

Veeko®

VEEKO INTERNATIONAL HOLDINGS LIMITED

威高國際控股有限公司

(股份代號 Stock Code:1173)



2011/2012 Interim Report

For the six months ended 30th September, 2011

www.veeko.com.hk

CORPORATE INFORMATION

Directors

Executive

Mr. CHENG Chung Man, Johnny
(*Chairman*)

Ms. LAM Yuk Sum
(*Chief Executive Officer*)

Independent Non-Executive

Mr. FOK Kam Chu, John

Mr. YANG Wei Tak

Mr. 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
40th 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

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

Company Secretary

Ms. WONG Chi Ying

Audit Committee Members

Mr. YEUNG Wing Kay (*Chairman*)
Mr. FOK Kam Chu, John
Mr. YANG Wei Tak

Remuneration Committee Members

Mr. YEUNG Wing Kay (*Chairman*)
Mr. CHENG Chung Man, Johnny
Ms. LAM Yuk Sum
Mr. FOK Kam Chu, John
Mr. YANG Wei Tak

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

HSBC Trustee (Cayman) Limited
P.O. Box 484
HSBC House
68 West Bay Road
Grand Cayman
KY1-1106
Cayman Islands

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

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, 2011. The results, together with the comparative figures for the corresponding period in 2010, are summarised below:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th September, 2011

| | | Six months ended 30th September, 2011 (Unaudited) HK\$'000 | 2010 (Unaudited) HK\$'000 |
|--|--------------|--|---------------------------------|
| | <i>Notes</i> | | |
| Turnover | 3 | 564,514 | 469,334 |
| Cost of goods sold | | (260,025) | (199,112) |
| Gross profit | | 304,489 | 270,222 |
| Selling and distribution costs | | (223,579) | (203,186) |
| Administrative expenses | | (64,657) | (53,059) |
| Other income, gains and losses | | 4,457 | 5,403 |
| Increase in fair values of investment properties | | 1,750 | 2,710 |
| Finance costs | | (328) | (951) |
| Profit before taxation | | 22,132 | 21,139 |
| Income tax (expense) credit | 4 | (1,509) | 566 |
| Profit for the period | 5 | 20,623 | 21,705 |
| Other comprehensive income (expense) | | | |
| Exchange differences arising on translation of foreign operations | | 742 | (1,852) |
| Total comprehensive income for the period | | 21,365 | 19,853 |
| Dividends | 6 | 23,812 | 11,088 |
| Earnings per share | 7 | | |
| Basic | | HK0.953 cent | HK1.170 cents |
| Diluted | | HK0.948 cent | HK1.164 cents |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th September, 2011

| | | 30th September, 2011 (Unaudited) HK\$'000 | 31st March, 2011 (Audited) HK\$'000 |
|----------------------------------|-------|--|--|
| | Notes | | |
| Non-current Assets | | | |
| Investment properties | | 23,260 | 21,510 |
| Property, plant and equipment | | 136,809 | 127,207 |
| Prepaid lease payments | | 14,601 | 14,468 |
| Rental deposits paid | | 45,958 | 43,815 |
| Deferred tax assets | | 5,759 | 7,189 |
| | | <u>226,387</u> | <u>214,189</u> |
| Current Assets | | | |
| Inventories | | 292,951 | 227,817 |
| Trade and other receivables | 8 | 56,093 | 51,897 |
| Prepaid lease payments | | 440 | 430 |
| Rental and utility deposits paid | | 33,632 | 32,267 |
| Pledged bank deposit | | 1,220 | 1,191 |
| Bank balances, deposits and cash | | 104,214 | 117,890 |
| | | <u>488,550</u> | <u>431,492</u> |
| Current Liabilities | | | |
| Trade and other payables | 9 | 87,450 | 58,805 |
| Rental deposits received | | 13 | 11 |
| Secured bank overdrafts | | – | 331 |
| Secured bank borrowings | | | |
| – due within one year | | 32,230 | 9,253 |
| Obligation under a finance lease | | | |
| – due within one year | 10 | 284 | 273 |
| Tax payable | | 2,962 | 3,607 |
| | | <u>122,939</u> | <u>72,280</u> |
| Net Current Assets | | | |
| | | <u>365,611</u> | <u>359,212</u> |
| | | <u><u>591,998</u></u> | <u><u>573,401</u></u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

