

CORPORATE INFORMATION

Directors

Executive directors

Mr. CHENG Chung Man, Johnny
(Chairman)

Ms. LAM Yuk Sum
(Chief Executive Officer)

Independent non-executive directors

Dr. FOK Kam Chu, John

Mr. LAM Man Tin

Mr. YEUNG Wing Kay

Audit Committee Members

Mr. YEUNG Wing Kay (Chairman)

Dr. FOK Kam Chu, John

Mr. LAM Man Tin

Nomination Committee

Members

Mr. CHENG Chung Man, Johnny
(Chairman)

Dr. FOK Kam Chu, John

Mr. LAM Man Tin

Ms. LAM Yuk Sum

Mr. YEUNG Wing Kay

Remuneration Committee

Members

Mr. YEUNG Wing Kay (Chairman)

Mr. CHENG Chung Man, Johnny

Dr. FOK Kam Chu, John

Mr. LAM Man Tin

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

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business

10th Floor, Wyler Centre Phase II
192-200 Tai Lin Pai Road
Kwai Chung, New Territories
Hong Kong

Principal Share Registrar and Transfer Office

Codan 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 22
Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Bankers

Bank of China (Hong Kong) Limited
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 (the "Group") for the six months ended 30th September, 2016. The results, together with the comparative figures for the corresponding period in 2015, are summarised below:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30th September, 2016

| | | Six months ended 30th September, | |
|--|-------|-------------------------------------|---------------------------------|
| | | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| | Notes | | |
| Turnover | 3 | 1,028,820 | 1,066,045 |
| Cost of goods sold | | (618,766) | (602,017) |
| Gross profit | | 410,054 | 464,028 |
| Selling and distribution costs | | (355,634) | (343,388) |
| Administrative expenses | | (60,707) | (66,213) |
| Other income, gains and losses | | 5,683 | (1,369) |
| Finance costs | | (2,059) | (1,733) |
| (Loss) profit before tax | | (2,663) | 51,325 |
| Income tax expense | 4 | (2,238) | (9,837) |
| (Loss) profit for the period | 5 | (4,901) | 41,488 |
| Other comprehensive (expense) income for the period | | | |
| <i>Item that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange differences arising on translation of foreign operations | | (2,384) | 2,700 |
| Total comprehensive (expense) income for the period | | (7,285) | 44,188 |
| Dividends | 6 | 11,944 | 31,055 |
| (Loss) earnings per share | 7 | | |
| Basic | | (HK0.205) cent | HK1.737 cents |
| Diluted | | (HK0.205) cent | HK1.728 cents |



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th September, 2016

| | | 30th September, 2016 (Unaudited) HK\$'000 | 31st March, 2016 (Audited) HK\$'000 |
|---|-------|--|--|
| | Notes | | |
| Non-current Assets | | | |
| Investment properties | | 6,650 | 6,650 |
| Property, plant and equipment | | 225,696 | 235,359 |
| Prepaid lease payments | | 6,816 | 7,155 |
| Rental deposits paid | | 68,349 | 77,113 |
| Deposits paid for acquisition of investment property | | 8,125 | - |
| Deferred tax assets | | 6,975 | 7,257 |
| | | 322,611 | 333,534 |
| Current Assets | | | |
| Inventories | | 494,233 | 487,192 |
| Trade and other receivables | 8 | 31,639 | 41,094 |
| Prepaid lease payments | | 244 | 252 |
| Rental and utility deposits paid | | 60,710 | 51,603 |
| Tax recoverable | | 2,423 | - |
| Pledged bank deposits | | 6,047 | 6,235 |
| Bank balances, deposits and cash | | 58,945 | 74,226 |
| | | 654,241 | 660,602 |
| Current Liabilities | | | |
| Trade and other payables | 9 | 71,373 | 74,255 |
| Rental deposits received | | 28 | 17 |
| Secured bank borrowings – due within one year | | 155,945 | 161,056 |
| Tax payable | | - | 2,184 |
| | | 227,346 | 237,512 |
| Net Current Assets | | 426,895 | 423,090 |
| | | 749,506 | 756,624 |



