



# Veeko® 威高國際控股有限公司

VEEKO INTERNATIONAL HOLDINGS LIMITED  
(股份代號 Stock Code : 1173)

## 08/09 中期報告書

## INTERIM REPORT



## **CORPORATE INFORMATION**

### **DIRECTORS**

#### *Executive*

CHENG Chung Man, Johnny

*(Chairman)*

LAM Yuk Sum *(Chief Executive Officer)*

#### *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, 2008. The results, together with the comparative figures for the corresponding period in 2007, are summarised below:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

*For the six months ended 30th September, 2008*

		<b>Six months ended</b>	
		<b>30th September,</b>	
		<b>2008</b>	2007
		<b>(Unaudited)</b>	(Unaudited)
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Turnover	3	<b>369,895</b>	322,721
Cost of goods sold		<b>(139,104)</b>	(107,523)
Gross profit		<b>230,791</b>	215,198
Selling and distribution costs		<b>(159,151)</b>	(139,769)
Administrative expenses		<b>(60,063)</b>	(54,684)
Other income		<b>2,175</b>	4,523
(Decrease) increase in fair values of investment properties		<b>(1,495)</b>	3,740
Finance costs		<b>(1,554)</b>	(1,264)
Profit before taxation		<b>10,703</b>	27,744
Taxation	4	<b>1,099</b>	(2,782)
Profit for the period	5	<b>11,802</b>	24,962
Dividend paid	6	–	–
Earnings per share	7		
Basic		<b>HK0.67 cent</b>	HK1.50 cents
Diluted		<b>HK0.66 cent</b>	HK1.48 cents

# VEEKO INTERNATIONAL HOLDINGS LIMITED

## CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September, 2008

	Notes	30th September, 2008 (Unaudited) HK\$'000	31st March, 2008 (Audited) HK\$'000
<b>Non-current Assets</b>			
Investment properties		58,600	60,000
Property, plant and equipment		125,868	92,164
Deposits paid for acquisition of property, plant and equipment		–	486
Prepaid lease payments		15,857	9,393
Rental deposits		32,814	25,186
Deferred tax assets		7,904	7,580
		<b>241,043</b>	<b>194,809</b>
<b>Current Assets</b>			
Inventories		234,401	194,566
Trade and other receivables	8	43,951	49,249
Prepaid lease payments		375	254
Rental and utility deposits		20,124	23,726
Tax recoverable		1,216	1,433
Pledged bank deposits		1,000	1,000
Bank balances and cash		18,428	25,855
		<b>319,495</b>	<b>296,083</b>
<b>Current Liabilities</b>			
Trade and other payables	9	61,451	43,113
Secured bank borrowings			
– due within one year		61,140	44,900
Secured bank overdrafts		19,748	1,033
Obligation under finance lease			
– due within one year		222	–
Tax payable		6,350	8,355
		<b>148,911</b>	<b>97,401</b>
<b>Net Current Assets</b>			
		<b>170,584</b>	<b>198,682</b>
		<b>411,627</b>	<b>393,491</b>
<b>Capital and Reserves</b>			
Share capital	10	17,732	17,677
Reserves		372,631	354,728
		<b>390,363</b>	<b>372,405</b>
<b>Non-current Liabilities</b>			
Secured bank borrowings			
– due after one year		12,480	13,515
Obligation under finance lease			
– due after one year		1,043	–
Deferred tax liabilities		7,741	7,571
		<b>21,264</b>	<b>21,086</b>
		<b>411,627</b>	<b>393,491</b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

*For the six months ended 30th September, 2008*

	<b>Six months ended</b>	
	<b>30th September,</b>	
	<b>2008</b>	2007
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Net cash from (used in) operating activities	<b>2,013</b>	(37,743)
Net cash used in investing activities	<b>(45,673)</b>	(23,619)
Net cash from financing activities	<b>17,361</b>	43,653
Net decrease in cash and cash equivalents	<b>(26,299)</b>	(17,709)
Cash and cash equivalents at 1st April	<b>24,822</b>	25,023
Effect of foreign exchange rates changes	<b>157</b>	213
Cash and cash equivalents at 30th September	<b>(1,320)</b>	7,527
Representing by:		
Bank balances and cash	<b>18,428</b>	21,267
Bank overdrafts	<b>(19,748)</b>	(13,740)
	<b>(1,320)</b>	7,527

