

Veeko®

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

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立之有限公司)



2019/2020 Interim Report 中期報告書

For the six months ended 30th September, 2019 截至二零一九年九月三十日止六個月

Veeko®

wanko®

colourmix®

MORIMOR®

MISEU  KU

珍煉活肌能源 留住水漾盈肌

水漾再生系列



CORPORATE INFORMATION

Directors

Executive directors

Mr. CHENG Chung Man, Johnny
(*Chairman*)
Ms. LAM Yuk Sum
(*Chief Executive Officer*)

Non-executive director

Mr. LAM Man Tin

Independent non-executive directors

Mr. AU-YEUNG Hau Cheong
Mr. CHENG Man Loong, Monty
(*appointed on 26th September, 2019*)
Dr. FOK Kam Chu, John
(*resigned on 26th September, 2019*)
Mr. YEUNG Wing Kay

Audit Committee Members

Mr. YEUNG Wing Kay (*Chairman*)
Mr. AU-YEUNG Hau Cheong
Mr. CHENG Man Loong, Monty
(*appointed on 26th September, 2019*)
Dr. FOK Kam Chu, John
(*resigned on 26th September, 2019*)

Nomination Committee Members

Mr. CHENG Chung Man, Johnny
(*Chairman*)
Mr. AU-YEUNG Hau Cheong
Mr. CHENG Man Loong, Monty
(*appointed on 26th September, 2019*)
Dr. FOK Kam Chu, John
(*resigned on 26th September, 2019*)
Ms. LAM Yuk Sum
Mr. YEUNG Wing Kay

Remuneration Committee Members

Mr. YEUNG Wing Kay (*Chairman*)
Mr. AU-YEUNG Hau Cheong
Mr. CHENG Chung Man, Johnny
Mr. CHENG Man Loong, Monty
(*appointed on 26th September, 2019*)
Dr. FOK Kam Chu, John
(*resigned on 26th September, 2019*)
Ms. LAM Yuk Sum

Authorised Representatives

Mr. CHENG Chung Man, Johnny
Ms. LAM Yuk Sum

Company Secretary

Ms. WONG Chi Ying

Legal Adviser as to Cayman Islands Law

Conyers Dill & Pearman, Cayman
Zephyr House
George Town
Grand Cayman
British West Indies

Legal Adviser as to Hong Kong Law

Chiu & Partners
40th Floor, Jardine House
1 Connaught Place
Hong Kong

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor, One Pacific Place
88 Queensway
Hong Kong

Registered Office

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P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business

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192-200 Tai Lin Pai Road
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Hong Kong

Principal Share Registrar and Transfer Office

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P. O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Secretaries Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Banker

The Hongkong and Shanghai Banking
Corporation Limited

Website Addresses

<http://www.veeko.com.hk>
<http://www.irasia.com/listco/hk/veeko/index.htm>

Stock Code

1173

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 (collectively referred to as the "Group") for the six months ended 30th September, 2019. The results, together with the comparative figures for the corresponding period in 2018, are summarised below:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30th September, 2019

| | | Six months ended 30th September, | |
|--|-------|-------------------------------------|---------------------------------|
| | | 2019 (Unaudited) HK\$'000 | 2018 (Unaudited) HK\$'000 |
| | Notes | | |
| Revenue | 4 | 601,843 | 869,799 |
| Cost of goods sold | | <u>(371,857)</u> | <u>(546,409)</u> |
| Gross profit | | 229,986 | 323,390 |
| Selling and distribution costs | | (263,959) | (296,993) |
| Administrative expenses | | (51,819) | (52,631) |
| Other income, gains and losses | | 7,223 | 8,456 |
| (Decrease) increase in fair value of investment properties | | (18,151) | 5,963 |
| Finance costs | | <u>(12,200)</u> | <u>(4,494)</u> |
| Loss before tax | | (108,920) | (16,309) |
| Income tax expense | 5 | <u>(3,353)</u> | <u>(2,740)</u> |
| Loss for the period | 6 | <u>(112,273)</u> | <u>(19,049)</u> |
| Other comprehensive income (expense) for the period | | | |
| <i>Item that will not be reclassified subsequently to profit or loss</i> | | | |
| Gain on revaluation of properties | | 1,893 | 2,378 |
| <i>Item that may be reclassified subsequently to profit or loss</i> | | | |
| Exchange differences arising on translation of foreign operations | | <u>(5,529)</u> | <u>(8,620)</u> |
| | | <u>(3,636)</u> | <u>(6,242)</u> |
| Total comprehensive expense for the period | | <u>(115,909)</u> | <u>(25,291)</u> |
| Dividends | 7 | <u>2,518</u> | <u>12,288</u> |
| Loss per share | 8 | | |
| Basic and diluted | | <u>HK(4.459) cents</u> | <u>HK(0.775) cent</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th September, 2019