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

At 30th September, 2016

| | | 30th September, 2016 (Unaudited) HK\$'000 | 31st March, 2016 (Audited) HK\$'000 |
|--------------------------|--------------|--|--|
| | <i>Notes</i> | | |
| Capital and Reserves | | | |
| Share capital | 10 | 23,888 | 23,888 |
| Reserves | | 721,822 | 728,801 |
| | | <hr/> | <hr/> |
| | | 745,710 | 752,689 |
| | | <hr/> | <hr/> |
| Non-current Liabilities | | | |
| Deferred tax liabilities | | 3,796 | 3,935 |
| | | <hr/> | <hr/> |
| | | 749,506 | 756,624 |
| | | <hr/> <hr/> | <hr/> <hr/> |



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2016

| | (Unaudited) | | | | | | | |
|---|------------------------------|------------------------------|------------------------------------|--------------------------------|---|--|---------------------------------|-------------------|
| | Share Capital HK\$'000 | Share Premium 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, 2016 (audited) | 23,888 | 205,048 | 1,805 | 2,266 | 203 | 1,723 | 517,756 | 752,689 |
| Loss for the period | - | - | - | - | - | - | (4,901) | (4,901) |
| Exchange differences arising on translation of foreign operations | - | - | (2,384) | - | - | - | - | (2,384) |
| Total comprehensive expense for the period | - | - | (2,384) | - | - | - | (4,901) | (7,285) |
| Recognition of equity-settled share-based payments | - | - | - | - | - | 306 | - | 306 |
| Share options cancelled | - | - | - | - | - | (244) | 244 | - |
| Transfer | - | - | - | - | 59 | - | (59) | - |
| At 30th September, 2016 | <u>23,888</u> | <u>205,048</u> | <u>(579)</u> | <u>2,266</u> | <u>262</u> | <u>1,785</u> | <u>513,040</u> | <u>745,710</u> |
| At 1st April, 2015 (audited) | 23,888 | 205,048 | 3,730 | 2,266 | 181 | 1,054 | 508,954 | 745,121 |
| Profit for the period | - | - | - | - | - | - | 41,488 | 41,488 |
| Exchange differences arising on translation of foreign operations | - | - | 2,700 | - | - | - | - | 2,700 |
| Total comprehensive income for the period | - | - | 2,700 | - | - | - | 41,488 | 44,188 |
| Recognition of equity-settled share-based payments | - | - | - | - | - | 383 | - | 383 |
| Share options cancelled | - | - | - | - | - | (10) | 10 | - |
| Transfer | - | - | - | - | 22 | - | (22) | - |
| At 30th September, 2015 | <u>23,888</u> | <u>205,048</u> | <u>6,430</u> | <u>2,266</u> | <u>203</u> | <u>1,427</u> | <u>550,430</u> | <u>789,692</u> |

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 respective PRC subsidiary.



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th September, 2016

| | Six months ended 30th September, 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
|--|---|---------------------------------|
| Net cash from operating activities | 13,226 | 7,707 |
| Net cash used in investing activities | (20,885) | (49,217) |
| Net cash (used in) from financing activities | (7,170) | 58,181 |
| Net (decrease) increase in cash and cash equivalents | (14,829) | 16,671 |
| Cash and cash equivalents at 1st April | 74,226 | 76,879 |
| Effect of foreign exchange rate changes | (452) | (938) |
| Cash and cash equivalents at 30th September | 58,945 | 92,612 |
| Represented by bank balances, deposits and cash | 58,945 | 92,612 |



NOTES TO CONDENSED INTERIM ACCOUNTS

1. STATEMENT OF COMPLIANCE

The condensed consolidated financial statements for the six months ended 30th September, 2016 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) (“Listing Rules”).

2. BASIS OF PREPARATION

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30th September, 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31st March, 2016.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

| | |
|---|---|
| Amendments to HKAS 1 | Disclosure Initiative |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants |
| Amendments to HKAS 27 | Equity Method in Separate Financial Statements |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment Entities: Applying the Consolidation Exception |
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operations |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2012 – 2014 Cycle |

The application of the amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.