At 30th September, 2011

| | | 30th September, 2011 (Unaudited) <i>HK\$'000</i> | 31st March, 2011 (Audited) <i>HK\$'000</i> |
|----------------------------------|--------------|---|---|
| | <i>Notes</i> | | |
| Capital and Reserves | | | |
| Share capital | 11 | 21,648 | 21,647 |
| Reserves | | 560,477 | 538,889 |
| | | 582,125 | 560,536 |
| Non-current Liabilities | | | |
| Secured bank borrowings | | | |
| – due after one year | | 5,699 | 7,804 |
| Obligation under a finance lease | | | |
| – due after one year | 10 | 256 | 401 |
| Deferred tax liabilities | | 3,918 | 4,660 |
| | | 9,873 | 12,865 |
| | | 591,998 | 573,401 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th September, 2011

| | Six months ended 30th September, 2011 (Unaudited) HK\$'000 | 2010 (Unaudited) HK\$'000 |
|--|---|---------------------------------|
| Net cash used in operating activities | (9,434) | (19,987) |
| Net cash (used in) from investing activities | (24,442) | 13,063 |
| Net cash from financing activities | 20,429 | 33,381 |
| Net (decrease) increase in cash and cash equivalents | (13,447) | 26,457 |
| Cash and cash equivalents at 1st April | 117,559 | 31,523 |
| Effect of foreign exchange rate changes | 102 | 160 |
| Cash and cash equivalents at 30th September | <u>104,214</u> | <u>58,140</u> |
| Representing by: | | |
| Bank balances, deposits and cash | <u>104,214</u> | <u>58,140</u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2011

| | (Unaudited) | | | | | | | |
|--|-------------------------------------|-------------------------------------|---|---------------------------------------|--|--|--|--------------------------|
| | Share Capital <i>HK\$'000</i> | Share Premium <i>HK\$'000</i> | Translation Reserve <i>HK\$'000</i> | Special Reserve <i>HK\$'000</i> | Statutory Reserves (Note) <i>HK\$'000</i> | Share Options Reserve <i>HK\$'000</i> | Retained Profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
| At 1st April, 2011 | 21,647 | 152,468 | (2,288) | 2,266 | 4,960 | 1,815 | 379,668 | 560,536 |
| Total comprehensive income for the period | - | - | 742 | - | - | - | 20,623 | 21,365 |
| Issue of shares on exercise of share options | 1 | 18 | - | - | - | - | - | 19 |
| Recognition of equity-settled share based payments | - | - | - | - | - | 205 | - | 205 |
| Transfer | - | 12 | - | - | - | (12) | - | - |
| At 30th September, 2011 | <u>21,648</u> | <u>152,498</u> | <u>(1,546)</u> | <u>2,266</u> | <u>4,960</u> | <u>2,008</u> | <u>400,291</u> | <u>582,125</u> |
| At 1st April, 2010 | 18,449 | 46,223 | 940 | 2,266 | 5,441 | 3,127 | 327,295 | 403,741 |
| Total comprehensive income for the period | - | - | (1,852) | - | - | - | 21,705 | 19,853 |
| Issue of new shares on share placement | 1,500 | 38,700 | - | - | - | - | - | 40,200 |
| Transaction costs attributable to issue of new shares | - | (949) | - | - | - | - | - | (949) |
| Issue of shares on exercise of share options | 138 | 2,605 | - | - | - | - | - | 2,743 |
| Recognition of equity-settled share based payments | - | - | - | - | - | 327 | - | 327 |
| Transfer | - | 1,624 | - | - | - | (1,624) | - | - |
| At 30th September, 2010 | <u>20,087</u> | <u>88,203</u> | <u>(912)</u> | <u>2,266</u> | <u>5,441</u> | <u>1,830</u> | <u>349,000</u> | <u>465,915</u> |

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

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

NOTES TO CONDENSED INTERIM ACCOUNTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30th September, 2011 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 disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) (“Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st March, 2011 except as described below.

- a) In the current period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA:

| | |
|------------------------------|---|
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2010 |
| HKAS 24 (as revised in 2009) | Related Party Disclosures |
| HK(IFRIC)-Int14 (Amendments) | Prepayments of a Minimum Funding Requirement |
| HK(IFRIC)-Int19 | Extinguishing Financial Liabilities with Equity Instruments |

The application of these new and revised HKFRSs had no material effect on the amounts reported in the condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

b) The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

| | |
|------------------------------|---|
| HKFRS 1 (Amendments) | Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ¹ |
| HKFRS 7 (Amendments) | Disclosures – Transfers of Financial Assets ¹ |
| HKFRS 9 | Financial Instruments ² |
| HKFRS 10 | Consolidated Financial Statements ² |
| HKFRS 11 | Joint Arrangements ² |
| HKFRS 12 | Disclosures of Interests in Other Entities ² |
| HKFRS 13 | Fair Value Measurements ² |
| HKAS 1 (Amendments) | Presentation of Items of Other Comprehensive Income ³ |
| HKAS 12 (Amendments) | Deferred Tax: Recovery of Underlying Assets ⁴ |
| HKAS 19 (as revised in 2011) | Employee Benefits ² |
| HKAS 27 (as revised in 2011) | Separate Financial Statements ² |
| HKAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures ² |
| HK(IFRIC)-Int 20 | Stripping Costs in the Production Phase of a Surface Mine ² |

¹ Effective for annual periods beginning on or after 1st July, 2011.

