

Veeko®

VEEKO INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

Interim Report

For the six months ended 30th September, 2000



Veeko International Holdings Limited

Corporate Information

DIRECTORS

Executive

CHENG Chung Man, Johnny
(Chairman and Managing Director)
LAM Yuk Sum
NG Man Kit, Lawrence

Independent Non-Executive

CHENG Chung Hoo
YANG Wei Tak

LEGAL ADVISERS AS TO CAYMAN ISLANDS LAW

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

LEAGL ADVISERS AS TO HONG KONG LAW

Chiu & Partners
41st Floor, Jardine House
1 Connaught Place
Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
26th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

AUTHORISED REPRESENTATIVES

CHENG Chung Man, Johnny
NG Man Kit, Lawrence

COMPANY SECRETARY

WONG Chi Ying

AUDIT COMMITTEE MEMBERS

CHENG Chung Hoo
YANG Wei Tak

REGISTERED OFFICE

Zephyr House
Mary Street
George Town
Grand Cayman
British West Indies

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 G.T.
3rd Floor
British American Tower
Dr. Roy's Drive
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Secretaries Limited
5th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

PRINCIPAL BANKERS

The Yien Yieh Commercial Bank
Limited
The Hongkong and Shanghai
Banking Corporation Limited

WEBSITE ADDRESS

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

Veeko International Holdings Limited

Condensed Consolidated Income Statement

For the six months ended 30th September, 2000

| | | Unaudited | |
|-------------------------------------|-------|-------------------|------------|
| | | Six months ended | |
| | | 30th September | |
| | | 2000 | 1999 |
| | Notes | HK\$'000 | HK\$'000 |
| Turnover | 2 | 166,096 | 131,641 |
| Cost of sales | | (41,853) | (29,129) |
| Selling and distribution costs | | (68,702) | (64,886) |
| Administrative expenses | | (29,976) | (20,564) |
| Other revenues | | 862 | 951 |
| Profit from operations | | 26,427 | 18,013 |
| Finance costs | | (531) | (447) |
| Investment income | | 1,607 | 469 |
| Profit before taxation | | 27,503 | 18,035 |
| Taxation | 4 | (2,465) | (938) |
| Profit attributable to shareholders | | 25,038 | 17,097 |
| Interim dividend | | (3,809) | (3,809) |
| Profit for the period retained | | 21,229 | 13,288 |
| Earnings per share | 5 | 1.51 cents | 1.05 cents |

The Group has no recognised gains or losses other than the profit for the period. Accordingly no separate statement of recognised gains and losses is presented.

Veeko International Holdings Limited

Condensed Consolidated Balance Sheet

As at 30th September, 2000

| | Notes | Unaudited 30th September 2000 HK\$'000 | Audited 31st March 2000 HK\$'000 |
|--|-------|---|---|
| Non-current Assets | | | |
| Investment properties | 6 | 12,849 | 4,200 |
| Property, plant and equipment | 6 | <u>53,408</u> | <u>35,924</u> |
| | | 66,257 | 40,124 |
| Current Assets | | | |
| Inventories | | 41,503 | 27,225 |
| Trade receivables | 7 | 11,458 | 14,562 |
| Other receivables and prepayments | | 5,368 | 3,033 |
| Rental and utility deposits | | 22,126 | 18,487 |
| Bank balance and cash | | <u>59,307</u> | <u>51,800</u> |
| | | 139,762 | 115,107 |
| Current Liabilities | | | |
| Trade payables | 8 | 18,525 | 12,514 |
| Other payables and accrued charges | | 16,290 | 14,650 |
| Taxation | | 3,814 | 2,706 |
| Proposed dividend | | 3,809 | 6,127 |
| Obligations under hire purchase contracts – due within one year | | 468 | 604 |
| Bank borrowings – due within one year | | <u>17,849</u> | <u>1,070</u> |
| | | 60,755 | 37,671 |
| Net Current Assets | | | |
| | | <u>79,007</u> | <u>77,436</u> |
| | | 145,264 | 117,560 |
| Capital and Reserves | | | |
| Share capital | 9 | 16,560 | 16,560 |
| Reserves | | <u>121,718</u> | <u>100,469</u> |
| | | 138,278 | 117,029 |
| Non-current Liabilities | | | |
| Obligations under hire-purchase contracts – due after one year | | 356 | 531 |
| Bank borrowings – due after one year | | <u>6,630</u> | <u>0</u> |
| | | 145,264 | 117,560 |

