

2007/2008 Interim Report

Veeko®

威高國際控股有限公司
VEEKO INTERNATIONAL HOLDINGS LIMITED
(股份代號 Stock Code : 1173)

for the six months ended 30th September, 2007



www.veeko.com.hk

CORPORATE INFORMATION

DIRECTORS

Executive

CHENG Chung Man, Johnny
(Chairman)

LAM Yuk Sum (Managing Director)

Independent Non-Executive

CHENG Chung Hoo

YANG Wei Tak

YEUNG Wing Kay

LEGAL ADVISERS AS TO CAYMAN ISLANDS LAW

Conyers Dill & Pearman, Cayman

Zephyr House

George Town

Grand Cayman

British West Indies

LEGAL ADVISERS AS TO HONG KONG LAW

Chiu & Partners

41st Floor, Jardine House

1 Connaught Place

Hong Kong

AUDITORS

Deloitte Touche Tohmatsu

Certified Public Accountants

35th Floor, One Pacific Place

88 Queensway

Hong Kong

AUTHORISED REPRESENTATIVES

CHENG Chung Man, Johnny

LAM Yuk Sum

COMPANY SECRETARY

WONG Chi Ying

AUDIT COMMITTEE MEMBERS

CHENG Chung Hoo (Chairman)

YANG Wei Tak

YEUNG Wing Kay

REMUNERATION COMMITTEE MEMBERS

CHENG Chung Hoo (Chairman)

CHENG Chung Man, Johnny

LAM Yuk Sum

YANG Wei Tak

YEUNG Wing Kay

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

Bank of Bermuda (Cayman) Limited

P.O. Box 513 GT

Strathvale House

North Church Street

George Town

Grand Cayman

Cayman Islands

British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited

26th Floor

Tesbury Centre

28 Queen's Road East

Wanchai, Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

The Hongkong and Shanghai

Banking Corporation Limited

WEBSITE ADDRESS

<http://www.veeko.com.hk>

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, 2007. The results, together with the comparative figures for the corresponding period in 2006, are summarised below:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2007

		Six months ended 30th September, 2007	2006
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Turnover	3	322,721	296,316
Cost of sales		(107,523)	(100,904)
		<hr/>	<hr/>
Gross profit		215,198	195,412
Selling and distribution costs		(139,769)	(136,274)
Administrative expenses		(54,684)	(46,709)
Other income		4,523	3,562
Increase in fair values of investment properties		3,740	200
Finance costs		(1,264)	(122)
		<hr/>	<hr/>
Profit before taxation	4	27,744	16,069
Taxation	5	(2,782)	(1,460)
		<hr/>	<hr/>
Profit for the period		24,962	14,609
		<hr/> <hr/>	<hr/> <hr/>
Dividend paid	6	–	18,290
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share	7		
Basic		HK1.50 cents	HK0.88 cent
		<hr/> <hr/>	<hr/> <hr/>
Diluted		HK1.48 cents	HK0.88 cent
		<hr/> <hr/>	<hr/> <hr/>

VEEKO INTERNATIONAL HOLDINGS LIMITED

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September, 2007

	Notes	30th September, 2007 (Unaudited) HK\$'000	31st March, 2007 (Audited) HK\$'000
Non-current Assets			
Investment properties		56,000	52,260
Property, plant and equipment		83,275	69,785
Prepaid lease payments		9,109	9,154
Rental deposits		23,008	25,100
Deferred tax assets		4,900	5,046
		<u>176,292</u>	<u>161,345</u>
Current Assets			
Inventories		198,680	132,636
Trade and other receivables	8	46,863	30,295
Prepaid lease payments		242	242
Rental and utility deposits		20,012	17,815
Tax recoverable		1,709	1,573
Pledged bank deposits		1,000	1,000
Bank balances and cash		21,267	25,429
		<u>289,773</u>	<u>208,990</u>
Current Liabilities			
Trade and other payables	9	52,197	39,567
Bank borrowings – secured		47,414	20,693
Bank overdrafts – secured		13,740	406
Tax payable		6,442	5,700
		<u>119,793</u>	<u>66,366</u>
Net Current Assets		<u>169,980</u>	<u>142,624</u>
		<u>346,272</u>	<u>303,969</u>
Capital and Reserves			
Share capital	10	16,737	16,627
Reserves		308,576	282,149
		<u>325,313</u>	<u>298,776</u>
Non-current Liability			
Bank borrowings – secured		14,964	–
Deferred tax liabilities		5,995	5,193
		<u>20,959</u>	<u>5,193</u>
		<u>346,272</u>	<u>303,969</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September, 2007

