

Veeko®

VEEKO INTERNATIONAL HOLDINGS LIMITED

威高國際控股有限公司

(股份代號 Stock Code:1173)



www.veeko.com.hk

09/10 Interim Report

For the six months ended 30th September, 2009

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

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, 2009. The results, together with the comparative figures for the corresponding period in 2008, are summarised below:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2009

		Six months ended 30th September, 2009 (Unaudited) <i>HK\$'000</i>	2008 (Unaudited) <i>HK\$'000</i>
	<i>Notes</i>		
Turnover	3	371,888	369,895
Cost of goods sold		(146,363)	(139,104)
Gross profit		225,525	230,791
Selling and distribution costs		(172,117)	(159,151)
Administrative expenses		(53,119)	(60,063)
Other income, gains and losses		7,292	2,175
Increase (decrease) in fair values of investment properties		4,260	(1,495)
Surplus on revaluation of leasehold land and buildings		1,414	–
Finance costs		(1,008)	(1,554)
Profit before taxation		12,247	10,703
Taxation	4	511	1,099
Profit for the period	5	12,758	11,802
Dividends	6	3,690	13,510
Earnings per share	7		
Basic		HK0.71 cent	HK0.67 cent
Diluted		N/A	HK0.66 cent

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th September, 2009

	Six months ended	
	30th September,	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period	12,758	11,802
Other comprehensive (loss) income for the period:		
Exchange differences arising on translation of foreign operations	(3,325)	3,493
Gains on property revaluation, net of tax	170	1,526
	<hr/>	<hr/>
Other comprehensive (loss) income for the period, net of tax	(3,155)	5,019
	<hr/>	<hr/>
Total comprehensive income for the period	9,603	16,821
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th September, 2009

		30th September, 2009 (Unaudited) HK\$'000	31st March, 2009 (Audited) HK\$'000
Non-current Assets			
Investment properties		36,250	31,990
Property, plant and equipment		137,473	138,326
Prepaid lease payments		15,412	15,576
Rental deposits paid		33,667	34,457
Deferred tax assets		12,016	12,283
		234,818	232,632
Current Assets			
Inventories		226,667	194,500
Trade and other receivables	8	42,871	36,831
Prepaid lease payments		388	440
Rental and utility deposits paid		24,169	18,327
Tax recoverable		696	712
Pledged bank deposit		1,000	1,000
Bank balances and cash		22,377	29,230
		318,168	281,040
Current Liabilities			
Trade and other payables	9	79,660	51,445
Rental deposits received		291	559
Secured bank borrowings			
– due within one year		50,107	45,429
Secured bank overdrafts		4,391	6,440
Obligation under a finance lease	10		
– due within one year		241	230
Tax payable		2,551	5,774
		137,241	109,877
Net Current Assets		180,927	171,163
		415,745	403,795
Capital and Reserves			
Share capital	11	18,449	18,449
Reserves		378,270	368,183
		396,719	386,632
Non-current Liabilities			
Rental deposits received		294	501
Secured bank borrowings			
– due after one year		11,929	10,716
Obligation under a finance lease	10		
– due after one year		802	925
Deferred tax liabilities		6,001	5,021
		19,026	17,163
		415,745	403,795

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30th September, 2009

	Six months ended 30th September, 2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Net cash from operating activities	1,425	2,013
Net cash used in investing activities	(12,513)	(45,673)
Net cash from financing activities	5,779	17,361
Net decrease in cash and cash equivalents	(5,309)	(26,299)
Cash and cash equivalents at 1st April	22,790	24,822
Effect of foreign exchange rates changes	505	157
Cash and cash equivalents at 30th September	<u>17,986</u>	<u>(1,320)</u>
Representing by:		
Bank balances and cash	22,377	18,428
Bank overdrafts	(4,391)	(19,748)
	<u>17,986</u>	<u>(1,320)</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2009

	(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 Options Reserve HK\$'000	Retained Profits HK\$'000	Total HK\$'000
At 1st April, 2009	18,449	46,223	6,073	(8,010)	2,266	3,421	2,865	315,345	386,632
Total comprehensive income for the period	-	-	170	(3,325)	-	-	-	12,758	9,603
Recognition of equity-settled share based payments	-	-	-	-	-	-	484	-	484
Transfer	-	-	-	-	-	2,020	-	(2,020)	-
At 30th September, 2009	<u>18,449</u>	<u>46,223</u>	<u>6,243</u>	<u>(11,335)</u>	<u>2,266</u>	<u>5,441</u>	<u>3,349</u>	<u>326,083</u>	<u>396,719</u>
At 1st April, 2008	17,677	36,842	6,047	(11,122)	2,266	3,409	2,745	314,541	372,405
Total comprehensive income for the period	-	-	1,526	3,493	-	-	-	11,802	16,821
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)	-	-
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>

Note: The statutory reserves of the Group comprise:

- (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 consolidated condensed interim accounts for the six months ended 30th September, 2009 are 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 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 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 financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st March, 2009 except as described below.