Veeko International Holdings Limited

Condensed Consolidated Cash Flow Statement

For the six months ended 30th September, 2000

| | Unaudited Six months ended 30th September 2000 HK\$'000 |
|--|--|
| Net cash inflow from operating activities | 24,289 |
| Net cash outflow from returns on investments and servicing of finance | (4,877) |
| Total taxation paid | (1,357) |
| Net cash outflow from investing activities | (21,016) |
| | <hr/> |
| Net cash outflow before financing | (2,961) |
| Net cash inflow from financing | 7,489 |
| | <hr/> |
| Increase in cash and cash equivalents | 4,528 |
| Cash and cash equivalents at 1st April, 2000 | 1,600 |
| | <hr/> |
| Cash and cash equivalents at 30th September, 2000 | 6,128 |
| | <hr/> <hr/> |

Veeko International Holdings Limited

Notes to Condensed Interim Accounts:

1. PRINCIPAL ACCOUNTING POLICIES

The unaudited consolidated condensed interim accounts (the "Interim Accounts") for the six months ended 30th September, 2000 are prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No.25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except that, in this first year of implementation of the Standard, as permitted by the Listing Rules, no comparative figures have been presented for the condensed cash flow statement.

The accounting policies and methods of computation used in the preparation of the Interim Accounts are consistent with those used in the annual financial statements for the year ended 31st March, 2000.

2. TURNOVER BY MARKETS

The Group is principally engaged in design, manufacturing and retailing of ladies' apparel under the Group's two own brandnames, namely, **Wanko** and **Veeko**.

An analysis of the Group's turnover for the period by principal markets is as follows:

| | Turnover | |
|-----------|------------------|----------------|
| | Six months ended | |
| | 30th September | |
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Hong Kong | 121,168 | 115,606 |
| Macau | 9,993 | 5,605 |
| Taiwan | 32,865 | 8,382 |
| Others | 2,070 | 2,048 |
| | <u>166,096</u> | <u>131,641</u> |

No analysis of the Group's turnover for the period by principal activities has been prepared as less than 10% of such amounts are derived from activities other than retailing of ladies' apparel.

3. DEPRECIATION

During the period, depreciation of HK\$7.12 million (1999: HK\$6.88 million) was charged in respect of the Group's property, plant and equipment.

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4. TAXATION

| | Six months ended 30th September | |
|-----------------------|--|------------|
| | 2000 | 1999 |
| The charge comprises: | | |
| Hong Kong Profits Tax | 1,265 | 911 |
| Overseas Taxation | 1,200 | 27 |
| | <u>2,465</u> | <u>938</u> |

Hong Kong Profits Tax is calculated at 16% on the estimated assessable profits for the period. Overseas taxation is calculated at the rates applicable in the respective jurisdictions.

5. EARNINGS PER SHARE

The calculation of basic earnings per share for the period is based on the Group's profit attributable to shareholders of HK\$25,038,000 (1999: HK\$17,097,000) and on 1,656,000,000 (1999: weighted average of 1,624,524,590) shares in issue during the period adjusted for the effect of the subdivision of the Company's shares from each of the share of HK\$0.10 each into 10 new shares of HK\$0.01 each on 20th September 2000.

6. ADDITIONS TO INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the period, the Group transferred HK\$8.76 million of land and building to investment properties which are held for investment potential, any rental income being negotiated at arm's length.

During the period, the Group spent approximately HK\$18.67 million on the acquisition of land and building and certain carparks in Hong Kong.

7. TRADE RECEIVABLES

The Group's credit card sales and credit terms on consignment sales are mostly range from 0 - 60 days. The aged analysis of trade receivables is as follows:

| | 30th September 2000 | 31st March 2000 |
|--------------|--------------------------------|--------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 0 - 30 days | 4,447 | 7,337 |
| 31 - 60 days | 6,060 | 5,240 |
| 61 - 90 days | 263 | 1,118 |
| Over 90 days | 688 | 867 |
| | <u>11,458</u> | <u>14,562</u> |