	Six months ended	
	30th September,	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash used in operating activities	(37,743)	(15,518)
Net cash used in investing activities	(23,619)	(7,174)
Net cash from (used in) financing activities	43,653	(15,285)
Net decrease in cash and cash equivalents	(17,709)	(37,977)
Cash and cash equivalents at 1st April	25,023	52,065
Effect of foreign exchange rates changes	213	(381)
Cash and cash equivalents at 30th September	7,527	13,707
Representing by:		
Bank balances and cash	21,267	18,715
Bank overdrafts	(13,740)	(5,008)
	7,527	13,707

VEEKO INTERNATIONAL HOLDINGS LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2007

	(Unaudited)								
	Share Capital HK\$'000	Share Premium HK\$'000	Property Revaluation Reserve HK\$'000	Exchange Translation Reserve HK\$'000	Special Reserve HK\$'000	Share Option Reserve HK\$'000	Capital Reserve (Note) HK\$'000	Retained Profits HK\$'000	Total HK\$'000
At 1st April, 2007	16,627	10,165	2,470	(8,916)	2,266	2,513	-	273,651	298,776
Exchange differences on translation of overseas operations	-	-	-	(1,504)	-	-	-	-	(1,504)
Surplus on revaluation of buildings	-	-	530	-	-	-	-	-	530
Deferred tax liability arising on revaluation of buildings	-	-	(93)	-	-	-	-	-	(93)
Net income and expense recognised directly in equity Profit for the period	16,627	10,165	2,907	(10,420)	2,266	2,513	-	273,651	297,709
	-	-	-	-	-	-	-	24,962	24,962
Total recognised income and expense for the period	16,627	10,165	2,907	(10,420)	2,266	2,513	-	298,613	322,671
Recognition of equity-settled share based payments	-	-	-	-	-	674	-	-	674
Share issued upon exercise of share options	110	1,858	-	-	-	-	-	-	1,968
Transfer of reserve upon exercise of share options	-	980	-	-	-	(980)	-	-	-
Transfer from retained profits	-	-	-	-	-	-	49	(49)	-
At 30th September, 2007	16,737	13,003	2,907	(10,420)	2,266	2,207	49	298,564	325,313
At 1st April, 2006	16,617	9,933	713	(5,074)	2,266	2,075	-	266,619	293,149
Exchange differences on translation of overseas operations	-	-	-	70	-	-	-	-	70
Surplus on revaluation of buildings	-	-	685	-	-	-	-	-	685
Deferred tax liability arising on revaluation of buildings	-	-	(120)	-	-	-	-	-	(120)
Net income recognised directly in equity Profit for the period	-	-	565	70	-	-	-	-	635
	-	-	-	-	-	-	-	14,609	14,609
Total recognised income for the period	-	-	565	70	-	-	-	14,609	15,244
Recognition of equity-settled share based payments	-	-	-	-	-	274	-	-	274
Share issued upon exercise of share options	10	152	-	-	-	-	-	-	162
Transfer of reserve upon exercise of share options	-	80	-	-	-	(80)	-	-	-
Dividend paid	-	-	-	-	-	-	-	(18,290)	(18,290)
At 30th September, 2006	16,627	10,165	1,278	(5,004)	2,266	2,269	-	262,938	290,539

Note: The capital reserve of the Group represents non-distributable reserve set aside by a subsidiary according to relevant statutory requirements.

