects that the number of ***Colourmix*** outlets will reach 20 by the end of 2006, but the speed of expansion will be subject to reasonable adjustments according to rental levels. The Group will also diversify its product mix, increase the number of exclusively distributed products, and enhance service quality through staff training. Although currently the cosmetics business only accounts for 2.2% of the Group's turnover and is yet to bring any contribution, the Group believes that it has promising long-term prospects. We expect that this segment will begin contributing to the Group's business after the next year or two, and are confident that it will become a major source of growth for the Group in future.

On 6th May, 2005, the Group's ***Wanko***, ***Veeko*** and ***Colourmix*** 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, as well as boosted consumers' confidence by helping them identify quality brand names. 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. Our diversified business portfolio will strengthen the Group's profitability in the future, and the Group is cautiously optimistic and fully confident of its prospects.

Liquidity & financial resources

The Group's working capital increased from HK$167,748,000 as at 31st March, 2004 to HK$204,381,000 for the year while its current ratio and quick ratio were maintained at a healthy level of 5.85 and 3.85 times respectively.

The Group's inventory turnover on sales increased from 48 days for the year ended 31st March, 2004, to 60 days in the year under review. The adjustment of 12 days in inventory turnover period was mainly due to the increase in inventories from HK$59,064,000 as of 31st March, 2004, to HK$84,385,000 as of 31st March, 2005 of which the increase mainly contributed by inventories of cosmetics products.

As at the balance sheet date , the Group's cash and bank balances amounted to HK$95,575,000 (2004: HK$100,278,000) and there was no outstanding bank borrowings and overdraft (2004: Nil) whereas the total borrowings was HK$278,000 (2004: HK$466,000).

As at the balance sheet date, the gearing ratio of the Group is 0.001 (2004: 0.002) which is calculated based on the Group's total borrowings of HK$278,000 (2004: HK$466,000) and the shareholders' fund of HK$282,451,000 (2004: HK$232,359,000).

As at 31st March, 2005, the Group had banking facilities amounting to HK$80,572,000 (2004: HK$60,567,000), of which HK$3,230,000 representing bank guarantees (2004: HK$3,365,000) 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.

Pledge of assets
As at the balance sheet date, the amount of assets pledged by the Group to certain banks to secure general banking facilities granted to the Group was HK$47,889,000 (2004: HK$42,297,000).

Contingent liabilities
At 31st March, 2005, the Company had provided guarantees of HK$106,390,000 (2004: HK$84,390,000) to certain banks in respect of banking facilities granted to certain subsidiaries of the Company. At 31st March, 2005, HK$2,885,000 (2004: HK$2,998,000) of these facilities has been utilised.

Staff & remuneration policies
As at the balance sheet date, the Group had 3,500 employees (2004: 3,316). 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.

CLOSURE OF REGISTER OF MEMBERS
The register of members of the Company will be closed from Wednesday, 14th September, 2005 to Tuesday, 20th September, 2005, both days inclusive, during which period no transfer of shares will be effected.

In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Secretaries Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:00 p.m. on Tuesday, 13th September, 2005.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES
During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE
In the opinion of the directors, the Company has complied throughout the year ended 31st March, 2005 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

AUDIT COMMITTEE
The audit committee has reviewed the financial results for the year ended 31st March, 2005.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

All the financial and other related information of the Company required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

APPRECIATION

On behalf of the Board, I would like to extend my heartfelt thanks to all the employees for their devotion, contribution and diligence and my deepest gratitude to all the shareholders, customers, suppliers and business partners for their continuous support. I sincerely hope that all of you will continue to contribute to the success of the Group.

By Order of the Board
Cheng Chung Man, Johnny
Chairman

Hong Kong, 5th July, 2005

As at the date of this announcement, the Board comprises Mr. Cheng Chung Man, Johnny and Ms. Lam Yuk Sum as executive directors, Mr. Cheng Chung Hoo, Mr. Yang Wei Tak and Mr. Yeung Wing Kay as independent non-executive directors.

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