4. SEGMENT INFORMATION

Operating Segments

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

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

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

Segment Revenue and Results

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

| | Unaudited six months ended 30th September, 2016 | | | | |
|---------------------|---|---------------------|---------------------------|--------------------------|--------------------------|
| | Cosmetics HK\$'000 | Fashion HK\$'000 | Segment Total HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 |
| TURNOVER | | | | | |
| External sales | 828,153 | 200,667 | 1,028,820 | – | 1,028,820 |
| Inter-segment sales | – | 345 | 345 | (345) | – |
| | <u>828,153</u> | <u>201,012</u> | <u>1,029,165</u> | <u>(345)</u> | <u>1,028,820</u> |

Inter-segment sales are charged at prevailing market rates.

| | | | | | |
|--------------------------------|--------------|------------|--------------|---|----------------|
| SEGMENT PROFIT | <u>1,319</u> | <u>962</u> | <u>2,281</u> | – | 2,281 |
| Other income, gains and losses | | | | | 140 |
| Central administration costs | | | | | (3,025) |
| Finance costs | | | | | (2,059) |
| Loss before tax | | | | | <u>(2,663)</u> |



4. SEGMENT INFORMATION (Continued)
Operating Segments (Continued)
Segment Revenue and Results (Continued)

| | Unaudited six months ended 30th September, 2015 | | | | |
|---------------------|---|---------------------|---------------------------|--------------------------|--------------------------|
| | Cosmetics HK\$'000 | Fashion HK\$'000 | Segment Total HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 |
| TURNOVER | | | | | |
| External sales | 826,938 | 239,107 | 1,066,045 | – | 1,066,045 |
| Inter-segment sales | – | 119 | 119 | (119) | – |
| | <u>826,938</u> | <u>239,226</u> | <u>1,066,164</u> | <u>(119)</u> | <u>1,066,045</u> |

Inter-segment sales are charged at prevailing market rates.

| | | | | | |
|--------------------------------|---------------|----------------|---------------|---|---------------|
| SEGMENT PROFIT (LOSS) | <u>58,098</u> | <u>(2,682)</u> | <u>55,416</u> | – | 55,416 |
| Other income, gains and losses | | | | | 216 |
| Central administration costs | | | | | (2,574) |
| Finance costs | | | | | (1,733) |
| Profit before tax | | | | | <u>51,325</u> |

Other Segment Information

Amounts included in the measure of segment profit or regularly reviewed by the chief operating decision maker:

| | Unaudited six months ended 30th September, 2016 | | | | |
|--|---|---------------------|---------------------------|-----------------------|--------------------------|
| | Cosmetics HK\$'000 | Fashion HK\$'000 | Segment Total HK\$'000 | Corporate HK\$'000 | Consolidated HK\$'000 |
| Capital expenditure | 8,074 | 4,858 | 12,932 | – | 12,932 |
| Depreciation of property, plant and equipment | <u>12,981</u> | <u>6,452</u> | <u>19,433</u> | <u>1,272</u> | <u>20,705</u> |

6. (LOSS) PROFIT FOR THE PERIOD

| | Six months ended 30th September, | |
|--|---|-------------|
| | 2016 | 2015 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |

(Loss) profit for the period has been arrived at after charging:

| | | |
|---|----------------------|----------------------|
| Amortisation of prepaid lease payments | 123 | 130 |
| Depreciation of property, plant and equipment | 20,705 | 20,713 |
| Loss on disposal of property, plant and equipment | 710 | 518 |
| | <u>21,538</u> | <u>21,361</u> |

and after crediting:

| | | |
|--------------------------|-------------------|-------------------|
| Bank interest income | 63 | 134 |
| Net exchange gain (loss) | 317 | (4,349) |
| Rental income | 76 | 924 |
| | <u>456</u> | <u>709</u> |

7. DIVIDENDS

| | Six months ended 30th September, | |
|--|---|-------------|
| | 2016 | 2015 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |

Dividends recognised as distribution during the period:

| | | |
|--|----------------------|----------------------|
| 2016 final dividend of HK0.5 cent (2015: HK1.3 cents) per share | 11,944 | 31,055 |
| | <u>11,944</u> | <u>31,055</u> |

The 2016 final dividend of HK0.5 cent per share in cash has been approved in the annual general meeting held on 7th September, 2016. HK\$11,944,000 cash dividend has been paid on 17th October, 2016.