In the current period, the Group has applied, for the first time, the following new and revised standards issued by the HKICPA, which are effective for the Group’s financial year beginning on 1st April, 2009.

HKAS 1 (Revised)	Presentation of Financial Statements
HKFRS 8	Operating Segments

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity are required to be presented in one statement of comprehensive income or in two statements. The Group has elected to present two statements: an income statement and a statement of comprehensive income. The interim financial statements have been prepared under the revised disclosure requirements.

HKFRS 8 replaces HKAS 14. The Standard requires entity to report information about its operating segments based on the information available for the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The adoption of these new and revised standards 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 and interpretations (“new and revised HKFRSs”) that have been issued but are not yet effective.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

HKFRSs (Amendments)	Amendment to HKFRS 5 as Part of Improvements to HKFRSs Issued in 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs Issued in 2009 ²
HKFRS 1 (Amendment)	First-time Adoption of HKFRS ¹
HKFRS 2 (Amendment)	Share-based Payment ³
HKFRS 3 (Revised)	Business Combinations ¹
HKFRS 5 (Amendment)	Non-current Asset Held for Sale and Discontinued Operations ³
HKAS 7 (Amendment)	Statement of Cash Flows ³
HKAS 17 (Amendment)	Leases ³
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
HKAS 36 (Amendment)	Impairment of Assets ³
HKAS 38 (Amendment)	Intangible Assets ¹
HKAS 39 (Amendment)	Eligible Hedged Items ¹
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives ¹
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation ¹
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC) – Int 18	Transfers of Assets from Customers ⁴

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

² Effective for annual periods beginning on or after 1st July, 2009 or 1st January, 2010 as appropriate.

³ Effective for annual periods beginning on or after 1st January, 2010.

⁴ Effective for transfers on or after 1st July, 2009.

3. SEGMENT INFORMATION

Business Segments

The Group operates and manages the business segments as strategic organisational units 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, 2009			
	Fashion	Cosmetics	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER				
Sales of goods	260,652	111,236	–	371,888
Inter-segment sales	20	1	(21)	–
	<u>260,672</u>	<u>111,237</u>	<u>(21)</u>	<u>371,888</u>
Inter-segment sales are charged at prevailing market rates.				
SEGMENT RESULT	<u>3,694</u>	<u>5,001</u>		8,695
Increase in fair values of investment properties				4,260
Surplus on revaluation of leasehold land and buildings				1,414
Corporate income				1,268
Corporate expenses				(2,382)
Finance costs				(1,008)
Profit before taxation				12,247
Taxation				511
Profit for the period				<u>12,758</u>

3. **SEGMENT INFORMATION** (Continued)

Business Segments (Continued)

	Unaudited six months ended 30th September, 2008			
	Fashion HK\$'000	Cosmetics HK\$'000	Eliminations HK\$'000	Consolidated 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)
Corporate income				1,320
Corporate expenses				(1,332)
Finance costs				(1,554)
Profit before taxation				10,703
Taxation				1,099
Profit for the period				<u>11,802</u>

4. TAXATION

	Six months ended 30th September,	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
The charge comprises:		
Profits tax		
Hong Kong Profits Tax	250	266
Other jurisdictions	(2,257)	(682)
Deferred tax	1,496	(683)
	(511)	(1,099)

Hong Kong Profits Tax is calculated at 16.5% (2008: 16.5%) of the estimated assessable profits for the period. 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,	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period has been arrived at after charging:		
Amortisation of prepaid lease payments	216	158
Depreciation of property, plant and equipment	15,396	15,327
Loss on disposal of property, plant and equipment	213	766
and after crediting:		
Rental income	1,243	1,438
Interest income	23	34

6. DIVIDENDS

	Six months ended	
	30th September,	
	2009	2008
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>

Dividends recognised as distribution during the period:

2009 final dividend of HK0.2 cent (2008: HK0.9 cent) per share	3,690	13,510
	<u><u>3,690</u></u>	<u><u>13,510</u></u>

The 2009 final dividend has been approved in the annual general meeting held on 8th September, 2009.