# VEEKO INTERNATIONAL HOLDINGS LIMITED

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2008

	(Unaudited)								
	Share Capital HK\$'000	Share Premium HK\$'000	Property Revaluation Reserve HK\$'000	Translation Reserve HK\$'000	Special Reserve HK\$'000	Statutory Reserve (Note) HK\$'000	Share Option Reserve HK\$'000	Retained Profits HK\$'000	Total HK\$'000
At 1st April, 2008	17,677	36,842	6,047	(11,122)	2,266	3,409	2,745	314,541	372,405
Surplus on revaluation of buildings	-	-	1,862	-	-	-	-	-	1,862
Deferred tax liability arising on revaluation of buildings	-	-	(336)	-	-	-	-	-	(336)
Exchange differences on translation of foreign operations	-	-	-	3,493	-	-	-	-	3,493
Net income and expense recognised directly in equity	17,677	36,842	7,573	(7,629)	2,266	3,409	2,745	314,541	377,424
Profit for the period	-	-	-	-	-	-	-	11,802	11,802
Total recognised income and expense for the period	17,677	36,842	7,573	(7,629)	2,266	3,409	2,745	326,343	389,226
Recognition of equity-settled share based payments	-	-	-	-	-	-	246	-	246
Share issued upon exercise of share options	55	836	-	-	-	-	-	-	891
Transfer of reserve upon exercise of share options	-	440	-	-	-	-	(440)	-	-
Sub-total	55	1,276	-	-	-	-	(194)	-	1,137
At 30th September, 2008	<u>17,732</u>	<u>38,118</u>	<u>7,573</u>	<u>(7,629)</u>	<u>2,266</u>	<u>3,409</u>	<u>2,551</u>	<u>326,343</u>	<u>390,363</u>
At 1st April, 2007	16,627	10,165	2,470	(8,916)	2,266	-	2,513	273,651	298,776
Surplus on revaluation of buildings	-	-	530	-	-	-	-	-	530
Deferred tax liability arising on revaluation of buildings	-	-	(93)	-	-	-	-	-	(93)
Exchange differences on translation of foreign operations	-	-	-	(1,504)	-	-	-	-	(1,504)
Net income and expense recognised directly in equity	16,627	10,165	2,907	(10,420)	2,266	-	2,513	273,651	297,709
Profit for the period	-	-	-	-	-	-	-	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)	-	-
Transfers	-	-	-	-	-	49	-	(49)	-
Sub-total	110	2,838	-	-	-	49	(306)	(49)	2,642
At 30th September, 2007	<u>16,737</u>	<u>13,003</u>	<u>2,907</u>	<u>(10,420)</u>	<u>2,266</u>	<u>49</u>	<u>2,207</u>	<u>298,564</u>	<u>325,313</u>

Note: The statutory reserve of the Group represents non-distributable reserve set aside by subsidiaries 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, 2008 are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants, 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, 2008 except as described below.

The following new interpretations are mandatory for the first time for the financial year beginning 1st April, 2008, but are not expected to have any impact on the Group’s financial statements.

HK(IFRIC)-INT 12	Service Concession Arrangements <sup>1</sup>
HK(IFRIC)-INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2008.

The adoption of these new interpretations had no material effect on the results and 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 and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKAS 32 and 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKAS 39 and HKFRS 7 (Amendments)	Financial Instruments: Recognition and Measurement and Financial Instruments Disclosures <sup>2</sup>
HKFRS 2 (Amendment)	Share-based Payment Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combination <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Int 13	Customer Loyalty Programmes <sup>3</sup>
HK(IFRIC) – Int 15	Agreements for Construction of Real Estate <sup>1</sup>
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2009.

<sup>2</sup> Effective for annual periods beginning on or after 1st July, 2009.

<sup>3</sup> Effective for annual periods beginning on or after 1st July, 2008.

<sup>4</sup> Effective for annual periods beginning on or after 1st October, 2008.