8. (LOSS) EARNINGS PER SHARE

| | Six months ended 30th September, | |
|---|-------------------------------------|----------------|
| | 2016 | 2015 |
| | (Unaudited) | (Unaudited) |
| (Loss) profit for the period attributable to owners of the Company for the purpose of basic and diluted (loss) earnings per share | HK\$(4,901,000) | HK\$41,488,000 |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share | 2,388,884,410 | 2,388,884,410 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | 2,826,863 | 11,529,680 |
| Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share | 2,391,711,273 | 2,400,414,090 |

9. TRADE AND OTHER RECEIVABLES

At 30th September, 2016, included in the Group's trade and other receivables were trade receivables of HK\$16,140,000 (31st March, 2016: HK\$18,304,000). The Group allows a 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, 2016 (Unaudited) HK\$'000 | 31st March, 2016 (Audited) HK\$'000 |
|----------------|--|--|
| Within 30 days | 9,897 | 11,833 |
| 31 – 60 days | 393 | 1,429 |
| 61 – 90 days | 439 | 932 |
| Over 90 days | 5,411 | 4,110 |
| | 16,140 | 18,304 |



10. TRADE AND OTHER PAYABLES

At 30th September, 2016, included in the Group's trade and other payables were trade payables of HK\$27,517,000 (31st March, 2016: HK\$23,507,000). 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, 2016 (Unaudited) HK\$'000 | 31st March, 2016 (Audited) HK\$'000 |
|----------------|--|--|
| Within 30 days | 22,492 | 16,114 |
| 31 – 60 days | 2,939 | 2,968 |
| 61 – 90 days | 1,406 | 2,005 |
| Over 90 days | 680 | 2,420 |
| | 27,517 | 23,507 |
| | 27,517 | 23,507 |

11. SHARE CAPITAL

| | Number of ordinary shares | Value HK\$'000 |
|--|--------------------------------------|---------------------------|
| Ordinary shares of HK\$0.01 each | | |
| Authorised: | | |
| At 1st April, 2015, 31st March, 2016 and 30th September, 2016 | 10,000,000,000 | 100,000 |
| | 10,000,000,000 | 100,000 |
| Issued and fully paid: | | |
| At 1st April, 2015, 31st March, 2016 and 30th September, 2016 | 2,388,884,410 | 23,888 |
| | 2,388,884,410 | 23,888 |



12. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | 30th September, 2016 (Unaudited) HK\$'000 | 31st March, 2016 (Audited) HK\$'000 |
|--|--|--|
| Within one year | 361,418 | 371,181 |
| In the second to fifth years inclusive | 305,601 | 308,753 |
| | <u>667,019</u> | <u>679,934</u> |

In addition to these commitments, the Group may pay additional rental expenses in respect of certain premises which are dependent upon the level of sales achieved by particular stores.

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

| | 30th September, 2016 (Unaudited) HK\$'000 | 31st March, 2016 (Audited) HK\$'000 |
|--|--|--|
| Within one year | 156 | 32 |
| In the second to fifth years inclusive | 29 | – |
| | <u>185</u> | <u>32</u> |



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, 2016 (Unaudited) HK\$'000 | 31st March, 2016 (Audited) HK\$'000 |
|------------------------------|--|--|
| Investment properties | 6,650 | 6,650 |
| Leasehold land and buildings | 131,910 | 134,791 |
| Pledged bank deposits | 6,047 | 6,235 |
| | 144,607 | 147,676 |
| | 144,607 | 147,676 |

14. CAPITAL COMMITMENT

On 22nd September, 2016, a wholly-owned subsidiary of the Company entered into a provisional sales and purchase agreement in respect of the acquisition of an investment property at a consideration of HK\$79,225,000 with four individuals who are independent third parties (the "Acquisition"). Deposits for the Acquisition amounted to HK\$8,125,000 were paid during the period and recognised in the condensed consolidated statement of financial position at the end of the reporting period.

The Acquisition was completed on 23rd November, 2016 and capital commitment contracted for acquisition but not provided in the condensed consolidated financial statements is HK\$71,100,000.



INTERIM DIVIDEND

At the Board Meeting held on 23rd November, 2016, the Board has resolved to declare the payment of an interim dividend of HK0.6 cent (2016: HK0.8 cent) per share of HK\$0.01 each for the financial year ending 31st March, 2017. The interim dividend will be payable on or about Tuesday, 10th January, 2017, to the shareholders whose names appeared on the register of members of the Company on Friday, 16th December, 2016.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the entitlement to the interim dividend for the year ending 31st March, 2017, the register of members of the Company will be closed from Wednesday, 14th December, 2016 to Friday, 16th December, 2016 (both days inclusive) during which period no transfer of shares will be registered. The last day for dealing in shares cum entitlement to the interim dividend for the year ending 31st March, 2017 will be Friday, 9th December, 2016. Shareholders are reminded that in order to qualify for the entitlement of the interim dividend for the year ending 31st March, 2017, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 13th December, 2016.



