Veeko®

VEEKO INTERNATIONAL HOLDINGS LIMITED
威 高 國 際 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 1173)

ANNOUNCEMENT OF AUDITED RESULTS FOR THE YEAR ENDED 31ST MARCH, 2004

AUDITED RESULTS

The board of directors (the "Directors") of Veeko International Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st March, 2004 together with the comparative figures for the previous corresponding year, as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31st March, 2004

	Notes	**2004** *HK$'000*	2003 *HK$'000* (Restated)
Turnover	*2*	**446,227**	427,338
Cost of sales		**(133,055)**	(131,848)
Gross profit		**313,172**	295,490
Selling and distribution costs		**(194,890)**	(198,629)
Administrative expenses		**(64,418)**	(64,054)
Other operating income		**12,236**	4,943
Surplus (deficit) arising on revaluation of investment properties		**1,180**	(2,590)
Surplus (deficit) arising on revaluation of leasehold land and buildings		**820**	(720)
Profit from operations	*3*	**68,100**	34,440
Finance costs		**(49)**	(660)
Profit before taxation		**68,051**	33,780
Taxation	*4*	**(9,460)**	(3,756)
Profit attributable to shareholders		**58,591**	30,024
Dividends paid		**14,407**	8,777
Earnings per share	*5*		
– Basic		**HK3.54 cents**	HK1.81 cents
– Diluted		**HK3.53 cents**	N/A

Notes:

1. **Adoption of Hong Kong Financial Reporting Standards**

   In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAPs") and Interpretations approved by the HKSA:

   SSAP 12 (Revised) **Income taxes**

   The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, ie. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2003 have been restated accordingly.

   As a result of this change in policy, the balance of retained profits at 1st April, 2002 has been increased by HK$5,276,000, representing the cumulative effect of the change in policy on the results for periods prior to 1st April, 2002. The change has also resulted in a decrease in the net profit for the year ended 31st March, 2004 by HK$2,957,000 (2003: HK$926,000).

2. Turnover and segments information

Turnover

Turnover represents the amounts received and receivable for goods sold, less returns and allowances, by the Group to outside customers during the year.

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments by market are its primary reporting format.

Geographical segments

The Group reports its primary segment information by geographical location of its customers who are principally located in Hong Kong, Macau, Taiwan and Singapore. Segment information about these geographical markets is presented below:

	Hong Kong and Macau		Taiwan		Singapore		Others		Eliminations		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000* (Restated)
TURNOVER												
Sales of goods	**265,740**	263,993	**124,483**	108,611	**33,000**	30,935	**23,004**	23,799	**–**	–	**446,227**	427,338
Inter-segment sales	**8,198**	9,089	**–**	–	**–**	–	**–**	–	**(8,198)**	(9,089)	**–**	–
	273,938	273,082	**124,483**	108,611	**33,000**	30,935	**23,004**	23,799	**(8,198)**	(9,089)	**446,227**	427,338

Inter-segment sales are charged at prevailing market rates.

	Hong Kong and Macau 2004	2003	Taiwan 2004	2003	Singapore 2004	2003	Others 2004	2003	Consolidated 2004	2003
SEGMENT RESULT	**49,197**	27,437	**16,601**	9,916	**(1,725)**	(1,736)	**3,687**	3,438	**67,760**	39,055
Unallocated corporate income									**4,780**	3,750
Unallocated corporate expenses									**(4,440)**	(8,365)
Profit from operations									**68,100**	34,440
Finance costs									**(49)**	(660)
Profit before taxation									**68,051**	33,780
Taxation									**(9,460)**	(3,756)
Profit attributable to shareholders									**58,591**	30,024