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8. TRADE PAYABLES

The aged analysis of the trade payables is as follows:

| | 30th September 2000 HK\$'000 | 31st March 2000 HK\$'000 |
|--------------|---|--------------------------------|
| 0 - 30 days | 5,749 | 5,528 |
| 31 - 60 days | 6,734 | 1,802 |
| 61 - 90 days | 5,590 | 4,387 |
| Over 90 days | 452 | 797 |
| | <u>18,525</u> | <u>12,514</u> |

9. SHARE CAPITAL

| | Number of ordinary shares | Value HK\$'000 |
|---|--------------------------------------|---------------------------|
| Authorised : | | |
| At 1st April, 2000 (HK\$0.10 each) | 1,000,000,000 | 100,000 |
| Subdivision of shares of 1 into 10 | <u>9,000,000,000</u> | <u>–</u> |
| At 30th September, 2000 (HK\$0.01 each) | <u>10,000,000,000</u> | <u>100,000</u> |
| Issued and fully paid : | | |
| At 1st April, 2000 (HK\$0.10 each) | 165,600,000 | 16,560 |
| Subdivision of shares of 1 into 10 | <u>1,490,400,000</u> | <u>–</u> |
| At 30th September, 2000 (HK\$0.01 each) | <u>1,656,000,000</u> | <u>16,560</u> |

An ordinary resolution approving the subdivision of each of the issued and unissued shares of HK\$0.10 each in the capital of the Company into 10 shares of HK\$0.01 each ("Subdivided Shares"). Share subdivision was duly passed at the Annual General Meeting held on 20th September, 2000. The Listing Committee of The Stock Exchange of Hong Kong Limited has granted the listing of and permission to deal in the "Subdivided Shares". The dealings in the Subdivided Shares was commenced on 21st September, 2000. For further details, please refer to the press announcement of the Company relating to the share subdivision dated 20th September, 2000.

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10. CONTINGENT LIABILITIES

At 30th September, 2000, the Company had guarantees of approximately of HK\$48,993,000 (31st March, 2000: HK\$28,619,000) to certain banks in respect of banking facilities granted to certain subsidiaries of the Company. The amount utilised by the subsidiaries was approximately HK\$25,322,000 (31st March, 2000: HK\$2,223,000).

11. OPERATING LEASE COMMITMENTS

At 30th September, 2000, the Group had commitments to make payments in the following year under non-cancellable operating leases in respect of rented premises as follows:

| | 30th September 2000 HK\$'000 | 31st March 2000 HK\$'000 |
|---------------------------------------|---|--------------------------------|
| Operating leases which expire: | | |
| Within one year | 12,820 | 15,391 |
| In the second to fifth year inclusive | 95,610 | 47,022 |
| Over five years | 7,466 | 1,629 |
| | <u>115,896</u> | <u>64,042</u> |

12. POST BALANCE SHEET EVENT

Subsequent to the interim report date, the Group entered into a sale and purchase agreement with an independent third party to acquire certain properties for a total consideration of HK\$14,630,000.

Management Discussion and Analysis

Operating results and Financial position

For the six months ended 30th September, 2000, the Group's unaudited turnover reached approximately HK\$166,096,000 (1999: HK\$131,641,000), rising by 26% as compared with the corresponding period of last year, while unaudited profits attributable to shareholders increased 46% to approximately HK\$25,038,000 (1999: HK\$17,097,000).

Business Review

In view of the gradual revival of the economy in Hong Kong in the first half of the year, the Group further employed strategic development plans and measures to enhance its competitiveness in terms of the overall retail development strategy in the Asia Pacific region, in particular Hong Kong, Taiwan and Singapore.

The Group relocated and expanded its head office in Hong Kong and its branch office in Taiwan during the first half of the year. It also fully increased resources and upgraded facilities for all divisions in order to meet the needs of and provide support for its branches in the entire Asia Pacific region.

The Group has always recognised the importance of quality of manpower in retail operations. In order to boost the moral of its sales teams and the quality of their service, the Group not only greatly increased the resources and facilities for staff training, but also appointed professional consultants to conduct advanced training courses and develop the potential of all employees. This is consistent with the Group's commitment to quality services.

In addition, the two main brandnames *Wanko* and *Veeko* of the Group have undergone a series of new remarketing campaign. The outlets were gradually renovated during the year and the latest design concepts were also introduced to enhance the competitiveness. A more favorable shopping environment was made available to our customers. As a result, the market position of the Group has been consolidated.