² Effective for annual periods beginning on or after 1st January, 2013.

³ Effective for annual periods beginning on or after 1st July, 2012.

⁴ Effective for annual periods beginning on or after 1st January, 2012.

3. SEGMENT INFORMATION

Operating Segments

Information reported to the directors of the Company, being the chief operating decision maker, for the purposes of resources allocation and assessment of segment performance focuses on types of goods delivered.

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

- Fashion – Manufacture and sales of ladies fashion
- Cosmetics – Sales of cosmetics

SEGMENT REVENUE AND RESULTS

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

| | Unaudited six months ended 30th September, 2011 | | | | |
|---|--|------------------|----------------------|---------------------|---------------------|
| | Fashion | Cosmetics | Segment Total | Eliminations | Consolidated |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| TURNOVER | | | | | |
| Sales of goods | 268,412 | 296,102 | 564,514 | – | 564,514 |
| Inter-segment sales | 54 | – | 54 | (54) | – |
| | <u>268,466</u> | <u>296,102</u> | <u>564,568</u> | <u>(54)</u> | <u>564,514</u> |
| Inter-segment sales are charged at prevailing market rates. | | | | | |
| SEGMENT RESULTS | <u>8,113</u> | <u>14,065</u> | <u>22,178</u> | – | 22,178 |
| Increase in fair values of investment properties | | | | | 1,750 |
| Other income | | | | | 506 |
| Central administration costs | | | | | (1,974) |
| Finance costs | | | | | <u>(328)</u> |
| Profit before taxation | | | | | 22,132 |
| Income tax expense | | | | | <u>(1,509)</u> |
| Profit for the period | | | | | <u>20,623</u> |

3. SEGMENT INFORMATION (Continued) Operating Segments (Continued)

| | Unaudited six months ended 30th September, 2010 | | | | |
|---------------------|---|-----------------------|---------------------------|--------------------------|--------------------------|
| | Fashion HK\$'000 | Cosmetics HK\$'000 | Segment Total HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 |
| TURNOVER | | | | | |
| Sales of goods | 265,010 | 204,324 | 469,334 | – | 469,334 |
| Inter-segment sales | 113 | 9 | 122 | (122) | – |
| | <u>265,123</u> | <u>204,333</u> | <u>469,456</u> | <u>(122)</u> | <u>469,334</u> |

Inter-segment sales are charged at prevailing market rates.

| | | | | | |
|---|--------------|---------------|---------------|---|---------------|
| SEGMENT RESULTS | <u>9,925</u> | <u>10,362</u> | <u>20,287</u> | – | 20,287 |
| Increase in fair values of investment properties | | | | | 2,710 |
| Other income | | | | | 1,604 |
| Central administration costs | | | | | (2,511) |
| Finance costs | | | | | (951) |
| Profit before taxation | | | | | 21,139 |
| Income tax credit | | | | | 566 |
| Profit for the period | | | | | <u>21,705</u> |

OTHER SEGMENT INFORMATION

Amounts included in the measurement of segment results:

| | Unaudited six months ended 30th September, 2011 | | | | |
|--|---|-----------------------|---------------------------|-----------------------|--------------------------|
| | Fashion HK\$'000 | Cosmetics HK\$'000 | Segment Total HK\$'000 | Corporate HK\$'000 | Consolidated HK\$'000 |
| Capital expenditure | 13,495 | 11,251 | 24,746 | – | 24,746 |
| Depreciation of property, plant and equipment | <u>11,712</u> | <u>3,974</u> | <u>15,686</u> | <u>721</u> | <u>16,407</u> |

3. **SEGMENT INFORMATION** (Continued)
Operating Segments (Continued)
OTHER SEGMENT INFORMATION (Continued)

| | Unaudited six months ended 30th September, 2010 | | | | |
|--|---|-----------------------|---------------------------|-----------------------|--------------------------|
| | Fashion HK\$'000 | Cosmetics HK\$'000 | Segment Total HK\$'000 | Corporate HK\$'000 | Consolidated HK\$'000 |
| Capital expenditure | 6,430 | 3,017 | 9,447 | – | 9,447 |
| Depreciation of property, plant and equipment | <u>11,465</u> | <u>2,932</u> | <u>14,397</u> | <u>354</u> | <u>14,751</u> |