3. Profit from operations

	2004 ***HK$'000***	2003 *HK$'000*
Profit from operations has been arrived after charging:		
Staff costs (including directors' remuneration):		
Salaries and other benefits	**102,068**	99,900
Retirement benefits scheme contributions	**2,274**	2,800
	104,342	102,700
Auditors' remuneration:		
Current year	**808**	723
Under(over)provision in previous year	**39**	(20)
Depreciation and amortisation:		
Owned assets	**16,267**	19,628
Assets held under finance leases	**356**	399
Loss on disposal of property, plant and equipment	**655**	401
and after crediting:		
Rental income, with negligible outgoings	**2,410**	2,565
Exchange gain	**1,833**	897
Interest income	**204**	181
Gain on disposal of investment properties	**–**	17

4. **Taxation**

	2004 *HK$'000*	2003 *HK$'000* (Restated)
The charge comprises:		
Hong Kong Profits Tax		
Current year	**2,150**	999
(Over)underprovision in previous year	**(3)**	14
	2,147	1,013
Overseas taxation	**4,356**	1,817
	6,503	2,830
Deferred tax:		
– current year	**3,365**	926
– attributable to a change in tax rate	**(408)**	–
	2,957	926
	9,460	3,756

Hong Kong Profits Tax is calculated at 17.5% (2003: 16%) of the estimated assessable profit for the year. The Hong Kong Profits Tax rate has been increased with effect from the year of assessment 2003/2004. The effect of this increase has been reflected in the calculation of current and deferred tax balances at 31st March, 2004.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

5. **Earnings per share**

The calculation of basic earnings per share is based on the profit attributable to shareholders for the year of HK$58,591,000 (Restated 2003: HK$30,024,000) and 1,656,000,000 shares in issue during the year (2003: 1,656,000,000).

The calculation of diluted earnings per share is based on the profit attributable to shareholders for the year of HK$58,591,000 and on the weighted average number of 1,658,518,012 shares issued and issuable, assuming that all of the outstanding share options had been exercised on the date of issue. No diluted earnings per share is presented for prior year as there was no potential dilutive shares in issue during that year.

DIVIDEND

The Board of Directors is pleased to resolve that a final dividend of HK0.8 cent per share be proposed at the forthcoming annual general meeting (2003: HK0.57 cent). The said dividend will be paid to shareholders whose names appear in the register of members of the Company as at 16th September, 2004. Together with the paid interim dividend of HK0.3 cent (2003: HK0.23 cent), the total dividend for the year will be HK1.1 cents (2003: HK0.8 cent) per share.

BUSINESS REVIEW & PROSPECTS

Business Overview

As at 31st March, 2004, the Group recorded a turnover of HK$446,227,000 (2003: HK$427,338,000), representing an increase of 4.4% as compared with the corresponding period of the previous year. The profit attributable to shareholders during the period was HK$58,591,000 (Restated 2003: HK$30,024,000), representing a significant increase of 95.1% as compared with the corresponding period of the previous year.

During the first quarter of the period under review, the havoc wreaked by the Severe Acute Respiratory Syndrome outbreak on the Group's principal markets, namely Hong Kong, Taiwan and Singapore, inflicted a blow on the retail business. As a result, the overall turnover in the first half of the year decreased by 10.3% as compared with the corresponding period of the previous year. As part of its reliable and effective cost control measures, the Group closed down 7 Hong Kong outlets with unsatisfactory performance, while opening new outlets at premises in premium locations available at reasonable rentals. Such measures contributed to the improvement in overall operating efficiency and the increase in turnover. The Group has further benefited from a series of measures favorable to the retail business, including the relaxation of policy governing cross-border visits to Hong Kong and the provision of Renminbi credit card payment services to tourists from Mainland China. Such measures were conducive to the recovery of the retail industry. These measures also stimulated and motivated consumption across the entire Hong Kong market. As a result, the overall turnover in the second half of the year increased by 16.9% over the corresponding period of the previous year, together with an improvement in gross profit. The Group has also adopted effective cost control measures, resulting in the significant increase of 95.1% in profit attributable to shareholders. The result was encouraging.