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30th September, 2016, the Group recorded a turnover of HK\$1,028,820,000 (2015: HK\$1,066,045,000), representing a decrease of 3.5% as compared with the corresponding period last year. Included in the turnover was HK\$828,153,000 (2015: HK\$826,938,000) generated by the cosmetics business, representing a slight increase of 0.1% as compared with that recorded in the corresponding period last year, which also accounted for 80.5% (2015: 77.6%) of the Group's total turnover. Turnover of the fashion business amounted to HK\$200,667,000 (2015: HK\$239,107,000), representing a decrease of 16.1% as compared with the same period last year. The gross profit margin of the fashion business was 70.8%, representing an increase of 0.3 percentage point as compared with 70.5% for the corresponding period last year. For the period, the gross profit margin of the cosmetics business was 32.4%, representing a drop of 3.3 percentage points as compared with 35.7% recorded in the corresponding period last year. The Group recorded a loss of approximately HK\$4,901,000 during the period as compared with a net profit of HK\$41,488,000 for the same period last year, mainly attributable to the significant decrease in profit generated by the Group's cosmetics business due to the continuously weak performance of the consumer market in Hong Kong. The cosmetics business recorded a segment profit of HK\$1,319,000 for the current period, representing a significant decrease of 97.7% as compared with the profit of HK\$58,098,000 for the same period last year. The fashion business recorded a segment profit of HK\$962,000 for the current period, representing an increase of HK\$3,644,000 as compared with the loss of HK\$2,682,000 for the same period last year.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Cosmetics Business

As at 30th September, 2016, the Group had 87 **Colourmix** stores (30th September, 2015: 82 stores), of which 82 stores were located in Hong Kong, 4 stores were in Macau, and 1 store was in China. In August 2015, the Group established another cosmetics store namely **MORIMOR**. As at 30th September, 2016, 7 **MORIMOR** stores have been set up in Hong Kong (30th September, 2015: 1 store). **MORIMOR** cosmetics stores offer high-quality trendy skin care and cosmetics products by integrating global premier skin care and beauty concepts, with diversified products covering skin care, fragrance, make-up, hairdressing, body care and cosmeceuticals and health food. In particular, the South Korean series of cosmetics and beauty products are very popular among the young customers. In addition, the professional beauty consultants offer customised personal services and consultations on skin care so that customers can enjoy the relaxed and pleasant experience of beauty services. For the period under review, cosmetics retail business recorded a turnover of HK\$828,153,000 (2015: HK\$826,938,000), representing a slight increase and accounting for 80.5% of the Group's total turnover. The gross profit margin of the cosmetics business for the period was 32.4%, representing a decrease of 3.3 percentage points as compared with 35.7% for the same period last year. The cosmetics business for the period recorded a segment profit of HK\$1,319,000, representing a significant decrease of 97.7% as compared with the profit of HK\$58,098,000 for the same period last year. As a result of the rapid growth in the cosmetics business experienced in the past consecutive years, a considerably high base has been accumulated. With the continuously weak retail market and overall consumption environment in Hong Kong as well as a drop in the number of visitors to Hong Kong during the period under review, it was necessary for the Group to offer several promotional discounts and organise marketing activities to stimulate sales, which led to a reduction in gross profit margin and a significant decrease in segment profit as compared with the same period last year.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Fashion Business

As at 30th September, 2016, the Group had 129 **Veeko** and **Wanko** stores (30th September, 2015: 155 stores) across Hong Kong, Macau, Singapore and Mainland China. As such, the fashion business for the period recorded a decrease of 16.1% in the overall turnover as compared with the same period last year. The decrease in the number of stores was mainly due to a restructuring of the Group's retail network in overseas markets, particularly in Taiwan, during the period. At the end of April 2016, the Group had terminated the fashion retail operation in Taiwan completely which alleviated its negative impact on the overall results of the fashion business. During the period, fashion business recorded a segment profit of HK\$962,000, representing an increase of HK\$3,644,000 as compared with the loss of HK\$2,682,000 for the same period last year. The overall gross profit margin for the fashion business in the current period slightly increased to 70.8% from 70.5% for the same period last year.