4. **INCOME TAX EXPENSE (CREDIT)**

| Six months ended 30th September, 2011 | |
|--|---------------------|
| (Unaudited) | 2010 (Unaudited) |
| HK\$'000 | HK\$'000 |

The expense (credit) comprises:

| | | |
|-----------------------|---------------------|--------------|
| Profits tax | | |
| Hong Kong Profits Tax | 343 | 566 |
| Other jurisdictions | (190) | (2,140) |
| Deferred tax | <u>1,356</u> | <u>1,008</u> |
| | <u>1,509</u> | <u>(566)</u> |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both periods. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

5. PROFIT FOR THE PERIOD

Six months ended
30th September,
2011 2010
(Unaudited) (Unaudited)
HK\$'000 *HK\$'000*

Profit for the period has been arrived at after charging:

| | | |
|---|-------------------|-------------------|
| Amortisation of prepaid lease payments | 218 | 205 |
| Depreciation of property, plant and equipment | 16,407 | 14,751 |
| Loss on disposal of property, plant and equipment | 437 | 303 |
| | <u> </u> | <u> </u> |

and after crediting:

| | | |
|---|-------------------|-------------------|
| Gain on disposal of investment properties | – | 1,002 |
| Rental income | 42 | 895 |
| Interest income | 289 | 18 |
| | <u> </u> | <u> </u> |

6. DIVIDENDS

Six months ended
30th September,
2011 2010
(Unaudited) (Unaudited)
HK\$'000 *HK\$'000*

Dividends recognised as distribution during the period:

| | | |
|--|-------------------|-------------------|
| 2011 final dividend of HK1.1 cents (2010: HK0.6 cent) per share | 23,812 | 11,088 |
| | <u> </u> | <u> </u> |

The 2011 final dividend of HK\$1.1 cents per share in cash has been approved in the annual general meeting held on 6th September, 2011. HK\$23,812,000 cash dividend has been paid on 4th October, 2011.

7. **EARNINGS PER SHARE**

| | Six months ended 30th September, | |
|--|-------------------------------------|----------------|
| | 2011 | 2010 |
| | (Unaudited) | (Unaudited) |
| Earnings: | | |
| Profit for the period and earnings for the purpose of basic and diluted earnings per share | HK\$20,623,000 | HK\$21,705,000 |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 2,164,739,128 | 1,855,007,855 |
| Effect of dilutive potential ordinary shares in respect of share options | 9,592,022 | 9,924,191 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 2,174,331,150 | 1,864,932,046 |

8. **TRADE AND OTHER RECEIVABLES**

At 30th September, 2011, included in the Group's trade and other receivables were trade receivables of HK\$38,150,000 (31st March, 2011: HK\$41,569,000). 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. The following is an aged analysis of trade receivables:

| | 30th September, 2011 (Unaudited) HK\$'000 | 31st March, 2011 (Audited) HK\$'000 |
|----------------|--|--|
| Within 30 days | 22,110 | 23,085 |
| 31 – 60 days | 3,346 | 7,605 |
| 61 – 90 days | 1,669 | 2,442 |
| Over 90 days | 11,025 | 8,437 |
| | 38,150 | 41,569 |

9. TRADE AND OTHER PAYABLES

At 30th September, 2011, included in the Group's trade and other payables were trade payables of HK\$43,497,000 (31st March, 2011: HK\$17,726,000). Details of the aged analysis of the trade payables are as follows:

| | 30th September, 2011 (Unaudited) HK\$'000 | 31st March, 2011 (Audited) HK\$'000 |
|----------------|--|--|
| Within 30 days | 18,761 | 12,910 |
| 31 – 60 days | 13,322 | 2,349 |
| 61 – 90 days | 6,229 | 1,879 |
| Over 90 days | 5,185 | 588 |
| | <u>43,497</u> | <u>17,726</u> |

10. OBLIGATION UNDER A FINANCE LEASE

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|--|--|--|--|
| | 30th September, 2011 (Unaudited) HK\$'000 | 31st March, 2011 (Audited) HK\$'000 | 30th September, 2011 (Unaudited) HK\$'000 | 31st March, 2011 (Audited) HK\$'000 |
| Amounts payable under a finance lease: | | | | |
| Within one year | 318 | 318 | 284 | 273 |
| In more than one year but not more than two years | 266 | 318 | 256 | 296 |
| In more than two years but not more than five years | – | 108 | – | 105 |
| | <u>584</u> | <u>744</u> | <u>540</u> | <u>674</u> |
| Less: future finance charges | (44) | (70) | – | – |
| Present value of lease obligation | <u>540</u> | <u>674</u> | <u>540</u> | <u>674</u> |
| Less: Amount due for settlement within one year (shown under current liabilities) | | | <u>(284)</u> | <u>(273)</u> |
| Amount due for settlement after one year | | | <u>256</u> | <u>401</u> |

The Group leased a motor vehicle under a finance lease. The lease term is 5 years. Interest rate underlying the obligation under a finance lease is fixed at contract date. The effective interest rate is 8.29% (2010: 8.29%) per annum.