| | | 30th September, 2019 (Unaudited) HK\$'000 | 31st March, 2019 (Audited) HK\$'000 |
|--|-------|--|--|
| | Notes | | |
| Non-current Assets | | | |
| Investment properties | 9 | 297,369 | 186,095 |
| Property, plant and equipment | 9 | 156,243 | 167,525 |
| Right-of-use assets | | 143,340 | – |
| Prepaid lease payments | | – | 4,351 |
| Rental deposits paid | | 36,929 | 40,679 |
| Deposits paid for acquisition of investment property | | – | 21,739 |
| Deferred tax assets | | 4,367 | 5,089 |
| | | 638,248 | 425,478 |
| Current Assets | | | |
| Inventories | | 437,842 | 432,792 |
| Trade and other receivables | 10 | 30,098 | 40,057 |
| Prepaid lease payments | | – | 171 |
| Rental and utility deposits paid | | 54,243 | 58,801 |
| Tax recoverable | | 9,132 | 9,488 |
| Bank balances, deposits and cash | | 33,462 | 56,064 |
| | | 564,777 | 597,373 |
| Current Liabilities | | | |
| Trade and other payables | 11 | 65,986 | 80,142 |
| Dividends payable | | 2,518 | – |
| Rental deposits received | | 874 | 874 |
| Secured bank borrowings | | 433,507 | 265,590 |
| Lease liabilities | | 52,301 | – |
| Obligations under financial lease | | – | 224 |
| Provision | | 9,111 | 22,406 |
| Tax payable | | 2,201 | 2,267 |
| | | 566,498 | 371,503 |
| Net Current (Liabilities) Assets | | (1,721) | 225,870 |
| | | 636,527 | 651,348 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

At 30th September, 2019

| | | 30th September, 2019 (Unaudited) HK\$'000 | 31st March, 2019 (Audited) HK\$'000 |
|---------------------------------|-------------|--|--|
| | <i>Note</i> | | |
| Capital and Reserves | | | |
| Share capital | 12 | 25,180 | 25,180 |
| Reserves | | 471,921 | 604,650 |
| | | 497,101 | 629,830 |
| Non-current Liabilities | | | |
| Deferred tax liabilities | | 12,204 | 11,311 |
| Lease liabilities | | 126,048 | – |
| Obligations under finance lease | | – | 393 |
| Provision | | – | 9,097 |
| Rental deposits received | | 1,174 | 717 |
| | | 139,426 | 21,518 |
| | | 636,527 | 651,348 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2019

| | Share capital HK\$'000 | Share premium HK\$'000 | Property revaluation reserve HK\$'000 | Translation reserve HK\$'000 | Special reserve HK\$'000 | Statutory reserves (Note) HK\$'000 | Share option reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|--|---------------------------|---------------------------|--|---------------------------------|-----------------------------|--|----------------------------------|------------------------------|-------------------|
| At 1st April, 2019, as previously presented | 25,180 | 223,654 | 14,726 | (1,099) | 2,266 | 24 | 1,254 | 363,825 | 629,830 |
| Adjustment (Note 3) | - | - | - | - | - | - | - | (14,332) | (14,332) |
| At 1st April, 2019, as adjusted | 25,180 | 223,654 | 14,726 | (1,099) | 2,266 | 24 | 1,254 | 349,493 | 615,498 |
| Loss for the period | - | - | - | - | - | - | - | (112,273) | (112,273) |
| Other comprehensive income (expense) for the period | - | - | 1,893 | (5,529) | - | - | - | - | (3,636) |
| Total comprehensive income (expense) for the period | - | - | 1,893 | (5,529) | - | - | - | (112,273) | (115,909) |
| Recognition of equity-settled share-based payments | - | - | - | - | - | - | 30 | - | 30 |
| Share options lapsed | - | - | - | - | - | - | (152) | 152 | - |
| Dividends recognised as distribution (Note 7) | - | - | - | - | - | - | - | (2,518) | (2,518) |
| At 30th September, 2019 (unaudited) | 25,180 | 223,654 | 16,619 | (6,628) | 2,266 | 24 | 1,132 | 234,854 | 497,101 |
| At 1st April, 2018 (audited) | 24,575 | 214,252 | 10,533 | 5,675 | 2,266 | 261 | 2,106 | 459,237 | 718,905 |
| Loss for the period | - | - | - | - | - | - | - | (19,049) | (19,049) |
| Other comprehensive income (expense) for the period | - | - | 2,378 | (8,620) | - | - | - | - | (6,242) |
| Total comprehensive income (expense) for the period | - | - | 2,378 | (8,620) | - | - | - | (19,049) | (25,291) |
| Recognition of equity-settled share-based payments | - | - | - | - | - | - | 127 | - | 127 |
| Share options cancelled | - | - | - | - | - | - | (345) | 345 | - |
| Statutory reserve transferred to profit or loss upon dissolution of a subsidiary | - | - | - | - | - | (237) | - | 237 | - |
| Dividends recognised as distribution (Note 7) | - | - | - | - | - | - | - | (12,288) | (12,288) |
| At 30th September, 2018 (unaudited) | 24,575 | 214,252 | 12,911 | (2,945) | 2,266 | 24 | 1,888 | 428,482 | 681,453 |

Note: The statutory reserves of the Group comprise the aggregate of:

- non-distributable reserves set aside by the Macau subsidiaries in accordance with relevant statutory requirements; and
- reserves required by the relevant laws of the People's Republic of China (the "PRC") applicable to the Company's PRC subsidiary and are appropriated at directors' discretion, which are complied with Articles of Association of the PRC subsidiary.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th September, 2019

| | Six months ended | |
|--|-------------------------|-------------|
| | 30th September, | |
| | 2019 | 2018 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Net cash from (used in) operating activities | 22,753 | (24,042) |
| Net cash used in investing activities | (109,684) | (6,442) |
| Net cash from financing activities | 64,919 | 2,703 |
| Net decrease in cash and cash equivalents | (22,012) | (27,781) |
| Cash and cash equivalents at 1st April | 56,064 | 65,168 |
| Effect of foreign exchange rate changes | (590) | (2,642) |
| Cash and cash equivalents at 30th September | | |
| Represented by bank balances, deposits and cash | 33,462 | 34,745 |

NOTES TO CONDENSED INTERIM ACCOUNTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements 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”), as well as the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) (“Listing Rules”).