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

# VEEKO INTERNATIONAL HOLDINGS LIMITED

## 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, 2008			
	Fashion	Cosmetics	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER				
Sales of goods	290,466	79,429	–	369,895
Inter-segment sales	57	1	(58)	–
	<u>290,523</u>	<u>79,430</u>	<u>(58)</u>	<u>369,895</u>
Inter-segment sales are charged at prevailing market rates.				
SEGMENT RESULT	<u>11,455</u>	<u>2,309</u>		13,764
Decrease in fair values of investment properties				(1,495)
Unallocated corporate income				1,320
Unallocated corporate expenses				(1,332)
Finance costs				(1,554)
Profit before taxation				10,703
Taxation				1,099
Profit for the period				<u>11,802</u>



**3. SEGMENT INFORMATION** (Continued)

**Business Segments** (Continued)

	Unaudited six months ended 30th September, 2007			
	Fashion	Cosmetics	Eliminations	Consolidated
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
<b>TURNOVER</b>				
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>
	<b><u>252,548</u></b>	<b><u>72,962</u></b>	<b><u>(2,789)</u></b>	<b><u>322,721</u></b>

Inter-segment sales are charged at prevailing market rates.

<b>SEGMENT RESULT</b>	<b><u>24,384</u></b>	<b><u>112</u></b>	<b>24,496</b>
Increase in fair values of investment properties			3,740
Unallocated corporate income			3,208
Unallocated corporate expenses			(2,436)
Finance costs			(1,264)
			<u>27,744</u>
Profit before taxation			27,744
Taxation			(2,782)
			<u>24,962</u>
Profit for the period			<b><u>24,962</u></b>

**4. TAXATION**

	Six months ended 30th September,	
	2008 (Unaudited) <i>HK\$ '000</i>	2007 (Unaudited) <i>HK\$ '000</i>
The charge comprises:		
Current taxation		
Hong Kong Profits Tax	266	1,660
Overseas taxation	(682)	251
Deferred taxation		
Current period	(683)	871
	<u>(1,099)</u>	<u>2,782</u>
	<b><u>(1,099)</u></b>	<b><u>2,782</u></b>

Hong Kong Profits Tax is calculated at 16.5% (2007: 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.

# VEEKO INTERNATIONAL HOLDINGS LIMITED

## 5. PROFIT FOR THE PERIOD

	<b>Six months ended 30th September,</b>	
	<b>2008</b>	2007
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Profit for the period has been arrived at after charging:		
Amortisation of prepaid lease payments	158	45
Depreciation of property, plant and equipment	15,327	10,715
Loss on disposal of property, plant and equipment	766	928
	<u>15,251</u>	<u>11,788</u>
and after crediting:		
Rental income	1,438	1,676
Interest income	34	104
	<u>1,472</u>	<u>1,780</u>

## 6. DIVIDEND PAID

The 2008 final dividend of HK0.9 (2007: HK1.0) cent per share in cash with a scrip option has been approved in the annual general meeting held on 5th September, 2008. HK\$4,689,000 (9th October, 2007: HK\$4,970,000) cash dividend has been paid and 71,723,374 (2007: 50,099,676) scrip shares have been allotted and issued on 15th October, 2008.

## 7. EARNINGS PER SHARE

	<b>Six months ended 30th September,</b>	
	<b>2008</b>	2007
	<b>(Unaudited)</b>	(Unaudited)
Earnings:		
Profit for the period and earnings for the purposes of basic and diluted earnings per share	<u>HK\$11,802,000</u>	<u>HK\$24,962,000</u>
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,771,995,842	1,668,200,000
Effect of dilutive potential ordinary shares in respect of share options	<u>5,075,694</u>	<u>22,055,373</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>1,777,071,536</u>	<u>1,690,255,373</u>

**8. TRADE AND OTHER RECEIVABLES**

At 30th September, 2008, included in the Group's trade and other receivables were trade receivables of HK\$30,147,000 (31st March, 2008: HK\$40,149,000). 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:

	<b>30th September, 2008 (Unaudited) HK\$'000</b>	31st March, 2008 (Audited) HK\$'000
Within 30 days	<b>21,368</b>	27,308
31 – 60 days	<b>6,462</b>	9,845
61 – 90 days	<b>1,030</b>	1,287
Over 90 days	<b>1,287</b>	1,709
	<hr/> <b>30,147</b> <hr/> <hr/>	<hr/> <b>40,149</b> <hr/> <hr/>

**9. TRADE AND OTHER PAYABLES**

At 30th September, 2008, included in the Group's trade and other payables were trade payables of HK\$18,756,000 (31st March, 2008: HK\$9,006,000). Details of the aged analysis of the trade payables are as follows:

	<b>30th September, 2008 (Unaudited) HK\$'000</b>	31st March, 2008 (Audited) HK\$'000
Within 30 days	<b>10,312</b>	7,322
31 – 60 days	<b>4,211</b>	572
61 – 90 days	<b>2,749</b>	1,034
Over 90 days	<b>1,484</b>	78
	<hr/> <b>18,756</b> <hr/> <hr/>	<hr/> <b>9,006</b> <hr/> <hr/>

# VEEKO INTERNATIONAL HOLDINGS LIMITED

## 10. SHARE CAPITAL

	Number of ordinary shares	Value HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1st April, 2008 and 30th September, 2008	10,000,000,000	100,000
Issued and fully paid:		
At 1st April, 2007	1,662,700,000	16,627
Issue of shares upon exercise of share options (Note 1a)	12,800,000	128
Issue of shares in lieu of cash dividends (Note 2)	92,163,602	922
At 31st March, 2008	1,767,663,602	17,677
Issue of shares upon exercise of share options (Note 1b)	5,500,000	55
At 30th September, 2008	1,773,163,602	17,732

### Notes:

- 1a. During the year ended 31st March, 2008, 10,800,000 and 2,000,000 share options were exercised at HK\$0.162 and HK\$0.255 per share, respectively, resulting in issue of a total of 12,800,000 ordinary shares of HK\$0.01 each in the Company.
- 1b. During the period ended 30th September, 2008, 5,500,000 share options were exercised at HK\$0.162 per share, resulting in issue of a total of 5,500,000 ordinary shares of HK\$0.01 each in the Company.
2. On 9th October, 2007 and 29th February, 2008, the Company issued and allotted a total of 50,099,676 ordinary shares and 42,063,926 ordinary shares of HK\$0.01 each at HK\$0.255 and HK\$0.275 each, respectively, in lieu of cash for the 2007 final and 2008 interim dividends.

**11. OPERATING LEASES**

**The Group as Lessee**

At 30th September, 2008, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>30th September, 2008 (Unaudited) HK\$'000</b>	31st March, 2008 (Audited) HK\$'000
Within one year	<b>170,347</b>	144,290
In the second to fifth year inclusive	<b>218,693</b>	170,668
Over five years	-	325
	<hr/> <b>389,040</b> <hr/>	<hr/> <b>315,283</b> <hr/>

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 30th September, 2008, the Group had contracted with tenants for the following future minimum lease payments:

	<b>30th September, 2008 (Unaudited) HK\$'000</b>	31st March, 2008 (Audited) HK\$'000
Within one year	<b>1,218</b>	872
In the second to fifth year inclusive	<b>604</b>	-
	<hr/> <b>1,822</b> <hr/>	<hr/> <b>872</b> <hr/>

**12. PLEDGE OF ASSETS**

At 30th September, 2008, the following assets were pledged by the Group to certain banks to secure general banking facilities granted to the Group:

	<b>30th September, 2008 (Unaudited) HK\$'000</b>	31st March, 2008 (Audited) HK\$'000
Investment properties	<b>58,600</b>	60,000
Prepaid lease payments	<b>3,128</b>	3,128
Leasehold buildings	<b>12,430</b>	11,014
Short term bank deposits	<b>1,000</b>	1,000
	<hr/> <b>75,158</b> <hr/>	<hr/> <b>75,142</b> <hr/>

### **INTERIM DIVIDEND**

At the Board Meeting held on 18th December, 2008, the Board has resolved to declare the payment of an interim dividend of HK0.20 cent (2008: HK0.80 cent) per share of HK\$0.01 each for the financial year ending 31st March, 2009. The interim dividend will be payable on 16th January, 2009 to shareholders whose names appeared on the register of members of the Company at the close of business on 6th January, 2009.

### **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Wednesday, 7th January, 2009 to Friday, 9th January, 2009 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 6th January, 2009.