NOTES TO CONDENSED INTERIM ACCOUNTS**1. BASIS OF PREPARATION**

The unaudited consolidated condensed interim accounts for the six months ended 30th September, 2007 are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed interim accounts have been prepared on the historical cost basis except for certain properties, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies used in the condensed interim accounts are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st March, 2007 except as described below.

In the current period, the Group has applied, for the first time, the following new standard, amendment and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning 1st April, 2007.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC)-INT 8	Scope of HKFRS 2 ²
HK(IFRIC)-INT 9	Reassessment of Embedded Derivatives ³
HK(IFRIC)-INT 10	Interim Financial Reporting and Impairment ⁴
HK(IFRIC)-INT 11	HKFRS 2 – Group and Treasuring Share Transactions ⁵

¹ Effective for annual periods beginning on or after 1st January, 2007.

² Effective for annual periods beginning on or after 1st May, 2006.

³ Effective for annual periods beginning on or after 1st June, 2006.

⁴ Effective for annual periods beginning on or after 1st November, 2006.

⁵ Effective for annual periods beginning on or after 1st March, 2007.

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective.

2. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC)-INT 12	Service Concession Arrangements ²
HK(IFRIC)-INT 13	Customer Loyalty Programmes ³
HK(IFRIC)-INT 14	The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction ²

¹ Effective for annual periods beginning on or after 1st January, 2009.

² Effective for annual periods beginning on or after 1st January, 2008.

³ Effective for annual periods beginning on or after 1st July, 2008.

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. **SEGMENT INFORMATION**

Business Segments

The Group operates and manages the business segments as a strategic organisational unit for internal financial reporting purposes and determined that business segments by products are its primary reporting segments. As a result, the Group's operations was organised into two reporting segments comprising manufacture and sale of ladies fashion and sale of cosmetics. Segment information about these businesses is presented below:

	Unaudited six months ended 30th September, 2007			
	Fashion	Cosmetics	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER				
Sales of goods	252,548	70,173	–	322,721
Inter-segment sales	–	2,789	(2,789)	–
	<u>252,548</u>	<u>72,962</u>	<u>(2,789)</u>	<u>322,721</u>

Inter-segment sales are charged at prevailing market rates.

SEGMENT RESULT	<u>24,384</u>	<u>112</u>		24,496
Unallocated corporate income				6,948
Unallocated corporate expenses				(2,436)
Finance costs				(1,264)
Profit before taxation				27,744
Taxation				(2,782)
Profit for the period				<u>24,962</u>

3. **SEGMENT INFORMATION** (Continued)

Business Segments (Continued)

	Unaudited six months ended 30th September, 2006			
	Fashion	Cosmetics	Eliminations	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER				
Sales of goods	239,315	57,001	–	296,316
Inter-segment sales	68	103	(171)	–
	<u>239,383</u>	<u>57,104</u>	<u>(171)</u>	<u>296,316</u>
 Inter-segment sales are charged at prevailing market rates.				
SEGMENT RESULT	<u>22,814</u>	<u>(5,645)</u>		17,169
Unallocated corporate income				1,857
Unallocated corporate expenses				(2,835)
Finance costs				<u>(122)</u>
Profit before taxation				16,069
Taxation				<u>(1,460)</u>
Profit for the period				<u>14,609</u>

4. **PROFIT BEFORE TAXATION**

	Six months ended	
	30th September,	
	2007	2006
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation has been arrived at after charging:		
Amortisation of prepaid lease payments	45	45
Depreciation of property, plant and equipment	10,715	8,327
Loss on disposal of property, plant and equipment	928	219
	<u>11,688</u>	<u>8,591</u>
and after crediting:		
Rental income	1,676	1,568
Interest income	104	236
	<u>1,780</u>	<u>1,804</u>