11. SHARE CAPITAL

| | Number of ordinary shares | Value HK\$'000 |
|---|--------------------------------------|---------------------------|
| Ordinary shares of HK\$0.01 each | | |
| Authorised: | | |
| At 1st April, 2011 and 30th September, 2011 | <u>10,000,000,000</u> | <u>100,000</u> |
| Issued and fully paid: | | |
| At 1st April 2010 | 1,844,886,976 | 18,449 |
| Exercise of share options (<i>Note i</i>) | 16,200,000 | 162 |
| Issue of new shares in lieu of cash dividends (<i>Note ii</i>) | 53,570,185 | 536 |
| Issue of new shares on share placements (<i>Note iii</i>) | 250,000,000 | 2,500 |
| At 31st March, 2011 | 2,164,657,161 | 21,647 |
| Exercise of share options (<i>Note i</i>) | 100,000 | 1 |
| At 30th September, 2011 | 2,164,757,161 | 21,648 |

Notes:

- (i) During the period ended 30th September, 2011, 100,000 share options were exercised at HK\$0.186 per share, resulting in issue of a total of 100,000 ordinary shares of HK\$0.01 each in the Company.

During the year ended 31st March, 2011, 2,000,000, 2,000,000, 11,500,000 and 700,000 share options were exercised at HK\$0.255, HK\$0.2052, HK\$0.186 and HK\$0.1562 per share respectively, resulting in issue of a total of 16,200,000 ordinary shares of HK\$0.01 each in the Company.

- (ii) On 20th October, 2010 and 9th February, 2011, the Company issued and allotted a total of 32,018,262 and 21,551,923 ordinary shares of HK\$0.01 each at HK\$0.390 and HK\$0.395 per share, in lieu of cash for the 2010 final and 2011 interim dividend, respectively.
- (iii) On 20th September, 2010 and 24th December, 2010, arrangements were made for two private placements to independent private investors of 150,000,000 and 100,000,000 shares of HK\$0.01 each in the Company held by the chief executive officer and an executive director of the Company, Ms. Lam Yuk Sum, at prices of HK\$0.268 and HK\$0.450 per share, respectively.

11. SHARE CAPITAL (Continued)

Notes: (Continued)

Pursuant to the placing and subscription agreements of the same date, Ms. Lam Yuk Sum subscribed for 150,000,000 and 100,000,000 new shares of HK\$0.01 each in the Company at prices of HK\$0.268 and HK\$0.450 per share, respectively. The proceeds were used for expansion of the cosmetics retail business in Hong Kong and Macau and opening counters at department stores for the fashion retail business in China. These new shares were issued under the general mandate granted to the directors at the annual general meetings of the Company held on 8th September, 2009 and 9th September, 2010 respectively.

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, 2011 (Unaudited) HK\$'000 | 31st March, 2011 (Audited) HK\$'000 |
|---------------------------------------|--|--|
| Within one year | 221,451 | 211,852 |
| In the second to fifth year inclusive | 217,729 | 213,005 |
| Over five years | – | 56 |
| | <u>439,180</u> | <u>424,913</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 outlets.

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, 2011 (Unaudited) HK\$'000 | 31st March, 2011 (Audited) HK\$'000 |
|-----------------|--|--|
| Within one year | <u>60</u> | <u>41</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, 2011 (Unaudited) HK\$'000 | 31st March, 2011 (Audited) HK\$'000 |
|------------------------------|--|--|
| Investment properties | 23,260 | 21,510 |
| Leasehold land and buildings | 25,023 | 25,700 |
| Pledged bank deposit | 1,220 | 1,191 |
| | 49,503 | 48,401 |
| | 49,503 | 48,401 |

INTERIM DIVIDEND

At the Board Meeting held on 29th November, 2011, the Board has resolved to declare the payment of an interim dividend of HK0.60 cent (2011: HK0.60 cent) per share of HK\$0.01 each in cash, with an option for the shareholders to receive such interim dividend wholly or partly by allotment of new shares credited as fully paid in lieu of cash (the "Scrip Dividend Scheme") in respect of the financial year ending 31st March, 2012. The interim dividend will be payable on or about Thursday, 9th February, 2012, to the shareholders whose names appeared on the register of members of the Company on Friday, 23rd December, 2011.