In preparing the condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group incurred a loss of HK\$112,273,000 for the six months ended 30th September, 2019 and the Group’s current liabilities exceed its current assets by HK\$1,721,000 as at 30th September, 2019. The directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial obligations as and when they fall due for the foreseeable future, after taking into consideration the following factors: (i) the unutilised borrowing facilities of approximately HK\$69,703,000 as at 30th September, 2019 and (ii) the estimated future cash flows of the Group. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th September, 2019 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31st March, 2019.

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

In the current interim period, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1st April, 2019 for the preparation of the Group’s condensed consolidated financial statements:

| | |
|-----------------------|--|
| HKFRS 16 | Leases |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015-2017 Cycle |

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs *(Continued)*

3.1 **Impacts and changes in accounting policies of application on HKFRS 16 Leases**

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases (“HKAS 17”), and the related interpretations.

3.1.1 **Key changes in accounting policies resulting from application of HKFRS 16**

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs *(Continued)*

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases *(Continued)*

3.1.1 **Key changes in accounting policies resulting from application of HKFRS 16** *(Continued)*

As a lessee *(Continued)*

Short term leases and leases of low value assets

The Group applies the short term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for leases of low value assets. Lease payments on short term leases and leases of low value assets are recognised as expense on a straight line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognizes right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right of use assets as a separate line item on the consolidated statement of financial position.

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments (“HKFRS 9”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognized as expense in the period on which the event or condition that triggers the payment occurs.

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Lease liabilities (Continued)

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs *(Continued)***3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases** *(Continued)***3.1.1 Key changes in accounting policies resulting from application of HKFRS 16** *(Continued)***As a lessee** *(Continued)***Taxation**

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to the leasing transaction as a whole. Temporary differences relating to right of use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right of use assets over the lease payments for the principal portion of lease liabilities results in net deductible temporary differences.

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16**Definition of a lease**

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1st April, 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognized at the date of initial application, 1st April, 2019. Any difference at the date of initial application is recognized in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review;
- ii. elected not to recognize right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in Hong Kong was determined on a portfolio basis; and
- v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of HK\$270,123,000 and right-of-use assets of HK\$241,724,000 at 1st April, 2019.

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities range from 3.75% to 4.85%.

| | As at 1st April, 2019 HK\$'000 |
|--|--------------------------------------|
| Operating lease commitments disclosed as at 31st March, 2019 | 408,963 |
| Lease liabilities discounted at relevant incremental borrowing rates | (60,841) |
| Less: Recognition exemption – short-term leases | (78,616) |
| | <u>269,506</u> |
| Add: Obligations under finance leases recognised as at 31st March, 2019 | 617 |
| | <u>270,123</u> |
| Lease liabilities as at 1st April, 2019 | <u><u>270,123</u></u> |
| Analysed as | |
| Current | 143,958 |
| Non-current | 126,165 |
| | <u><u>270,123</u></u> |

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

The carrying amount of right-of-use assets as at 1st April, 2019 comprises the following:

| | Notes | Right-of-use assets HK\$'000 |
|--|-------|---------------------------------|
| Right-of-use assets relating to operating leases recognised upon application of HKFRS 16 | | 255,078 |
| Reclassified from prepaid lease payments | (a) | 4,522 |
| Amounts included in property, plant and equipment under HKAS 17 | | |
| – Restoration and reinstatement costs | (b) | 1,487 |
| Adjustments on rental deposits at 1st April, 2019 | (c) | 3,029 |
| Less: Provisions for onerous leases | (d) | (22,392) |
| | | <u>241,724</u> |
| By class of underlying assets: | | |
| Land and buildings | | 237,202 |
| Leasehold land | | <u>4,522</u> |
| | | <u>241,724</u> |

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs *(Continued)*

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases *(Continued)*

3.1.2 *Transition and summary of effects arising from initial application of HKFRS 16 (Continued)*

As a lessee (Continued)

Notes:

- (a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31st March, 2019. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK\$171,000 and HK\$4,351,000 respectively were reclassified to right-of-use assets.
- (b) In relation to the leases of properties that the Group acts as lessee, the carrying amount of the estimated costs of reinstating the rented premises previously included in property, plant and equipment amounting to HK\$1,487,000 as at 1st April, 2019 were included as right-of-use assets.
- (c) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, HK\$3,029,000 was adjusted to refundable rental deposits paid and right-of-use assets.
- (d) These relate to provisions for onerous leases for several retail stores. The carrying amount of the provisions as at 1st April, 2019 was adjusted to right-of-use assets at transition.

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

The following table summarises the impact of transition to HKFRS 16 on retained profits at 1st April, 2019.

| | Impact of adopting HKFRS 16 at 1st April, 2019 HK\$'000 |
|--|--|
| Retained profits | |
| Decrease upon application of HKFRS 16 (note) | (14,332) |
| Impact at 1st April, 2019 | <u>(14,332)</u> |

Note: The amount represents the difference between the rental expenses changed to profit or loss under HKAS 17 and the aggregate amount of depreciation of right-of-use assets and interest expense on lease liabilities under HKFRS 16 if HKFRS 16 had been applied since the commencement dates of the leases.