5. TAXATION

	Six months ended 30th September,	
	2007	2006
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
Current taxation		
Hong Kong Profits Tax	1,660	1,596
Overseas taxation	251	(357)
Deferred taxation		
Current period	871	221
	2,782	1,460
	2,782	1,460

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the period. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

6. DIVIDEND PAID

	Six months ended 30th September,	
	2007	2006
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
2006 final dividend of HK1.1 cents (2007: nil) per share	–	18,290
	–	18,290

The 2007 final dividend of HK1.0 cent per share in cash with a scrip option has been approved in the annual general meeting held on 31st August, 2007. HK\$4,970,000 cash dividend has been paid and 50,099,676 scrip shares have been allotted and issued on 9th October, 2007.

7. EARNINGS PER SHARE

	Six months ended	
	30th September,	2006
	2007	2006
	(Unaudited)	(Unaudited)
Earnings:		
Profit for the period and earnings for the purposes of basic and diluted earnings per share	HK\$24,962,000	HK\$14,609,000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,668,200,000	1,662,172,678
Effect of dilutive potential ordinary shares in respect of share options	22,055,373	3,687,847
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,690,255,373	1,665,860,525

8. TRADE AND OTHER RECEIVABLES

At 30th September, 2007, included in the Group's trade and other receivables were trade receivables of HK\$35,124,000 (31st March, 2007: HK\$25,196,000). The Group allows 30 to 60 days credit period for receivables from sales counters and an average credit period of 60 to 120 days to its wholesale customers. Details of the aged analysis of trade receivables are as follows:

	30th September,	31st March,
	2007	2007
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Within 30 days	19,391	17,521
31 – 60 days	7,773	4,207
61 – 90 days	2,028	571
Over 90 days	5,932	2,897
	35,124	25,196

9. TRADE AND OTHER PAYABLES

At 30th September, 2007, included in the Group's trade and other payables were trade payables of HK\$19,439,000 (31st March, 2007: HK\$7,814,000). Details of the aged analysis of the trade payables are as follows:

	30th September, 2007 (Unaudited) HK\$'000	31st March, 2007 (Audited) HK\$'000
Within 30 days	8,970	7,466
31 – 60 days	7,116	271
61 – 90 days	638	64
Over 90 days	2,715	13
	<u>19,439</u>	<u>7,814</u>

10. SHARE CAPITAL

	Number of ordinary shares	Value HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1st April, 2007 and 30th September, 2007	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1st April, 2006	1,661,700,000	16,617
Issue of shares upon exercise of share options	<u>1,000,000</u>	<u>10</u>
At 31st March, 2007	1,662,700,000	16,627
Issue of shares upon exercise of share options (Note)	<u>11,000,000</u>	<u>110</u>
At 30th September, 2007	<u>1,673,700,000</u>	<u>16,737</u>

Note: During the period ended 30th September, 2007, 11,000,000 share options were exercised (9,000,000 share options at HK\$0.162 per share, 2,000,000 share options at HK\$0.255 per share), resulting in issue of a total of 11,000,000 ordinary shares of HK\$0.01 each in the Company.

11. OPERATING LEASES

The Group as Lessee

At 30th September, 2007, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30th September, 2007 (Unaudited) HK\$'000	31st March, 2007 (Audited) HK\$'000
Within one year	138,710	145,297
In the second to fifth year inclusive	100,138	95,772
Over five years	800	1,752
	239,648	242,821
	239,648	242,821

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 shops.

The Group as Lessor

At 30th September, 2007, the Group had contracted with tenants for the following future minimum lease payments:

	30th September, 2007 (Unaudited) HK\$'000	31st March, 2007 (Audited) HK\$'000
Within one year	1,473	2,520
In the second to fifth year inclusive	-	163
	1,473	2,683
	1,473	2,683

12. PLEDGE OF ASSETS

At 30th September, 2007, the following assets were pledged by the Group to certain banks to secure general banking facilities granted to the Group:

	30th September, 2007 (Unaudited) HK\$'000	31st March, 2007 (Audited) HK\$'000
Investment properties	56,000	52,260
Prepaid lease payments	3,168	3,208
Leasehold buildings	10,710	10,630
Short term bank deposits	1,000	1,000
	70,878	67,098
	70,878	67,098

INTERIM DIVIDEND

At the Board Meeting held on 18th December, 2007, the Board has resolved to declare the payment of an interim dividend of HK0.80 cent (2007: HK0.70 cent) per share in cash with a scrip option (the "Scrip Dividend Scheme") of HK\$0.01 each of the Company in respect of the financial year ending 31st March, 2008, to the shareholders whose names appeared on the register of members of the Company on 31st December, 2007.

A circular containing details of the Scrip Dividend Scheme will be despatched to the shareholders of the Company shortly.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the entitlements to the interim dividend for the year ending 31st March, 2008, the register of members of the Company will be closed from 2nd January, 2008 to 4th January, 2008 (both days inclusive) during which period no transfer of shares will be registered. The last day for dealing in shares cum entitlements to the interim dividend for the year ending 31st March, 2008 will be 27th December, 2007. Shareholders are reminded that in order to qualify for the interim dividend for the year ending 31st March, 2008, all transfers of shares accompanied by the relevant share certificate and transfer forms must be lodged with the Company's Hong Kong branch share registrar, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 31st December, 2007.

MANAGEMENT DISCUSSION AND ANALYSIS BUSINESS REVIEW AND PROSPECTS

For the six months ended 30th September, 2007, the Group recorded a turnover of HK\$322,721,000 (2006: HK\$296,316,000), representing an increase of 8.9% as compared with the corresponding period of last year. Included in the amount of turnover was HK\$70,173,000 generated by the cosmetic business, representing an increase of 23.1% over the same period of last year (2006: HK\$57,001,000). Turnover of the fashion business increased by 5.5% as compared with the same period in the previous year. The performance of the newly developed China market, and Hong Kong and Macau market were good. However, total turnover of the fashion business increased only by 5.5%, which was primarily due to closures of certain stores in the Taiwan market. The gross profit ratio of the Group as a whole increased from 65.9% for the same period in last year to 66.7% for the current period. Gross profit ratios of both the fashion and cosmetic businesses increased from those of the corresponding period of last year, while profit for the period was HK\$24,962,000 (2006: HK\$14,609,000), representing an increase of 70.9% over that of the corresponding period in last year. For the first time, the cosmetic business stopped incurring a loss, and a profit was recorded, which compared with loss of approximately HK\$5,645,000 of the same period in last year, the result of the cosmetic business has improved markedly. Since the commencement of the business in October, 2004 up till now, strenuous efforts were contributed to develop the cosmetic business over the past few years, including enrichment of product portfolio and introduction of exclusive brands

directly imported from abroad. These were well received in the market, pushing up gross margin continuously. In addition, as at 30th September, 2007 the number of cosmetic stores has rose to 17, this scale of outlet network is sufficient to generate basic cost efficiency. Up to 30th September, 2007, the cosmetic business generated a profit for the current period, achieved a turnaround and started to contribute to the Group's result after making losses in the past few years. Besides, the Group has actively developed the fashion business in China during the period under review, taking full advantage of rapid economic development and strong consumption power on the mainland. As at 30th September, 2007, the number of stores in the China region has reached 112. Comparing with the number of stores which was 75 as at 31st March, 2007, the net growth in the number of stores during the six month period was 37. The response received was encouraging. The Group is highly confident in the China market. To cope with rapid expansion in China, the Group has established new production plants since the end of the last year. As the plants are still at the initial trial production stage, preliminary expenses incurred during the period under review have short-term impact on the results of the current period. Nonetheless, the plants have gradually achieved normal operation.