Fashion Business – Hong Kong and Macau Market

The fashion retail business in Hong Kong and Macau accounted for 86.7% of the total turnover of the fashion business of the Group. For the six months ended 30th September, 2016, turnover from the Hong Kong and Macau market amounted to HK\$174,073,000 (2015: HK\$188,459,000), representing a decrease of 7.6% over the same period last year. The gross profit margin was 72%, similar to the 71.8% for the same period last year. As at 30th September, 2016, the Group had a total of 83 stores in Hong Kong and Macau as compared with 80 stores for the same period last year.

Fashion Business – Singapore Market

During the first half of this financial year, turnover of the retail business in Singapore decreased by 21.3% over the same period last year to HK\$13,189,000 (2015: HK\$16,755,000), while the number of stores decreased from 9 stores as at 30th September, 2015 to 8 stores as at the end of the period. Underperforming stores were closed down further to alleviate the negative impact on the overall performance of fashion business.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Fashion Business – China Market

During the period under review, turnover of the China market amounted to HK\$13,356,000 (2015: HK\$15,588,000), representing a decrease of 14.3% as compared with the same period last year. As of 30th September, 2016, the Group had a total of 38 **Veeko** and **Wanko** stores in China (30th September, 2015: 41 stores). Apart from the conventional physical retail network, the Group also developed new distribution channels through a number of e-commerce platforms such as T-mall and JD.com.

PROSPECTS

The Group expects the challenges faced by the retail business to continue. The retail environment in Hong Kong is anticipated to remain severe while a cautious consumption sentiment prevails. The management, however, will continue to monitor closely the various fluctuations and uncertainties in the future market and take appropriate measures accordingly. The Group will remain prudent in financial and operational management by applying stringent costs control and strengthening inventory management to lower inventory costs and enhance inventory efficiency. Looking forward, the Group will continue to enrich its product portfolio of cosmetics products, increase trendy beauty products with exclusive distributorship, conduct staff training on providing quality professional services, and strengthen its internal consolidation.

Regarding the fashion retail business, the Hong Kong and Macau market accounted for 86.7% of the total turnover of the fashion business of the Group. The fashion retail business will continue to focus primarily on the Hong Kong and Macau market. To cope with the stagnant retail environment as well as to meet constantly changing needs in the market, the Group will continue to optimise product designs and improve customers' shopping experience. As for the overseas markets, the Group will continue its cautious control on its overseas stores portfolio. Underperforming stores will be closed down further to focus its business on profitable stores.



PROSPECTS *(Continued)*

Under the challenging environment, the Group will continue to be cautious in adjusting its store portfolio and reviewing the rental levels. Given the slowdown in the retail market and a decline in rental charges for stores located in prime districts, the enhanced bargaining power of the retailers will therefore help reduce the rental pressure for stores with expiring lease terms. As the Group will close down certain stores with low profitability and open new stores in prime locations, additional rental saving will be expected in the near future. The Group also explores investment opportunities constantly. In September 2016, the Group entered into a provisional sales and purchase agreement with independent third parties in respect of the acquisition of a property located at G/F, No. 86 San Hong Street North New Territories, Hong Kong at a consideration of HK\$79,225,000. Currently, the property is planned to use for investment purpose to generate income through rental. The Group considers the acquisition an excellent investment opportunity which may also be used as a retail store of the Group in the future. In addition, the Group will strive to uplift its competitiveness in order to lay a good foundation for the sustainable growth in the future, and to maintain the healthy growth of its core businesses in the long run.

LIQUIDITY & FINANCIAL RESOURCES

The Group's working capital increased from HK\$423,090,000 as at 31st March, 2016 to HK\$426,895,000 for the period end.

At the end of the reporting period, the Group's cash and bank balances (mainly in Hong Kong Dollar and Renminbi), amounted to HK\$64,992,000 (31st March, 2016: HK\$80,461,000). The outstanding bank borrowings (mainly in Hong Kong Dollar) amounted to HK\$155,945,000 (31st March, 2016: HK\$161,056,000).

At the end of the reporting period, the current ratio was 2.88 times (31st March, 2016: 2.78 times) and the gearing ratio of the Group was 0.21 (31st March, 2016: 0.21) which was calculated based on the Group's total borrowings of HK\$155,945,000 (31st March, 2016: HK\$161,056,000) and the total equity of HK\$745,710,000 (31st March, 2016: HK\$752,689,000).