Scrip dividend was offered in respect of the 2008 final dividend and was accepted by the majority of shareholders.

	Six months ended	
	30th September,	
	2009	2008
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>

Final dividends:		
Cash	3,690	4,688
Scrip alternative	–	8,822
	<u>3,690</u>	<u>13,510</u>
	<u><u>3,690</u></u>	<u><u>13,510</u></u>

7. EARNINGS PER SHARE

	Six months ended 30th September, 2009	
	(Unaudited)	2008 (Unaudited)
Earnings:		
Profit for the period and earnings for the purposes of basic and diluted earnings per share	<u>HK\$12,758,000</u>	<u>HK\$11,802,000</u>
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,805,590,525	1,771,995,842
Effect of dilutive potential ordinary shares in respect of share options (<i>Note</i>)	—	5,075,694
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>—</u>	<u>1,777,071,536</u>

Note: No diluted earnings per share has been presented because the exercise price of the Company's options was higher than the average market price for shares for the period ended 30th September, 2009.

8. TRADE AND OTHER RECEIVABLES

At 30th September, 2009, included in the Group's trade and other receivables were trade receivables of HK\$26,848,000 (31st March, 2009: HK\$27,705,000). 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, 2009 (Unaudited) HK\$'000	31st March, 2009 (Audited) HK\$'000
Within 30 days	15,549	19,724
31 – 60 days	5,116	7,127
61 – 90 days	1,956	174
Over 90 days	4,227	680
	<u>26,848</u>	<u>27,705</u>

9. TRADE AND OTHER PAYABLES

At 30th September, 2009, included in the Group's trade and other payables were trade payables of HK\$35,603,000 (31st March, 2009: HK\$10,529,000). Details of the aged analysis of the trade payables are as follows:

	30th September, 2009 (Unaudited) HK\$'000	31st March, 2009 (Audited) HK\$'000
Within 30 days	19,764	6,731
31 – 60 days	6,403	1,905
61 – 90 days	6,130	843
Over 90 days	3,306	1,050
	<u>35,603</u>	<u>10,529</u>

10. OBLIGATION UNDER A FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	30th September, 2009 (Unaudited) HK\$'000	31st March, 2009 (Audited) HK\$'000	30th September, 2009 (Unaudited) HK\$'000	31st March, 2009 (Audited) HK\$'000
Amounts payable under a finance lease:				
Within one year	318	318	241	230
In more than one year but not more than two years	318	318	262	251
In more than two years but not more than five years	585	743	540	674
	<u>1,221</u>	<u>1,379</u>	<u>1,043</u>	<u>1,155</u>
Less: future finance charges	<u>(178)</u>	<u>(224)</u>	<u>-</u>	<u>-</u>
Present value of lease obligation	<u>1,043</u>	<u>1,155</u>	<u>1,043</u>	<u>1,155</u>
Less: Amount due for settlement within one year (shown under current liabilities)			<u>(241)</u>	<u>(230)</u>
Amount due for settlement after one year			<u>802</u>	<u>925</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% (2008: 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, 2009 and 30th September, 2009	10,000,000,000	100,000
	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1st April, 2008	1,767,663,602	17,677
Issue of shares upon exercise of share options (Note 1)	5,500,000	55
Issue of shares in lieu of cash dividends (Note 2)	71,723,374	717
	<u>1,844,886,976</u>	<u>18,449</u>
At 31st March, 2009	1,844,886,976	18,449
Issue of shares upon exercise of share options (Note 1)	–	–
	<u>1,844,886,976</u>	<u>18,449</u>
At 30th September, 2009	<u>1,844,886,976</u>	<u>18,449</u>

Notes:

1. During the year ended 31st March, 2009, 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. During the period ended 30th September, 2009, no share options were exercised.

2. On 15th October, 2008, the Company issued and allotted a total of 71,723,374 ordinary shares of HK\$0.01 each at HK\$0.123 in lieu of cash for the 2008 final dividend.