### **MANAGEMENT DISCUSSION AND ANALYSIS BUSINESS REVIEW AND PROSPECTS**

For the six months ended 30th September, 2008, the Group recorded a turnover of HK\$369,895,000 (2007: HK\$322,721,000), representing an increase of 14.6% as compared with the corresponding period of last year. Included in the amount of turnover was HK\$79,429,000 generated by the cosmetics business, representing an increase of 13.2% over the same period of last year (2007: HK\$70,173,000). Turnover of the fashion business increased by 15% as compared with the same period in the previous year, while the performance of the newly developed China market was good, representing 17.1% of total turnover of the fashion business. The overall operating profit for the period was HK\$11,802,000 (2007: HK\$24,962,000), representing a decrease of 52.7% over that of the corresponding period in last year. This was partly due to the decrease of HK\$1,495,000 in fair values of investment properties, comparing to an appreciation of HK\$3,740,000 for the same period last year. During the period under review, the gross profit ratio of the Group as a whole was 62.4%, representing a decrease of 4.3% as compared with 66.7% for the same period last year. Apart from the increase of the production costs of the factory in the Mainland China, the decline in the gross profit ratio was mainly due to the aggressive promotion activities launched by the Group during the period. Moreover, the Group acquired two blocks of industrial building with a total construction area of approximately 19,000 square meters during the period. Its investment and integration had been substantially completed, and its production operations had been commenced. As the initial preparation expenses invested into the plant during the period had been dealt with in its accounts, profit of the period had been adversely affected. As the impact of the global financial tsunami spread to Asia, the markets in which the Group operated had all been affected in September, particularly the Hong Kong market, where the purchasing desire and modes had been adversely affected. Coupled with higher rental expenses incurred, the financial result of the period had also been adversely affected. The segment results of the cosmetic business had shown a turn from loss to profit since last year and continued to generate a profit of HK\$2,309,000 to the Group for the period, as compared with a profit of HK\$112,000 for the same period last year, enhancing the overall contribution of the business to the Group.

## Fashion Business

### *Fashion Business – Hong Kong and Macau Market*

Fashion retail business in Hong Kong and Macau remained the major source of revenue for the Group, representing 54.7% in the total turnover of the Group's fashion business. For the six months ended 30th September, 2008, turnover of the Hong Kong and Macau market amounted to HK\$158,815,000 (2007: HK\$158,787,000). As at 30th September, 2008, the Group has set up 67 outlets in Hong Kong and Macau (30th September, 2007: 59). The slowdown in the growth rate of fashion retail business in Hong Kong and Macau was primarily due to the dampened purchasing desire of the customers as a result of the global financial tsunami and consequently the economic decline. Although turnover from Hong Kong and Macau markets for the period from April to August 2008 still recorded an increase over the corresponding period of last year, but it had dropped by 15.4% in September 2008 alone as compared to the same period last year. Faced with such drastic changes in economy, the Group had strategically implemented more aggressive promotional activities with an aim to boost sales. As a result, turnover of comparable outlets for the period from October to November 2008 recorded only a slight decrease of 4.2% when compared with the corresponding period of last year. This performance could be considered satisfactory on the basis of high growth rate of last year. In future, the Group will carefully review the current mixture of outlets. Besides closing down outlets with poor performance and expiring leases, the Group will continue to exercise due caution in identifying prime locations with reasonable rental to set up new outlets as there are signs that the rental level is lowering in light of the current economic decline.

### *Fashion Business – Taiwan Market*

Turnover of fashion retailing in Taiwan for the first half of the current financial year was HK\$58,242,000, an increase of 37.2% from the corresponding period of last year, while representing 20.1% in the total turnover of the Group's fashion business. As at 30th September, 2008, the number of fashion outlets in Taiwan was 57, an increase of 8 compared with 49 outlets of last year, most of which are concession counters in large department stores so as to avoid the burden of and reduce the pressure from fixed rental. Furthermore, the Group has been positive in undertaking various measures to alleviate the adverse impact of economic recession in the Taiwan market that undermine consumption power and consumer confidence on its business, including strict cost control, improvement in product quality and closing down certain outlets burdened with fixed rental expenses which suffered from low cost efficiency. Internal measures taken by the Group have been bearing fruit, with turnover of comparable outlets during the period under review achieved an increase of approximately 41.4% comparing with the last corresponding period, and the situation remained buoyant. Turnover of comparable outlets in Taiwan for the two months period from October to November 2008 achieved an increase of over 32% comparing with the last corresponding period. In future, the Group will continue to develop the local market in a prudent manner.