Hong Kong and Macau Market

During the year, the Hong Kong and Macau market recorded a turnover of HK$265,740,000, representing a slight increase of 0.7% over the previous year. During the first half of the year, the turnover of the Hong Kong and Macau market decreased by 15.1% as compared with the corresponding period of the previous year, mainly due to the impact of the Severe Acute Respiratory Syndrome outbreak in the first quarter. Despite the 14.1% increase in turnover during the second half of the year over the previous year's corresponding period, the overall turnover was similar to that of the previous year. Nevertheless, thanks to the Group's internal consolidation measures, such as effective cost control and improvement of product quality in order to reduce promotion activities and improve the products' gross profit margin, all designed to minimize the adverse impact of the epidemic, the segment result of the Hong Kong and Macau market during the year reached HK$49,197,000, representing a substantial increase of 79.3% over the previous year's HK$27,437,000. As at 31st March, 2004, the Group had altogether 59 outlets in Hong Kong and Macau (2003: 62 outlets).

Taiwan Market

During the year, the Taiwan market recorded a turnover of HK$124,483,000, representing an increase of 14.6% over the previous year. As at 31st March, 2004, the Group had 51 outlets in Taiwan, which is similar to the number in the previous year. The Taiwan market contributed to approximately 27.9% of the year's turnover (2003: 25.4%). As a result of the turnover increase and stringent cost control measures, the business in Taiwan improved significantly over the previous year with a segment result of HK$16,601,000, representing an increase of 67.4% over the previous year's HK$9,916,000. Given the development trend of its Taiwan business, the Group is of the view that there is further room for development, and will continue to expand its business in Taiwan.

Singapore Market

During the year, the Singapore market recorded a turnover of HK$33,000,000, representing an increase of 6.7% as compared with the corresponding period of the previous year. As at 31st March, 2004, the number of the Group's outlets in Singapore has decreased from 13 during the corresponding period of the previous year to 11, mainly as a result of the Group's strategic closing of 2 outlets with unsatisfactory performance. Along with the strengthening of the local management team, although the Singapore market's segment result of the year recorded a loss of HK$1,725,000, which is similar to that of the previous year's, the segment result has improved from a loss of HK$2,503,000 in the first half year to a profit of HK$778,000 in the second half year. In the future, the Group will maintain the number of its outlets in Singapore at the existing level.

Other Markets

Besides the markets in Hong Kong, Macau, Taiwan, Singapore, the market in China will be the focus of the Group's future business expansion. As at 31st March, 2004, there were 46 outlets in China offering brand products of the Group. These outlets are well located in cities like Shenzhen, Guangzhou, Zhuhai, Shanghai, Beijing, Dalian, Chengdu, Chongqing, Wuhan, Nanjing and Guiyang.

Prospects

As part of its business development, the Group plans to open 8 more outlets in Hong Kong and Macau in the coming year, bringing the total number of outlets to 67. This will be done by closing down some outlets with expired lease terms and low profitability, while continuing to open new outlets at premises in premium locations available at reasonable rentals. Such measures will improve the Group's turnover and profitability. As the overall performance of the Taiwan market remains favorable, the Group plans to open around 12 more outlets in Taiwan by the end of March 2005, bringing the total number of outlets in Taiwan to 63. Meanwhile, the Group will keep abreast of the market trend in Singapore and from time to time review its Singapore business, making adjustments where necessary. Following the China's economic growth, the Group will enhance the marketing of the brand names ***Wanko*** and ***Veeko*** in China. The Group plans to open approximately 20 franchised outlets, gradually expanding the retail network in China. In collaboration of its future expansion in retail business, the Group acquired in October 2003 a new garment manufacturing plant in China with an area of approximately 30,000 sq. m., which is 60% larger than the area of the existing production plant. The new plant came into operation in April 2004. Such deployment gave the Group further advantages in the control of production cost and future competitiveness.