12. OPERATING LEASES

The Group as Lessee

At 30th September, 2009, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30th September, 2009 (Unaudited) HK\$'000	31st March, 2009 (Audited) HK\$'000
Within one year	170,728	172,967
In the second to fifth year inclusive	134,234	165,247
Over five years	—	—
	<u>304,962</u>	<u>338,214</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 30th September, 2009, the Group had contracted with tenants for the following future minimum lease payments:

	30th September, 2009 (Unaudited) HK\$'000	31st March, 2009 (Audited) HK\$'000
Within one year	2,081	2,098
In the second to fifth year inclusive	37	757
	<u>2,118</u>	<u>2,855</u>

13. PLEDGE OF ASSETS

At 30th September, 2009, the following assets were pledged by the Group to certain banks to secure general banking facilities granted to the Group:

	30th September, 2009 (Unaudited) HK\$'000	31st March, 2009 (Audited) HK\$'000
Investment properties	36,250	31,990
Prepaid lease payments	3,009	3,048
Leasehold land and buildings	26,766	25,970
Short term bank deposit	1,000	1,000
	<u>67,025</u>	<u>62,008</u>

INTERIM DIVIDEND

At the Board Meeting held on 17th December, 2009, the Board has resolved to declare the payment of an interim dividend of HK0.20 cent (2009: HK0.20 cent) per share of HK\$0.01 each for the financial year ending 31st March, 2010. The interim dividend will be payable on 22nd January, 2010 to shareholders whose names appeared on the register of members of the Company at the close of business on 12th January, 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 13th January, 2010 to Friday, 15th January, 2010 (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, 12th January, 2010.

MANAGEMENT DISCUSSION AND ANALYSIS BUSINESS REVIEW AND PROSPECTS

For the six months ended 30th September, 2009, the Group recorded a turnover of HK\$371,888,000 (2008: HK\$369,895,000), representing a slight increase of 0.5% as compared with the corresponding period of last year. Included in the amount of turnover was HK\$111,236,000 (2008: HK\$79,429,000) generated by the cosmetic business, representing a significant increase of 40% over the same period of last year, which constituted 29.9% (2008: 21.5%) to the total turnover of the Group. Turnover of the fashion business dropped by 10.3% as compared with the same period in the previous year, while the Group's overall gross profit margin was 60.6%, representing a decrease of 1.8 percentage points as compared with the corresponding period of last year, which was 62.4%. This was mainly due to the increase of cosmetic business sales with relatively lower gross profit ratio. The overall operating profit for the period was HK\$12,758,000 (2008: HK\$11,802,000), representing an increase of 8.1% over that of the corresponding period in last year. Cosmetic business continued to contribute profits to the Group and recorded a profit of HK\$5,001,000 during the period, representing a significant increase over that of the corresponding period in last year, which was HK\$2,309,000. The significant increase in contribution of the cosmetic business had made up with the drop of revenue in the fashion business. Moreover, the increase in fair value of investment properties and leasehold land and buildings amounted to HK\$5,674,000 for the period.

Fashion business

Fashion Business – Hong Kong and Macau Market

Fashion retail business in Hong Kong and Macau represents 53.7% of the total turnover of the Group's fashion business. For the six months ended 30th September, 2009, turnover of Hong Kong and Macau market amounted to HK\$140,072,000 (2008: HK\$158,815,000), representing a decrease of 11.8% over that of the corresponding period in last year. The dampened purchasing desire of the customers as a result of the global financial decline, coupled with the rage of human swine flu at the end of April 2009, had adversely affected the number of incoming tourists and the retail business, especially on the sales from May to August, and resulted in a decrease in turnover of Hong Kong and Macau fashion retail business market as compared with the corresponding period of last year. The business has been gradually stabilized since September 2009, with the sales of comparable outlets increased as compared with the corresponding period of last year. In spite of the weakened retail market, shop rents stood high, such that the operating costs rose and the revenue fell. As at 30th September, 2009, the Group had set up a total of 72 outlets in Hong Kong and Macau (30th September, 2008: 67 outlets). In future, the Group will prudently review its outlet mix. Besides closing down certain outlets with expiring leases and unsatisfactory performance to counteract the impacts of rising rents, the Group will continue to exercise due caution in identifying prime locations, in order to lay a solid foundation for long-term development.