At the end of the reporting period, the Group had banking facilities amounting to HK\$307,755,000 (31st March, 2016: HK\$292,305,000), of which HK\$180,984,000 (31st March, 2016: HK\$189,257,000) was utilised by the Group. The management believes that existing financial resources will be sufficient to meet future expansion plans and, if necessary, the Group will be able to obtain additional financing on favorable terms.



FOREIGN EXCHANGE EXPOSURE

Several subsidiaries of the Company have foreign currency purchases (mainly in 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\$144,607,000 (31st March, 2016: HK\$147,676,000).

CONTINGENT LIABILITIES

At 30th September, 2016, the Company had provided guarantees of HK\$329,331,000 (31st March, 2016: HK\$322,042,000) to certain banks in respect of banking facilities granted to certain subsidiaries of the Company of which HK\$180,984,000 (31st March, 2016: HK\$189,257,000) was utilised by the subsidiaries.

STAFF AND REMUNERATION POLICIES

At 30th September, 2016, the Group had approximately 2,400 employees (31st March, 2016: approximately 2,600). 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, 2016:

| Date of grant | Vesting period | Exercisable period | Exercise price per share | Balance at 1.4.2016 | Cancelled during the period | Outstanding at 30.9.2016 |
|-------------------|--|--|--------------------------|---------------------|-----------------------------|--------------------------|
| 7th October, 2013 | 7th October, 2013 to 6th October, 2016 | 7th October, 2016 to 6th October, 2018 | HK\$0.225 | 17,240,000 | (960,000) | 16,280,000 |
| 7th October, 2013 | 7th October, 2013 to 6th October, 2018 | 7th October, 2018 to 6th October, 2020 | HK\$0.225 | 17,240,000 | (960,000) | 16,280,000 |
| 25th April, 2014 | 25th April, 2014 to 24th April, 2017 | 25th April, 2017 to 24th April, 2019 | HK\$0.300 | 4,020,000 | (1,900,000) | 2,120,000 |
| 25th April, 2014 | 25th April, 2014 to 24th April, 2019 | 25th April, 2019 to 24th April, 2021 | HK\$0.300 | 4,020,000 | (1,900,000) | 2,120,000 |
| | | | | 42,520,000 | (5,720,000) | 36,800,000 |



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

As at 30th September, 2016, the interests of the directors and chief executive officer and their associates 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 | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|--|----------------------|---------------------------------------|---|
| Mr. Cheng Chung Man, Johnny | Founder | 1,308,257,768 (Note) | |
| | Beneficial owner | <u>173,757,514</u> | |
| | | <u><u>1,482,015,282</u></u> | <u><u>62.04%</u></u> |
| Ms. Lam Yuk Sum (Chief Executive Officer) | Beneficiary of Trust | 1,308,257,768 (Note) | |
| | Beneficial owner | <u>256,027,462</u> | |
| | | <u><u>1,564,285,230</u></u> | <u><u>65.48%</u></u> |

Note: These 1,308,257,768 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 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, chief executive officer nor their associates 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, 2016, 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 IN SHARES, UNDERLYING SHARES AND DEBENTURES

Other than disclosed above under the section headed "Directors' and Chief Executive Officer's Interests in Shares, Underlying Shares and Debentures" and other substantial shareholders' interests disclosed in the following table, at 30th September, 2016, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the Company had not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company.

| Name of shareholder | Capacity | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|------------------------------------|--|---------------------------------------|---|
| Silver Crown | Beneficial owner | 1,308,257,768 | 54.76% |
| Well Feel Group Limited | Interest of a controlled corporation <i>(Note)</i> | 1,308,257,768 | 54.76% |
| HSBC International Trustee Limited | Trustee <i>(Note)</i> | 1,308,257,768 | 54.76% |

Note: The entire issued share capital of Silver Crown was held by Well Feel Group Limited which in turn was a wholly-owned subsidiary of HSBC International Trustee Limited. By virtue of the provisions of Part XV of the SFO, each of Well Feel Group Limited and HSBC International Trustee Limited 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, 2016, 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, 2016.

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, 2016.

AUDIT COMMITTEE

The unaudited results of the Group for the six months ended 30th September, 2016 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. I sincerely hope that all of you will continue to contribute to the success of the Group.

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

Hong Kong, 23rd November, 2016