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1st April, 2019. Line items that were not affected by the changes have not been included.

| | Carrying amounts previously reported at 31st March, 2019 HK\$'000 | Adjustments HK\$'000 | Carrying amounts under HKFRS 16 at 1st April, 2019 HK\$'000 |
|-------------------------------|---|-------------------------|---|
| Non-current Assets | | | |
| Property, plant and equipment | 167,525 | (1,487) | 166,038 |
| Prepaid lease payments | 4,351 | (4,351) | – |
| Right-of-use assets | – | 241,724 | 241,724 |
| Rental deposits paid | 40,679 | (5,361) | 35,318 |
| Current Assets | | | |
| Prepaid lease payments | 171 | (171) | – |
| Other receivable | 16,106 | 41 | 16,147 |
| Capital and Reserves | | | |
| Reserves | 604,650 | (14,332) | 590,318 |

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

| | Carrying amounts previously reported at 31st March, 2019 HK\$'000 | Adjustments HK\$'000 | Carrying amounts under HKFRS 16 at 1st April, 2019 HK\$'000 |
|-------------------------------------|---|-------------------------|---|
| Current Liabilities | | | |
| Lease liabilities | – | (143,958) | (143,958) |
| Obligations under finance leases | (224) | 224 | – |
| Other payables | (42,148) | 2,387 | (39,761) |
| Provision | (22,406) | 13,295 | (9,111) |
| Non-current liabilities | | | |
| Lease liabilities | – | (126,165) | (126,165) |
| Obligations under finance leases | (393) | 393 | – |
| Provision | (9,097) | 9,097 | – |

Note: For purpose of reporting cash flows from operating activities under indirect method for the six months ended 30th September, 2019, movements in working capital have been computed based on opening statement of financial position as at 1st April, 2019 as disclosed above.

4. REVENUE AND SEGMENT INFORMATION

For the six months ended 30th September, 2019

Disaggregation of revenue from contracts with customers

| | Cosmetics HK\$'000 | Fashion HK\$'000 | Total HK\$'000 |
|--|-----------------------|-----------------------|-----------------------|
| Types of goods | | | |
| Sale of cosmetics | 493,295 | – | 493,295 |
| Manufacture and sale of ladies fashion | – | 108,548 | 108,548 |
| | <u>493,295</u> | <u>108,548</u> | <u>601,843</u> |
| Total | <u>493,295</u> | <u>108,548</u> | <u>601,843</u> |
| Timing of revenue recognition | | | |
| A point in time | 493,295 | 108,548 | 601,843 |
| | <u>493,295</u> | <u>108,548</u> | <u>601,843</u> |
| Geographical markets | | | |
| Hong Kong and Macau | 491,707 | 101,239 | 592,946 |
| Other regions of the PRC | 1,588 | 7,309 | 8,897 |
| | <u>491,707</u> | <u>101,239</u> | <u>592,946</u> |
| Total | <u>493,295</u> | <u>108,548</u> | <u>601,843</u> |

The Group sells cosmetics products and ladies fashion to the wholesale market and directly to customers both through its own retail shops and through internet sales.

For sales of ladies fashion to the wholesale market, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the wholesaler's specific location (delivery). Following delivery, the wholesaler has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 60 to 120 days upon delivery.

For sales of cosmetics products and ladies fashion to retail customers, revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods at the retail shops. Payment of the transaction price is due immediately at the point the customer purchases the goods.

There are no transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as at the end of the reporting period.

4. REVENUE AND SEGMENT INFORMATION (Continued)

(a) Operating Segments

Information reported to the executive directors of the Company, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered. No operating segment has been aggregated in arriving at the reportable segments of the Group as identified by the chief operating decision makers.

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

| | | |
|-----------|---|--|
| Cosmetics | – | Sale of cosmetics |
| Fashion | – | Manufacture and sale of ladies fashion |

All revenue generated by the Group is recognised at a point in time.

Segment Revenue and Results

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

| | Unaudited six months ended 30th September, 2019 | | | | |
|--|---|---------------------|---------------------------|--------------------------|--------------------------|
| | Cosmetics HK\$'000 | Fashion HK\$'000 | Segment total HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 |
| REVENUE | | | | | |
| External sales | 493,295 | 108,548 | 601,843 | – | 601,843 |
| Inter-segment sales | – | 9 | 9 | (9) | – |
| | <u>493,295</u> | <u>108,557</u> | <u>601,852</u> | <u>(9)</u> | <u>601,843</u> |
| SEGMENT LOSS | <u>(60,075)</u> | <u>(24,036)</u> | <u>(84,111)</u> | – | <u>(84,111)</u> |
| Decrease in fair value of investment properties | | | | | (18,151) |
| Other income, gains and losses | | | | | 4,003 |
| Central administration costs | | | | | (3,779) |
| Finance costs | | | | | <u>(6,882)</u> |
| Loss before tax | | | | | <u><u>(108,920)</u></u> |