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Hong Kong Market

Although the economy as a whole has commenced a steady recovery, the purchasing power of the public is still conservatively prudent. Despite the effect of deflation, the Group has still performed well in the market and recorded a satisfactory growth. The turnover arising from the Hong Kong and Macau markets for the period ended 30th September 2000 amounted to HK\$131,161,000, increasing by 8%, and the number of outlets of **Wanko** and **Veeko** stood at 31 and 25 respectively.

Taiwan Market

The Group is striving for further progress based on the development plans set out in its previous annual results report. With its vigorous expansion, remarkable growth has been achieved accordingly. The turnover arising from the Taiwan market increased 292% to HK\$32,865,000. For the period ended 30th September 2000, the number of outlets of **Wanko** and **Veeko** increased to 28, compared with 13 for the corresponding period in 1999.

Singapore

The Group recognises the ladies apparel market potential of **Wanko** and **Veeko** in Singapore. Following its intensive study and research, the Group has successfully established its administrative office. There were three retail outlets by the end of November 2000. The result of preliminary response reached the target. It is anticipated that further development will be proceeded in next summer to increase the market share of the Group in Singapore.

Prospects

The Group will continuously expand its operations in the major markets including Hong Kong, Taiwan and Singapore, with its focus on strengthening the image of the brandnames **Wanko** and **Veeko** and upgrading the staff services quality as well as increasing its market share.

There is a deflationary economy in Hong Kong, with a downward trend of property prices and a shift of domestic consumption to Southern China resulting in a poor market sentiment. Furthermore, there are the signs of economic and financial uncertainty in the market of Taiwan. Notwithstanding these, the Group has managed to provide quality products and enhanced efficiency of its staff service. With sufficient capital, sound position of assets and liabilities and efficient operational cost control, the Board is still optimistic over the prospects of the Group and its satisfactory growth.

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Liquidity and financial resources

As at 30th September 2000, the bank deposits and cash of the Group was HK\$59.31 million (31st March 2000: HK\$51.80 million) whereas the total borrowings was HK\$25.30 million (31st March 2000: HK\$2.21 million).

At the period ended, the gearing ratio, "the ratio of total borrowings of HK\$25.30 million (31st March 2000: HK\$2.21 million) to shareholders' funds of HK\$138.28 million (31st March 2000: HK\$117.03 million)" of the Group is 0.18 (31st March 2000: 0.019). The change in the gearing ratio was mainly as the result of a new bank loan raised for the purpose of financing the purchase of a property for the use as the Headquarter of the Group. In spite of the increase in gearing ratio, the Group still maintain a safe and healthy financial position.

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Directors' Interests in Securities

As at 30th September, 2000, the interests of the directors in the share capital of the Company were as follow:

| Name of director | Nature of interests | Number of shares held |
|--------------------------------|--|------------------------------|
| Mr. Cheng Chung Man, Johnny | Family interests (<i>Note</i>) | 911,739,650 |
| Ms. Lam Yuk Sum | Personal interests | 124,194,000 |
| | Family/other interests (<i>Note</i>) | 911,739,650 |
| Mr. Ng Man Kit, Lawrence | Personal interests | 82,804,530 |

Note: These 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 beneficiaries of which include Mr. Cheng Chung Man, Johnny's family members.

Save as disclosed above, other than certain nominee shares in the subsidiaries held by certain directors in trust for the Group, none of the directors or their associates had any interests in any securities of the Company or any of its associated corporation as defined in the SDI Ordinance as at 30th September, 2000.

Substantial Shareholders

As at 30th September, 2000, the following information was recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance:

| Name of shareholder | Number of shares held |
|------------------------------|------------------------------|
| Silver Crown Profits Limited | 911,739,650 |

Save as disclosed above, the Company had not been notified of any interests representing 10% or more of the issued share capital of the Company as at 30th September, 2000.

Compliance with The Code of Best Practice

None of the Directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules at any time during the six months ended 30th September, 2000.

Purchase, Redemption or Sale of The Company's Listed Securities

During the six months ended 30th September, 2000, there was no purchase, redemption or sale by the Company or any of its subsidiaries of the Company's listed securities.

By Order of the Board
Cheng Chung Man, Johnny
Chairman and Managing Director

Hong Kong, 21st December, 2000