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, 2012, the register of members of the Company will be closed from Wednesday, 21st December, 2011 to Friday, 23rd December, 2011 (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, 2012 will be Friday, 16th December, 2011. Shareholders are reminded that in order to qualify for the interim dividend for the year ending 31st March, 2012, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrars in Hong Kong, Tricor Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 20th December, 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30th September, 2011, the Group recorded a turnover of HK\$564,514,000 (2010: HK\$469,334,000), representing an increase of 20.3% as compared with the corresponding period last year. Included in the amount of turnover was HK\$296,102,000 (2010: HK\$204,324,000) generated by the cosmetics business, representing a significant increase of 44.9% over the same period last year and accounting for 52.5% of the Group's total turnover. Turnover of the fashion business reached HK\$268,412,000 (2010: HK\$265,010,000), representing an increase of 1.3% as compared with the same period in the preceding year. The gross profit margin of the Group as a whole decreased by 3.7 percentage points from 57.6% of the same period last year to 53.9%, which was mainly due to increase of cosmetics business sales with relatively lower gross profit margin. The overall operating profit for the period was HK\$20,623,000 (2010: HK\$21,705,000), representing a decrease of 5.0% as compared to the same period last year. One of the reasons was the increase in fair value of investment properties of HK\$1,750,000 for the period, representing a decrease of HK\$960,000 as compared to the increase in fair value of investment properties of HK\$2,710,000 in the same period last year. In addition, there was a gain of HK\$1,002,000 on disposal of investment properties in the same period last year but no such gain was recorded in this period, which resulted in a decrease in overall operating profit as compared to the same period last year. During the period, cosmetics business remained the growth driver of the Group's results and recorded a segment profit of HK\$14,065,000, representing an increase of 35.7% over that of the same period last year, which was HK\$10,362,000. In overall, there was a significant increase in contribution of cosmetics business to the Group, whereas the fashion business recorded a segment profit of HK\$8,113,000, representing a decrease of 18.3% as compared to that of HK\$9,925,000 for the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Fashion Business

As of 30th September, 2011, the Group had altogether 231 outlets in Hong Kong, Macau, Taiwan, Singapore and Mainland China (30th September, 2010: 246 outlets). Despite the fact that the number of outlets has decreased by 15 as compared to the same period last year, the turnover of the fashion business amounted to HK\$268,412,000 (2010: HK\$265,010,000) for the period, representing an increase of 1.3% over the same period last year, and accounting for 47.5% of the Group's total turnover. The reason for the decrease in number of outlets compared to last year was that the Group has restructured its retail network in Taiwan and China markets during the period by closing down some underperforming outlets so as to enhance operation efficiency. During the period, the gross profit margin of the fashion business remained at 70.3%, which was similar to that for the same period last year. The fashion business recorded a segment profit of HK\$8,113,000 representing a decrease of 18.3% as compared to HK\$9,925,000 for the same period last year. The decrease in profit was mainly due to soaring costs and expenses, which referred especially to the raise of minimum wages and the imposition of levies such as the urban maintenance and construction tax and the educational surcharges on foreign enterprises in Mainland China since the beginning of this year, which resulted in the increase in operating costs of the Group's production and retail business in Mainland China, and thus led to the drop in profit of the fashion business for the period.

Fashion Business – Hong Kong and Macau Market

The fashion retail business in Hong Kong and Macau accounted for 59.1% of the total turnover of fashion business of the Group. For the six months ended 30th September, 2011, turnover from the Hong Kong and Macau market amounted to HK\$158,564,000 (2010: HK\$150,200,000), representing a 5.6% increase over the same period last year, and the turnover of comparable outlets also recorded an increase of 8.1%. As of 30th September, 2011, the Group had altogether 72 outlets in Hong Kong and Macau (30th September, 2010: 72 outlets).

Fashion Business – Taiwan Market

Turnover of the retail business in Taiwan for the first half of the financial year was HK\$41,249,000 (2010: HK\$44,907,000), representing a decrease of 8.1% over the same period last year. As of 30th September, 2011, the Group had 44 outlets in Taiwan (30th September, 2010: 52 outlets).

Fashion Business – Singapore Market

During the first half of the financial year, turnover of the retail business in Singapore increased 6.6% over the same period last year to HK\$28,955,000 (2010: HK\$27,165,000). As of 30th September, 2011, the Group had 15 outlets in Singapore (30th September, 2010: 16 outlets).

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Fashion Business – China Market

During the period under review, turnover of the China market amounted to HK\$39,644,000 (2010: HK\$42,738,000), representing a decrease of 7.2% over the same period last year. The decrease in turnover is mainly due to the closing of some local outlets that borne fixed rentals but brought unsatisfactory benefits. The China market accounted for 14.8% of the total turnover of fashion business of the Group. As of 30th September, 2011, the number of **Veeko** and **Wanko** outlets in China was 100 (30th September, 2010: 106 outlets).