4. REVENUE AND SEGMENT INFORMATION (Continued)

(a) Operating Segments (Continued)
Segment Revenue and Results (Continued)

| | Unaudited six months ended 30th September, 2018 | | | | |
|--|---|---------------------|---------------------------|--------------------------|--------------------------|
| | Cosmetics HK\$'000 | Fashion HK\$'000 | Segment total HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 |
| REVENUE | | | | | |
| External sales | 736,681 | 133,118 | 869,799 | - | 869,799 |
| Inter-segment sales | - | 25 | 25 | (25) | - |
| | <u>736,681</u> | <u>133,143</u> | <u>869,824</u> | <u>(25)</u> | <u>869,799</u> |
| SEGMENT LOSS | <u>(4,073)</u> | <u>(13,521)</u> | <u>(17,594)</u> | - | <u>(17,594)</u> |
| Increase in fair value of investment properties | | | | | 5,963 |
| Other income, gains and losses | | | | | 2,909 |
| Central administration costs | | | | | (3,093) |
| Finance costs | | | | | <u>(4,494)</u> |
| Loss before tax | | | | | <u>(16,309)</u> |

Inter-segment sales are charged at prevailing market rates for both periods.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment loss represents the loss before tax incurred by each segment without allocation of decrease/increase in fair value of investment properties, certain other income, gains and losses, central administration costs and finance costs. This is the measure reported to the executive directors of the Company for the purposes of resource allocation and performance assessment.

No analysis of segment assets and liabilities is presented as the executive directors of the Company do not review such information for the purposes of resource allocation and performance assessment.

4. REVENUE AND SEGMENT INFORMATION (Continued)

(a) Operating Segments (Continued)

Other Segment Information

Amounts included in the measure of segment results or regularly reviewed by the chief operating decision makers:

| | Unaudited six months ended 30th September, 2019 | | | | |
|---|---|---------------------|---------------------------|-----------------------|--------------------------|
| | Cosmetics HK\$'000 | Fashion HK\$'000 | Segment total HK\$'000 | Corporate HK\$'000 | Consolidated HK\$'000 |
| Capital expenditure | | | | | |
| – Property, plant and equipment | 1,945 | 1,061 | 3,006 | – | 3,006 |
| – Investment properties | – | – | – | 128,456 | 128,456 |
| Depreciation of right-of-use assets | 65,269 | 28,138 | 93,407 | – | 93,407 |
| Depreciation of property, plant and equipment | 7,220 | 3,624 | 10,844 | 1,252 | 12,096 |
| Impairment loss recognised in respect of right-of-use assets | 5,140 | – | 5,140 | – | 5,140 |
| Scrap and shrinkage for inventories | <u>3,641</u> | <u>376</u> | <u>4,017</u> | <u>–</u> | <u>4,017</u> |

| | Unaudited six months ended 30th September, 2018 | | | | |
|--|---|---------------------|---------------------------|-----------------------|--------------------------|
| | Cosmetics HK\$'000 | Fashion HK\$'000 | Segment total HK\$'000 | Corporate HK\$'000 | Consolidated HK\$'000 |
| Capital expenditure | | | | | |
| – Property, plant and equipment | 2,293 | 4,346 | 6,639 | – | 6,639 |
| Depreciation of property, plant and equipment | 9,587 | 4,626 | 14,213 | 1,254 | 15,467 |
| Scrap and shrinkage for inventories | <u>3,546</u> | <u>560</u> | <u>4,106</u> | <u>–</u> | <u>4,106</u> |

4. REVENUE AND SEGMENT INFORMATION (Continued)

(b) Geographical information

The Group's operations are principally located in Hong Kong and Macau, and other regions of the PRC. Information about the Group's revenue from external customers is presented based on the geographical locations of operations.

| | Six months ended | |
|--------------------------|-------------------------|----------------|
| | 30th September, | |
| | 2019 | 2018 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Hong Kong and Macau | 592,946 | 856,533 |
| Other regions of the PRC | 8,897 | 13,266 |
| | <u>601,843</u> | <u>869,799</u> |

No revenue from a customer of the Group contributed over 10% of the total revenue of the Group of the corresponding periods.

5. INCOME TAX EXPENSE

| | Six months ended 30th September, | |
|-----------------------|-------------------------------------|---------------------|
| | 2019 | 2018 |
| | (Unaudited) | (Unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| The charge comprises: | | |
| Profits tax | | |
| Hong Kong | 336 | 460 |
| Other jurisdictions | 1,603 | 1,031 |
| Deferred tax | <u>1,414</u> | <u>1,249</u> |
| | <u>3,353</u> | <u>2,740</u> |

On 21st March, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28th March, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of assessable profits of the qualifying group entity will be taxed at 8.25%, and assessable profits above HK\$2 million will be taxed at 16.5%. The assessable profits of other group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, the Hong Kong Profits Tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million for the qualifying group entity.

Certain subsidiaries operating in Macau are subject to Macau complementary tax of 12%, subject to finalisation of the tax liability with the relevant tax authority.

Under the Law of the PRC on Enterprise Income Tax (“EIT”) (the “EIT Law”) and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

6. LOSS FOR THE PERIOD

| | Six months ended 30th September, | |
|---|-------------------------------------|-------------|
| | 2019 | 2018 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Loss for the period has been arrived at after charging (crediting): | | |
| Amortisation of prepaid lease payments | – | 91 |
| Depreciation of right-of-use assets | 93,407 | – |
| Depreciation of property, plant and equipment | 12,096 | 15,467 |
| Loss on disposal of property, plant and equipment, net (included in other income, gains and losses) | 292 | 97 |
| Net exchange gain (included in other income, gains and losses) | (1,131) | (2,188) |
| Bank interest income | (39) | (36) |
| Rental income from investment properties, with negligible outgoings | (3,965) | (2,873) |
| Impairment loss recognised in respect of right-of-use assets | 5,140 | – |
| | <u>5,140</u> | <u>–</u> |

7. DIVIDENDS

| | Six months ended 30th September, | |
|--|-------------------------------------|---------------|
| | 2019 | 2018 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Dividends recognised as distribution during the period: | | |
| 2019 final dividend of HK0.1 cent (2018: HK0.5 cent) per share | 2,518 | 12,288 |
| | <u>2,518</u> | <u>12,288</u> |

The 2019 final dividend of HK0.1 cent per share in cash has been approved in the annual general meeting held on 10th September, 2019. HK\$2,518,000 cash dividend has been paid on 16th October, 2019.