Fashion Business

Fashion Business – Hong Kong and Macau Market

Fashion retailing in Hong Kong and Macau remain the major source of revenue for the Group, representing 62.9% in the total turnover of the Group's fashion business. For the six months ended 30th September, 2007, turnover of the Hong Kong and Macau market amounted to HK\$158,787,000, representing an increase of 10.3% over the corresponding period of last year. As at 30th September, 2007, the Group has set up 59 stores in Hong Kong and Macau, the number of which is about the same as last year. The increase in turnover was primarily attributable to the purchase of high-quality fabrics, improvement in product quality, coupled with a diversified product portfolio and the introduction of high-end imported fashion accessories. All these innovative measures are very popular with its customers, fuelling substantial growth in turnover as compared with the corresponding period of the previous year. As a result of the boom in the retail market, businesses in Hong Kong and Macau continue to be good. From October, 2007 to November, 2007, turnover of comparable stores recorded an increase of more than 10% when compared with the corresponding period of last year. In future, the Group will maintain the current number of stores, and gradually increase the number of stores on this basis.

Fashion Business – Taiwan Market

Turnover of fashion retailing in Taiwan for the first half of the current financial year was HK\$42,440,000, a decrease of 30.6% from the corresponding period of last year, while representing 16.8% in the total turnover of the Group's fashion business. The decline was mainly due to the economic recession in the Taiwan market, aggravated by political uncertainty that continued to undermine consumption power and consumer confidence which resulted in difficult operating conditions in the market. The Group has been positive in undertaking various measures to alleviate the adverse impact of these factors on its business, including strict cost control, improvement in product quality and closing down certain stores burdened with fixed rental expenses which suffered from low cost efficiency. In addition, during the period under review, the Group has paid compensation to owners in respect of certain retail outlets with fixed rental, in accordance with terms in the Lease Agreements for the early termination of leases before their expiry. Although these measures inevitably had impact on result of the current period, they shall contribute to the healthy development of our business in Taiwan in the long run. As at 30th September, 2007, the number of fashion stores in Taiwan was 49, a decrease of 14 compared with 63 stores of last year. Although business in Taiwan was adversely affected by the local recession, the Group believes that its impact is only temporary. Moreover, internal measures taken by the Group have been bearing fruit, so that turnover of comparable stores in Taiwan for the two months period from October, 2007 to November, 2007 achieved an increase of over 7%. The Group is confident that the Taiwan fashion market will pick up and be back on the upward trend again. In future, the Group will continue to develop the local market in a prudent manner, with plans to set up concession counters in department stores so as to avoid the burden of and reduce the pressure from fixed rental.

Fashion Business – Singapore Market

For the first half of the current financial year, retail business in Singapore recorded a turnover of HK\$21,575,000, representing an increase of 24.5% over the corresponding period of last year. Business in Singapore has been growing steadily. As at 30th September, 2007, the Group has established 13 stores in Singapore (30th September, 2006: 11). The Group is dedicated to strengthening the fashion business there, so that if stores in desirable locations are secured, the number of stores will be increased steadily.

Fashion Business – China Market

Since late 2006, the Group started to set up its first directly operated retail outlet, which together with the parallel development of franchise business. As at 30th September, 2007, the number of **Veeko** and **Wanko** outlets in China has reached 112. Due to favourable market response, our pace of expansion has been speeded up. At present, besides setting up stores under the brand names of **Veeko** and **Wanko** in first tier cities such as Beijing, Shanghai, Chengdu, Guangzhou, Shenzhen and Zhuhai, other cities are covered which include Chongqing, Wuhan, Dalian, Tianjin, Xiamen, Quanzhou, Qingdao, Jiangmen, Zhongshan, Yibin, Shunde, Guiyang, Tangshan, Shenyang, Lanzhou, Changchun, Changsha, Suzhou, Wuxi, Fuzhou, Dongying, Huainan, Zhanjiang, Haikou, Baotou and Liuzhou. The Group is fully confident of growth prospects in China where business has been excellent. The Group will step up investment on the mainland, with plans to accelerate expansion in the China market. The Group believes that business in China will become a new force, gradually increasing its share of contribution to the profit of the Group.