Cosmetics Business

As of 30th September, 2011, the Group had established 53 **Colourmix** outlets (30th September, 2010: 40 outlets), of which 48 outlets were situated in Hong Kong and 5 outlets were situated in Macau. For the period under review, cosmetics retail business of the Group recorded a turnover of HK\$296,102,000 (2010: 204,324,000), representing a significant increase of 44.9%, and accounted for 52.5% of the total turnover of the Group. The turnover of comparable outlets also increased by 18.2% over the same period last year. The gross profit margin of cosmetics business for the period was 39.2%, representing a decrease of 1.9 percentage points as compared to 41.1% of the same period last year. The cosmetics business recorded a segment profit of HK\$14,065,000 during the period, which represented a significant increase of 35.7% when compared with that of HK\$10,362,000 for the same period last year, and the cosmetics business remained the growth driver of the Group's results.

PROSPECTS

Fashion Business

In respect of the fashion business, the soaring prices of raw materials and salaries of the production workforce have added pressure on the Group's production costs in China. However, the Group has continued to intensify its investment in advanced production machinery equipment, enhance overall production effectiveness, strengthen product design, and provide more popular products with higher profit margin, such that the gross profit margin of the fashion business for the period remained at 70.3%, which was similar to that of the same period last year. Regarding the development of outlet network, confronting the lingering uncertainty in the global economy, the Group will expand its business in a more prudent manner. It will maintain the existing number of outlets in Hong Kong and Macau, and will focus on enhancing the sales of comparable outlets and growth in gross profit margin. As to the overseas markets, the Group will, through prudent evaluation, close down underperforming outlets and identify prime locations with competitive rents for opening of new outlets. It will also reinforce inventory management and cost control to enhance operational effectiveness.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Cosmetics Business

Cosmetics business continued to be the main growth driver for the Group, as it has been contributing to the Group's profit continuously since the financial year 2007/2008, and the segment profit for the period even surged drastically by 35.7% to HK\$14,065,000 over the same period last year. The overall turnover has increased 44.9% year-over-year, and same-store sales also recorded an increase of 18.2%. Average sales amount per transaction was up 12% year-over-year, while the number of transactions also increased 29.2%. For the period, gross profit margin of cosmetics business was 39.2%, representing a decrease of 1.9 percentage points from 41.1% of same period last year, which was mainly due to opening of outlets in influential tourist attractions, since which **Colourmix** has enhanced its position and image gradually in the market and become well known among tourists from Mainland China and hence increased its popularity. However, the gross profit margin of those outlets in the tourist attractions would be lower in the starting period of their businesses, and the gross profit margin of such will rise after the tourists becoming familiar to the products with exclusive distributorship. During the period, the number of outlets had increased to 53 from 40 as of 30th September, 2010, and of such 13 newly opened outlets, approximately 8 outlets are situated in tourist attractions. During the six-month period under review, the **Colourmix** outlet network had added 8 outlets, comparing to a net increase of 3 outlets over the same period last year, the Group needs to deploy experienced staff to support the newly opened outlets, and made special adjustments in inventory planning to cope with such rapid increase. It is confident that the cosmetics business will achieve improvement after such consolidation stage becomes stabilized. Currently, sales of exclusively distributed branded products accounted for about 42% of total sales of the cosmetics business. In the future, the Group will keep on enriching the product portfolio, increasing the variety of cosmetics products with exclusive distributorship and trendy cosmetics products, and training employees to provide quality and professional services. The management is confident about the future development of the cosmetics business and will expand outlet network according to existing pace. Apart from Hong Kong and Macau, the Group is also considering the feasibility of developing cosmetics business in China.

LIQUIDITY & FINANCIAL RESOURCES

The Group's working capital increased from HK\$359,212,000 as at 31st March, 2011 to HK\$365,611,000 for the period end.

At the end of the reporting period, the Group's cash and bank balances (mainly in Hong Kong Dollars and Renminbi), amounted to HK\$105,434,000 (31st March, 2011: HK\$119,081,000). The outstanding bank borrowings (mainly in Hong Kong Dollars) amounted to HK\$37,929,000 (31st March, 2011: HK\$17,388,000 including bank overdrafts) whereas the total borrowings was HK\$38,469,000 (31st March, 2011: HK\$18,062,000). The increase in the total borrowings was mainly attributable to the expansion of cosmetics retail network in Hong Kong and Macau. During the period, the increase in number of cosmetics outlets is 8 which led to increase in rental deposits and stock purchases for these newly opened outlets. The capital expenditure for the period was HK\$24,746,000 (2010: HK\$9,447,000). The increase in the capital expenditure was mainly attributable to the increased investment in advanced production machinery equipment in plant facilities of fashion business in Mainland China. Besides, the Group has launched new design image for **Veeko** outlets in fashion business, some of the **Veeko** outlets were renovated with new image during the period. In addition, the Group has incurred capital expenditure for decoration of newly opened cosmetics outlets for the period.