After many years' development, the popular brand names of ***Wanko*** and ***Veeko*** have finally established themselves as leaders of the ladies fashion market. In the future, the Group will continue to offer products of superb value and improve product quality, by enhancing their design and using high-quality fabrics to match with more trendy design. In order to improve the overall quality of services rendered by its staff and provide better service to its customers, the Group will also continue its emphasis on staff training with a view to providing strong support to its brand names. With the number of visitors to Hong Kong expected to rise, Hong Kong's retail industry is anticipated to grow significantly in the coming year. The Group is optimistic and confident about its future development. As at the end of the first quarter of the financial year 2004/2005, the turnover of comparable outlets in Hong Kong and Macau, Taiwan, Singapore recorded an increase of 42%, 18%, 2% respectively over the corresponding period of the previous year. In the future, the Group will continue to seek other development opportunities in retail businesses with high value-adding prospects. The Group will actively explore the possibility of development in other areas of retail industry with a view to diversifying its business and delivering better results and return to shareholders.

Liquidity & financial resources
The Group's working capital increased from HK$114,852,000 as at 31st March, 2003 to HK$167,748,000 for the year while its current ratio and quick ratio were maintained at a healthy level of 5.64 and 4 times respectively.

The Group's inventory turnover on sales increased from 38 days for the year ended 31st March, 2003, to 48 days in the year under review. The adjustment of 10 days in inventory turnover period was mainly due to the increase in inventories from HK$44,895,000 as of 31st March, 2003, to HK$59,064,000 as of 31st March, 2004.

As at the balance sheet date , the Group's cash and bank balances amounted to HK$100,278,000 (2003: HK$43,210,000) and there was no outstanding bank borrowings and overdraft (2003: Nil) whereas the total borrowings was HK$466,000 (2003: HK$684,000).

As at the balance sheet date, the gearing ratio of the Group is 0.002 (Restated 2003: 0.0036) which is calculated based on the Group's total borrowings of HK$466,000 (2003: HK$684,000) and the shareholders' fund of HK$232,359,000 (Restated 2003: HK$188,632,000).

As at 31st March, 2004, the Group had banking facilities amounting to HK$60,567,000 (2003: HK$60,549,000), of which HK$3,365,000 representing bank guarantees (2003: HK$3,460,000 representing bank guarantees) 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.

Pledge of assets
As at the balance sheet date, the amount of assets pledged by the Group to certain banks to secure general banking facilities granted to the Group was HK$42,297,000 (2003: HK$40,699,000).

Contingent liabilities
At 31st March, 2004, the Company had guarantees of HK$84,390,000 (2003: HK$84,390,000) to certain banks in respect of banking facilities granted to certain subsidiaries of the Company. The amount utilised by the subsidiaries was HK$2,998,000 representing bank guarantees (2003: HK$922,000 representing bank guarantees) as at 31st March, 2004.

Staff & remuneration policies
As at the balance sheet date, the Group had 3,316 employees (2003: 2,881). 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.

CLOSURE OF REGISTER OF MEMBERS
The register of members of the Company will be closed from Monday, 13th September, 2004 to Thursday, 16th September, 2004, both days inclusive, during which period no transfer of shares will be effected.

In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Secretaries Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:00 p.m. on Friday, 10th September, 2004.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES
During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE
In the opinion of the directors, the Company has complied throughout the year ended 31st March, 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

The term of office of each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

AUDIT COMMITTEE
The audit committee has reviewed the financial results for the year ended 31st March, 2004.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE
All the financial and other related information of the Company required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

APPRECIATION
On behalf of the Board, I would like to extend my heartfelt thanks to all the employees for their devotion, contribution and diligence and my deepest gratitude to all the shareholders, customers, suppliers and business partners for their continuous support. I sincerely hope that all of you will continue to contribute to the success of the Group.

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

Hong Kong, 6th July, 2004

As at the date of this announcement, the Board comprises Mr. Cheng Chung Man, Johnny and Ms. Lam Yuk Sum as executive directors, Mr. Cheng Chung Hoo and Mr. Yang Wei Tak as independent non-executive directors.

Please also refer to the published version of this announcement in The Standard.