# VEEKO INTERNATIONAL HOLDINGS LIMITED

## *Fashion Business – Singapore Market*

For the first half of the current financial year, retail business in Singapore recorded a turnover of HK\$23,621,000 (2007: HK\$21,575,000). Business in Singapore has been growing steadily. As at 30th September, 2008, the Group had established 10 outlets in Singapore (30th September, 2007: 13). During the period under review, turnover of comparable outlets achieved an increase of approximately 17.1% over the last corresponding period. The Group is dedicated to strengthening the fashion business there, so that if outlets in desirable locations with reasonable rental are secured, the Group will continue to develop the market in a prudent manner.

## *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, 2008, the number of **Veeko** and **Wanko** outlets in China has reached 145 (30th September, 2007: 112), with the network covers first tier cities such as Beijing, Shanghai, Chengdu, Guangzhou, Shenzhen and Zhuhai, and other cities are covered which include Chongqing, Wuhan, Dalian and Tianjin. During the period under review, turnover from China market recorded a turnover of HK\$49,788,000 (30th September, 2007: HK\$29,746,000), representing 17.1% in the total turnover of the Group's fashion business, while turnover of comparable outlets achieved an increase of approximately 9.6% comparing with the last corresponding period. Amid the global financial tsunami spread to countries in Asia, China market had suffered less as compared with the others and maintained a comparatively stable economic environment. This coupled with the latest economic boost plans announced by the Chinese government will definitely benefit the Group's fashion business in China, such that the Group will continue its investment in China business for steady development with a cautiously optimistic attitude about the outlook of China market.

## **Cosmetic Business**

As at 30th September, 2008, the Group had established a total of 22 outlets (30th September, 2007: 17), of which 20 outlets were situated in Hong Kong, while 2 outlets were situated in Macau. During the period under review, cosmetic business of the Group recorded a turnover of HK\$79,429,000 (30th September, 2007: HK\$70,173,000), representing 21.5% in the total turnover of the Group, and turnover of comparable outlets recorded an increase of approximately 11.9%, showing a turn from loss to profit since last year as well as a steady growth in the cosmetic business. While the uncertainties arising from the global financial crisis had emerged in September, the cosmetic business was less affected by the adverse change of market situation as beauty and skincare products are considered daily necessity by consumers. From October to November 2008, turnover of comparable outlets recorded an increase of approximately 18.6% when compared with the corresponding period of last year. As there are signs that the rental level is lowering in light of the current economic decline, and that there exists more choices of prime locations, the Group will exercise due caution in identifying prime locations with reasonable rental to set up new outlets, and consider it golden



opportunity to expand its business for greater cost efficiency of scale of the sales network. In the meantime, the Group will keep on enriching the product portfolio, increasing the number of cosmetic products with exclusive distributorship, and training employees to provide quality and professional services.

## PROSPECTS

Clouded by the concerns about global economic recession, the fiscal year of 2008/2009 will be a challenging year for the Group's business. The Group's management will closely monitor any future fluctuations and uncertainties of the market, take appropriate contingency measures, maintain prudent financial and operational management and implement strict cost control. Besides, it will intensify inventory management to lower cost of inventory and enhance stock effectiveness. Regarding the outlet network expansion, the Group will review the current outlet mix with caution and close down outlets with poor performance and expiring leases to offset the pressure exerted by increasing rents. In the meantime, as there are signs that the rental level is lowering in light of the current economic decline, the Group will grasp the business opportunities in such unfavorable conditions to identify prime locations with reasonable rental with caution to set up new outlets. It is anticipated that this initiative will continue to be beneficial to the Group.

In respect of the fashion business, the export Value Added Tax refund rates in China had been raised successively twice in the second half year of 2008 has proved conducive to reducing the Group's production costs of fashion goods. On the other hand, the Group had basically completed the acquisition and consolidation of two newly acquired industrial buildings in China, which had been put into production operation and are expected to be able to further decrease its production costs and improve the gross profit of fashion business. Furthermore, the major capital expenditure in the investment and acquisition, which is basically completed, of the two industrial buildings in China had been injected in succession during the last two years. Therefore, the temporary impacts of such investment on the Group's cash position and debt ratio in short term will be overcome by the long-term benefits it generates to cost control of goods, not to mention the fact that it matches up the development of retail business in China. In future, the Group has no major capital expenditure requirement, and is expected to be able to generate a stable operational net cash inflow. As a result, it is confident that the current debt ratio could be improved.

The above measures are yielding results in spite of the inevitable short-term impacts on the Group's performance by the global financial tsunami. As compared with the high growth rate in the same period last year, the turnover of the comparable outlets in October and November 2008 has performed well and even better when it comes to December this year. Therefore, the Group remains fully confident of the development of its businesses.