At the end of the reporting period, the current ratio was 3.97 times (31st March, 2011: 5.97 times) and the gearing ratio of the Group was 0.07 (31st March, 2011: 0.03) which was calculated based on the Group's total borrowings of HK\$38,469,000 (31st March, 2011: HK\$18,062,000) and the total equity of HK\$582,125,000 (31st March, 2011: HK\$560,536,000).

As at 30th September, 2011, the Group had banking facilities amounting to HK\$149,445,000 (31st March, 2011: HK\$164,318,000), of which HK\$60,026,000 (31st March, 2011: HK\$37,123,000) 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 purchases of several subsidiaries of the Company are denominated and settled in foreign currencies (mainly in Euro and United States Dollar), 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\$49,503,000 (31st March, 2011: HK\$48,401,000).

CONTINGENT LIABILITIES

At 30th September, 2011, the Company had provided guarantees of HK\$153,995,000 (31st March, 2011: HK\$171,189,000) to certain banks in respect of banking facilities granted to certain subsidiaries of the Company of which HK\$60,026,000 (31st March, 2011: HK\$36,909,000) was utilised by the subsidiaries.

STAFF AND REMUNERATION POLICIES

At the end of the reporting period, the Group had 3,198 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, 2011:

| Date of grant | Vesting period | Exercisable period | Exercise price per share | Balance at 1.4.2011 | Exercised during the period | Outstanding at 30.9.2011 |
|-------------------|--|--|--------------------------|---------------------|-----------------------------|--------------------------|
| 16th August, 2006 | 16th August, 2006 to 15th August, 2010 | 16th August, 2010 to 15th August, 2012 | HK\$0.2052 | 400,000 | - | 400,000 |
| 4th June, 2007 | 4th June, 2007 to 3rd June, 2010 | 4th June, 2010 to 3rd June, 2012 | HK\$0.1860 | 2,400,000 | (100,000) | 2,300,000 |
| 4th June, 2007 | 4th June, 2007 to 3rd June, 2012 | 4th June, 2012 to 3rd June, 2014 | HK\$0.1860 | 13,900,000 | - | 13,900,000 |
| 18th June, 2008 | 18th June, 2008 to 17th June, 2011 | 18th June, 2011 to 17th June, 2013 | HK\$0.2500 | 500,000 | - | 500,000 |
| 18th June, 2008 | 18th June, 2008 to 17th June, 2013 | 18th June, 2013 to 17th June, 2015 | HK\$0.2500 | 500,000 | - | 500,000 |
| 6th January, 2010 | 6th January, 2010 to 5th January, 2012 | 6th January, 2012 to 5th January, 2015 | HK\$0.1562 | 700,000 | - | 700,000 |
| 6th January, 2010 | 6th January, 2010 to 5th January, 2013 | 6th January, 2013 to 5th January, 2016 | HK\$0.1562 | 800,000 | - | 800,000 |
| 6th January, 2010 | 6th January, 2010 to 5th January, 2014 | 6th January, 2014 to 5th January, 2017 | HK\$0.1562 | 800,000 | - | 800,000 |
| | | | | 20,000,000 | (100,000) | 19,900,000 |

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\$0.415 (2010: HK\$0.409). During the period, total consideration received from employees for taking up the options amounted to HK\$3 (2010: HK\$73).

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th September, 2011, 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 | Founder | 1,172,819,535 <i>(Note)</i> | 54.18% |
| | Beneficial owner | <u>101,260,000</u> | <u>4.68%</u> |
| | | <u><u>1,274,079,535</u></u> | <u><u>58.86%</u></u> |
| Ms. Lam Yuk Sum | Beneficiary of Trust | 1,172,819,535 <i>(Note)</i> | 54.18% |
| | Beneficial owner | <u>205,958,839</u> | <u>9.51%</u> |
| | | <u><u>1,378,778,374</u></u> | <u><u>63.69%</u></u> |

Note: These 1,172,819,535 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' 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 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, 2011, 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, 2011, 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 | 1,172,819,535 | 54.18% |
| Well Feel Group Limited | Interest of a controlled corporation <i>(Note)</i> | 1,172,819,535 | 54.18% |
| HSBC International Trustee Limited | Trustee <i>(Note)</i> | 1,172,819,535 | 54.18% |

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.

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, 2011.

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, 2011, 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, 2011 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, 29th November, 2011