Cosmetic Business

In October 2004 the Group officially launched its cosmetic retail chain business by setting up **Colourmix** stores. As at 30th September, 2007, the Group has established 17 stores (30th September, 2006: 15). 15 stores were situated in Hong Kong, while 2 stores were situated in Macau. During the period under review, cosmetic business of the Group recorded a turnover of HK\$70,173,000 (2006: HK\$57,001,000), representing 23.1% in the total turnover of the Group. After several years of operation, for the first time cosmetic business of the Group recorded a profit of approximately HK\$112,000, which compared with the loss of HK\$5,645,000 for the same period of last year, proved that significant improvement in operating results has been achieved. This was primarily due to the Group's continuous efforts in enriching the product portfolio and introduction of exclusive brands directly imported from abroad. Popularity of these items continues to raise the gross profit ratio, which increased gradually from 36.1% for the year ended 31st March, 2006 to 47.7% for the period under review. At present, the cosmetic retail network has developed to 18 outlets. The current scale of outlet network is already capable of generating basic cost efficiency. In addition, to consolidate employees' sense of belonging, the Group has granted share options to some key staff as incentive. Although the fair value of stock options granted has to be expensed in accordance with requirements of the accounting policy, which will affect the segment result of the current period, however, the Group believes that such employee incentive will have positive impact on our long term development. From October, 2007 to November, 2007, turnover of comparable stores recorded an increase of approximately 14% when compared with the corresponding period of last year. In future, the Group will keep on enriching the product portfolio, increase the number of cosmetic products with exclusive distributorship, train employees to provide quality and professional services while at the same time achieve growth by investment in stores with potential. It is expected that the number of stores will increase to about 20 by 31st March, 2008. As indicated by the current trend, the Group is confident that cosmetic business will bring increasingly more contribution to the Group in the second half of year 2007/2008.

LIQUIDITY & FINANCIAL RESOURCES

The Group's working capital increased from HK\$142,624,000 as at 31st March, 2007 to HK\$169,980,000 for the period end while its current ratio and quick ratio were 2.42 and 0.76 times respectively.

As at 30th September, 2007, the Group's cash and bank balances amounted to HK\$22,267,000 (31st March, 2007: HK\$26,429,000) and the outstanding bank borrowings and overdraft amounted to HK\$76,118,000 (31st March, 2007: HK\$21,099,000) whereas the total borrowings was HK\$76,118,000 (31st March, 2007: HK\$21,099,000). The increase in total borrowings was mainly due to the capital investment in the Shantou's plant which was acquired in February, 2007 (with an area of approximately 31,355 square meters) and the opening of self-operating shops in the Mainland China. The borrowings were mainly utilised in capital expenditure and in maintaining inventory level to ensure sufficient stock to support sales network expansion. The capital expenditure and increase in stock during the period amounted to HK\$23,723,000 and HK\$66,044,000 respectively.

As at 30th September, 2007, the gearing ratio of the Group is 0.23 (31st March, 2007: 0.07) which is calculated based on the Group's total borrowings of HK\$76,118,000 (31st March, 2007: HK\$21,099,000) and the shareholders' fund of HK\$325,313,000 (31st March, 2007: HK\$298,776,000).

As at 30th September, 2007, the Group had banking facilities amounting to HK\$107,227,000 (31st March, 2007: HK\$82,627,000), of which HK\$80,453,000 (31st March, 2007: HK\$24,021,000) 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

Certain trade payables and purchases of the Group are denominated and settled in foreign currencies. The management will continue to monitor its foreign exchange position and, if necessary, will hedge its foreign currency exposure by way of forward foreign exchange contract.

STAFF AND REMUNERATION POLICIES

As at 30th September, 2007, the Group had 4,322 employees. The Group mainly determines staff remuneration (including insurance and medical benefits) in accordance with the industry's practices. The Group also implemented a reward scheme for its staff based on their individual performances. In addition to their basic remuneration and welfare, some key employees were granted share options as reward and incentive to enhance their loyalty to the Group.