8. LOSS PER SHARE

| | Six months ended | |
|---|---------------------------------|--------------------------------|
| | 30th September, | |
| | 2019 | 2018 |
| | (Unaudited) | (Unaudited) |
| Loss for the period attributable to owners of the Company for the purpose of basic loss per share | <u>HK\$(112,273,000)</u> | <u>HK\$(19,049,000)</u> |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of basic loss per share | <u>2,518,001,334</u> | <u>2,457,576,574</u> |

The computation of diluted loss per share in both periods does not assume the exercise of the Company's share options since their assumed exercise would result in a decrease in loss per share.

9. MOVEMENTS IN INVESTMENT PROPERTIES/PROPERTY, PLANT AND EQUIPMENT

During the current interim period, leasehold land and buildings and the relevant land use rights with carrying values of HK\$714,000 (six months ended 30th September, 2018: HK\$1,950,000) and HK\$113,000 (six months ended 30th September, 2018: HK\$608,000), respectively, were transferred to investment properties.

During the current interim period, the Group acquired investment property for a consideration of HK\$117,500,000. The total cost together with transaction costs such as stamp duty is approximately HK\$128,456,000.

In addition, during the current interim period, the Group acquired property, plant and equipment of HK\$3,006,000 (six months ended 30th September, 2018: HK\$6,639,000).

10. TRADE AND OTHER RECEIVABLES

At 30th September, 2019, included in the Group's trade and other receivables were trade receivables of HK\$18,352,000 (31st March, 2019: HK\$23,951,000). The Group allows 30 to 60 days credit period for receivables from sales counters and a 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, 2019 (Unaudited) HK\$'000 | 31st March, 2019 (Audited) HK\$'000 |
|----------------|--|--|
| Within 30 days | 8,078 | 14,828 |
| 31 – 60 days | 238 | 633 |
| 61 – 90 days | 139 | 665 |
| 91 – 120 days | 186 | 479 |
| Over 120 days | 9,711 | 7,346 |
| | 18,352 | 23,951 |

11. TRADE AND OTHER PAYABLES

At 30th September, 2019, included in the Group's trade and other payables were trade payables of HK\$24,891,000 (31st March, 2019: HK\$37,994,000). Details of the aged analysis of trade payables presented based on the invoice date at the end of the reporting period are as follows:

| | 30th September, 2019 (Unaudited) HK\$'000 | 31st March, 2019 (Audited) HK\$'000 |
|----------------|--|--|
| Within 30 days | 15,889 | 26,545 |
| 31 – 60 days | 4,440 | 6,168 |
| 61 – 90 days | 2,410 | 2,581 |
| Over 90 days | 2,152 | 2,700 |
| | 24,891 | 37,994 |

12. SHARE CAPITAL

| | Number of ordinary shares | Value HK\$'000 |
|--|------------------------------|-------------------|
| Ordinary shares at HK\$0.01 each | | |
| Authorised: | | |
| At 1st April, 2018, 31st March, 2019 and 30th September, 2019 | <u>10,000,000,000</u> | <u>100,000</u> |
| Issued and fully paid: | | |
| At 1st April, 2018 | 2,457,576,574 | 24,575 |
| Issue of new shares in lieu of cash dividends (<i>Note</i>) | <u>60,424,760</u> | <u>605</u> |
| At 31st March, 2019 and 30th September, 2019 | <u>2,518,001,334</u> | <u>25,180</u> |

Note: On 31st October, 2018, the Company issued and allotted a total of 60,424,760 ordinary shares of HK\$0.01 each at HK\$0.1656 per share, in lieu of cash for the 2018 final dividend.

13. PLEDGE OF ASSETS

At the end of the reporting period, the following assets were pledged by the Group to certain banks to secure general banking facilities granted to the Group:

| | 30th September, 2019 (Unaudited) HK\$'000 | 31st March, 2019 (Audited) HK\$'000 |
|------------------------------|--|--|
| Investment properties | 297,369 | 186,095 |
| Leasehold land and buildings | 133,374 | 138,487 |
| Right-of-use assets | 4,081 | 4,522 |
| | <u>434,824</u> | <u>329,104</u> |

14. RELATED PARTY DISCLOSURES

Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

| | Six months ended 30th September, 2019 (Unaudited) HK\$'000 | 2018 (Unaudited) HK\$'000 |
|--------------------------|---|---------------------------------|
| Short-term benefits | 2,320 | 2,292 |
| Post-employment benefits | 51 | 51 |
| Share-based payments | 10 | 30 |
| | <u>2,381</u> | <u>2,373</u> |