## **LIQUIDITY & FINANCIAL RESOURCES**

The Group's working capital decreased from HK\$198,682,000 as at 31st March, 2008 to HK\$170,584,000 for the period end while its current ratio and quick ratio were 2.15 and 0.57 times respectively.

As at 30th September, 2008, the Group's cash and bank balances amounted to HK\$19,428,000 (31st March, 2008: HK\$26,855,000) and the outstanding bank borrowings and overdraft amounted to HK\$93,368,000 (31st March, 2008: HK\$59,448,000) whereas the total borrowings was HK\$94,633,000 (31st March, 2008: HK\$59,448,000). The increase in total borrowings was mainly attributable to the acquisition of two blocks of industrial building of approximately 19,000 square meters in Shantou at a consideration of RMB22,000,000 and the expansion of retail business in China during the period. The number of outlets in China was increased from 124 as of 31st March, 2008 to 145 as of 30th September, 2008 which leads to increase in capital expenditure of HK\$5,590,000 and increase in stock level of HK\$7,769,000 for the period.

As at 30th September, 2008, the gearing ratio of the Group is 0.24 (31st March, 2008: 0.16) which is calculated based on the Group's total borrowings of HK\$94,633,000 (31st March, 2008: HK\$59,448,000) and the shareholders' fund of HK\$390,363,000 (31st March, 2008: HK\$372,405,000).

As at 30th September, 2008, the Group had banking facilities amounting to HK\$133,274,000 (31st March, 2008: HK\$108,427,000), of which HK\$99,873,000 (31st March, 2008: HK\$65,968,000) 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, 2008, the Group had 4,451 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, 2008:

Date of grant	Vesting period	Exercisable period	Exercise price per share	Balance at 1.4.2008	Granted during the period	Exercised during the period	Cancelled during the period (Note)	Outstanding at 30.9.2008
18th November, 2003	18th November, 2003 to 17th November, 2007	18th November, 2007 to 17th November, 2009	HK\$0.1620	15,000,000	-	(5,500,000)	(500,000)	9,000,000
21st September, 2004	21st September, 2004 to 20th September, 2008	21st September, 2008 to 20th September, 2010	HK\$0.2550	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	-	-	(2,400,000)	1,200,000
16th August, 2006	16th August, 2006 to 15th August, 2010	16th August, 2010 to 15th August, 2012	HK\$0.2052	3,600,000	-	-	(2,400,000)	1,200,000
4th June, 2007	4th June, 2007 to 3rd June, 2010	4th June, 2010 to 3rd June, 2012	HK\$0.1860	17,000,000	-	-	(1,200,000)	15,800,000
4th June, 2007	4th June, 2007 to 3rd June, 2012	4th June, 2012 to 3rd June, 2014	HK\$0.1860	17,000,000	-	-	(1,200,000)	15,800,000
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
				58,200,000	1,000,000	(5,500,000)	(7,700,000)	46,000,000

The closing price of the Company's shares immediately before 18th June, 2008, the date of grant, was HK\$0.24.

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\$0.247 (2007: HK\$0.302). During the period, total consideration received from employees for taking up the options amounted to HK\$2 (2007: HK\$76).

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, 2008, 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:

<b>Name of director</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Percentage of the issued share capital of the Company</b>
Mr. Cheng Chung Man, Johnny	Founder	1,073,134,964 <i>(Note)</i>	60.52%
Ms. Lam Yuk Sum	Beneficiary of Trust	1,073,134,964 <i>(Note)</i>	60.52%
	Beneficial owner	<u>153,535,452</u>	<u>8.66%</u>
		<u><u>1,226,670,416</u></u>	<u><u>69.18%</u></u>

*Note:* These 1,073,134,964 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, 2008, 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, 2008, 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
Silver Crown	Beneficial owner	1,073,134,964	60.52%
Well Feel Group Limited	Interest of a controlled corporation ( <i>Note</i> )	1,073,134,964	60.52%
HSBC International Trustee Limited	Trustee ( <i>Note</i> )	1,073,134,964	60.52%

*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, 2008.

## 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 the Model Code in Appendix 10 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.

# VEEKO INTERNATIONAL HOLDINGS LIMITED

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

During the six months ended 30th September, 2008, 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, 2008 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, 2008