SHARE OPTION SCHEME

No options were granted to the directors or substantial shareholders of the Company during the period.

The following table discloses details of options held by employees of the Group and movements in such holdings during the period ended 30th September, 2007:

Date of grant	Vesting period	Exercisable period	Exercise price per share	Balance at 1.4.2007	Granted during the period	Exercised during the period	Cancelled during the period <i>(Note)</i>	Outstanding at 30.9.2007
18th November, 2003	18th November, 2003 to 17th November, 2005	18th November, 2005 to 17th November, 2007	HK\$0.162	10,300,000	-	(9,000,000)	-	1,300,000
18th November, 2003	18th November, 2003 to 17th November, 2007	18th November, 2007 to 17th November, 2009	HK\$0.162	16,500,000	-	-	(500,000)	16,000,000
21st September, 2004	21st September, 2004 to 20th September, 2006	21st September, 2006 to 20th September, 2008	HK\$0.255	2,000,000	-	(2,000,000)	-	-
21st September, 2004	21st September, 2004 to 20th September, 2008	21st September, 2008 to 20th September, 2010	HK\$0.255	2,000,000	-	-	-	2,000,000
16th August, 2006	16th August, 2006 to 15th August, 2008	16th August, 2008 to 15th August, 2010	HK\$0.2052	3,600,000	-	-	-	3,600,000
16th August, 2006	16th August, 2006 to 15th August, 2010	16th August, 2010 to 15th August, 2012	HK\$0.2052	3,600,000	-	-	-	3,600,000
4th June, 2007	4th June, 2007 to 3rd June, 2010	4th June, 2010 to 3rd June, 2012	HK\$0.186	-	18,100,000	-	(800,000)	17,300,000
4th June, 2007	4th June, 2007 to 3rd June, 2012	4th June, 2012 to 3rd June, 2014	HK\$0.186	-	18,100,000	-	(800,000)	17,300,000
				38,000,000	36,200,000	(11,000,000)	(2,100,000)	61,100,000

The closing price of the Company's shares immediately before 4th June, 2007, the date of grant, was HK\$0.27.

In respect of the share options exercised during the period, the weighted average share price immediately before the dates on which the share options were exercised was HK\$0.302 (2006: HK\$0.212). During the period, total consideration received from employees for taking up the options amounted to HK\$76 (2006: HK\$12).

Note: Cancellation of share options upon the termination of certain employees during the period.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th September, 2007, the interests of the directors 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (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	Held by trust	994,044,180 <i>(Note)</i>	59.39%
Ms. Lam Yuk Sum	Held by trust	994,044,180 <i>(Note)</i>	59.39%
	Beneficial owner	124,194,000	7.42%
		<u>1,118,238,180</u>	<u>66.81%</u>

Note: These 994,044,180 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.

Other than disclosed above and certain nominee shares in subsidiaries held by certain directors in trust for the Group, none of the directors 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, 2007, 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

Other than disclosed above under the section headed "Directors' Interests in Shares, Underlying Shares and Debentures" and other substantial shareholders' interests disclosed in the following table, at 30th September, 2007, 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 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
Cheah Cheng Hye	Held by controlled corporation	136,460,000 (Note)	8.15%
Value Partners Limited	Held by investment managers	136,460,000 (Note)	8.15%

Note: Mr. Cheah Cheng Hye is deemed to be interested in 136,460,000 ordinary shares of the Company as he beneficially owns 35.65% of Value Partners Limited.

CORPORATE GOVERNANCE

The Group has complied with the code provisions set out in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules throughout the six months ended 30th September, 2007.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding director's securities transactions on terms no less exacting than the required standard set out in Appendix 10 Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. Having made specific enquiry of all directors, all directors have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

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

During the six months ended 30th September, 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The unaudited results of the Group for the six months ended 30th September, 2007 have been reviewed by the Audit Committee. The Audit Committee constitutes 3 independent non-executive directors.

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

Hong Kong, 18th December, 2007