The remuneration of directors and key executives is recommended to the Board by the remuneration committee having regard to the performance of individuals and market trends.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend in respect of the financial year ending 31st March, 2020 (2019: HK0.20 cent per share).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30th September, 2019, the Group recorded a turnover of HK\$601,843,000 (2018: HK\$869,799,000), representing a decrease of 30.8% as compared with the corresponding period last year. Included in the amount of turnover, HK\$493,295,000 (2018: HK\$736,681,000) was generated by the cosmetics business, representing a decrease of 33.0% as compared with the same period last year and accounting for 82.0% of the Group's total turnover (2018: 84.7%). The turnover of fashion business amounted to HK\$108,548,000 (2018: HK\$133,118,000), representing a 18.5% decrease as compared with the same period last year. During the period under review, the retail sector remained weak in face of the intensifying Sino-US trade war and further depreciation of the Renminbi exchange rate, with decreases in the turnover of the cosmetics and fashion business segments of the Group. During the period under review, the Group recorded a loss of HK\$112,273,000 (2018: loss of HK\$19,049,000). The substantial increase in loss as compared with the same period last year was mainly attributable to the reduction in the turnover of the Group as a result of the retail market conditions. During the period under review, the fashion business recorded a segment loss of HK\$24,036,000 (2018: loss of HK\$13,521,000), and the cosmetics business recorded a segment loss of HK\$60,075,000 (2018: loss of HK\$4,073,000), which included the provision for onerous contracts in respect of the Group's non-performing retail outlets. In addition, the fair value of investment properties recorded a depreciation of HK\$18,151,000 during the period (2018: appreciation of HK\$5,963,000), which was mainly attributable to the capitalization of related expenses and stamp duty of approximately HK\$10,956,000 for an investment property acquired by the Group during the period.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Cosmetics Business

As of 30th September, 2019, the Group had 80 cosmetics stores in total (30th September, 2018: 88 stores), with 75 **Colourmix** stores and 5 **MORIMOR** stores respectively, most of which were located in Hong Kong and Macau. During the period under review, the Group focused on the improvement of product displays in its stores to enhance the shopping experience of the customers, and provided its customers with skin care consultations through professional and intimate beauty consultants. The cosmetics business recorded a segment loss of HK\$60,075,000 (2018: loss of HK\$4,073,000) for the period, representing a significant increase in loss as compared with the same period last year, mainly due to the decrease in turnover as a result of the weakening retail market conditions, further depreciation in Renminbi and the overall slowdown of consumption sentiments. Also provisions were made for onerous contracts in respect of the Group's non-performing retail stores. During the period, the Group successively closed down the cosmetics stores with unsatisfactory performance. It will continue to exercise prudence in adjusting its store portfolio and focus its operation on profitable stores.

Fashion Business

As of 30th September, 2019, the Group had 81 fashion stores (30th September, 2018: 91 stores) under the brands **Veeko** and **Wanko**, most of which were located in Hong Kong and Macau. The Group closed down the fashion stores with unsatisfactory performance and directed more resources to the profitable ones. Impacted by the retail market conditions, the turnover of the Group's fashion business declined during the period under review, resulting in an increase in its segment loss as compared with the same period of last year.

PROSPECTS

Facing the uncertainty of the retail market conditions currently in Hong Kong, the Group will actively take various contingency measures to cope with the challenges. In particular, the management will maintain its prudent financial and operational management, and strive to control costs by minimizing its operating costs such as selling and administrative expenses. The Group will also launch promotions with various incentives to reduce inventory costs and retain cash. Looking forward, the Group will adjust its market strategies, explore trendy beauty products with more potentials and improve the quality of customer services to enhance its competitiveness. In addition, the Group will further close down the non-performing retail stores and closely monitor the condition of the rental market with a view to strive for reduction of rental, thus increasing the profitability of its stores. The Group will also actively explore ways to promote the growth of its cosmetics business, enhance the brand's popularity, expand customer base and increase turnover through various e-commerce platforms.

Regarding the fashion business, The Group will primarily continue to focus on the Hong Kong and Macau market in the future, actively optimize its product design portfolio and improve customers' shopping experience to meet the demand of the market. Meanwhile, the Group will also continue to adjust prudently its store portfolio by deploying more resources to the profitable stores.

Looking ahead, the retail market in Hong Kong is still expected to be full of challenges. The Group will continue to focus on its business, explore new markets and seek new business opportunities, laying a solid foundation for its sustainable and stable development in the future.

LIQUIDITY & FINANCIAL RESOURCES

At the end of the reporting period, the Group's cash and bank balances (mainly in Hong Kong Dollar and Renminbi) amounted to HK\$33,462,000 (31st March, 2019: HK\$56,064,000). The outstanding bank borrowings (mainly in Hong Kong Dollar) amounted to HK\$433,507,000 (31st March, 2019: HK\$265,590,000).

At the end of the reporting period, the current ratio was 1.00 time (31st March, 2019: 1.61 times) and the gearing ratio of the Group was 0.87 (31st March, 2019: 0.42) which was calculated based on the Group's total borrowings of HK\$433,507,000 (31st March, 2019: HK\$266,207,000) and the total equity of HK\$497,101,000 (31st March, 2019: HK\$629,830,000).

At 30th September, 2019, the Group had banking facilities amounting to HK\$520,769,000 (31st March, 2019: HK\$429,240,000), of which HK\$451,066,000 (31st March, 2019: HK\$282,555,000) was utilised by the Group.

FOREIGN EXCHANGE EXPOSURE

Several subsidiaries of the Company have foreign currency purchases (mainly in United States Dollar and Euro), 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\$434,824,000 (31st March, 2019: HK\$329,104,000).