Fashion Business – Taiwan

Turnover of fashion retailing in Taiwan for the first half of the current financial year was HK\$51,028,000 (2008: HK\$58,242,000), a decrease of 12.4% over the corresponding period of last year, while representing 19.6% of the total turnover of the Group's fashion business. As at 30th September, 2009, the number of fashion outlets in Taiwan was 54, a decrease of 3 compared with 57 outlets of last year. Approximately half of the existing outlets are concession counters in large department stores so as to avoid the burden of and reduce the pressure from fixed rental. Furthermore, the Group had been positive in undertaking various measures to alleviate the adverse impacts of economic recession in Taiwan market that undermined consumption power and consumer confidence on its business, which included strict cost control, improvement in product quality and closing down certain outlets burdened with fixed rental expenses and suffered from low cost effectiveness. In future, the Group will continue to develop the local market in a prudent manner.

Fashion Business – Singapore Market

For the first half of the current financial year, retail business in Singapore recorded a turnover of HK\$23,995,000 (2008: HK\$23,621,000), an increase of 1.6% over the corresponding period of last year, which was mainly due to the increase in number of outlets. As at 30th September, 2009, the Group had established 17 outlets in Singapore (30th September, 2008: 10 outlets). In future, the Group is dedicated to maintaining the current number of outlets and securing the retail business there.

Fashion Business – China Market

During the period under review, the turnover from China market amounted to HK\$45,557,000 (30th September, 2008: HK\$49,788,000). During the period, the Group strategically closed down some non-performing outlets, and the decrease in the number of outlets resulted in drop in turnover. As at 30th September, 2009, the number of **Veeko** and **Wanko** outlets in China had reached 126 (30th September, 2008: 145 outlets), with the network of which covering first-tier cities like Beijing, Shanghai, Chengdu, Guangzhou, Shenzhen and Zhuhai. In the past two years, the Group expanded rapidly in its retail network in China, and will enter the phase of consolidation this year. The Group will close down some outlets with poor performance and look for potential shops for future development, in order to enhance the overall operational effectiveness.

Cosmetic Business

As at 30th September, 2009, the Group had established a total of 31 outlets (30th September, 2008: 22 outlets), of which 29 outlets were situated in Hong Kong, while 2 outlets were situated in Macau. Compared with 26 outlets as at 31st March, 2009, the net increase in the number of outlets is 5 in six months. During the period under review, cosmetic business of the Group recorded a turnover of HK\$111,236,000 (30th September, 2008: HK\$79,429,000), representing a 40% rapid increase and accounting for 29.9% of the total turnover of the Group, whereas the turnover of comparable outlets recorded a 6.6% increase. Although the global financial crisis and the rage of human swine flu during the period under review constituted an adverse effect on the overall retail business, cosmetic and skincare products had become a daily necessity of the consumers, therefore the impact of worsening market on cosmetic business was relatively insignificant. The cosmetic business recorded a profit of HK\$5,001,000, which represented a significant increase of 116.6% when compared with that of HK\$2,309,000 for the same period last year, and an encouraging results.

PROSPECT

Cosmetic business had been continuously contributing profits to the Group since the financial year 2008, and its contribution during the period represents a significant increase of 116.6% when compared with that of the same period last year, while the turnover of comparable outlets during October and November in 2009 also recorded a double-digit increase. In the future, the Group will maintain the growth in cosmetic business and actively expand its retail network. The cosmetic business is undergoing investment expansion. By the end of December, 2009, with the opening of more new outlets, the number of outlets will further increase to 34. Moreover, the Group will keep on enriching its product portfolio, increasing the variety of cosmetic products with exclusive distributorship, and training employees to provide quality and professional services. In the meantime, it will also continue to expand potential outlets, in the belief that such scale will create higher cost effectiveness.

In respect of the fashion business, the Group had, in the past two years, basically completed the acquisition and consolidation of two newly acquired industrial buildings in China, which had been put into production and operation and has been used to replace the leased production facilities of Dongguan plants, and are expected to be able to further decrease its production costs and improve the gross profit of fashion business. In future, the Group will endeavour to strengthen internal operational management, further enhance its product quality, as well as enrich its product mix, all conducive to improve the Group's turnover and profitability. The government of China had raised successively twice the export rebate rate in the second half year of 2008, which has proved conducive to reducing the Group's production costs of fashion products. In future, the Group has no major capital expenditure requirement, and is expected to be able to generate a stable operational net cash inflow. Therefore, the Group is confident that the existing gearing ratio will show improvement. The Group's business was temporarily affected by the global financial tsunami and the rage of human swine flu, but the results revived in October and November, 2009, and the turnover of comparable outlets in Hong Kong and Macau had also recorded a single-digit growth as compared with the corresponding period of last year.

Looking forward, the prospect of the global economy remains uncertain foreseeable, and the management will closely monitor any future fluctuations and uncertainties of the market, take appropriate contingency measures, uphold a prudent financial and operational management and implement strict cost controls. Besides, it will intensify inventory management to lower cost of inventory and enhance inventory effectiveness. Regarding the outlet network expansion, the Group will review the existing outlet mix with caution and close down certain outlets with expiring leases and unsatisfactory performance to offset the pressure exerted by increasing rents, and look for shops with potential and reasonable rents for future development. The Group remains fully confident of the development of its businesses, of which cosmetic business will become the major driver of growth to the Group.

LIQUIDITY, FINANCIAL RESOURCES & CAPITAL STRUCTURE

The Group's working capital increased from HK\$171,163,000 as at 31st March, 2009 to HK\$180,927,000 for the period end.

As at the balance sheet date, the Group's cash and bank balances, amounted to HK\$23,377,000 (31st March, 2009 : HK\$30,230,000). The outstanding bank borrowings and overdraft amounted to HK\$66,427,000 (31st March, 2009: HK\$62,585,000) whereas the total borrowings was HK\$67,470,000 (31st March, 2009: HK\$63,740,000). The bank loans and overdrafts of the Group were taken out mainly in Hong Kong dollars. The increase in bank borrowings was mainly attributable to the expansion of cosmetic retail network in Hong Kong. During the period, the net increase in number of cosmetic outlets is 5 which led to increase in capital expenditure, rental deposits and stock purchases for these newly opened outlets.

As at the balance sheet date, the current ratio was 2.32 times (31st March, 2009: 2.56 times) and the gearing ratio of the Group was 0.17 (31st March, 2009: 0.16) which was calculated based on the Group's total borrowings of HK\$67,470,000 (31st March, 2009: HK\$63,740,000) and the total equity of HK\$396,719,000 (31st March, 2009: HK\$386,632,000).

Certain purchases of several subsidiaries of the Company are denominated and settled in foreign currency. The management closely monitors foreign exchange exposure and will consider hedging significant foreign currency risk by entering into forward contracts should the need arises.

As at 30th September, 2009, the Group had banking facilities amounting to HK\$150,641,000 (31st March, 2009: HK\$150,641,000), of which HK\$76,319,000 (31st March, 2009: HK\$70,467,000) 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.

CONTINGENT LIABILITIES

At 30th September, 2009, the Company had provided guarantees of HK\$164,827,000 (31st March, 2009: HK\$164,827,000) to certain banks in respect of banking facilities granted to certain subsidiaries of the Company of which HK\$76,106,000 (31st March, 2009: HK\$70,253,000) was utilised by the subsidiaries.

STAFF AND REMUNERATION POLICIES

As at 30th September, 2009, the Group had 3,835 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, 2009:

Date of grant	Vesting period	Exercisable period	Exercise price per share	Balance at 1.4.2009	Granted during the period	Exercised during the period	Cancelled during the period	Outstanding at 30.9.2009
18th November, 2003	18th November, 2003 to 17th November, 2007	18th November, 2007 to 17th November, 2009	HK\$0.1620	9,000,000	-	-	-	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	1,200,000	-	-	-	1,200,000
16th August, 2006	16th August, 2006 to 15th August, 2010	16th August, 2010 to 15th August, 2012	HK\$0.2052	1,200,000	-	-	-	1,200,000
4th June, 2007	4th June, 2007 to 3rd June, 2010	4th June, 2010 to 3rd June, 2012	HK\$0.1860	13,900,000	-	-	-	13,900,000
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
				42,200,000	-	-	-	42,200,000

During the period, no share options were granted, exercised and cancelled.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th September, 2009, 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	1,134,601,359 (Note)	61.50%
Ms. Lam Yuk Sum	Beneficiary of Trust	1,134,601,359 (Note)	61.50%
	Beneficial owner	170,963,476	9.27%
		<u>1,305,564,835</u>	<u>70.77%</u>

Note: These 1,134,601,359 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, 2009, 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, 2009, 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	1,134,601,359	61.50%
Well Feel Group Limited	Interest of a controlled corporation <i>(Note)</i>	1,134,601,359	61.50%
HSBC International Trustee Limited	Trustee <i>(Note)</i>	1,134,601,359	61.50%

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, 2009.

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 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, 2009, 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, 2009 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, 17th December, 2009