CONTINGENT LIABILITIES

At 30th September, 2019, the Company had provided guarantees of HK\$730,062,000 (31st March, 2019: HK\$644,923,000) to certain banks in respect of banking facilities granted to certain subsidiaries of the Company.

STAFF AND REMUNERATION POLICIES

At 30th September, 2019, the Group had approximately 1,500 employees (31st March, 2019: approximately 1,700). The Group mainly determines staff remuneration (including insurance and medical benefits) in accordance with the industry's practices. The Group also implemented a reward scheme for its staff based on their individual performances. In addition to their basic remuneration and welfare, some key employees were granted share options as reward and incentive to enhance their loyalty to the Group.

SHARE OPTION SCHEME

No options were granted to the directors or substantial shareholders of the Company during the period or outstanding under the share option scheme.

The following table discloses details of options held by employees of the Group and movements in such holdings during the period ended 30th September, 2019:

| Date of grant | Vesting period | Exercisable period | Exercise price per share | Balance at 1.4.2019 | Lapsed during the period | Outstanding at 30.9.2019 |
|-------------------|--|--|--------------------------|---------------------|--------------------------|--------------------------|
| 7th October, 2013 | 7th October, 2013 to 6th October, 2018 | 7th October, 2018 to 6th October, 2020 | HK\$0.2250 | 12,160,000 | - | 12,160,000 |
| 25th April, 2014 | 25th April, 2014 to 24th April, 2017 | 25th April, 2017 to 24th April, 2019 | HK\$0.3000 | 1,920,000 | (1,920,000) | - |
| 25th April, 2014 | 25th April, 2014 to 24th April, 2019 | 25th April, 2019 to 24th April, 2021 | HK\$0.3000 | 1,920,000 | - | 1,920,000 |
| 9th January, 2017 | 9th January, 2017 to 8th January, 2020 | 9th January, 2020 to 8th January, 2022 | HK\$0.1832 | 2,500,000 | - | 2,500,000 |
| 9th January, 2017 | 9th January, 2017 to 8th January, 2022 | 9th January, 2022 to 8th January, 2024 | HK\$0.1832 | 2,500,000 | - | 2,500,000 |
| | | | | 21,000,000 | (1,920,000) | 19,080,000 |

DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th September, 2019, the interests of the directors and chief executive officer in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in the Listing Rules, were as follows:

| Name of director | Capacity/ Nature of interest | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|--|-------------------------------------|---|--|
| Mr. Cheng Chung Man, Johnny | Founder and Beneficiary of Trust | 1,393,347,737 (Note) | |
| | Beneficial owner | <u>185,219,227</u> | |
| | | <u><u>1,578,566,964</u></u> | <u><u>62.69%</u></u> |
| Ms. Lam Yuk Sum (Chief Executive Officer) | Beneficiary of Trust | 1,393,347,737 (Note) | |
| | Beneficial owner | <u>272,916,013</u> | |
| | | <u><u>1,666,263,750</u></u> | <u><u>66.17%</u></u> |

Note: These 1,393,347,737 shares are beneficially owned by Silver Crown Profits Limited (“Silver Crown”). The shares in Silver Crown are in turn held by the trustee of The J Cheng Family Trust, a discretionary trust, the discretionary objects of which include family members of Mr. Cheng Chung Man, Johnny and Ms. Lam Yuk Sum.

DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

Other than disclosed above and certain nominee shares in subsidiaries held by certain directors in trust for the Group, none of the directors and the chief executive officer had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of part XV of the SFO) as at 30th September, 2019, as required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Other than disclosed above under the section headed "Directors' and Chief Executive Officer's Interests and Short Positions in Shares, Underlying Shares and Debentures" and other substantial shareholders' interests disclosed in the following table, at 30th September, 2019, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the Company had not been notified by any persons (other than the directors and the chief executive officer) of any other relevant interests or short positions in the shares, underlying shares and debentures of the Company.

| Name of shareholder | Capacity/ Nature of interest | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|---|--|---|--|
| Silver Crown | Beneficial owner | 1,393,347,737 | 55.34% |
| Well Feel Group Limited ("Well Feel") | Interest of a controlled corporation (Note) | 1,393,347,737 | 55.34% |
| HSBC International Trustee Limited ("HSBC International") | Trustee (Note) | 1,393,347,737 | 55.34% |

Note: The entire issued share capital of Silver Crown was held by Well Feel which in turn was a wholly-owned subsidiary of HSBC International. By virtue of the provisions of Part XV of the SFO, each of Well Feel and HSBC International was deemed to be interested in all the shares of the Company in which Silver Crown was interested.

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

During the six months ended 30th September, 2019, 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 Board, the Company has complied with all the code provisions as set out in the Corporate Governance Code in Appendix 14 to the Listing Rules throughout the six months ended 30th September, 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries, all of the directors confirmed that they have complied with the required standards as set out in the Model Code throughout the six months ended 30th September, 2019.

AUDIT COMMITTEE

The unaudited results of the Group for the six months ended 30th September, 2019 have been reviewed by the Audit Committee. The Audit Committee comprises all the three independent non-executive directors.

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.

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

Hong Kong, 27th November, 2019

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VEEKO INTERNATIONAL HOLDINGS LIMITED

威高國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立之有限公司)

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

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Listed on The Main Board of The Stock Exchange of Hong Kong Limited 香港聯合交易所有限公司主板上市公司 Stock Code 股份代號: 1173